

MULTINATIONAL MARKET SELECTION.

A study of strategic marketing decision-making
in multinational companies operating in the
European Complex.

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INTRODUCTION

The objective of this study is to analyse the way in which multinational companies identify and select markets in Europe; to do so by comparing actual practices with a simple heuristic model which systemises some aspects of the problem of identifying markets; and finally to develop a fuller understanding of this particular decision area by examining the marketing objectives and constraints which affect the identification and selection of marketing opportunities in the European market.

This introduction will outline the major themes of the study. We shall begin by examining the background to the study. By tracing the precedents within decision theory relevant to the research problem, we may identify the relationship between organizational decision-making, and the identification and selection of market opportunities by the multinational firm. The research problem belongs to the strategic decision area. The objectives of the study are therefore concerned to examine two problems in this area relative to the marketing function: how may the multinational company identify and select market opportunities and how do they presently do so?

Background to the Study

A : The precedents of decision theory:

The pre-occupation with making the "best" decision - here this is defined as the one which maximises the decision-maker's objectives subject to the constraints under which he operates - is common to both the decision-making of individuals and the decision-making by organizations, where a number of individuals will participate. The particular flavour of each decision is determined by the decision-maker(s), the nature of the problem, and the environment in which the decision is made.

The multinational company is an "organizational" decision-maker. As a business enterprise its fundamental goals will be economic, and the concern with profitability will affect the process of formulating objectives, identifying opportunities and evaluating performance. As an economic organization with production and service interests operating simultaneously in different countries, it will operate in not one but several different national environments.

The precedents of decision theory provide a means of placing into perspective this theme of the "multinational firm as organizational decision-maker".

(i) Rational Decision-Making:

The rational decision-maker is able to select that course of action which will realise his objectives. Economists have constructed a

system of rational choice which assumes that as Edwards has shown (1954) (1) a completely informed, completely sensitive, and completely rational decision-maker can exist. It is implied that the subject is able on the basis of a well defined preference or "utility" function to order a set of alternatives, where the consequences of selecting each alternative are known. It is assumed that the criterion for ordering is generally that of profit. Therefore, the alternative with the set of most preferred consequences will be selected.

The weakness of the explanation rests with the basic assumptions of pre-knowledge or omniscience, positive preference ordering, and the use of a single criterion - that of profit. The selection of a course of action is therefore without risk. Raiffa (1968) (2) has explained that the procedures may be modified to incorporate a more realistic situation, where the decision-maker faces the problem of uncertain circumstances. However, although the Bayesian school introduces intuitive judgement and feeling into the process, both the subjectivists and the non-Bayesian "objectivists" require that the search for alternative courses of action, the gathering of information, and the determination of the consequences of particular choices become part of the formal analysis of any decision problem.

(ii) Organizational Decision-Making:

The theoretical framework of the organizational or "neo-classical" school complements in some degree Raiffa's work. Decision-making proceeds under conditions of uncertainty, but the organizational setting is itself a factor in the process. Simon's (1961) (3) administrative man is concerned with "objective rationality". In the face of incomplete information the decision-maker cannot hope either to identify all possible alternatives, or to evaluate completely the consequences of these. The "Principle of Bounded Rationality" describes the efforts of the decision-maker to satisfy, by finding a course of action which is "good enough". He is assumed to select the first alternative he encounters with some minimum standard with respect to his objectives.

The work of Cyert and March (1963) (4) has extended this framework and views the organization as a decision-making unit in which a coalition of participants, whose individual values and goals may conflict, resolve these in the form of a set of common organizational goals. This resultant is seen as a "quasi-resolution of conflict" which will entail a set of bargaining and learning processes.

(iii) Cybernetic Decision-Making:

The cybernetic framework presents the analogy of the organization to a decision-making system rather than a decision-making unit. Beer (1959) (5) and Guilbaud (1959) (6) emphasise a system which is self controlled as the information input is sifted, and a selector determines a course of action on the basis of some preference ordering, which is then executed by a third component "the effector".

The system is maintained by a learning feedback mechanism which can compensate for changes in the external environment. The cybernetic approach directs emphasis towards the information and communication role of the firm when taking decisions.

(iv) The Differing Bases of Rationality:

Each preceding framework suggests a different basis for rationality on the part of the decision-maker. Consider therefore the following statement made by Chapman (1968) (7), a political scientist:

"Whilst students of organizational behaviour have recognised that rationality is a desirable basis for decision-making, given the nature of man, his organizations and contradictory emotions and needs, they should not assume that rationality is the primary basis of decision-making."

The rational basis of a decision is determined by the objectives of the decision-maker. Rational decision-making as such is possible only under the conditions of complete knowledge and outcome. The other frameworks identify exceptions to this "ideal" situation. However both "coalitions" in organizations and the governor or selector in a cybernetic system, will select those alternative courses of action which satisfy objectives. The rationality principle is not therefore defunct, but presents a possibility for re-appraising decision processes not on the basis of rationality or irrationality, but in terms of the formation of objectives.

B : Decision-Making in the Multinational Firm

(i) The Objectives of the Firm:

The problem of defining the objectives of the firm has been for some time the subject of controversy amongst social scientists. Changing market structures, the increasing importance of government, and the pressure of interests groups within and outside the firm has meant that the profit maximisation assumption is open to question. The formulation of less exclusively profit maximisation objectives has been examined in a study by Berle and Means (1932) (8), and the contemporary contributions of Marris (1964) (9) and Williamson (1964) (10).

(ii) Determining the Objectives of the Firm:

The practical problem for the firm is to determine a set of corporate objectives. This presents a micro approach to the problem, and is the basis on which decision-making will take place. The corporate planning function involves the determination of the company's long and short term objectives. It is generally divided into two sectors: strategic planning which deals with "the major and often fateful planning decisions" (Steiner and Cannon :1966) (11) and tactical or operational planning which deals with the organization of resources to meet strategic plans.

It is useful at this point to define a general objective to set the discussion in context. Ansoff (1965) (12) describes the process whereby a firm will determine corporate strategy in terms of two sets of objectives - economic and "social" or non-economic objectives. Economic objectives exert the prime influence, and non-economic provide a modifying influence:

"The central purpose of the firm is to maximise the long-term return on resources employed in the firm."

The overall objective may be seen to be one of profitability rather than profit maximisation.

(iii) The Corporation Planning Function: and the Multinational Company

The multinational company will comprise a parent company and one or more subsidiaries located in a separate national territory from the parent. The relationship between the parent company and its subsidiary is complex. Many subsidiaries achieve considerable autonomy and independence at an operational level. However, two features should be noted here. Direct investment by definition gives the investing party control of the decision-making in the subsidiary. Dunning (1970) (13) explains this in terms of a power relationship, to determine the direction which decisions at the subsidiary level will take. A recent study by Remmers and Brooke (1970) (14) conclude that:

"The general policies and particularly financial policies in multinational companies are specifically designed to further the goals of the parent company and only incidentally those of subsidiaries or host countries."

The response of the multinational to problems of corporate planning will be to maximise the long-term return on resources for the parent company. It will do so by employing the advantages of multinational operations. These include the possession of extensive resources, the possibility of flexible allocation of resources, and the ready access to international sources of finance. They tend to devolve from the multinational's size, and the opportunities for factor transference. However, matched against these are the disadvantages of managing an enterprise in several different national territories. Kindleberger (1969) (15) has suggested that any overseas investment must be expected to earn in excess of "normal" profits to compensate for the risk and inconvenience involved in the management of a subsidiary located some distance from the parent company.

The strategic planning problem will concern the identification and selection of those opportunities which will realise the firm's objectives. In terms of multinational operations the distinction is not as clear-cut. Subsidiaries will be involved in identifying opportunities, and more especially concerned with tactical problems of exploiting these opportunities. However, for the purpose of

this study the parent company, with its power of decision-making, is responsible for identifying and selecting new markets where the financial or managerial resources will be invested by the parent. In practice the situation may be more fluid, with subsidiaries providing information, and demanding assistance with their own strategic and operational problems.

(iv) Marketing Decision-Making and the Multinational Company:

Marketing decisions concern the "conditions under which the supplier meets the consumer". (Miller and Starr: 1969) (16). Unlike the set of problems which confront production and financial management, and involve manufacturing and capital resource needs, in any market problem the firm is pre-occupied with the profitability of the company's product(s) in its markets(s).

At the first level marketing planning will be required to complement corporate objectives.

At the second level marketing decision-making will comprise two sets: strategic marketing decision-making and tactical marketing decision-making.

The schema indicates the inter-dependence of the process. At the base of all decision-making is information. At Stage I the multinational has to find marketing opportunities - that is opportunities which will require investment from the parent company in financial terms. Strategic planning may also take place at the subsidiary level. This study examines the problem at the corporate level, where the search for new market opportunities is linked with the profitability of the entire group. The implication of this will be that the search for new markets is backed by the willingness and ability to make new financial investments. At Stage II the multinational is required to exploit new opportunities. In one sense therefore decision-making at Stage II will be determined by Stage I strategic decisions, which involve the selection of market opportunities.

The schema also presents a simple description of parent company/subsidiary relationships in marketing. Aylmer (1970)(17) has examined marketing decision-making in the multinational. This tends usually to be the responsibility of the subsidiary, where knowledge of local conditions is much fuller. However interest in this study will concentrate upon marketing decisions at the level of the parent company, although general principles applicable to the subsidiary will be examined.

Finally, the schema suggests that the interrelationship between Stages I and II may provide a basis for examining the problem on an heuristic basis. If the principle of standardisation at the operational level indicates the possibility of applying similar product/communication mixes in a number of different markets, then is it possible that a similarity criteria provides a viable decision rule for market selection at the strategic level?

The Maximisation of the resource advantage by the co-ordination and use of knowledge and information from both external and internal sources.

I: Strategic Marketing Decision-Making

The identification and selection of profitable market opportunities on an international basis in accordance with the objectives of the firm.

II: Operational Marketing Decision-Making

The design and implementation of marketing plans which will use the opportunities where appropriate of standardisation and economies of scale possible in multinational operations.

_____ direct influence

- - - - - indirect influence.

The Objectives of the Study

A : Marketing Systematics and Decision-Making:

(i) The study intends to examine the problem of identifying and selecting appropriate marketing opportunities in Europe. The decision problem is investigated within a marketing perspective - that is the procedures used by management to derive realistic solutions to their particular responsibility of long-term profitability for the company's products and markets is the foundation of the study. However, decision-making either at the corporate or subsidiary level, or at the strategic or tactical stage must complement both the objectives of the company, and the activities of its various functions. Certain options (despite their marketing potential) because of different corporate objectives cannot be considered. The basis of rationality of selection is therefore dissimilar from that implied in the multinational's formal marketing objectives.

The study is therefore interested in examining marketing objectives in the multinational, where a set of internal and external circumstances will present a system of constraints. The objectives of the multinational will determine the search, identification, and evaluation of market opportunities. The constraints which the company faces will exclude certain options.

(ii) The study assumes two common objectives in all marketing decision-making:

Premise I: the company will make some effort to reduce the uncertainty factor in their decision-making; it will wish to select with greater confidence and ease marketing opportunities. The first step is therefore the collection and interpretation of information. An attempt is made to systemise the information input at Stage I and Stage II of the overall decision problem by collecting and storing information appropriate to the strategic and tactical decision areas.

Premise II: Information and expertise have an important role in the process. Uncertainty avoidance may be achieved by recognising similar conditions or circumstances in prospective markets. In turn this will reduce the opportunity/cost implicit in the expense of gathering and evaluating new information. The decision rule is based therefore on a criterion of similarity, which will vary from enterprise to enterprise. If the decision-maker is able to identify markets which are similar to one another in terms of a set of pre-determined phenomena then:

At the stratetic level (Stage I) - prior knowledge can be incorporated in the evaluation and selection procedures. If for example Market A

is similar to Market B in terms of N phenomena which the company consider important, and the company has a set of information with regard to Market A in terms of a potential investment will this apply to Market B?

At the operational level (Stage II) - Where markets A and B are similar in terms of N phenomena, is it possible to standardise a produce/communications mix for them.

Even if perfect information were readily available the decision rule would be modified at the final stage by the possibility of conflicting objectives presented either by the other functions, or the corporate plan itself. These will present a system of constraints on the free use of the similarity criterion.

B : Decision-Making Procedures in Multinational Market Selection:

The problem of identifying and examining market selection in the multinational presents two categories of interrelated problems:

(1) The Examination of the major research propositions:

1. Is it possible to systematise the market selection problem?
2. What are the procedures actually used by multinational companies to identify market opportunities at the corporate level?
3. What are the information needs required in the decision problem?
4. Does a "similarity" decision rule operate in the procedure? If it does how is the firm determining its own similarity criterion?

(2) The Examination of the Decision Sequence:

1. When presented with an identical framework, do different companies or different companies of different nationality develop similar approaches to a solution?
2. How does the product affect the decision procedure? Do companies of different nationality but the same product group formulate similar market objectives, and work within a similar set of constraints when selecting markets?
3. Does the perception of market opportunities affect the decision process? Are many opportunities never identified because of corporate bias or perception of the range of possibilities?
4. What affect does the company have upon the sequence? Given that a multinational company will be involved in multinational operations, are the marketing objectives and constraints of multinationals in the same industrial sector, but of different nationality, comparable?

The Scope of the Study

A : The Research Design

The research design should reflect the objectives of the study. The first category of objectives suggests the development of a system which will use the similarity decision rule as a basis for identifying similar markets. This heuristic model provides the basis for investigating actual selection procedures in multinational companies. The second category presents a "product-market-company complex", which the decision-maker must consider when evaluating market opportunities.

Many of these features tend to overlap. The most efficient research strategy is to design a case-study approach which incorporates each of these. If for example the same model of rational choice based on a pre-defined similarity criterion for a number of markets is presented to all respondents, the nature of response will be related in some respects to the product-market-company complex of the enterprise.

B : Marketing Systematics : An heuristic approach

Consider the problem of identifying market opportunities in Europe. The decision-maker must determine what information is required and bear the cost of information collection. Built into the process is the risk that some opportunities will be missed. One solution is to systemise the process. This implies a methodological and on-going collection and selection of information. The selection of information requires the application of some criterion which will control the time and cost of the action. This is the similarity decision rule which has been discussed previously. Its applicability to strategic marketing decision-making in the multinational rests upon the multinationals flexible resource advantage, and the organization of operations in several different national environments. The company has to determine on what basis should markets be judged "similar" to one another.

An heuristic decision model presents in one sense a set of choice principles that may be used. If, therefore, the model is able to specify at a general level the basis on which markets should be considered similar to one another in terms of a set of variables, then the decision problem has to some degree been programmed. Research has examined the similarity criterion in terms of a socio-economic and demographic profile. Secondary sources of information have provided the variables which comprise the profile. The cluster analysis technique has simultaneously compared twenty European markets in terms of these variables to determine the similarity of each sample to every other in the population. The model provides a means with which to compare actual practice in the multinational companies.

C : Marketing Systematics : A Comparative Approach

The heuristic model may present a set of alternatives for evaluation. The decision rule initiates the selection of a similarity measure as the appropriate mathematical treatment of the information. The multinational, interested in using either corporate experience in similar markets, or standardising the product/communications mix may be guided by the groupings. However, each firm will have a separate product-market-company complex. The basis of marketing objectives and the nature of constraints will be determined by these. The research problem will be to compare these in a meaningful way.

The Product Complex: The multinational will attempt to evaluate the usefulness of each variable used in the heuristic model in terms of the company's products. A first proposition is that multinationals located in the same industrial sector will specify the same variables. Equally, each firm will specify individual indicators used to ascertain the potential of the product in the market. Using therefore the inputs of the heuristic model, the researcher can investigate how common certain variables may be in identifying and selecting markets.

The Market Complex: The heuristic model examines twenty European markets. Participants are therefore asked to examine only these. In this way the framework of comparison is held constant.

The Company Complex: Each company will have a different organisation, and history. The commitments of each will vary. Therefore marketing objectives and constraints will follow different patterns. However the model asks the respondent to consider the same market complex - the European market, and to examine the particular objectives and constraints which this market area presents.

D : Comparative Strategic Marketing Decision-Making

Associated with the presentation of the same decision problem to a comparable group of respondents, is the selection and management of a sample which provides a realistic basis for comparison of strategic marketing decision procedures. All firms in the sample had to satisfy the working definition of multinationalism which is formulated in Chapter II. In order to assure meaningful comparison in line with the product complex suggested above, multinationals of different nationality but with similar product lines were included in the sample. Some aspects of subsidiary decision-making were also considered, where the subsidiary was responsible for strategic marketing planning and decision-making in Europe. Finally, research was

conducted by personal interview in Great Britain and Western Germany and supplemented by a postal questionnaire in Western Germany.

The Justification for the Study

The pertinent question which the researcher should ask is why has this study been conducted at all? There is a need to consider how managers with responsibility for strategic marketing decisions really do work. It is valuable to understand not only how individuals or groups in organizations take decisions, but how the type of organization - in this case a multinational company - effects the decision-making.

There is a gap in the general understanding of such decision-making. Paradoxically there is presently available little empirical research which has examined the objectives of direct investment by multinationals, rather than the determinants. By examining the objectives the researcher approaches the way in which decision-making in an organization operates rather than inquiring into the general purposes of decisions.

Recognising the weakness of present material is however only part of the research problem. This study attempts to contribute to the general understanding of decision-making by examining a particular decision problem in the multinational. It is in fact a case-study approach to the marketing problem of identifying and selecting markets in Europe over the period 1968-72. Multinationals need to select market opportunities which will enhance overall profitability.

It is important for comparative purposes to examine decision-making within a specified framework: in this instance a potential European market of twenty countries located in both Eastern and Western Europe. It is then possible to identify the objectives and constraints which are important to the company when it considers market opportunities in this area. Equally, it is possible to examine the forces in the environment which influence the company's selections. These are considered together by developing the notion of a "product-market-company complex" as part of the decision action.

A general research proposition has been formulated which argues that given the resource advantages and international organization of the multinational company, the decision rule for identifying and selecting markets may be effected by the use of a similarity criterion. "Similar to what?" The heuristic decision model presents similar alternatives based upon two profiles which have measured similarity in terms of two sets of variables. The model is itself an intrinsic part of the research design. It provides both a basis for examining the different criteria used by the participants, and is itself an attempt to develop a solution to the problem of systemising strategic market decision problems.

The consideration of both Eastern and Western markets in Europe provides the first available evaluation of market opportunities in the COMECON area. Both the case study approach and the decision model,

which present to participants a decision framework of some twenty alternatives, emphasise the possibility of neglected opportunities. Human systems cannot handle vast quantities of information, nor are they always willing to consider new possibilities when the risk and opportunity/cost of involvement at the initial stages may simply be too great. A research project is able to make these efforts and present new perspectives.

Finally, there are at present a great many theoretical approaches available in the literature of the social sciences. The multinational company presents a vehicle for an integrative study, using the contributions of the economic and social sciences. The information which will be derived from this study will greatly assist the general understanding of decision-making.

P A R T I

Part I will develop the analytical framework within which the research problem will be investigated.

The research problem is concerned with examining the way in which multinational companies select European market opportunities. The framework needs therefore to consider the implications of the research problem in terms of:

- (i) the multinational firm
- (ii) the identification and selection of European market opportunities.

Chapters I and II will deal with the first issue, and Chapters III and IV with the second. Chapter V will consolidate these within the presentation of the analytical framework.

There is presently no separate theory of the multinational firm. Chapter I approaches the problem of examining the phenomenon from the perspective of extra-territorial expansion. This allows theories of international investment and international trade to be integrated within the discussion. The reasons why a firm should decide to invest some of its scarce resources in overseas markets is dependent upon environmental and market conditions, the structure of the organization, technology, and managerial behaviour. The last factor is considered to be the most important in this study. It is ultimately the decisions of managers which initiate extra-territorial expansion. This allows the firm to realise its own 'micro comparative advantage' in international markets. Corporate growth in international markets is demonstrated to depend not only upon economic variables, but upon two others - informational and behavioural.

Chapter II completes the analysis of extra-territorial expansion by examining the relationship between direct investment and the multinational firm. Extra-territorial expansion implies the investment of capital resources; the principle motive of this is profit. There are, however, additional advantages which accrue to the investing party. These will include the power to control the decision-making of the subsidiary, and facilities of non-capital factor transference. This last condition will enhance the comparative advantage of the individual firm in international markets. The working definition of the multinational firm developed in Section III of Chapter II gives the appropriate emphasis to the decision-making function in the multinational.

In Chapter III the identification and selection of European market opportunities is defined as a strategic decision. It relates directly to the multinational's relationship with the environment in which it operates. This chapter demonstrates the relevance of the research problem to the profitable survival of the multinational firm. Section II examines the structures which the multinational firm may develop in order to manage its international

commitments. These can have a significant effect upon the strategic decision area. The chapter concludes with an examination of the interrelationship between corporate planning, the marketing function, and organizational structure.

Chapter IV investigates the structure of the strategic decision sequence in the multinational firm. Comparisons of decision theory and the theories of organizational decision-making reveal the impossibility of "maximising" by the decision-maker. When this is applied to the research problem, the "imperfections" in-built in the decision sequence may be identified. The decision rule formulated in Section III incorporates the notion of 'micro comparative advantage' discussed in Chapters I and II. The general research proposition which follows from this rule will guide Parts II and III of the study.

Chapter V presents the analytical framework which has been developed in the preceding chapters. The research design comprises an heuristic and descriptive approach to the investigation of the research problem. The heuristic model will propose a first stage solution to this problem: the identification and screening of European market opportunities. The descriptive model will describe the realities of strategic market decision making in the multinational companies relative to the sample used in the study. The chapter discusses the way in which the heuristic model will be used in the comparative research study in Part III.

CHAPTER I

THE DEVELOPMENT OF THE MULTINATIONAL FIRM (i)

Introduction

1.1. This chapter will examine the development of the multinational firm. The term "development of the multinational firm" is used here in the generic sense. It refers both to the development of a specific type of firm and to the existence of a contemporary economic phenomenon.

1.2. Multinational operations require a complex set of explanations. There exists at present no general theory of the multinational firm. Such a theory would need to incorporate a set of propositions relating to the fundamental difference between the national and the multinational firm. Unlike a national firm, a multinational will operate in several diverse markets, located in different national territories. There are further distinctions, and these will be extensively evaluated for the purpose of this study in Chapter II.

1.3. In the absence of a distinct theoretical framework, the researcher may apply the explanatory precedents within several disciplines. This need not necessarily be disadvantageous, for since reality itself cannot be split up into a series of discrete disciplinary frameworks, an attempt to examine the problems relating to multinational operations requires the use of various disciplines and techniques.

1.4. This chapter will therefore discuss those explanations which relate to the development of the multinational firm. It needs to do so at two levels:

- (1) At the micro-level: why does the firm become multinational?
- (2) At the macro-level: why are some industries more international in their organization, operations, and commitments than others?

These will make up Sections I and II respectively of the chapter.

1.5. It is intended to place the development of the multinational firm within a number of theoretical frameworks. Theories

(i) The study will apply the term "firm" in preference to "company" in those instances in the discussion where general propositions rather than specific examples of multinational operations are being examined. "Company" will be used where actual practices are mentioned in the text.

of the growth of the firm (relative to the micro-level of development) fall into three categories of explanation: economic, sociological, and organizational. They tend to find common ground in their respective explanations of the decision-making processes which initiate corporate growth, and at a later stage expansion on an extra-territorial basis. There exist certain determinants or decisive factors either within the firm, or within the environment, which initiate this expansion. Section I will identify the factors by using an inter-disciplinary framework. It will seek to evaluate existing explanations to the following questions:

- a. Why do firms grow?
- b. Why do firms grow on an extra-territorial basis?

Section II will build upon this material and examine a further question:

- c. What are the general characteristics of a multinational firm?

The discussion will demonstrate that a pattern of general characteristics emerges which is more particular to some rather than other industries. For these reasons multinational operations are more common in these sectors.

1.6. The examination of the firm and its multinational operations presents a problem of integration of material. The focus of the discussion will therefore be directed to the role which decision-making occupies within each separate analysis. The concern of this study is, as the Introduction has previously described, with the decision problem of identifying and selecting market opportunities in Europe. It is important therefore to clarify why some firms become multinational.

Section I: Why does a firm become multinational?

- a. Why do firms grow?

2.1. Edith Penrose (1959) (1) attributes the growth of the firm to a set of "favourable" external and internal conditions. She qualifies "favourable" internal conditions in the following manner. A firm with a capable management, and sufficient technological and economic resources will tend to expand in existing and new areas. (Both products and markets). A "favourable" external environment, where there are no unmanageable obstructions, will enhance managerial perception of expansion opportunities. If, however, conditions are not so well disposed (either internally or externally) the expansion may not take place, or it may not achieve the volume it might where only one set of favourable conditions exists. Penrose's thesis gives particular attention to the perception by management of "productive opportunities". It is more likely, therefore, that given a set of favourable external and internal circumstances, management will be readier to perceive new

opportunities. This may be reflected in increased confidence in making the required decisions to expand existing interests, or in introducing new products and exploiting new markets on an international basis.

2.2. The actual variables relative to internal and external conditions which Penrose has identified deserve particular attention here. They may be used as a basis for examining more recent theoretical contributions. By this means the survey of the role which management plays in identifying and selecting new market opportunities may be completed. Contemporary theories of corporate growth are integrated below under four headings. This will bring together the relevant factors involved in corporate expansion on a national and international basis.

2.3. Environmental and Market conditions:

The first set of variables concern environmental and market conditions. Penrose's thesis excludes the possibilities of mergers. There is a tendency however that within the capitalist system, economies of scale, and barriers to entry actually facilitate the development of larger enterprises. (ii) (iii) (iv). The resultant oligopolistic market structure is characterised by an interdependence of economic decisions. The decision makers within the firm will be pre-occupied in the course of their operations with the actions of competitors.

2.4. The Structure of the Organization:

The second set of variables concern the structure of the organization. Penrose sees no reason why growth should not continue indefinitely given favourable circumstances. However, increase in size (in the short-run at least) brings management problems of co-ordination and control. (v). Chandler's history of the development of American enterprises (1966) (2) argues that efficient growth and diversification has been achieved by American companies via the application of a multi-divisional structure. A multi-divisional structure will allow an increasing range and volume of

See for example:

- (ii) Schumpeter, J.A. Capitalism, Socialism, and Democracy. London, Allen & Unwin, 1942.
- (iii) Sylos Labini, P. Oligopoly and Technical Progress. Boston, Harvard University Press, 1962.
- (iv) Bain, J.J. Barriers to New Competition. Boston, Harvard University Press, 1956.
- (v) Kaldor, N. "The Equilibrium of the Firm". Economic Journal, Vol. 44, 3, pp 60-76, 1934.

functional responsibilities and territorial commitments to be managed. This is realised by separating these into divisions and areas of responsibility, and locating overall responsibility at the centre for strategic decision and control purposes. Williamson (1970) (3) has argued that although a multi-divisional structure does have the effect of increasing the feasible size of the firm, there will exist, for decision-making purposes, the same limitations which operate within a unidivisional structure. Managers are constrained in the actual process of decision-making by various factors and conditions. We shall be concerned later in this study to identify these relative to decision-making which involves selecting international market opportunities. For present purposes we may state that the manager is only able to generate and consider a limited number of possibilities; he is "bounded" in his choice, and seeks to "satisfice". (This will be elaborated further in 2.7.) In addition this situation is compounded by the organizational structure of the firm. (vi).

2.5. Technology:

The third set of variables relate to technology. Technological development will itself affect the growth and structure of the organization. Technology (as a factor of production in the economic sense) has a considerable influence on the supply of commodities. Technological resources will therefore not only make available economies of scale, and the possibility of increased production profitability, but will play a part in developing new market and product possibilities. A favourable set of technological conditions, and the possession of extensive technological resources, presents a set of competitive advantages to the firm. It will interact at two stages. At the first stage, the firm which can either develop through technology new products, or apply technological expertise to production and distribution, will compete more effectively for markets. It may apply this advantage to corporate expansion. At the second stage, technology may assist the firm in closing the gap between itself and its competitors. It is thus better able to meet competition, and to expand in the face of it. It is also possible that technological developments may provide the opportunity for further increases in size by extending growth possibilities. This thesis is analogous to the outward movement of the production possibility curve in a firm, in an industry, or within an economic system.

2.6. Management Behaviour:

The final set of variables relates to management behaviour. Williamson's reference to "bounded rationality" - where the limitations of time, cost and information resources lead management to adopt a strategy of "satisficing" and to select the first satisfactory alternative - brings into focus the decision role of management

(vi) This decision process and the organizational structure of the multinational firm will be extensively examined in Chapter III.

in the growth of the firm. Given a set of satisfactory external and internal circumstances, is management always prepared to initiate expansion policies? This is central to the phenomenon of extra-territorial expansion. The reason why many companies do not become multinational despite "favourable" circumstances, is because management do not wish to do so.

The separation of ownership and control in the contemporary corporation has meant that managerial interests are more prominent. Harris (1964) (4) has suggested that managers will pursue their own interests, and this will result in an attempt to maximise growth subject to a constraint of some minimum rate of return for security purposes. Williamson (1964) (5) follows this thesis and describes the pattern of decision-making which managers follow in terms of a self-interest criterion. Managerial capitalism results in a managerial objective of "utility maximisation" as opposed to the traditional objective of "profit maximisation". This is reflected in the formation of company objectives. Finally, the behaviouralists emphasise that the formation of corporate objectives (of which expansion and growth may be one) is the resultant of a coalition process within the firm. Cyert & March (1963) (6) describe a bargaining process within the firm amongst the various interest groups which results in the formation of goals. These are changed in the light of experience, but what emerges is a multiplicity of goals (vii) which reflects the interests of the coalition's members.

2.7. The preceding analysis has reached beyond the more conventional economic explanations of the growth of the firm. It has used a perspective which views the process as a resultant of a set of external and internal conditions. These both effect and affect the decisions of managers to initiate expansion of company operations. Growth is not only motivated by these "favourable" conditions, but by the way in which the decision-makers perceive opportunities for corporate expansion. This perception is likely to be amplified where managerial objectives include a policy for expansion. Using this perspective it is possible to enlarge the scope of the analysis and examine growth on an extra-territorial basis, which implies corporate expansion in two or more countries.

b. Why do firms grow on an extra-territorial basis?

3.1. If, as Penrose suggests, the process of industrial expansion will proceed where external and internal conditions are not unfavourable, can this thesis be applied to extra-territorial expansion? In an earlier paper (1966) (7) she states:

- (vii) The Production Goal
- The Inventory Goal
- The Market Share Goal
- The Sales Goal
- The Profit Goal

"The establishment of foreign subsidiaries or branches is, for the parent company not essentially different, from the establishment of subsidiaries or branches in its own country. To be sure, greater allowance for risk must be made and greater profits expected if the venture succeeds according to plan. But the new expansion is still part of the process of growth of the parent company."

In one sense this is correct. Kindleberger (1969) (8) supports this argument. He affirms that a firm will expect a level of profitability from a foreign subsidiary which is sufficient to compensate for the greater risk involved in undertaking overseas investment, and for the disadvantages of operating a subsidiary located some distance from the parent. There are however a number of specific factors which initiate extra-territorial expansion. The decision to commence international operations for the first time requires:

- i. A series of preceding decisions which culminate in the decision to direct some of the firm's resources from domestic to foreign operations.
- ii. The investment of these resources (capital and non-capital) in a foreign based subsidiary in order to manage these operations on a local basis.

The use of the term "direct investment" here precludes any consideration of exports in this particular category of international operations. (viii).

If the development of the multinational firm requires decisions of the kind outlined under points (i) and (ii) above, the examination of extra-territorial expansion needs to identify the determinants which initiate direct investment activities.

3.2. Three theoretical directions may be used to analyse the decision to undertake direct investment. Maintaining the concept of extra-territorial expansion, these are:

- Direct Investment.
- Extra-territorial expansion and the "product-life cycle" theorem.
- Extra-territorial expansion and international investment.

(viii) This differentiation will be discussed more fully in 4.1. and in Chapter II. For a summary of the reasons why a firm would prefer to undertake direct investment rather than to export see the introduction to:

Dunning, J.H. Studies in International Investment.
London, George Allen and Unwin,
1970, pp 8-9.

Using each of these, the following discussion will attempt to integrate the contributions of the theories of international trade and investment, to the understanding of the determinants of direct investment. It is possible to use the common ground which they possess as a basis for a general explanatory framework of the development of the multinational firm. The decision perspective used in the analysis so far will be maintained. The decision maker(s) is seen therefore to be impelled to consider overseas rather than domestic investment possibilities because of a set of decisive factors (determinants). These motivate the search for such possibilities, and initiate the direct investment action.

Direct Investment

4.1. Direct investment is said to occur when a firm or individuals undertake investment which results in the acquisition and control of a subsidiary located in a territory of different nationality from that of the investing party. The control factor, together with the possibility to transfer technological, financial, and managerial resources, constitutes the principle differences between direct and portfolio investment.

4.2. It is necessary at this stage to make simple differentiation (in terms of this study) between the "determinants", the "objectives", and the "goals" of the decision to undertake direct investment. These will be examined in greater detail in Chapters III and IV. The differentiation is not always made clear in the literature on overseas investment and multinational operations.

The "determinants" of a foreign investment decision are defined here as those factors which impel or motivate the decision maker(s) to consider the possibility of overseas investment.

The "objectives" of a foreign investment decision are the purposes or missions of the decision maker(s) which guide the search and selection of the investment.

The "goals" of a foreign investment are those specific measures or values which the decision maker(s) wish to realise in order to satisfy the objectives of the decision.

4.3. A simple example here illustrates the role which each of these factors play in a decision to undertake direct investment in some location other than the home country of the firm. A large, high income country in Western Europe, which is located behind high tariff barriers, may lead management to conclude that the potential market for their product in this country could best be exploited by the installation of local manufacturing plant which is located near to the market. These are in broad terms the determinants of the decision. The objective of the decision-makers may be more precise: they seek to maintain their market in this country and to match competitors. The market may previously

have been exploited by exports, and there is now some possibility that competitors may themselves export into this market, or build plant. The goals of the investing party will involve the achievement of some measurable state of value(s). Examples of this are the realisation of some pre-specified return on investment, or a percentage increase, or indeed the maintenance of some stated market share. It is fair to say that theories of international trade and investment have not been much concerned with such "micro" level objectives of foreign investment. The examination which follows will examine the first factor - the determinants of direct investment, which result in the extra-territorial expansion of the firm.

Extra-territorial expansion and the "product-life cycle" theorem

5.1. The basic premise of the theory of international trade is governed by the thesis of comparative advantage. (ix). A country will export those products where factor endowments make possible production advantages incorporating abundant factors. The most precise formulation of this theory is contained in the Heckscher-Ohlin theorem. The factor proportions theory analyses patterns of trade for all commodities. It assumes a set of static conditions which include:

- free information
- identical linear production functions for all nations supplying the commodity
- perfect markets
- immobility of productive factors.
- identical consumption patterns at a given set of international prices.

Empirical observation indicates that these assumptions are unrealistic. Information and market conditions are not free; productive factors are not always immobile because technology may make these more flexible; production may be located abroad in markets where prices and consumption patterns are not identical.

5.2. It may be useful here to apply the comparative advantage premise at a micro-level - the comparative advantage which a firm may possess over competitors in terms of capital and non-capital resources. Vernon's "product-life cycle" theorem (1966) (9) to some extent applies this. It provides an explanation of patterns of international trade in manufactures, which assumes

(ix) The traditional theory of comparative advantage attempts, according to Bhagwati, to explain both the pattern of trade, and at a normative level examines the gains from foreign trade by establishing that trade is superior to no trade. See:

Bhagwati, J. "The Pure Theory of International Trade - A Survey". The Economic Journal, Vol. 74, March 1964, pp 1-84.

that knowledge and expertise are not free commodities, nor is production an immobile factor. Vernon examined the patterns of U.S. trade in manufactures and discovered a cyclical activity in import and export exchanges. He proposed as a result that a firm would expand on an extra-territorial basis in response to a number of determinants. One of these was the innovative ability of management to recognise product and market opportunities in domestic and overseas territories. A complete analysis of the "product-life cycle" theorem is given in 5.3 - 5.6 inclusive.

5.3. The initial determinant of overseas expansion at the export stage will be the prospect of competitive action and potential saturation in the domestic market. As increasing impetus is given to exports, the firm will seek to make a manufacturing investment in a foreign country with sufficient market potential; an investment is made where the market abroad is large enough to warrant local manufacturing commitment.

5.4. Wells (1972) (10) states that the determinants of such investment are generally the prospect of a local entrepreneur underselling imports by manufacturing locally, or to preclude a take-over of the market by local interests. The cycle is completed when competitors from other nations invade the firm's export markets. (It is possible that the "invader" may be a subsidiary of the original manufacturer.) Competitors are able to use local comparative advantages in any combination of lower labour costs, transportation charges or tariff barriers. The basis of the theorem is an explanation of commodity trade which accounts for the manufacture of a product and export of a product from the country in which it is developed in terms of entrepreneurial activity, and the certainty of close and relatively wealthy markets. At the "mature" stage of the cycle, the innovator will meet local manufacturing competition by foreign investment. Ultimately, the innovating nation may import the standardised product.

5.5. At a general level the theorem combines the premises of the comparative advantage thesis at both the macro and micro levels. It recognises that factor endowments are not necessarily at the national level. Rather, they are mobile, and the theorem can be applied across the board to the U.S., other developed countries, and developing countries as the basis for a general explanation of trade patterns. Secondly, it is a much more realistic appraisal of empirical evidence. In effect it has helped reconcile some of the major discrepancies between the Leontief Paradox and the factor proportions theory. (x). Finally, the product life cycle theorem links up two elements of importance to marketing decision making: the product life cycle and the development of

(x) Leontief, W.

"Domestic Production and Foreign Trade: the American capital position re-examined." Proceedings of the American Philosophical Society, Vol. 97, September 1953, pp 332-349.

markets sequence. The product becomes standardised, and standardised products may be marketed in several countries simultaneously. Equally, products developed for sophisticated, high income consumers may find acceptable markets later in their life as other nations grow richer, and acquire the purchasing power necessary.

5.6. At a more specific level the theorem emphasises the role of innovation, information and technology. The decision maker has to perceive the possibility of developing and marketing products which will satisfy certain market demands. Using technological advantage, and information gained in domestic market operations he is able to innovate at home and then overseas. This is partly a management dynamic; a firm will expand (as Penrose has stated) because management perceives opportunities and initiates the requisite action. Equally, the theorem provides an inter-link with foreign investment decisions. The firm will expand overseas in response to market potential, and competitors' activities. It should be emphasised that the theorem is concerned with patterns of commodity exchange rather than patterns of foreign investment. In the next section, this will be examined in order to complete the review of the determinants of extra-territorial expansion.

Extra-territorial expansion and international investment

6.1. Theories of international investment complement the trade pattern models in their examination of the determinants which motivate the firm to consider direct investment. The analysis needs to consider three areas:

- A. Classical theories of direct investment
- B. The Decision to Invest Abroad
- C. The Determinants of direct investment behaviour.

A. Classical theories of direct investment:

6.2. The classical theory of direct investment assumes a single decision maker intent on maximising profit. Faced with a perfectly competitive market, a constant state of technology, and complete knowledge with respect to all opportunities, prices, costs, and revenue flows, the decision maker operates under the profit maximisation criterion, and selects that alternative which will maximise profit flows. (That is he maximises at every opportunity the difference between the earnings and costs of each alternative.) Equally he should compare the return on investment with current interest rates, and as long as it is greater than these (they represent an alternative investment possibility) he should invest in the project yielding the highest earnings. If, therefore, the investment alternative is located in non-domestic markets, he should invest there (Aharoni, 1966) (11).

6.3. The realities of direct investment behaviour are more complex than the profit-maximising/perfect knowledge/constant state classical model assumes. It was shown earlier in 2.7. and 2.8. that the profit-maximising objective of managerial behaviour is not a sufficient explanation. It can be argued that managers in the firm are more interested in utility maximisation as the goal of corporate policy.

In a review of investment behaviour, Jorgenson (1967) (12) has compared the contributions of neo-classical and contemporary theories of investment. The former stress optimal accumulation of capital as the objective of investment; the latter state that business firms maximise utility in a broader sense than profits. These will include the present value of the firm.

In the discussion which follows the determinants of investment behaviour are examined in the light of contemporary contributions in this area. These reflect the wide perspective which is required in order to present a more complete analysis.

B. The Decision to Invest Abroad

7.1. The assumption of all contemporary theories of investment behaviour is that the firm is interested in achieving or maintaining some acceptable level of profitability. At the initial stage, before the firm has undertaken any direct investment overseas, this may motivate the search for new opportunities in non-domestic markets. Aharoni (1966) (13) has shown that expansion need not inevitably proceed overseas. In fact the first stage of the process is the decision to examine the possibility of foreign investment. This represents a major breakthrough in the "normal" course of the company's affairs. Aharoni's research shows that the willingness even to consider an overseas investment alternative is the resultant of a complex set of circumstances over an extensive time period. There is no single moment when a company will decide to release some of its resources in order to search for investment opportunities, but rather there are a series of initiating factors which force a course of action. The stronger the power of force of these factors, the greater the volume of resources which will be allocated for investigation purposes. The identity of these factors will be examined in C. below. Dunning (1970) (14) has extended the focus of this problem by examining why firms should prefer to invest abroad and why this should take the form of direct investment, rather than portfolio investment, where capital is invested in shareholdings. Dunning argues that as long as the investor (the firm) possesses competitive advantages over rivals abroad, it should exploit these by the means of direct investment. The advantage may take various forms, including the technological advantages, and managerial expertise. Firms prefer to invest abroad because barriers to entry, and transportation costs make the strategy more profitable. Finally, there is the role played by government in restricting opportunities for investment in the domestic market. The firm is encouraged to examine foreign opportunities, and "may invest more overseas than

they might otherwise do if such restrictions were removed".

C. The Determinants of Direct Investment Behaviour:

8.1. In order to examine systematically the determinants of direct investment behaviour it is useful to use the four categories of variables outlined in 2.4. - 2.7. in the general analysis of the factors which tend to effect the growth of the firm.

8.2. International Environmental and Market Conditions:

a. Fear of losing a market created by export activity. This forms the basis of the investment determinants described in the product cycle theorem. (5.1. - 5.6.). It is primarily a defensive action, and has been similarly examined by Aharoni, in terms of "an initiating force" in the process of deciding to consider direct investment for the first time.

b. The "band-wagon" effect which is required to meet competition from other investors. This is also cited by Aharoni as an "initiating force" and is again a defensive action. In terms of a corporate objective, the action may be to preserve market share.

c. To overcome problems caused by tariff barriers and transportation costs. This determinant relates once more to Dunning's examination cited in 7.1. It is often for this reason that the firm undertakes direct investment in order to realize near monopoly advantages of technology.

The Structure of the Organization

8.3. Internal economies of organization are only possible where a firm has operations under its control which cover more than one production process. Coase (1937) (15) has defined this in terms of being able to avoid the costs of search, sub-contracting and dependence upon materials from other sources. Where the firm is able to circumvent these by expansion and co-ordination it will acquire a competitive advantage.

8.4. Horizontal and Vertical direct investments (which mean an amendment in organizational structure) are undertaken for three reasons; to acquire a source of raw materials to serve domestic production; to acquire raw material to maintain the oligopoly market situation enjoyed by the company; and finally in the case of horizontal integration to ensure overseas markets. Caves (1971) (16) compares horizontal integration to overseas expansion for the purpose of exploiting technological or other monopoly advantages. These may comprise a patent or the development of a differentiated product.

Technology:

8.5. Hymer (1960) (17) showed that technological advantage presents the firm with the possibility of a monopoly position in new markets. A firm is more likely to invest abroad when it possesses advantages of this kind. This determinant can also be inter-linked with the question of why some rather than other industries are multinational. Firms in the technological sector are initially anxious to realise profits which accrue from their technological advantage in both domestic and overseas markets. This helps spread the costs of research. They may extend this advantage by continuous research and development expenditures financed from the above "normal" profits which an initial monopoly advantage ensures. (Gruber et alia: 1967) (18). It is for this reason that the electronics and pharmaceuticals industries tend to be more internationally organised, than the machine tools industry. The profits realised will also relate to the size of the firm, and its ability to make the productive efficiencies examined in 8.3. and 8.4. above.

Management Behaviour:

8.6. The facility of management to initiate expansion, and direct investment has been referred to at several stages throughout this chapter. In the final analysis if management do not initiate the appropriate action (in terms of a set of decisions) the firm will neither expand, nor undertake direct investment. This management dynamic has been examined by Remmers & Brooke (1970) (19) who have found that the reason why many firms do not become multinational companies is because management opposes the idea of overseas expansion despite sufficient resources. The decision maker must both perceive the opportunity and be prepared to accept the risk involved in order to maintain or increase profitability by direct investment.

Section II: Why are some industries more international in their organization, operations, and commitments than others?

9.1. The tendency of multinational companies to be concentrated in particular industrial sectors has been examined by Behrman (1969) (20). The explanations which he proposes are in line with the analysis of extra-territorial expansion presented in Section I. Behrman's thesis argues that a company will consider direct investment where:

- (1) It wishes to reduce the cost of serving a market located at some distance from the parent. In this way it makes available on a local basis production and service facilities.
- (2) It has the personnel interested and capable of exploiting foreign opportunities.

(3) It possesses some unique technology or product which gives it a greater possibility of earning sizeable profits.

Direct investment needs itself to be backed by capital strength. In general, conditions (1), (2) and (3) above mean that either the company will possess such funds or be in a position to borrow them.

9.2. These particular conditions generally prevail in companies within industries which operate under oligopolistic market conditions in their domestic markets. Behrman gives as examples chemicals, metals, machinery and automobiles. Since under oligopoly conditions a manufacturer has only a limited prospect of increased market share, he will look elsewhere to overseas markets. In addition non-domestic markets may provide the opportunity for a "quasi-monopoly" situation induced by competitive advantages in terms of product/technology and expertise. This explanation may be seen to combine certain elements of the theories of international investment and trade examined in Section I. Vernon also identified this element in the "product-life cycle theorem". Export activities and then direct investment are initiated in response to the existence of relatively saturated domestic markets. The quasi-monopoly thesis is complemented by Hymer's work. (See 8.5.).

9.3. The importance of the actual decision-making factor relative to the development of the multinational firm is itself reflected in the decisions of some firms not to invest abroad. Behrman argues that even though a firm or an industrial sector may operate within an oligopolistic market, and satisfy conditions (1) to (3) in 9.1., it may choose to remain at home. Behrman cites the American steel, food processing and paper industries as examples of this. There may be particular circumstances for this, but the existence of exceptions highlights the Penrose thesis (2.1-2.2). The perception and willingness of management to undertake international commitments determines whether a company is likely to respond to international opportunities.

9.4. It is useful, on the basis of the preceding material, to integrate the reasons why certain companies and certain industries decide to undertake multinational commitments.

I : Economic variables:

Where a company operates in oligopolistic markets, and possesses either a unique technology or product it will be impelled to look for increased market opportunities which are likely to be located abroad.

II : Informational variables:

The product/technology competitive advantage in overseas markets is likely to be supported by additional advantages of knowledge, expertise, and experience which are transferable to such markets.

III : Behavioural variables:

Even where the economic and informational variables are present, the decision to undertake direct investment need not be automatic. The process whereby the search for overseas opportunities is initiated, and the decision to undertake international operations which involves the investment of capital and non-capital resources is made, is in the final analysis dependent upon the company's management. For this reason although the likelihood of multinational commitment is greater in those industrial sectors where the capital, technological and managerial resources are of the kind suggested here, there are nevertheless exceptions.

Conclusion

10.1. The conclusion here will summarise the contents of Chapter I and act as a bridge for the material which will be presented in the next chapter. The title of the chapter - "The Development of the Multinational Firm" - sets in itself the problem of examining the determinants of corporate growth on an extra-territorial basis. This has been defined in two stages: why does a firm become multinational, and why do multinationals tend to be concentrated in certain industrial sectors?

10.2. The analysis has extended the Penrose thesis of growth by examining its propositions in the context of recent contributions drawn from international business research. The tendency to grow is as much the resultant of a management willingness to undertake policies which exploit favourable circumstances, and the technological or informational advantages of the firm, (but may involve risk) as of "favourable" conditions themselves. The objective of such policies is to maintain and ensure the continued profitability of the firm.

10.3. This assumption of profitability and the pre-occupation with the decision making factors involved in expansion was maintained throughout the analysis. Extra-territorial expansion involves the allocation of some part of the firm's total resources for the purpose of considering and, then, undertaking direct investment. Using the contributions of theories of international trade and investment, the analysis has proceeded to identify at a general level what are the determinants of the direct investment decision. The framework argues that extra-territorial expansion of the firm (involving direct investment) is the basis of the transition of the firm from a domestic to a multinational. This argument will be examined more extensively in Chapter II.

10.4. Attention has been given to the resultants of direct investment in terms of market structures and conditions. Technological advantage motivates a firm to invest abroad in order to realise the monopoly advantages which it can achieve. It is for this reason that much direct investment is concentrated in the technological sector.

10.5. Finally, it has been argued that the development of the multinational firm is dependent upon managerial decision-making. Their decisions allow the firm to initiate a series of activities which enable the firm to realise its comparative advantage by direct investment in non-domestic markets.

CHAPTER I I

DEFINING THE MULTINATIONAL FIRM

Introduction

1.1. In Chapter I the development of the multinational firm was viewed as the product of a series of decisions which permitted extra-territorial expansion via direct overseas investment. The analysis integrated the two major explanatory approaches relevant to extra-territorial expansion (international trade and international investment) within a simple model of corporate growth. This chapter will complete the theoretical analysis of the multinational firm by defining more precisely what it is.

1.2. This chapter will maintain the framework used in Chapter I (i). We shall therefore be concerned in relating the discussion of what precisely is meant by a multinational firm to the role of decision making in establishing and maintaining the firm's multinational commitment. In effect, the analysis will demonstrate that the perspective within which a firm assesses opportunities is one important characteristic which differentiates a multinational from a non-multinational firm.

1.3. "Defining the multinational firm" requires two stages:

- I. The examination of the relationship between direct investment and the multinational firm. Chapter I has linked together extra-territorial expansion and direct investment. (ii). It is necessary to be more explicit about the relationship.
- II. The evaluation (for comparative purposes) of contemporary definitions of the multinational firm. There are at present a range of general definitions which need to be considered in order:-
 - (i) to demonstrate the variations within this range and the way in which each emphasises the different aspects of multinational operations

and:-

- (ii) to develop from these, a definition of the multinational firm, which will complement the specific subject matter of this study.

The contents of this chapter will be divided into three sections

- (i) See particularly Chapter I, 1.6.
- (ii) Chapter I, 4.1. - 4.3.

- I. An examination of the relationship between direct investment and the multinational firm.
- II. The presentation (for comparative purposes) of a simple taxonomy of contemporary definitions of the multinational firm.
- III. The development of a definition of the multinational firm with specific relevance to this study.

Section I: The relationship between direct investment and the multinational firm

- 2.1. Section I will examine the relationship between direct investment and the multinational firm at two levels:-

The micro-level which will be concerned with three issues:

- financial investment criteria and direct investment (2.4.)
- the control of subsidiaries outside the home country (2.5.)
- and - the factor transference issue. (2.6.)

The macro-level which will discuss the implications of direct investment within the international economy. (2.7.-2.8.)

- 2.2. In Chapter I direct investment and the multinational firm were treated as being synonymous. However, direct investment need not always be associated with the multinational firm. Nor does the reverse situation always apply.

"As defined for the purposes of investment statistics, direct investment requires merely the control of an enterprise located in one country by persons who are not its citizens." Caves (1971) (1).

The "control of the enterprise" is the vital factor in this definition. Dunning (1970) (2) has identified the two distinctive features of direct (as opposed to portfolio) investment thus: (iii)

- (1) The power to control the decision making of the overseas subsidiary
- (2) The possibility of transferring factor inputs, or the resultants of these including technology, information, and expertise between the subsidiary and the parent.

Both features are of importance in this study since decision making in any situation requires information and control (authority) to be at the disposal of the decision making party. (iv).

(iii) The fundamental difference between direct investment and portfolio investment is that direct investment gives the investor overall control of the decision making in the subsidiary in which he invests. This is supplemented by the possibility of transferring capital and non-capital resources between the parent and the subsidiary.

(iv) An extensive review of the theory of decision making will be made in Chapter III. The control/information factor will receive specific attention in Chapter IV.

2.3. When a firm undertakes direct investment which fulfils conditions (1) and (2) in 2.2. above it may, at the simplest level, be defined as a multinational firm. There are however other conditions which need to be satisfied before the term may be assigned in the fullest sense to a company. These will be examined fully in Section II. In addition there are two exceptional sets of circumstances which apply to this relationship. The first exception concerns those rare cases where the power to control decision making may be acquired by a net flow of equity capital instead of the more usual flow of financial capital. Caves (1971) (3) has argued that when foreign citizens are able to gain a controlling portion of the company's equity capital they will meet condition (1) in 2.2. How effective this control may be is itself open to discussion. The references made in Chapter I to "managerial" capitalism and "managerial" discretion apply here. (v). In addition Berle and Means' (1933) (4) classic study of shareholders' real power illustrates that the influence of shareholders' may to a large extent be limited. The second exception concerns the reverse situation. A net flow of capital funds for the purchasing or setting up a company in another country, does not automatically imply that this company is a subsidiary, nor that the firm becomes a multinational. Where a firm X located in country A purchases or establishes a fully autonomous and independent firm, Y, in country B, neither conditions (1) nor (2) will be met. Firm X will have no involvement with firm Y at any level in terms of decision making, control and factor transference aside from the initial investment.

2.4. Financial Investment Criteria and Direct Investment:

We shall deal only briefly at this point with the financial aspects of direct investment. In Chapter I, the sub-section on the determinants of direct investment behaviour (8.1. - 8.5.) illustrated that the reasons for investing abroad fell into two groups: to realise profits and to maintain them. These groups are not necessarily mutually exclusive. Therefore, direct investment will be undertaken either for expansionist or defensive reasons according to the particular circumstances within the firm. These were fully documented in these sub-sections. Where a firm decides to invest abroad there will need to be some financial evaluation of the investment. The Polk study (1966) (5) of corporate investment experience investigated the financial criteria used by American companies in evaluating foreign investments. The study found that in general company investment criteria were rather more concerned about market position than financial considerations: "how to" rather than "whether to" was the dominant financial consideration. The authors considered that their investigations revealed that the major motivation for capital transference was the prospect of profit. The problems which arose in evaluating the relative profitability of an overseas project lay with the application of the appropriate financial criteria. They discerned seven financial investment criteria

(v) See particularly Chapter I, 2.7. - 2.8.

in use. (vi). However within this range two criteria were most frequently applied: earnings to sales and earnings to investment. In addition there was a pattern of selection relative to the particular industry in which the company operated.

The earnings to sales criterion:

Companies in the non-durable industries whose annual sales exceeded the total assets employed preferred to use this criterion. The total volume of assets employed in manufacturing factors was generally lower in value than that of current assets. These companies were marketing or merchandising orientated, and preferred to invest in a wholly owned or majority share subsidiary overseas than to participate in a joint venture.

The earnings to investment criterion:

This criterion (which applied discounted cash flow techniques) was found to be most frequently applied in those companies whose characteristics were the opposite of the marketing and merchandising orientated corporations. The companies were more likely to be involved in durable industries where complex plant required high capital investments to the extent that the companies' total assets were larger than their annual sales volumes. Since these companies were highly capital intensive they accrued proportionally larger long-term liabilities and valued inventories as part of their corporate assets.

Despite the feasibility of evaluating direct investment projects using financial criteria, the authors stress the role of risk in the process. Where investments are made beyond the boundaries of the home country of the investing party, the risk factor is increased. In effect there is greater uncertainty involved because of the differing political and socio-economic conditions in other systems. The repatriation of funds may also be affected with proportionally greater difficulty relative to domestic investment.

2.5. Power to Control Decision Making:

In their study Remmers and Brooke (1970) (6) found that corporate policy is generally managed for the benefit of the parent company rather than the subsidiary. There are, however, certain constraints which the decision makers in the parent company may have to face in selecting overseas investments.

Firstly, the characteristics of the industry itself influence the alternatives to be considered. In certain high technology industries, such as chemicals, the heavy capital costs involved in plant

- (vi)
1. Earnings to sales.
 2. Earnings to total capital employed.
 3. Earnings to subsidiary's net worth.
 4. Earnings to parent's "total investment" (net assets).
 5. Repatriated funds to net assets.
 6. Increment to cash flow to increment in investment.
 7. Net cash flow to average funds employed.

and equipment require high production volumes and sales in order to achieve the required return on investment. Only alternatives which can realise these can be considered. This situation has also been treated in 2.4.

Secondly, the decision problem itself affects the way in which the decision is reached. In the discussions which follow in Chapters III and IV we shall demonstrate that the role of the subsidiary within the process is especially important. These circumstances are particularly relevant in the marketing area.

Thirdly, direct investment in another national economy results in a complex tripartite set of relations between the investor, the home country, and the host country. The experience of petroleum companies in their negotiations with host countries is one such example. Such companies have become multinational because of the nature of their business. Backward integration to protect sources of supply required long rounds of negotiation in order to retain exploitation rights and the possession of such resources. (vii). At the same time the "costs and benefits" of direct investment also mean that the parent company needs to respect local employment and labour conditions in those instances where it makes decisions which affect the subsidiary. (viii).

2.6. Transferring Factor Inputs:

Direct investment is a net capital transfer on an international basis. One determinant of direct investment is the decision maker(s) willingness to exploit the possession of some asset of the firm: a technological advantage, a patent, or a differentiated product. The transfer of one or more of these will be accompanied by an additional transfer of knowledge and expertise. This will add to the total comparative advantage (in some instances quasi-monopoly advantage) of the firm. It will also provide benefits to the host country in terms of employment and capital. The arguments concerning technological transfer and economic development are extremely complex. (ix). Pavitt (1971) (7) has stated:

"It is very difficult to dissociate any discussion of the multinational company from technology, and vice versa."

- (vii) See: Hartshorn, J.E. Oil Companies and Governments.
London, Faber and Faber, 1967.
- Penrose, Edith The Large International Firm in Developing
Odell, P.R. Countries; The International Petroleum Industry.
London, Allen and Unwin, 1968.
- (viii) See: Dunning, J.H. The Multinational Enterprise; Part 2:
(editor) Labour and the Multinational Enterprise,
pp 89-168. London, George Allen and
Unwin, 1971.
- (ix) For an overview see:
Rolfe, S. The International Corporation.
Paris, The International Chamber of
Commerce, 1969, Chapter IV, The
Transfer of Technology, pp 48-60.

However, the actual technology which the host country is able to retain will depend upon two factors: the level of technology in the host country, and the extent to which the multinational firm is integrated into the economic life of the host country. (x). Tomlinson (1970) (8) has observed that there is little evidence to support that the Hymer "cycle of bi-lateral monopoly" is actually completed in underdeveloped countries. (xi). The monopsonist (the host country) does not possess sufficient independent resources, or the required minimum level of technology, to take up for its own purposes the monopolist's advantage (the investing firm).

The information/expertise transfer presents a second set of non-capital advantages. It is almost impossible to cost the real advantage of either. Servan-Schreiber (1967) (9) attributed part of the gap between American and European business to the greater flexibility and efficiency of American management methods. Empirical evidence provided by Dunning and Jensen (1969 (10) and Dunning and Rowan (1968) (11) attributes the greater profitability of American firms in Great Britain in comparison to their British counterparts in the same sector to the assistance which the American subsidiaries receive from the parent company. The American parent will bear the expenses of research and development, and will transfer these at minimum cost to the subsidiary. Equally, management may be able to apply knowledge of product acceptance and consumer behaviour to several markets either simultaneously or sequentially. This presents a further example of the internal economies possible in multinational operations.

2.7. The Macro Implications of Direct Investment

The discussion up to this point has focussed almost exclusively upon the relationship between the multinational firm and direct investment at the micro-level. Under a particular set of circumstances (determinants) firms will undertake direct investment and expand overseas. Little emphasis has been given to the effect which this flow of funds may have upon the international economy. The effect is two-fold. An outflow of funds for overseas purposes affects the balance of payments of both the home and host country. The repatriation of funds (from profits or other payments) reinforces this situation. Table I overleaf indicates the asset value and provenance of world direct investment.

Ultimately the volume of direct investment begins to affect government policy. Home and host governments are likely to provide

(x) See:

Singer, Hans The Distribution of Gains between Investing
and Borrowing Countries.
American Economic Review, 1950, May,
pp 473-85.

(xi) See:

Chapter I, 8.5.

TABLE IWORLD DIRECT INVESTMENT ASSETS

Host Country Country of Origin	Developed Countries \$ m	%	Developing Countries \$ m	%
U.S.	36,662	60.0	18,137	63.7
U.K.	7,215	11.8	3,349	11.8
Others	17,239	28.2	6,981	24.5
TOTAL	61,116	100.0	28,467	100.0

Source:

- TOTAL: OECD : DAC (68) 14 (All European countries classified as developed).
- U.S.: Survey of Current Business, October, 1971.
- U.K.: United Kingdom Balance of Payment 1971: Table 42 (including oil).
- Others: Balance of above.

From: Manser, W.A.P. The Financial Role of Multi-National enterprise.
London, Cassell/Associated Business Programmes Ltd.,
1973, pp 157.

favourable conditions for foreign investment as long as the benefits from such investments are greater than the costs. These may emerge and change over a period of time. Given this minimum acceptable condition of direct investment, the investor can expect the environment to be favourable, neutral or hostile.

The costs and benefits of direct investment will include at the macro-level financial, social and political considerations. Four studies will be examined here which have evaluated such problems.

i. & ii. The Reddaway (1968) (12) and Hufbauer-Adler (1968) (13) reports have examined the costs and benefits to the British and American economies respectively of the outflow of funds from domestic sources for overseas investment. It is difficult to compare them directly since each project has used a different set of basic assumptions. Reddaway assumed that overseas investment was undertaken to protect and maintain existing export markets; if British firms did not invest abroad their competitors would do so. The Hufbauer-Adler models assume two sets of conditions; either there is an outflow of funds which increases plant capacity abroad and decreases it by a similar volume at home, or there is an increase of plant capacity abroad with no subsequent reduction at home. (The classical and anti-classical substitution models.)

Both reports conclude that direct investment provides a net advantage to the home country. Conflict tends to arise between home governments and the multinational when there are short term deficits in the national accounts because of capital movements. This conflict tends to increase as the multinationals themselves grow in size.

iii. Dunning's study (1969) (14) shows that the host country may also derive considerable benefits from overseas direct investment and multinational business. American business has brought a considerable amount of employment to the regions in the British Isles which are conspicuously underdeveloped in comparison with other industrial areas. Government policy has deliberately encouraged this kind of investment. A similar situation exists in Canada, where the volume of American and other foreign investment constitutes the majority share of investment. Despite the writing of Levitt (1970) (15) and the recommendations of the "Watkins Report" (1968) (16) together with the increasing opposition by Canadians against foreign investment in their national economy, there is little doubt that a sharp decrease in such investment would have a considerably harmful effect on it.

iv. Manser (1973) (17) has shown statistically that the real effect of direct investment undertaken by multinational firms is much smaller than some sources have suggested. The total volume of such investment is still only a "small component of the massive turnover of national and international capital as a whole." The role of multinationals has tended to be exaggerated out of proportion to the real value of their investments. In addition such investment makes overall a positive contribution to both the home and host countries in terms of creation of employment, and the

establishing of other business interests which generate and re-generate capital and profits.

There is therefore some disagreement amongst the arguments which accompany the subject of direct investment and the multinational company. If direct investment secures a net advantage to both the home and host economies, then it might be expected that positive encouragement by governments would be given to multinational operations. Decision makers seeking profitable opportunities in non-hostile external environments would be able to select the most attractive profitable alternative located abroad. Contemporary events however indicate that the environment may be indirectly unfavourable or openly in opposition. National interests prevent indiscriminate expansion for reasons of sovereignty rather than economics. (xii).

In these circumstances the basis of evaluating direct investment at the macro-level switches from the use of predominantly financial and economic criteria to the consideration of political issues. There may also be a similar re-alignment on the part of the multinational. (See 2.5.) The general profit motive will be matched by a number of constraints. These close certain options, or force courses of action which will satisfy objectives other than financial ones relative to the individual projects. This is a central issue in this study, and will be formalised in Chapter V in the outline of the research design.

2.8. In this section a complete review of the relationship between direct investment and the multinational firm has been presented. In effect the contents have followed a line of approach applied in the Manser study. Manser has stated that because it is so difficult to define a multinational firm in the financial sense, any study of the financial role of such firms is really concerned with examining direct investment. The subject-matter of this section has however been less concerned with the financial factors per se but with their role in relation to decision-making within the multinational firm. Although the prime motivation for direct investment is the realisation of profits (Polk et alia), financial criteria will be tempered and modified by the social and political implications of international capital and non-capital flows of resources at both the micro and macro-levels.

Section II. Contemporary Definitions of the Multinational Firm

3.1. Section I has argued that the firm must satisfy one necessary condition in order to be termed a multinational; it must undertake direct investment in at least two countries. There may

(xii) See particularly:

Turner, L. Invisible Empires.
London, Hamish Hamilton, 1970.
Chapter IX, The Developed Nations
Response, pp 158-189.

occur certain exceptions to this condition, and these have been examined in 2.3.

It may be reasoned that in the legal sense (as well as the financial: 2.8.) a multinational company cannot exist. Companies receive their articles of incorporation from government agencies; since there is at present no international body which can do this, there is no legal basis for the multinational corporation. The term is used therefore here to distinguish firms possessing particular characteristics.

Contemporary definitions of the multinational tend to include certain conditions and exclude others. The objective of this section is to examine the more widely used definitions in terms of the implications of each to the corporate decision making responsibility located with the parent company. From this base a definition of the multinational company specific to the subject matter of this study will be developed.

The terms "international firm" and "multinational firm" are sometimes used interchangeably. For present purposes the term "international firm" is used in the general sense to identify a category of companies with international operations and interests. The "multinational firm" is one type of international firm. It conforms to a general pattern of characteristics. These will be identified below. It is possible to arrange the standard definitions of the multinational firm into four distinct (though not necessarily mutually exclusive) categories.

- A. Definitions which emphasise some minimum acceptable commitment in terms of location.
- B. Definitions which emphasise some minimum acceptable commitment in terms of size.
- C. Definitions which emphasise the conditions of decision making.
- D. Definitions which emphasise a total management approach to the co-ordination of the different units comprising the enterprise.

3.2. A. Minimum Commitment in Terms of Location:

The first class of definitions tends to emphasise the structural characteristics of multinational operations. Fayerweather (1969) (18) states that the term "multinational" applies:

"to all firms which engage directly in business activities in two or more countries. The only criterion is that the firm be involved in international operations such as exporting licensing, and the operation of controlled factories abroad".

In this study, the first condition of the multinational firm is involvement via direct investment. Where an enterprise is exporting to, or has licensing arrangements in, two or more countries, it may

be defined as an "international" but not a "multinational firm". It has certain international commitments. For present purposes the important criterion in this definition is "the operation of controlled factories abroad" which requires direct investment.

Dunning's general definition of multinational operations complements this. (1971) (19). He divides the general category "multinational enterprise" into four groupings:

"The multinational producing enterprise (MPE) we shall define simply as an enterprise which owns or controls producing facilities (i.e. factories, mines, oil refineries, distribution outlets, offices etc.) in more than one country. We distinguish such an enterprise from one solely engaged in international trade (MTE), which sells its domestically produced output to other enterprises or individuals in other countries; and also from an international owned and/or (financially) controlled enterprise (MOE:MCE), the capital of which is owned or controlled by economic agents of more than one nationality."

Although there is no specific mention of decision making (this is implied in the control of overseas plant), both definitions indicate that a multinational company must possess directly owned and controlled plant in at least two countries. This is therefore the second necessary condition of the multinational company.

3.3. B. Minimum Commitment in Terms of Size:

Remmers & Brooke (1970) (20) incorporate a further variable - that of size in their general definition. They define a multinational enterprise as

"Any firm which performs its main operations, either manufacture or the provision of a service, in at least two countries."

The definition includes the service sector in addition to the manufacturing and extractive industries in the multinational category. The criterion "main operations" needs to be specified more fully. Rolfe and Damm (1970) (21) develop a quantitative measurement of "main operations":

"An "international company" may be defined as one with foreign content of 25 percent or more; "foreign content" is defined as the proportion of sales, investment, production, or employment abroad."

The authors use the terms "international company" and "multinational company" interchangeably in their text.

Multinational corporations will tend therefore to be larger firms. The resource capability required to operate in two or more countries,

and to allocate certain resources at the levels suggested by Rolfe and Damm, usually can only be managed by large companies. This complements the Behrman thesis examined in Chapter I: 9.1. - 9.3.

The third necessary condition of the multinational enterprise is therefore some minimum level of international commitment in terms of overall operations. By implication the company will, at this point, orientate its decision making towards the potentiality of international as well as national opportunities.

3.4. C. The Conditions of Decision Making:

As size and location commitments orientate decision making to an extensive international perspective, a set of definitions which state explicitly the conditions which govern the decision making rules of the multinational company may be identified.

Robinson (1966) (22) defines a multinational company as one in which:

"structurally and policy wise, foreign operations are co-equal with domestic, (and) management is willing to allocate company resources without national frontiers to achieve corporate objectives. Decisions remain nationally-biased for ownership and headquarters management remains uninational".

This is the stage which most of the larger multinationals have reached. Robinson's "transnational" and "supranational" companies where decision making is conducted in the first instance without national bias, and in the second beyond the restrictions of national sovereignty, are still at present concepts rather than reality.

Both Perlmutter (1969) (23) and the Canadian Task Force (the Watkins Report) (1968) (24) consider the attitudes of the firm as the determining characteristics of the multinational enterprise. Perlmutter's model comprises a typology: the ethnocentric (home country orientated); the polycentric (host country orientated); and the geocentric (world orientated) company. The Canadian Task Force model defines a multinational as a company sensitive to and respectful of local policies. The international corporation is considered beyond the control of national legislatures. Its interests and decisions operate upon the sole criterion of "corporate good".

At this stage the decision making function has become more complex. The company may become sensitive to local conditions, to the extent that it perceives its growth and profitability are linked with international markets. Alternatively, the company may become so economically powerful, that local conditions as such are no longer of major importance. Either factors of production may be transferred easily to more favourable environments, or the contribution of the corporation to national economies is such that the benefits to be gained from opposition are considered in the long term very limited.

The fourth condition of the multinational considers that decisions must involve the identification and evaluation of international alternatives.

3.5. D. Interdependence and Coordination:

The final class of definitions emphasise consultation and co-ordination of resources in the multinational enterprise. The objective is to realise the potential advantages and economies of scale possible with multinational operations, which have been discussed in Chapter I, 8.3. - 8.4. Vernon (1968) (25):

"The term "multinational enterprise" is sometimes confusing and always imprecise; but what I have in mind is simply a cluster of corporations of diverse nationality joined together by a common management strategy. That kind of definition serves well enough to characterise Ford or Nestle, I.B.M. or Philips."

Vernon's definition includes some of the largest multinationals presently operating. These are firms with a tradition of international operations, and a history of invention and product innovation on a multinational scale. His definition also complements the Behrman thesis (1969) (26) that the essential characteristic of multinational enterprise is the response to world wide market opportunities. The firm will then exploit the various elements of the organisation "to take maximum advantage of managerial know-how, advanced techniques, production in various locations, and coordinated marketing and finance".

At this stage therefore the extensive resources of the large corporation allow it to exploit its comparative advantage, and to orientate management decision making on this basis. The fifth condition of the multinational enterprise is therefore the recognition that internal advantages may be realised and maintained by commitments in international markets. This condition may only be feasible in larger firms where extensive resources make this possible.

3.6. In this section a range of definitions of the multinational firm from several sources has been examined. The definitions may be divided into four categories, (A, B, C and D) each of which emphasises particular aspects of commitment relative to the operations of the multinational firm. Five conditions or characteristics of the multinational firm have been identified from these, and they constitute the major differences between a "national" and a "multinational" firm. These conditions are direct investment, location, size, decision-making and interdependence respectively. In the next section the objective will be to incorporate these conditions into a working definition of the multinational firm which is appropriate to the subject matter of this study.

Section III: The development of a working definition of the multinational firm with specific relevance to this study.

4.1. The problem area which the study is concerned to examine is the identification and selection by multinational companies of market opportunities in Europe. The problem has been viewed in the Introduction as a decision problem, whereby a multinational seeks to select that alternative which "best" satisfies its objectives. Much greater attention will be given to the decision problem itself in Chapters III and IV. For present purposes, this section needs to consider the development of a definition of the multinational firm which gives appropriate emphasis to the role of decision-making in accordance with the research problem.

4.2. The definition should incorporate the five conditions identified in the preceding section. This definition was used in the empirical study (which follows in Part III of the dissertation) as a means to identify a suitable sample frame. Each participant (with one exceptional case) satisfied all five conditions. The construction of a sample is fully discussed in Chapter X. Certain modifications were made to these conditions in line with the European interests of the study.

4.3. Conditions 1 and 2: Direct Investment and Location:

The multinational company must have direct investments in manufacturing or extractive plant in two or more countries. In addition to this, two investments must be located in the European market.

In this study the European market is defined as the twenty countries which comprised the three European trade blocks on December 31st, 1972. Condition 2 is particularly important as Chapter V will show. If, for example, a firm had international investments of the kind described here in several countries but one or less was located in Europe, it was not eligible for inclusion in the sample despite satisfying all other conditions. In the same way, in addition to at least direct investment in two locations in Europe, a firm had to possess a minimum commitment of two others elsewhere in the world.

4.4. Condition 3: Size:

A multinational firm had to have a minimum commitment of at least 25% of total sales realised in international markets. This is incorporated from the Rolfe-Damm definition (3.3.). Sales was considered a suitable uniform criterion. This commitment could be calculated on a world-wide basis, and did not therefore have to be realised exclusively in the European market.

4.5. Conditions 4 and 5: Decision Making and Interdependence:

Since identification and selection of market opportunities required the making of a decision the Cannon and Steiner (1966) (27) definition of a multinational firm, combined conditions 4 and 5 in a way that was directly relevant to the study.

They state:

"The multinational company meets at least two criteria. First it does business in two or more countries in such volume that its well being and growth rest in more than one country. Secondly, its management makes decisions on the basis of multinational alternatives before basic decisions are made. Conclusions are derived taking a global view."

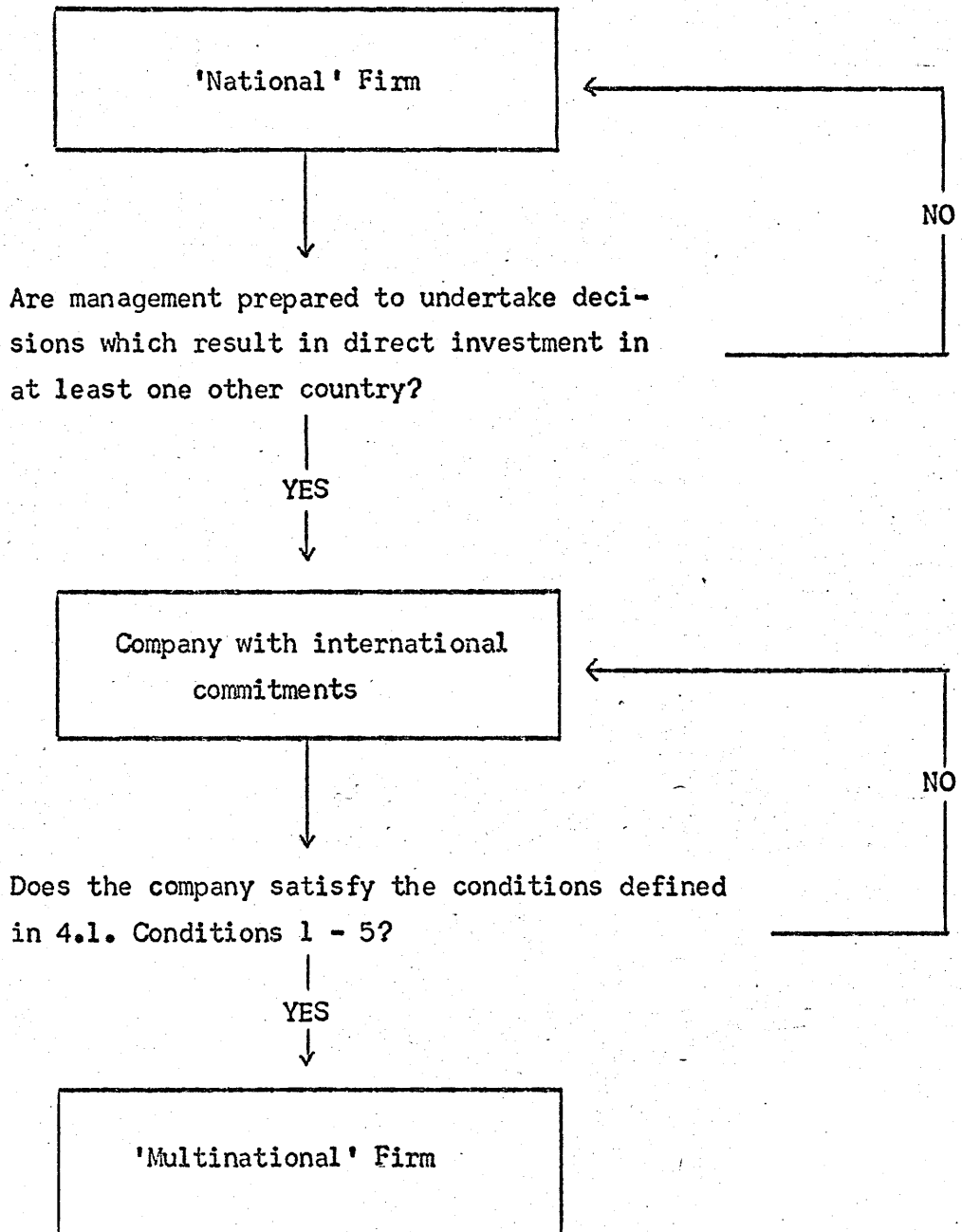
The flow chart overleaf combines the elements of the definition. It demonstrates that in this study the term "multinational firm" will only be applied to those companies which satisfy the definition at all stages.

Chapter IX will demonstrate how important this definition was to be in managing the empirical study. Each condition was incorporated in the initial round of the questionnaire.

Conclusion

5.1. This chapter has approached the problem of defining the multinational firm from several different perspectives. The real problem of defining the multinational is that in legal and financial terms it does not exist. The definition needs therefore to comprise a set of conditions which distinguish a "multinational" from a "non-multinational". The framework within which the chapter has been managed has been concerned with the relevance of decision-making to these conditions. In this way the contents of the chapter are a direct continuation of the basic theoretical framework set out in Chapter I.

5.2. In Section I emphasis was given to the role of direct investment in the process of developing and defining the multinational firm. Direct investment involves much more than the transfer of capital funds from one country to another by a firm. It gives to that firm the right to control the decision-making in the foreign based subsidiary. At the same time the investing party acquires the possibility of transferring both capital and non-capital resources, which may add to the comparative advantage of the firm in new markets. Although profits may provide the principle impetus for direct investment, this section has shown that there will be auxiliary criteria which will operate where the multinational firm's impact affects social and political circumstances. (2.7. - 2.8.).

Flow-chart of the Stages of Development of the Multinational Firm

5.3. Section II examined a range of definitions of the multinational enterprise. By this means the conditions which distinguish a multinational firm were identified. This analysis formed the basis for the working definition of the multinational firm which related specifically to the subject area of this study. The definition considers particularly the European market (as defined in this study) and the overall direction of decision making for corporate purposes in the multinational.

CHAPTER III

THE RESEARCH PROBLEM AND DECISION MAKING IN THE MULTINATIONAL FIRM

Introduction

1.1. The theoretical analysis of the multinational firm in Chapters I and II has demonstrated the relevance of the decision-making function in two areas:

- (1) The development of the multinational firm is seen to be ultimately dependent upon a series of decisions taken by management which initiate extra-territorial expansion. (i).
- (2) The definition of the multinational firm includes as one of the fundamental criterion the condition that the firm's management "makes decisions on the basis of multinational alternatives before basic decisions are made". (ii).

This chapter, together with Chapter IV, will be concerned to relate the decision-making function in the multinational firm to the research problem: the identification and selection of European market opportunities by multinational companies. The purpose of this examination is to build up a structure of the decision sequence, (wherein this problem is treated by the multinational) which relates to the identification and selection of market opportunities. Parts II and III of the dissertation will apply the structure in the management of the heuristic and empirical phases of the research project respectively.

1.2. A decision sequence in the multinational firm is defined here as the process wherein a problem is recognised, a decision or a series of decisions are made which provide a solution/solutions to the problem, and the solution/solutions are implemented. It requires three conditions:

- (1) Information to assist the decision-maker in making the decision.
- (2) The authority to make the decision, together with the power to implement it.
- (3) A communication system which facilitates the flow of information to the decision-maker, and the flow of instructions and control between the various functions of the organization.

(i) Chapter I, 9.3.

(ii) Chapter II, 4.5.

1.3. If the research problem and the decision sequence in the multinational firm are viewed together (as in 1.1. previously) three elements emerge which require clarification:

- (i) The decision process : what is a decision?
- (ii) The area of the decision problem : what is the purpose of the decision within the research problem?
- (iii) The environment in which the decision is made : how does a particular organisation (the multinational firm) affect both the decision process and the decision problem?

Although this chapter will treat all three elements, it will concentrate more particularly upon (iii) above. The major interest of this chapter concerns the organization of the multinational firm. The third element arises directly from the definition of the decision sequence in 1.2. In effect, we shall attempt to examine how the multinational firm may be organised in order to effect decisions of the kind implied in the research problem. The material which is presented will be introduced into a general schema in Chapter IV. This will outline the general structure of the decision sequence in the multinational firm relative to the research problem. It will be therefore a composite analysis of all three elements. The schema will be applied in the final section of Chapter IV to the formulation of a decision rule. This rule will be incorporated in the heuristic model developed in Part II of the study.

1.4. Chapter III will comprise three sections.

Section I will examine elements (i) and (ii) in 1.3. The examination will demonstrate that the research problem defines a particular set of decisions which are required for the continued survival and profitability of the multinational. These are strategic decisions relative to the corporate planning activity within the firm.

Section II will be concerned with the organizational structure of the multinational firm. The analysis will demonstrate the way in which a multinational firm may develop organizational structures particular to its global commitments, and to the decisions required to maintain these.

Section III will integrate the major contributions of the preceding sections. Strategic decision-making and the organization of multinational operations will be examined in terms of the specific requirements of the research problem. This section will relate the marketing function within the multinational firm to the corporate planning activity and to the formal organizational structure of the multinational.

Section I: The research problem and the decision process

2.1. (i) The decision process: what is a decision?

When a decision is made it constitutes a deliberate choice of a

course of action from at least two alternatives. Barnard (1938) (1) has distinguished the nature of "deliberate choice" in the following manner:

"The acts of individuals may be distinguished in principle as those which are the result of deliberation, calculation, thought, and those which are unconscious, automatic, responsive, the results of internal or external conditions present or past. In general, whatever processes precede the first class of acts culminate in what may be termed "decision".

A decision therefore involves the consideration of two or more alternative courses of action. The decision-maker attempts to identify and select that course of action which will "best" realise his objectives. "Best" is defined here as that course of action which will maximise the decision-maker's objectives subject to the constraints under which he operates. From this basis, the research problem may be seen as representing in essence all the elements of a decision sequence. A multinational company needs to identify and select those market opportunities which will "best" realise corporate objectives. This may be termed the central purpose of the decision function within the research problem.

2.2. (ii) The area of the decision problem: the purpose of the decision

The relationship between "purpose" and "objectives" was examined in Chapter I, 4.2. Although the definition was applied to direct investment the proposition is equally valid here. The "objectives" of a decision are the purposes or missions of the decision-maker(s). These guide the search and selection of the "best" market opportunities. In the theoretical framework presented in Chapters I and II the objectives of managerial decision-making indicate that their underlying purpose is that of ensuring the profitable survival of the firm.

2.3. The principle motive of direct investment is, as Polk et alia have argued, the search for profits. (Chapter II : 2.4.) This thesis was supported more specifically in Chapter I by the description of the determinants of direct investment behaviour. (8.1. - 8.6.). It is the profit motive which guides the decision making within the multinational firm. There are, however, certain moderating factors which will affect the exclusive predominance of this objective. In Chapter I considerable emphasis was given to the role of managerial behaviour in 2.7. and 8.6. respectively. Since human beings affect the development of corporate objectives and effect the decision processes in an organization, objectives and choice are subject to influence at two levels:

- (i) at the level of the formulation of objectives. The objectives of individuals and groups may interact here. (Chapter I, 2.7.).
- (ii) at the level of identifying alternative courses of action, and selecting one alternative in preference to another or others.

The limitations of a human being's capacity to generate and handle infinite amounts of information, and, the way in which he perceives and prefers particular alternatives, affects the decision activity. (Chapter I, 8.6.).

For these reasons Section II of Chapter I incorporated into the discussion, consideration of informational and behavioural variables in addition to those primarily concerned with economic determinants. (9.4.).

2.4. The purpose of decision making in the multinational firm needs also to be viewed from a second perspective. Oligopolistic market structures, and the fear of losing markets to competitors, produces the impetus for direct investment and extra-territorial expansion. This was examined more specifically under 8.2. in Chapter I. There are therefore circumstances under which decisions are taken for "defensive" reasons. The purpose of these decisions is to ensure the survival of the firm. Survival is however pointless unless a sufficient volume of profits is being realised. Where these are not achieved the firm is susceptible to take-overs or may simply go out of business altogether.

2.5. These arguments have been reconciled in some measure in a paper by Alchian (1950)(2). He describes the basic objective of the firm as one of survival. Those who profit-maximise (by chance or by design) will survive. Although, as the discussion overleaf has argued, profit-maximisation is not possible because of internal and external circumstances, the survival thesis is valid here. The analysis of the development of the multinational company in Chapter I divided the determinants of extra-territorial expansion into two classes: factors which impel the firm to invest overseas in order to exploit competitive advantages; and factors which lead the firm to invest overseas in order to protect existing interests and markets. Both categories will effect the long-term survival of the firm.

2.6. The long-term objective of corporate survival needs, however, to be supplemented by a more explicit statement of corporate objectives. Ansoff (1970) (3) has divided corporate objectives into two classes. The prime objective is an economic one "to maximise the long-term rate of return on the equity employed in the firm". The concern with profitability will be constrained by social objectives within the firm. These will exclude certain options. This relates to the theories of managerial behaviour which emphasise utility maximisation (iii), satisficing (iv) and

- (iii) Morris, R.L. "A model of Managerial Enterprise".
Quarterly Journal of Economics, Vol. 77,
1963, pp 185-209.
- (iv) Simon, H.L. Administrative Behaviour.
New York, The Macmillan Company, 2nd Edition,
1961, Chapters IV and V, pp 61 - 109.

conciliation among decision-makers. (v).

2.7. There exists empirical evidence to support the profitability thesis, and the corporate planning decision sequence which involves multi-objective choice. Consider the formal corporate objectives of Babcock and Wilcox Ltd. (1972) (4)

"To produce by technological leadership the maximum profits consistent with good asset management.

To develop and maintain a social, economic and political environment favourable to the company."

Babcock and Wilcox is a multinational company with major interests in the heavy engineering sector. Their competitive advantage will therefore depend upon their research and development effort in this sector. The maintenance of a favourable external environment for the company's operations emphasises that the profitability goal will be constrained by the need to consider factors and conditions in local markets.

Corporate objectives will therefore be the resultant of a number of determinants internal and external to the firm. Where the process is analysed in terms of the multinational company's particular circumstances, a more specific framework can be developed.

2.8. (A) Internal Determinants:

The profitability objective is a reconciliation of the long-term survival objective and the social and economic objectives of those involved with the enterprise. This will include both shareholders and managers.

Although the multinational company will comprise a coalition of foreign based operating subsidiaries controlled by a parent company, corporate objectives are formulated in the interests of the parent. Subsidiaries may use the capital and non-capital resources of the entire group, but their objective will be required to complement those of the parent. This point is substantiated in Chapter II, 2.5.

(B) External Determinants

External determinants may operate beyond the control of the multinational company. The company has to attempt to plan and manage corporate policies which at least ensure that the external determinants exert a neutral influence. This is mentioned earlier in Chapter II, 2.7. The firm wishes to take advantage of the opportunities presented by this environment. Multinational corporate

- (v) Cyert, R.M. A Behavioural Theory of the Firm.
 March, J.G. Englewood Cliffs, Prentice-Hall, 1963,
 pp 26 - 43.

planning is especially complex since the company must operate simultaneously with multiple political and socio-economic systems located at a distance from the parent. This will increase problems of communication and information flows between the parent company and the host country, and between the parent company and the subsidiary.

2.9. The purpose of strategic decision-making in the multinational firm is seen therefore as a combination of the arguments presented in 2.3. and 2.8. above. The underlying objective of managerial decision-making in the multinational firm is concerned with the profitable survival of the enterprise in the long-term. The basis of this proposition has been argued extensively in Chapters I and II. It is considered that the nature of this particular organization (the multinational) requires objectives which are primarily economic, although secondary non-economic objectives come into play in any decision sequence. This proposition complements the Ansoff thesis (1968) (5). Corporate planning presents the means of meeting these objectives in the long-term. (Babcock and Wilcox, 2.7.)

2.10. The area of the decision problem: the type of decision

If, therefore, the preceding arguments are applied to the research problem, the identification and selection of market opportunities may be defined as a decision problem, where the purpose of the activity is to ensure the profitable survival of the multinational firm. This decision is of a particular kind. In this sub-section we shall define much more clearly the area of the decision problem in terms of the type of decision which it entails. By this means the discussion will introduce the substance of the analysis in Section II of this chapter: the organizational structure of the multinational firm.

2.11. Ansoff (1969) (6) has distinguished three classes of management decision relative to the way in which the firm interacts with the environment in which it operates. Interaction with the environment is itself a *prima facie* condition of profitable survival. Viewing the firm as a "purposive, goal-seeking organization" Ansoff's three decision classes are:

1. The strategic decision area concerned with the relationship between the firm and the environment.
2. The administrative decision-area concerned with the structure of the firm.
3. The operational decision-area concerned with determining the operation levels in the firm.

If we apply Ansoff's classification directly to the research problem, the following propositions emerge.

Firstly, the research problem falls into the first class of management

decision. The identification and selection of European market opportunities is directly relevant to the interaction between the multinational firm and the external environment. Since the research problem reaches into the area of strategic decision making, it straddles two activities within the enterprise; the marketing function (the problem is concerned with markets) and, the corporate planning function. This second function is generally responsible for determining the directions which the firm will need to take in the future to realise the profitability - survival objective. Section III of this chapter will make this relationship clearer.

Secondly, the substance of this chapter is concerned with the second class of management decision - the structure of the multinational firm. Ansoff's classification demonstrates the importance of the formal organization of the enterprise relative to strategic decision-making. This will be handled specifically in Section II which follows.

Finally, the research problem is not directly concerned with decisions in the third class. There will be occasions when decisions in this category will be considered in this study, but the predominant interest is with decision-making for strategic purposes.

2.12. This section has demonstrated that strategic decisions are directly concerned with the long-term profitable survival of the enterprise. They relate to the management of the relationship between the multinational and the firm in which it operates. The activity which accompanies this type of strategic decision-making is generally termed corporate planning. In the following section the discussion will examine the way in which the firm may respond to this management decision area by creating a formal organization capable of allowing the relevant strategic decision sequences to operate.

Section II: The organizational structure of the multinational firm

3.1. This section will discuss the ways by which the multinational firm may respond to the task of managing its international commitments. It will develop organizational structures suitable for multinational operations. Attention is given to formal organizational structures for two reasons:

- (1) An organizational structure provides the three conditions necessary for the decision sequence to take place in an enterprise. (1.2.) It constitutes an information/authority/communication system.
- (2) Since the organizational structure provides the conditions necessary for decision-making, examination of the formal organization is an essential prelude to the discussion of the operation of the corporate planning function (for strategic decision purposes) in the multinational.

The section will present the four major types of organizational structure which the firm may develop as its international commitments expand. The analysis which accompanies each presentation will evaluate each structure in terms of the implications for strategic decision-making.

An organizational structure represents the formal channels of communication and authority in the enterprise. In Chapter II, 2.5. it was argued that direct overseas investment gave the investing party the right and the authority to control decisions made in the subsidiary. The organizational structure which binds these is therefore as Simon has suggested (1965) (7) "itself a partial specification of decision-making program".

3.2. Extra-territorial expansion and the development of organizational structure:

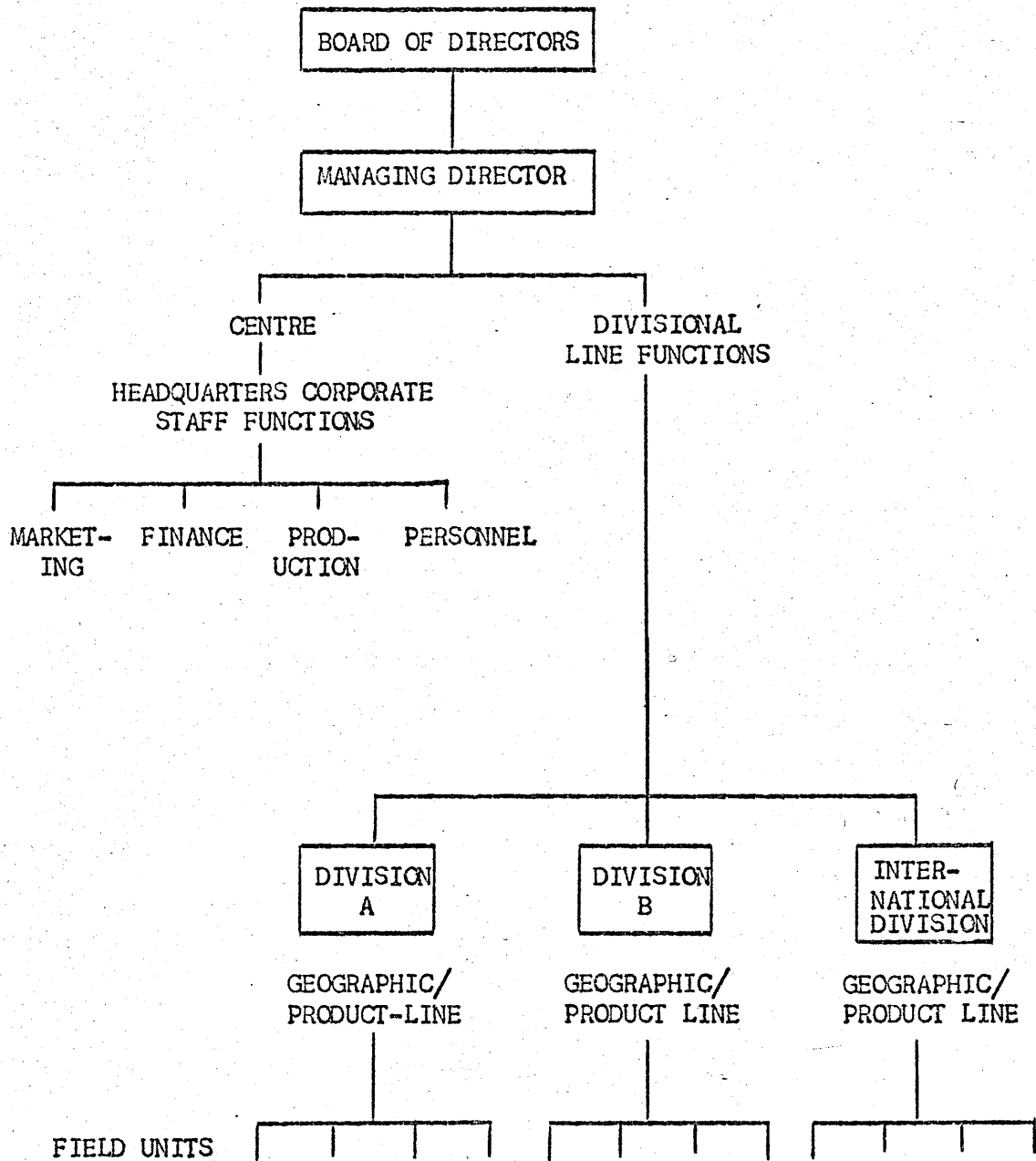
The simple corporate growth model developed in Chapter I presented only two direct references to the expansion of the firm and organizational adaption in terms of structural change. (2.5. and 8.3.) In their study Fouraker and Stopford (1968) (8) discern a positive correlation between the tendency of American firms, with a diversified product-line and decentralised divisional structures, to invest abroad. In Part I considerable emphasis has been given to the role of managerial decision-making in initiating direct investment. In effect, both approaches complement one another. Since diversification and decentralisation are themselves the resultants of extensive resources capability, the accumulation of such resource advantages has probably been achieved by the intervention of management decision-making. Equally, it is such decision-making which allows the firm to exploit its comparative advantage in overseas markets. It is therefore possible that there is a greater likelihood that this "dynamic" will exist in firms where diversification, and decentralization are a part of corporate policy. Inevitably, as the enterprise expands problems of decision-making and co-ordination arise which are associated with corporate growth and diversification. The problem has been managed as Chandler (1962) (3) has demonstrated by the implementation of a multi-divisional structure. The task of overall planning and co-ordination (on a functional, product and/or geographical basis) is the responsibility of corporate staff management at the centre.

3.3. The International Division:

As the company expands its international commitment, the first major amendment to the organizational structure will occur with the formation of a separate international division. There may have been previous arrangements for overseas operations including for example an export department, but, an international division represents a formal commitment to multinational operations.

The international division will use (with the other line functions) the expertise and services of the centre for operational purposes. (See Schema 1 a). Although the company has now some concrete

Schema I a: The Multi-Division Firm (Multinational) with an International Division



measure of international interests, sufficient to set-up an international division, a distinction is still made between domestic and international operations.

Edith Lovell (1966) (10) identified two main types of structure within the international divisions of American companies: the "geographic" organization, and the "product-line" organization. A "geographic" organization implies the separation of international operations on a regional basis, each representing a distinct profit centre with separate management. A "product-line" organization was found to be more commonplace amongst those firms involved in the manufacture of complex and diverse product lines. Direct communication with the product divisions in the parent company was required for technical, production, and marketing purposes. (See Schemae I b and I c).

3.4. The implications of the international division for strategic decision making

The international division demonstrates that the company has a well-defined commitment towards international operations. The staff functions at headquarters level must consider international alternatives with domestic ones. Aharoni (1966) (11) has argued that because the very existence of an international division itself may be the resultant of a series of foreign investments, the personnel will, therefore, be engaged in "vigorously looking for opportunities abroad".

The pressure of such activities may increase the volume of international commitment and result in the re-design of organizational structure on a more fully integrated global base. Both Fouraker and Stopford, and Lovell have hypothesised that the international division is a temporary or "transient" arrangement. They argue that as long as there is a demarkation between domestic and international operations, the company cannot fully optimise the dispersed resource advantage located at the centre, in the domestic divisions, and in the international divisions. The diseconomies and conflicts which arise in terms of decision-making, communication, and resource allocation lead the firm to devise more efficient structures.

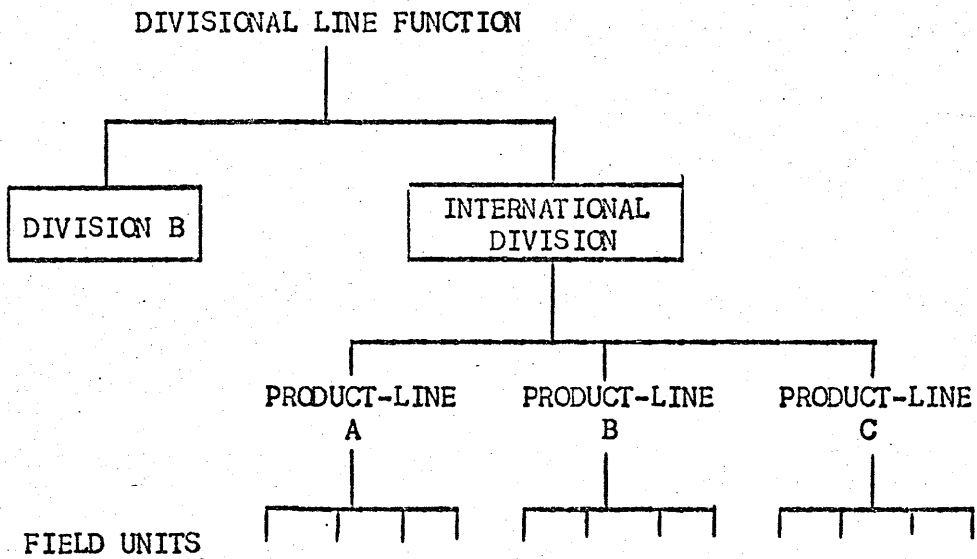
3.5. Integrated Global Structures for the Multinational Company:

There are several possible organizational arrangements which can be developed which integrate the functions of the company on a global basis. The following material combines the work of Lovell, Clee and Sachtjen (1964) (12) and Remmers and Brooke (1970) (13). Three structures can emerge. These are examined below, and it should be noted that few firms are likely to have organizations which parallel these completely. Firms will develop a general organizational structure which will approximate one rather than the other types more closely.

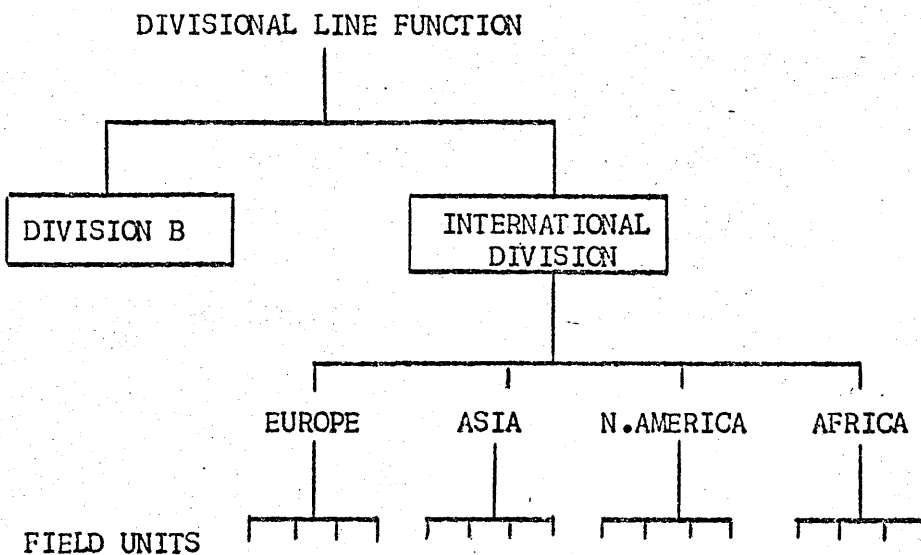
The structures are:

- the "geographic" multinational organization
- the "product-line" multinational organization
- the "mixed" multinational organization.

Schema I b: The International Division organized on a Product-Line Basis



Schema I c: The International Division organized on a Geographic Basis



3.6. The "geographic" multinational organization:-

The "geographic" multinational organization (See Schema II) is a development of the domestic firm's multi divisional organization on a geographic basis. Line responsibility rests with the regional management in each geographic or regional area. However, in the multinational these regional areas comprise several national markets or international regions. Theoretically, therefore, the original domestic markets become markets located in the appropriate geographical area. The demarcation between domestic and international operations disappears. Centre Headquarters staff functions are maintained.

3.7. The implications of the "geographic" structure for strategic decision-making

The advantage of this type of organization is that it can compensate for differences between the regions. Strategic decisions depend in part upon the possession of information relative to these conditions. Such information can be transmitted to the centre, and corporate planning can proceed aware of conditions in local markets. The structure does not however give sufficient emphasis to the specialist demands of product management. This becomes significant where the product-line is diverse and technically complex.

3.8. The "product-line" multinational organization:

The "product-line" multinational organization demonstrates a global organization structured on a product basis. (See Schema III). The structure can extend the finite possibilities of the number of operations which the "geographic" multinational organization may handle due to the limitation of physical resources. Since organization is by product-line rather than geographic region the company can exploit more efficiently complex products.

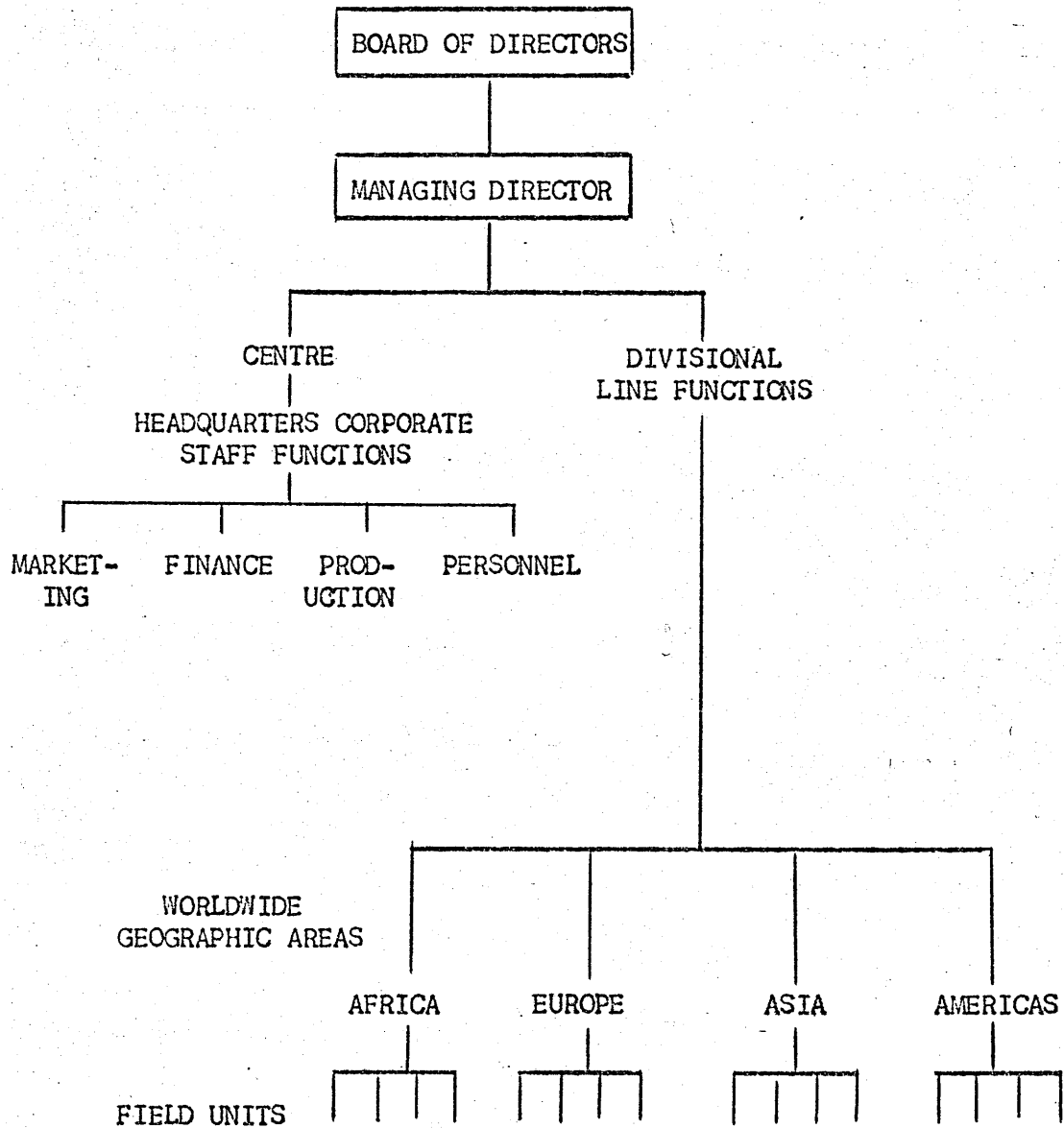
3.9. The implications of the "product-line" structure for strategic decision-making:

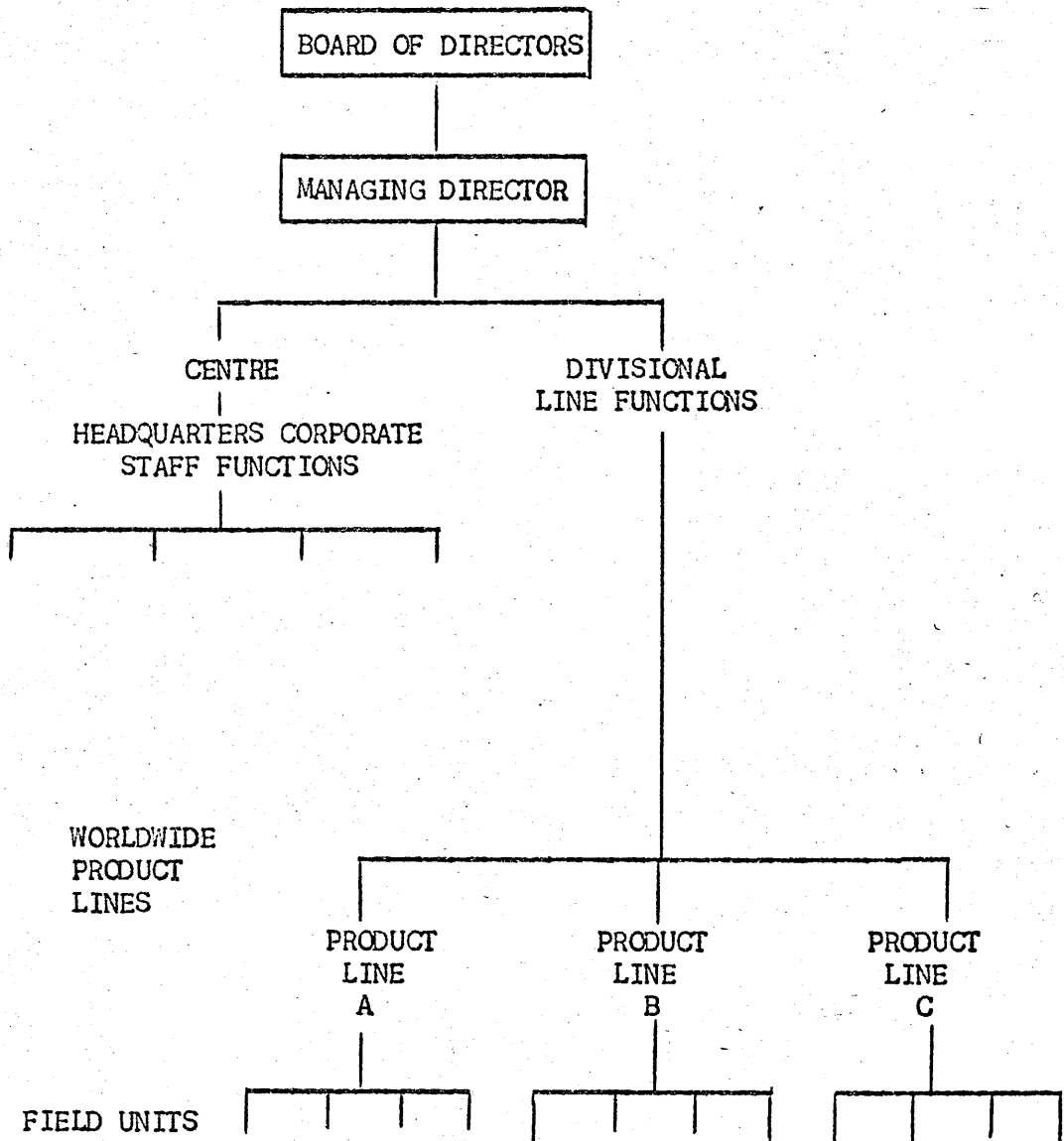
This structure allows only limited facilities to be available to counter-balance the differences found between regional markets. In certain industries this may not be detrimental. Where the manufacture of products requires a high technological capability then product planning within this structure can be managed on a global basis. Problems tend to arise in the co-ordination of communications and decision-making between the product groups and operations in the regions. The resultant information loss may be vital for corporate planning purposes.

3.10. The "mixed" multinational organization:

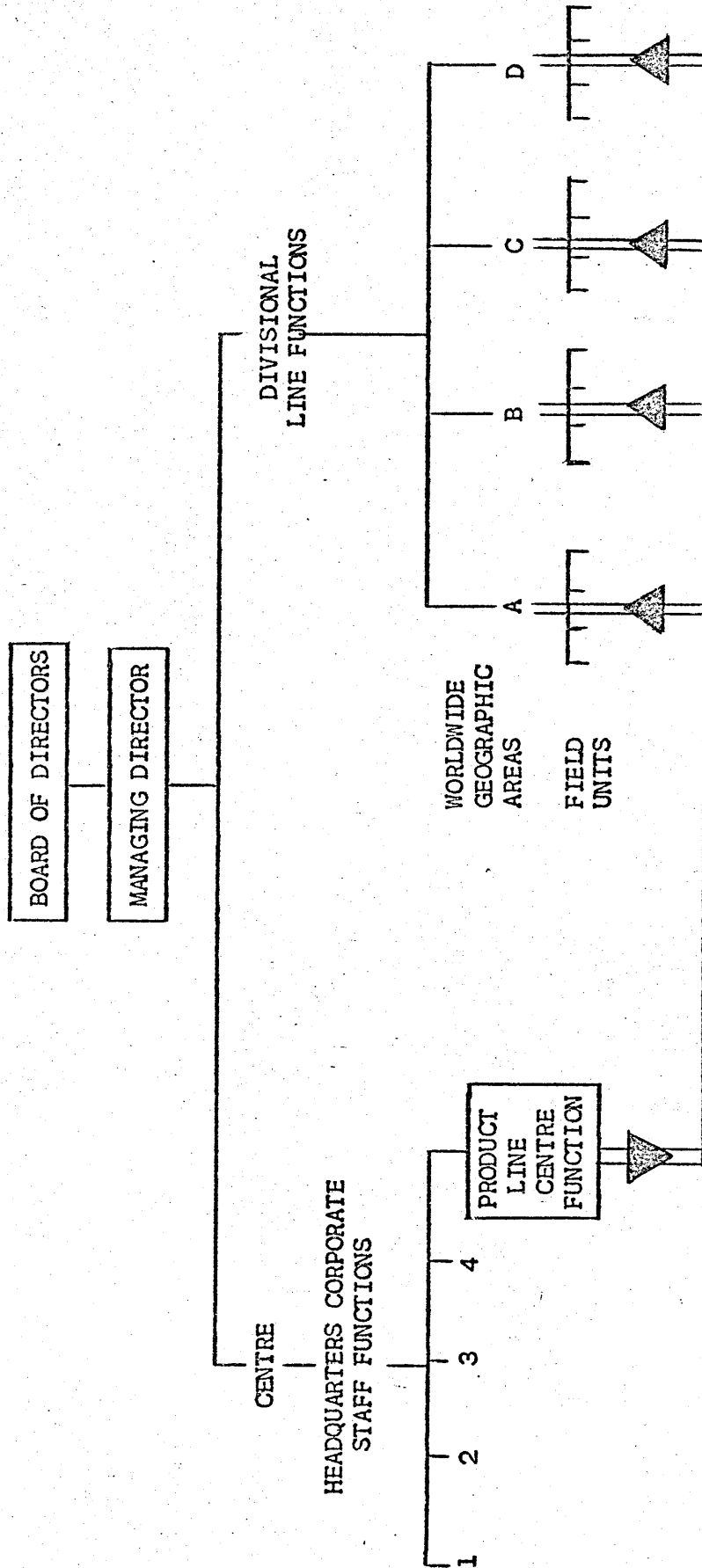
The "mixed" multinational organization attempts to reconcile the disadvantages of the geographic and product-line global orientations.

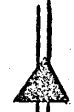
Schema II: The "Geographic" Multinational Organization



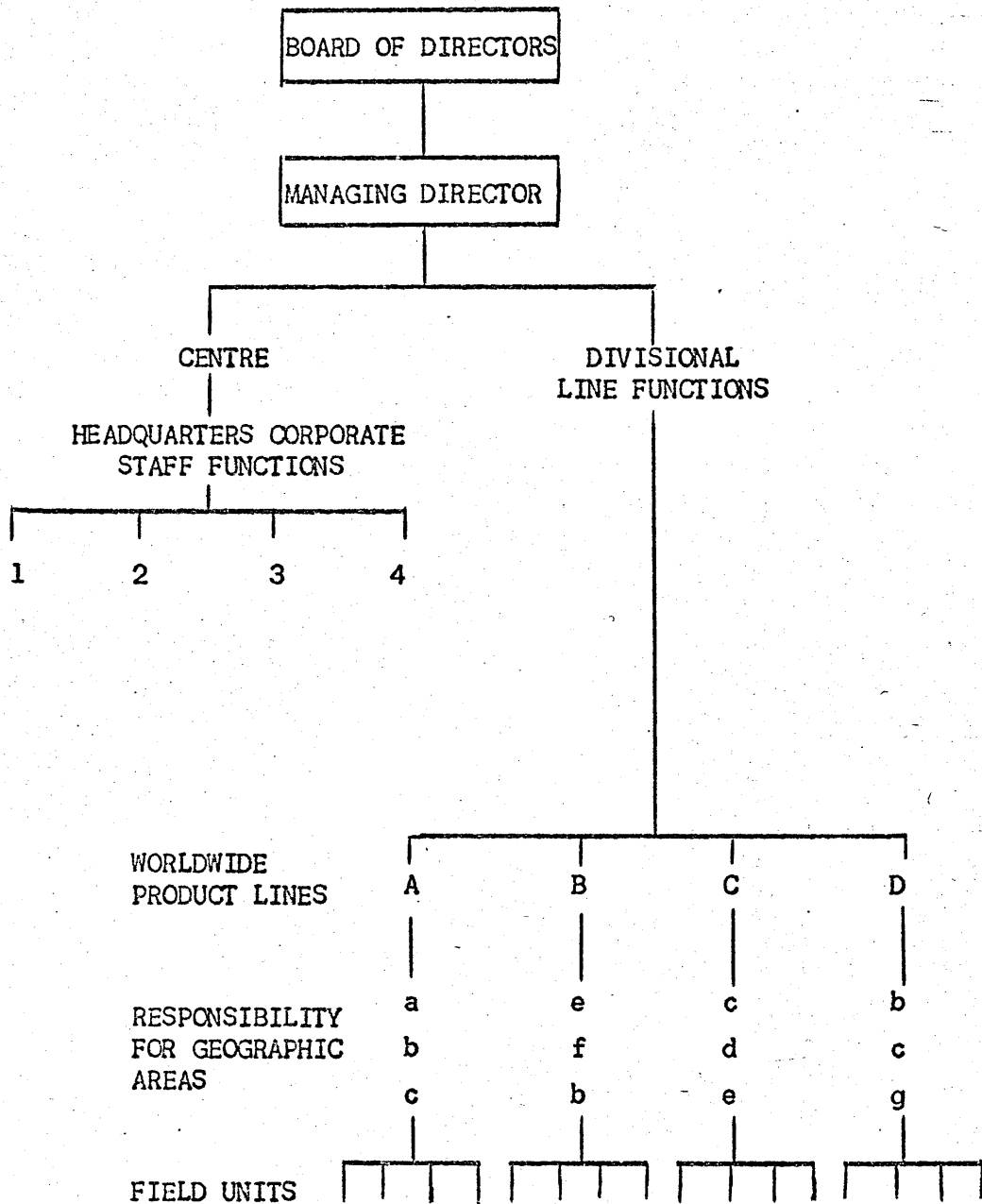
Schema III: The "Product-Line" Multinational Organization

Schema IV a: The "Mixed" Multinational Organization
"Geographic" organization with "product-line" emphasis



 Direct liaison between central "product-line" staff function and worldwide geographic areas.

Schema IV b: The "Mixed" Multinational Organization
"Product-line" organization with "geographic" emphasis



Each "product-line group" is responsible for specific geographical areas.

Stopford (1968) (14) has noted that some multinationals have combined the two through a single managerial appointment. The manager is responsible for a product/area/function overlap in the company. He may for example be responsible for the marketing of Product Group A in Region X; or for the purchasing of raw materials for Product Group B from region Y. This is complemented by the Remmers and Brooke "Type D" company which "represents an elaborate combination of product group and geographical management". (vi) The result is an inter-connecting communication pattern between corporate staff functions at the centre, product group management, and regional management. Maintaining the common schema used so far in this chapter, Schemae IV a and IV b demonstrate two possible structures.

3.11. The implications of the "mixed" structure for strategic decision-making:

The "mixed" structure will compensate for the deficiencies which the other structures exhibit in terms of information and communication of that information for strategic decision purposes. This type of structure is however only possible in those organizations where the resources are available to set up and finance such a sophisticated structure. Indeed, the structure may become so complex that the communications systems become blocked and there will arise problems of personnel and system maintenance.

3.12. Organizational Development:

The four structures which have been examined here are simple representations of organizational structures developed in multinational companies. Many of the companies in the sample used in this study exhibited hybrid organizations, which tended to approximate one rather more than the other types. (Part III; Chapter XI).

A multinational company may operate any of these structures. In the case of the international division structure, a company may still be defined as "multinational" provided that it satisfies Conditions 1 - 5 set out in Chapter II, 4.3. - 4.5.

The analysis has shown that the international division separates domestic and international operations; it need not separate decision-making at the corporate level. As long as management considers basic national and international alternatives together (and the existence of an international division may force it to do so) then the orientation of the firm will be multinational. The three global structures formalise this orientation. There is no official separation between domestic and foreign operation. Each structure possesses a set of advantages and disadvantages for strategic decision purposes. Equally each may provide more appropriate structures for individual firms and industries. The "mixed" multinational organization is generally only possible where the firm possesses extensive resources.

(vi) Remmers, H.L.
Brooke, M.Z.

The Strategy of Multinational Enterprise.
London, The Longman Group Ltd., 1970,
Chapter 2, pp 34.

On the basis of their research sample Remmers and Brooke (1970) (15) observed that organizational development does not proceed systematically through the various structures towards the "mixed" type. It is probable that as a firm expands, it will need to amend the international division, and it may choose to operate on a product-line basis for some operations and a geographical for others. Equally, it may move from "product-line" to "geographic" (or the reverse) and then as conditions change move on to a "mixed" structure, or back to the "product-line" organizational form. It is only likely that it will revert to the use of an international division when there is a major reduction in the size of its operations and assets.

3.13. The "dysfunctions" of multinational organizational structure:

The analysis in this section has emphasised the functional attributes of the decentralised, multi-divisional multinational firm. The limitations have been examined only in terms of their effect upon the strategic decision area. Chapter II, 2.5. stated that the multinational firm faced a complex set of relationships between itself, the home and the host country. This applies equally within the multinational organization. There will exist stress at times between the parent located in the home country and the subsidiary in the host country. Remmers and Brooke have examined these circumstances and find that problems of communications will exist between the centre and the international division or product division. Such problems may arise at the centre itself (in the parent company) or in the field (in the subsidiary). Schemae I - IV show clearly the separation between the domestic divisions and the international division (I) and the separation between geographic and product-line divisions (II & III). The "mixed" organization may compensate for these. As long as the firm operates for the benefit of the parent (Chapter II, 2.5.) the stress will remain.

The "dysfunctions" of organization are well documented in the literature of sociology and psychology. The emphasis of the sociology of organizations is with the way in which the organization affects the lives of the people who work or are involved in it. This dissertation is not concerned specifically with this side of organizational functioning. It is however important to acknowledge that since people make up organizations, the efficiency of any organization is dependent upon the efforts of its personnel. (vii). This has a direct relevance to the conditions of communications difficulties where the parent and the subsidiary, or the centre and the division, are not always able to appreciate each other's problems. At the same time the organizational structure may not provide communications channels to facilitate information exchanges between the appropriate parties.

- (vii) See particularly: "The Vicious Circle of Bureaucracy" in Industrial Man.
(ed.) Burns, T.
Harmondsworth, Penguin Books Ltd.,
1969, 12, pp 250-262.

In the next section, the material of Sections I and II are integrated into a more precise statement of the relationship between the research problem and decision-making. The "dysfunctions" of multinational organization will not be specifically examined. The arguments will however be included in the composite analysis of the decision sequence in Chapter IV.

Section III: Corporate planning, the marketing function, and the formal organizational structure of the multinational firm

4.1. This section will integrate the three elements which compose the research problem: corporate planning, the marketing function and the formal organizational structure. In Section I, (2.11.) it was argued that the research problem fell into the first class of management decision - the strategic decision area. This area is usually the responsibility of the corporate planning function in the multinational. At the same time, although the problem is related to the corporate planning function, it concerns marketing. The identification and selection of market opportunities is as much a marketing planning problem as a corporate one. In this section both functions will be examined with close reference to the formal organizational structure within which each operates.

4.2. Corporate planning and strategic decision-making:

The preceding section has demonstrated that the formal organizational structure provides the information and authority requirements for the management of a decision sequence in the multinational company. Corporate planning is one type of strategic decision sequence. It directs the relationship of the firm with the environment. A corporate plan is the formal statement of the intentions of the company in a defined time period. It outlines the objectives and goals which the company should attempt to attain in this time period, and determines how these are to be realised at the operational level. Steiner and Cannon (1966) (16) define objectives as "intermediate aims or standards of performance. Goals are more or less specific short range ends." Objectives are therefore general statements of purpose, and goals are actual measures of performance required to realise objectives (viii). Corporate planning is a decision sequence since planners will, on the basis of these objectives, seek to identify and select profitable opportunities which will meet their goals.

Because corporate planning presents a vast subject area, attention will focus here as 4.1. has suggested upon a specific relationship within the multinational firm: corporate planning and the marketing function. The schemae in Section II show that the marketing

(viii) For example if one corporate objective is to increase the company's market share in Western Europe, the goal might be expressed in terms of a net return on investment of 12% over a 5 year period. See Chapter I, 4.2. for a discussion of objectives and goals relative to international investment.

function operates at the centre (as a staff function) and within the divisions at the field level (subsidiaries). Ultimately, market planning decisions taken at the centre, or in the subsidiary, are made within the general framework of the corporate plan.

4.3. The objectives of multinational corporate planning:

By definition multinational corporate planning requires that the firm will plan on a multinational basis - that is corporate objectives direct that the firm identifies and selects profitable international opportunities. This proposition complements the discussion of corporate objectives in Section I. (2.2. - 2.9.).

4.4. The management of the corporate planning function:

The corporate planning function is usually described in terms of a two-part activity comprising strategic and tactical planning.

Cannon and Steiner differentiate between these in terms of managerial involvement, time scale, and content.

Strategic planning is the responsibility of the company's top management and its major functional units. It is managed at the centre by the corporate staff functions detailed in the schemae in Section II. The time scale involves periods of between three and ten years. It is concerned with the future orientation of the company:

".... The development of fundamental objectives and goals and the deployment of resources to achieve them."

Tactical planning is a more detailed formulation of the company's operating plans. It is undertaken at all levels of management:

".... (it) is concerned with the organization of resources to execute strategic plans."

The time period is generally one year although the range can extend from six months to two years.

Underlying each activity is a decision sequence which involves the selection of those alternatives which will "best" realise the formal objectives of the enterprise.

4.5. It is useful at this point to examine examples of actual corporate planning procedures in multinational companies. Allio (1972) (17) has described the decentralisation which characterises corporate planning at Babcock and Wilcox. The company's major divisions are allowed considerable autonomy in their planning activities. These must however be co-ordinated with corporate planning objectives. This method of planning is sometimes described as a "bottom-up" process, and its advantages rest in the

way it incorporates the knowledge of local conditions into the formulation of a corporate plan. The company views the activity as a systematic and continuous process of "making decisions that influence the future". In order that the company will realise general corporate objectives the divisions must identify the opportunities to achieve these. There will exist some divisions where the expertise in certain management functions such as marketing and finance is limited (these may for example be product-line divisions) and the centre therefore prepares its own functional plans which interrelate the expertise at the centre with that in the field.

This inter-link parallels the planning process which Edwards (1966) (18) has described at I.C.I. Where the organization is inadequate in the divisions, cross-company planning from the centre will link the functional strategic plans and divisional strategic plans. This process is also described by Clee (1966) (19), who views corporate planning in terms of a series of strategic, interim and operational plans. These match the Cannon-Steiner formulations. However, Clee describes more clearly the functional interlink. The marketing plan will determine production planning; this in turn will guide financial planning. The perspectives of each will interact with the research and development requirements.

4.6. Corporate Planning and Organizational Structure:

The Babcock and Wilcox/I.C.I. procedures have been considered here since they consolidate much of the underlying framework of this study.

- (1) The fundamental objective of the multinational company is survival. This may be expressed more explicitly by the objective of long run profitability: Ansoff has defined this as a measure of return on resources.
- (2) The profitability objective reconciles behaviourist and economic thought within the context of the objectives of the firm. Profit maximisation is only possible under market conditions of perfect knowledge. This is not feasible in the modern corporation.
- (3) Corporate planning is a decision-making process whereby feasible corporate objectives and goals are set for the purpose of profitability and survival. Appropriate alternative courses of action concerning the use of resources need to be selected in order to realise these.
- (4) Corporate planning decisions require information and authority to manage the decision sequence. Organizational structures provide these on a formal basis. There may, however, occur communication problems internally between functions and divisions, and between the centre and the subsidiary, and externally between the parent and home and host countries. De-centralised planning will consider more efficiently local conditions, and will provide more explicit information and guidance for the central functions.

4.7. The marketing function and corporate planning in the multinational firm:

The functional inter-link described in 4.5. indicates the importance of the role of the individual function in the corporate planning process. The research problem requires that the major emphasis of this study rests with marketing planning and strategic decision-making within the context of the corporate planning function. At this point it is necessary to examine the way in which this area of strategic decision-making relates to the corporate planning function.

4.8. The marketing function (ix)

The marketing function is defined here as the sales and distribution activities of the multinational firm's products and services. Miller and Starr (1969) (20) define marketing decisions as those decisions concerned with "the conditions under which the supplier meets the consumer."

The schemae used in Section II have established that the marketing function is located at two levels in the organization: at the centre as a corporate staff function and within each division as an operational function. There will exist a pattern of communication in terms of directives and information flows between the two. Examination of actual planning practices in 4.5. demonstrated this more fully.

To realise corporate objectives both the centre and line functions will be required to identify and select new opportunities. Strategic marketing decisions comprise the development or extension of either new or existing product and/or markets. Where planning is centralised this will involve more specifically the corporate staff function at the centre; where planning is decentralised this may be effected more closely by the divisions and then co-ordinated at the centre. Both systems will require information flows concerning the external environment, and this may be facilitated by the subsidiaries themselves in the field. For this reason therefore the empirical study in Part III has concentrated more particularly upon the role of the marketing function at the centre in the process of identifying and selecting market opportunities in Europe.

4.9. The Marketing Function: Centralisation v. De-centralisation:

The development of any one of the four organizational structures examined in Section II implies a measure of de-centralisation. Regional, subsidiary, and product line managements effect their operations with the assistance of the specialist corporate functions at the centre. They report directly to the managing director and the board of directors. The relationship is however more complex:

(ix) The Marketing Function is also discussed in Chapter IV, 3.3.

Remmers and Brooke (x) define two possible arrangements - an "open" relationship and a "close" relationship.

"If significant decisions regarding the subsidiary are taken at head office, this is called a "close" arrangement; the reverse is described as "open".

Furthermore they state that: (xi)

"... marketing is a function which seems most congruent with the open relationship."

It is important here to distinguish between strategic decision-making relative to the marketing function and operational decision-making which is affected at the subsidiary or local level. Corporate decision-making is taken at the highest levels of management. The different functions to which it relates require more or less autonomy in their own decision-making in accordance with the kinds of conditions and problems which they operate under. Because of diverse market conditions, the marketing function may need to be more flexible and autonomous in its operational decision-making. It will however make these within the general framework provided by corporate decisions. Other functions such as production, or research and development, may not require this, and their decision making is directed more closely from the centre. Schema V overleaf demonstrates the way in which corporate planning, the marketing function and organizational structure are seen to be related in terms of the research problem.

4.10. Schema V synthesises the major themes of this chapter.

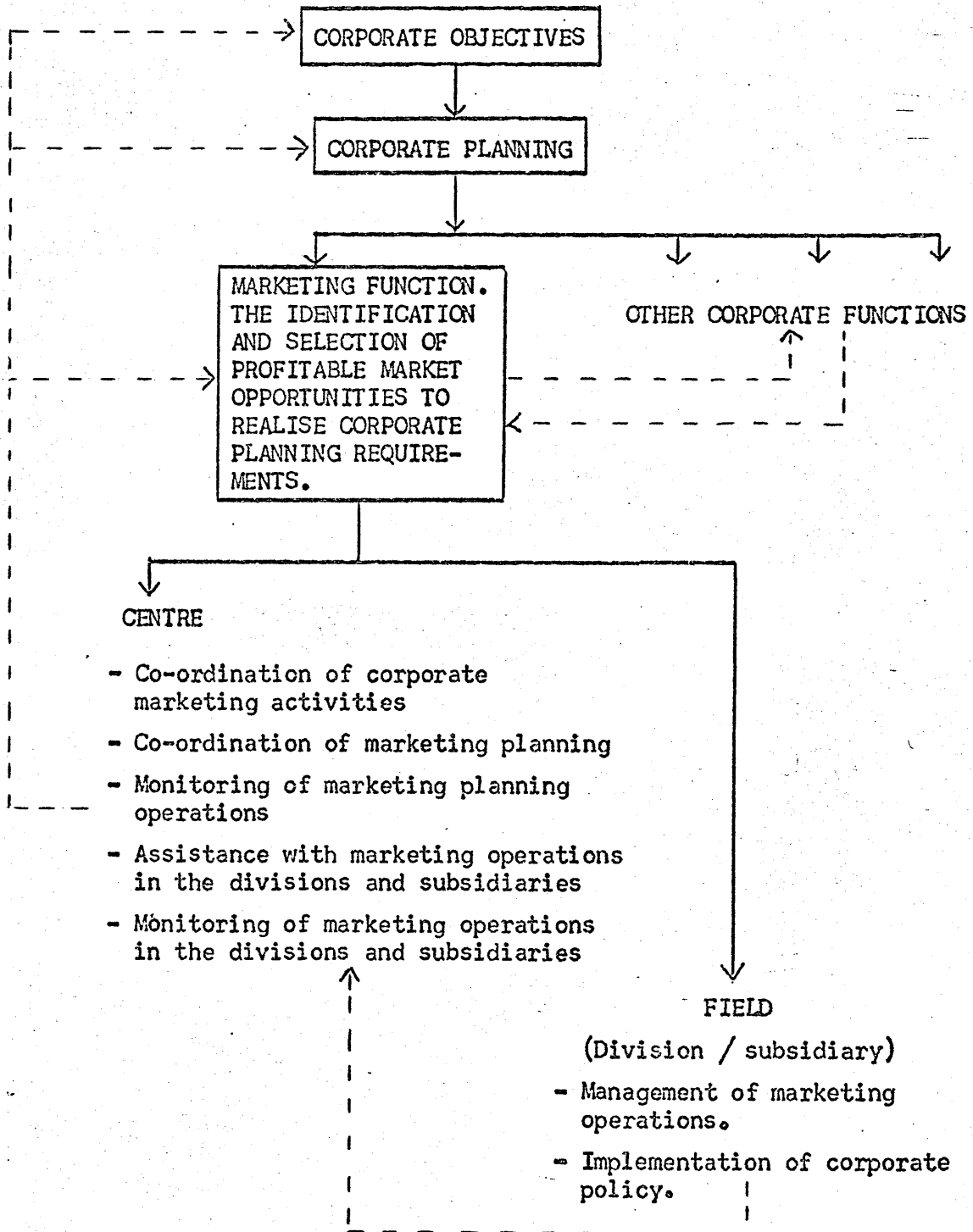
It presents a theoretical analysis of the relationship between corporate objectives, the corporate planning activity and the marketing function. Corporate planning is the formal approach used by the firm to manage the decisions which the research problem implies. In the examination of actual corporate planning procedures in 4.1. it was shown that de-centralised planning allows the centre to use the specialist expertise and information of the other functions and the operating division of the firm. These are co-ordinated at a later stage in the final plan.

The schema indicates the way in which co-ordination applies (at a theoretical level to the marketing function. The schema does not include the informal communications or authority systems outlined in 3.13. Corporate objectives determine the general line of the corporate planning function. The marketing function interprets these in accordance with its area of responsibility. If the general objective of the multinational is to survive, with the financial objective of profitability, the response of the marketing function needs to be the identification and selection of product and market opportunities to realise these. The research problem directs that the study be concerned more particularly with the second of these.

(x) Remmers, H.L. op.cit.
Brooke, M.Z. Chapter 3, pp. 68.

(xi) Remmers, H.L. op.cit.
Brooke, M.Z. Chapter 3, pp. 79.

Schema V: The Research Problem: the interrelationship between corporate planning, the marketing function and organizational structure.



KEY: —————> Task (responsibility)

- - - - -> Flow of information for strategic decision purposes.

The research problem directs that the study be concerned more particularly with the second of these. However, Part III will demonstrate the importance of the product in the actual decision sequence.

The schema applies the basic format of those organizational structures examined in Section II of this chapter. Marketing is located with the other functional areas at the centre. The function operates at the centre and the field. The responsibilities of each are defined in terms of the research problem. In multinational companies the actual division of responsibility may differ.

The schema indicates the importance of information for strategic decision-making. There is an exchange between the centre and the field, and between each function located at the centre. The continuous lines indicate the task (or responsibility) of each function in the total decision sequence. Information may at any point in time (as the broken lines indicate) modify the corporate objectives, corporate planning activity, and the resultant decisions of each function.

Conclusion:

- 5.1. The objective of this chapter has been to define more specifically the area of decision-making in the multinational firm which the identification and selection of market opportunities involves. This has been done by examining the nature of the research problem, the type of decision which it entails, and the particular characteristics of the organization (the multinational firm) in which the decision is made.
- 5.2. In Section I it was argued that the research problem represents in itself a decision. The type of decision which it implies belongs to the area of strategic management decision. The objective of the decision is to ensure the profitable survival of the multinational firm.
- 5.3. Since the research problem involves strategic decision-making, Section II has concentrated upon the environment within which the decision sequence is effected: the organizational structure of the multinational firm. Four basic organizational structures were identified. The analysis evaluated each of these in terms of its implications for strategic decision-making. The development of organizational structures is not chronological, but multinationals will amend and re-adapt their organizational structures at successive stages in the course of multinational operations.
- 5.4. Section III integrated the three elements of the research problem by demonstrating their inter-dependent role in strategic decision-making for marketing purposes. An efficient marketing function requires the use of de-centralised organizational structures. These allow the comparative advantage (relative to

marketing) of the individual multinational firm to be more fully exploited in local markets. At the same time strategic decisions need to be co-ordinated at the centre. Schema V explored this interrelationship more fully.

5.5. This chapter completes one part of the examination of the decision sequence implied in the research problem. Chapter IV will extend this to include a more complete analysis of the structure of the sequence.

CHAPTER IV

THE RESEARCH PROBLEM AND THE STRATEGIC DECISION SEQUENCE

Introduction:

1.1. This chapter will complete the analysis of the strategic decision sequence relative to the identification and selection of European market opportunities. Chapter III has concentrated almost exclusively upon the environment in which the decision sequence takes place; namely the organizational structure of the multinational firm. The objective of this chapter is to extend the explanatory framework in order to consider the conditions of decision-making. This means that emphasis has to be given to the way in which a decision is taken (the decision process) and to the role of the decision-makers within that process. In this way a composite explanation of the decision sequence for strategic purposes may be developed.

1.2. Section I will examine the substance of a decision sequence using the perspective of several disciplines. Since the identification and selection of market opportunities has been defined in Chapter III (4.10.) as part of the corporate planning activity, it may be described as a continuous decision process. The purpose of the decision is to select profitable market opportunities. At the same time it is an activity where:

(i) The character of the organization - in this instance a multinational business enterprise

and

(ii) The commitment of the organization - in this case to multinational operations, require that a class of economic and non-economic objectives, which relate to multinational alternatives, need to be realised. Section I will integrate factors (i) and (ii) above into a general framework which indicates the conditions of the strategic decision sequence in the multinational firm. This composite schema will apply the material presented in Chapter I - III.

1.3. Section II will identify the specific elements in the decision sequence which is implied in the research problem. The material presented in this section will be derived directly from the framework in Section I.

1.4. Section III will formulate:

- (1) A general decision rule. This will provide the basis of the heuristic model to be developed in Part II of this study.

- (2) A general research proposition, which will be examined in the context of the empirical research discussed in Part III of the study.

Section I: The Strategic Decision Sequence: Theoretical and Organizational Approaches

2.1. The objective of this section is to develop a general framework of the conditions of decision-making for strategic purposes in a multinational firm. The section will use the contributions from two sources: decision theory and organizational theory. These will provide the basis for analysing the specific conditions which operate in a particular type of organization such as a multinational firm. The discussion will incorporate the material presented in Chapter I - III. The development of a framework, which delineates the principal elements of this particular kind of decision sequence, in this type of organization, is required in order to understand the underlying processes within the sequence, and, to structure the management of the actual research study. These comments will be brought more fully into perspective in Chapter V in the presentation of the research design.

2.2. Decision theory and the strategic decision sequence:

Decision theory directs the decision-maker to consider all alternatives as well as the consequences that would result from all possible courses of action, and to select that alternative which will ensure the maximum gain. The major assumption of the theory is that the decision-maker wishes to maximise something. He is assumed to be a unique actor whose behaviour is not only intelligent but rational - that is not absurd in the light of the perfect information at his disposition. The decision is itself a deliberate choice that he makes with full awareness of all possible alternatives which are available. Finally, the decision-maker possesses a fixed scale of preferences, and the alternative which he selects ensures the maximum gain in the light of this.

2.3. Organizational decision-making and the strategic decision sequence:

In reality the assumptions of decision theory cannot be reproduced in actual decision situations. This is amplified in an organization, where several actors will participate in the decision-making. Chapter III has discussed this relative to actual corporate planning procedures in multinational companies. (4.5.). Within an organization, decisions are part of a temporal process. Aharoni (1966) (1) and Witte (1969) (2) have demonstrated that although it is possible to locate the moment in time when the decision is taken, it is impossible to state at which moment in time the decision sequence commences and is completed. A decision taken in time period (t) may initiate and affect subsequent decisions in future time periods ($t+1$ / $t+n$). Equally, they may modify or restrict the courses of action or alternatives available to decision-makers in future time

periods. The situation may also be viewed in the reverse. A decision taken in time period (t) is likely to be the course of action which may have to be selected because of circumstances related to preceding decisions in (t-1 / t-n) time periods. Objectives are therefore likely to be changed and modified as long as knowledge is imperfect. Chapter III, Schema V, demonstrates this in relation to strategic decision-making. Finally, alternatives are not given, but have to be searched for. They contribute to the elaboration of choices.

2.4. In his classic paper Edwards (1954) (3) has differentiated between these conditions of decision-making in terms of two categories: "The Theory of Risky Choices" and "The Theory of Riskless Choices". Decision theory assumes that risk involved in the decision is non-existent since conditions of decision-making are perfect. Organizational decision-making recognises that there are conditions of uncertainty, which will blurr and shift conditions amenable to "rational" decision-making. The response of management theorists has been to try to reduce uncertainty by attempting to improve such conditions. The decision-makers can move towards conditions of risk, where the probabilities and pay-offs of different outcomes may be calculated. This has been the major contribution of the Bayesian school. Game theory has moved further to consider the activities of competitors, and their effect upon the likely outcomes and pay-offs. (i). We shall attempt in Part II of this study to devise a means of reducing uncertainty (in line with "The Theory of Risky Choices") relative to research problem.

2.5. The Strategic Decision-Sequence: a general framework:

The subsequent analysis in this section will examine the propositions within the theory of organizational decision-making (2.3.) relative to the strategic decision sequence implied in the research problem. The discussion will integrate much of the preceding material in Chapters I - III. Decision theory identifies a series of steps or stages common to every decision. Their basis is a normative one. Since decision-making in an organization is a temporal process, the progression is unlikely to follow the model entirely. Scott (1967) (4) has identified four stages in one such normative model. These are:-

1. A search process to discover goals.
2. The formulation of objectives after search.

(i) See for example:

- | | |
|-----------------|---|
| Raiffa, H. | Decision Analysis - Introductory Lectures in Choices under Uncertainty.
Reading, Mass., Addison-Wesley, 1968, pp 1 - 10. |
| Von Neuman, J. | Theory of Games and Economic Behaviour. |
| Morgenstern, O. | Princeton, Princeton University Press, 1944. |

3. The selection of alternatives (strategies) to accomplish objectives.
4. The evaluation of outcomes.

He proposes that dissatisfaction with prevailing conditions ("outcomes within an existing goal structure") impels the decision-makers to define new goals. For present purposes it is useful to structure the material in this section around these four stages.

2.6. 1. The Search Process to Discover Goals:

Scott uses the term "goal" in the sense of the aim or purpose of the decision activity. His meaning is nearer to the definition of "corporate objectives" rather than "corporate goals" which is being applied in this study. (ii). In effect at Stage I he is identifying a distinctive stage which precedes the actual formulation of corporate objectives. For example, to what purpose does a multinational company set an increase in company market share in Territory A as a corporate objective? In this study the search process is regarded as synonymous with the corporate planning activity and the marketing function within which formal objectives and strategies are developed. (iii). The growth model applied in Chapter I argued that multinational commitments are only undertaken when management decides to initiate extra-territorial expansion. Therefore, the resultant direct investment decisions rest ultimately with management personnel, who may choose to ignore or even to overrule the opportunities presented in international markets. Barnard (1938) (5) terms such decisions as "negative" - "which are decisions not to decide". Deciding not to make a decision relates to the thesis that a problem is rarely self-evident, but has to be identified. In a more contemporary study Hilgard (1959) (6) has shown that problem and information search processes are themselves significant elements in a decision sequence. To some degree a formal planning system (for example a corporate planning function) will manage the search and information processes on a continuous basis. Initially however, the decision-makings are required to identify the problem area.

2.7. 2. The Formulation of Objectives after Search:

The analysis of corporate objectives in Chapter III (4.6.) has demonstrated that objectives are values or states which the decision-makers in the organization wish to realise. Attainment of any objective in the short or medium-term is dependent upon the profitable survival of the firm. Although this may be considered a satisfactory statement of the long-term objective of the business enterprise (in this instance the multinational firm) it does not explain how organizational objectives are formulated.

- (ii) See Chapter I, 4.2., and Chapter III, 4.2.
- (iii) See Chapter III, 4.9., Schema V.

2.8. Cyert and March (1963) (7) propose that organizations do not themselves have objectives or goals; organizational goals are the resultant of a bargaining process between the individuals in the organization. These persons will have values which they wish to attain, and which in turn may conflict with the values of other groups or persons. The authors conceive of a total process, wherein, at a second stage, these bargaining procedures are subject to control factors which stabilise and elaborate goals. These are the budget, and the allocation of functions within the organization. The budget of a business enterprise determines the range of objectives which the individual may perceive as possible. "As a result, budgets in every organization tend to be self-confirming." Allocation of functions direct the perspective of the individual. This reaffirms Aharoni's description (1966) (8) of the contribution of the international division in the multinational firm, where the personnel are looking constantly for overseas opportunities. Finally, individuals join firms to satisfy their own economic needs. They are prepared to co-operate with organizational objectives in return for payments of salaries and other contributions. (Roberts: 1956) (9). At the third stage, the agreements are modified or adjusted in the light of external factors and environmental changes. This stage would comprise the determinants of direct investment behaviour discussed in Chapter I, 8.1. - 8.6.

2.9. There are several interesting comparisons which may be made between these theoretical propositions set out above in 2.8. and models of cybernetic decision-making. Mouzelis (1967) (10) describes the cybernetic perspective as analogous to a model of an organization as a self-steering decision-making system. The emphasis is upon the internal functioning of an organization in terms of the way in which it manages information and communication for decision-making purposes. As information about the environment is received by the "detector" it is fed back into the organization, and, where disequilibrium occurs (that is where present conditions will not ensure that goals are met) the "governor" is required to take decisions which adjust the system (the organization) in order to realise these. The decisions and orders are implemented by an "effector". (Wiener: 1948) (11). Within a cybernetic system, decision making is seen as being separate from the demands and activities of the informal system. Equally, the formal structure may tend to be imperfect since there will arise problems of communication and information exchange. These are the result of the interaction between the formal and informal structures within the organization, and the organizations own inter-play with the environment. In developing a general framework of the decision sequence in the multinational, we shall be concerned with both the information factor in decision-making (See 2.6.) and the role of the organization itself in the sequence.

2.10. A second line of argument may also be identified from the Cyert and March model. How general are their propositions relative to the overall conduct of decision-making in all organizations. Contemporary studies, for example Chapman (1968) (12)

Downs (1969) (13) and Brown (1970) (14) have demonstrated that individuals formulate organizational objectives via a complex order of negotiations. This will include arrangements between individuals and groups within the formal and informal structures of the organization. The final decision is the result of an interaction between these and the demands of the situation itself. Differences in negotiating procedures will be determined by the character and structure of the organization. For example Chapman's study was concerned with the political decision-making relating to a decision by the Conservative Party to raise the bank-rate in September, 1957; in contrast Downs and Brown have examined American government agencies and the British system of public administration respectively. Therefore, at this stage, it is important to analyse the search process and the formulation of objectives in terms of the particular character and structure of the multinational firm.

2.11. The Character and Structure of the Multinational Firm:

Chapters II and III centred their analysis upon the factors which differentiate a multinational firm from a "non-multinational". In this study the difference is defined in terms of a set of conditions (Chapter II, 4.1. - 4.5.) of which Condition 5 concerns the application of a non-biased criteria in deciding between domestic and international alternatives relative to basic decisions. This is further re-inforced by the existence of an organizational structure which reflects the enterprise's multinational commitment. (Chapter III, Section II.) The basic objective of survival and profitability applies equally to the multinational firm.

2.12. The Formulation of Objectives in the Multinational Firm:

It is useful to use the contributions of the analysis concerning "profit maximisation"- "utility maximisation" at this point, in order to examine the question of the formulation of objectives in the multinational. "Profit maximisation"- "utility maximisation" may be seen as presenting a continuum. At the one end the organization attempts to maximise economic objectives; at the other end the individual attempts to maximise personal objectives. The formulation of organizational objectives is negotiated at some point on this continuum. This construct complements the negotiating processes examined in 2.4. above. The position of organizational objectives on this continuum represents a reconciliation between economic and non-economic objectives.

A. Profit Maximisation:

Profit maximisation as the traditional economic objective of the business enterprise has a special place in the theory of the firm. In this study it has been shown that the multinational firm will not be able to realise this or any other directly associated objective because of:

- a. The imperfections of knowledge and information which govern decision-making and the decision sequence.

The importance of information in the decision sequence was elaborated in Chapter I, 5.1, and in Chapter III, 1.2. Hilgard's paper (2.6.) mentioned earlier describes the need to search for information in order to develop a solution to a problem and make a decision.

- b. The structure of the markets, which are predominantly oligopolistic.

In Chapter I, Section II the discussion of the general characteristics of the multinational firm demonstrated that the requirements of international commitments meant that firms in oligopolistic markets are more able to undertake extra-territorial expansion.

- c. The internal and external realities of multinational operations.

These have been detailed in Chapter III, 2.8. - 2.9. The multinational firm will operate in a number of national markets. It will need to manage these operations efficiently internally (in terms of relationships between the parent and the subsidiary) and externally (in terms of relationships between the firm and the home and host country).

B. Utility Maximisation:

Simon (1957) (15) (and Roberts: 2.8.) have shown that "top management" is likely to be interested in maximising a utility function which involves personal gains in terms of remuneration, prestige, and the size and growth rate of the firm. This argument was examined previously in Chapter I, 2.7. and 8.6. These objectives will therefore be reflected in corporate objectives. The preceding discussion in 2.8. argued that the goals of individuals were subject to control via the budget and the allocation of functions in the enterprise.

This continuum will be applied in Section III of this chapter, in the formulation of a decision rule.

2.13. 3. The Selection of Alternatives to Accomplish Objectives:

The reconciliation process described in 2.8. above indicates that objectives will be formulated within a set of diverse objectives which may act as both constraining and limiting factors. At the same time the perception by the individual or group of feasible objectives limits their formulation. This situation applies equally to the selection of alternatives to accomplish objectives. Simon (1956) (16) has proposed that rational behaviour in terms of the generation of alternatives and the decision-making process may need to be more closely examined in terms of the theories of perception and cognition found in psychology.

Three elements can be distinguished in the identification of alternatives:

- a. The imperfections of knowledge and information.

This element has previously been examined in the previous subsection: 2.8. a.

- b. The time/cost constraint operative in the search for alternatives, information to guide the selection from amongst these, and the cost of gathering such information.

The enterprise has limited time and financial resources at its disposal. In selecting alternatives for evaluation, and choosing between these, there will be a limit to the resources which management is prepared to allocate to these activities. In addition a deadline will operate. Failure to meet this may mean that competitors are able to take a substantial lead.

- c. The limitations of human decision-makers.

This last element refers to the references made to "satisficing" as opposed to maximising first examined under "Managerial Behaviour" in Chapter I. (2.7.) We shall examine this fully in 2.14. below.

2.14. The limitations of human decision-makers:

These elements are interrelated. As long as the human mind is limited in the extent to which it can manage information, it will also be limited in the generation of alternative courses of action. The use of computers may augment this capability as Part II of the dissertation will demonstrate. However, the information requirement which the decision-maker specifies is ultimately dependent upon his judgement.

Simon (1961) (17) devised a modified theoretical concept to the "economic" man with complete information at his disposition. "Administrative" man is an acceptance of the fundamental reality of decision-making: where knowledge is incomplete subjective rationality must operate. As long as the knowledge of the consequences of each alternative remains incomplete, and the human mind cannot assign either perfect values to each consequence, or even identify the full range of alternatives and consequences, bounded rationality will operate. "Administrative" man still behaves rationally, but rationally in respect to the way in which he perceives the problem. Therefore despite incomplete information, he may still make a decision based upon rational choice within the limitations of the knowledge, expertise, and information available.

Therefore, since there is a limit to rationality in decision-making because of such imperfections, the decision maker cannot by definition seek to maximise but to "satisfice". He will select that first alternative which is "good enough" in terms of satisfying a minimum acceptable standard with respect to his objectives (Simon: (1955) (18): (1956) (19)).

2.15. A further study needs to be specifically referred to at this juncture. Lindblom (1959) (20) has argued that in situations, where there is little precedent for developing a solution the conventional rational-comprehensive method of problem solution cannot operate. This thesis complements the Simon approach examined in 2.14. above. Lindblom states that where the decision is complex the decision-maker is forced to use a procedure of "successive limited comparison". He will use the existing knowledge and information resources at their disposition, and bring into the evaluation the expertise and experience which they possess before arriving at a solution.

2.16. 4. The Evaluation of Outcomes:

The conditions of evaluation are dependent in the first instance upon each of the preceding stages in the decision sequence. The outcomes, or alternatives, which are available for evaluation, will themselves depend upon the purpose and objectives of the decision-makers, and the means whereby alternatives have been selected to accomplish these. In the discussion so far we have demonstrated that the processes which accompany each stage are susceptible to negotiation and reconciliation. The identification of alternatives rests upon a set of constraints relative to imperfections in knowledge and information, time and cost, and the limitations of human decision-makers.

Since the general purpose of the multinational firm will be the attainment of profitable survival in the long-term, the formulation of objectives and alternatives will be directed to realise this. In Chapter II, 2.4., financial investment criteria were discussed in the light of the Polk study's findings. Evaluation of alternatives will consider the financial costs and benefits involved in the action of choosing one rather than another course of action. At the same time "non-economic" costs may also need to be considered. The selection of an investment or a strategy which does not realise immediately recognisable financial returns was demonstrated in the examination of Babcock and Wilcox's corporate objectives. (Chapter III: 2.7.) Investment in research and development, which does not realise tangible returns in a planning period of two years, may be imperative for the long term profitable survival of the firm.

2.17. In this section, each stage of the decision sequence has been examined in the light of the material which has been presented in the study so far. The picture which emerges of the strategic decision sequence in the multinational is one of a complex interaction process between:

- I. The nature of the problem.
- II. The environment in which the decision is made.
- III. The decision-maker.

What emerges is a process wherein the demands of the problem and the organization mean that decision-makers can only approach the identification and selection of a course of action within a set of constraints. Schema VI overleaf synthesises the reasons for this judgement.

Schema VI describes the structure of a strategic decision sequence in the multinational firm. The format divides the process into the three basic components. Each is analysed in terms of the stages which need to be completed before the decision is made. The stages in each component parallel one another. Stage 1 in Component I - "The nature of the Decision Problem" and Stage 1 in the other two describe the initial stage in the process for each respective component. The explanation below is cross-referenced at each stage with the appropriate sub-sections in this chapter, and the material in Chapters I - III.

Stage 1:

At Stage 1 the nature of the decision requires that the objective of long-term profitable survival be met via the selection of the appropriate strategic courses of action. (2.12.). The objective of "profitability" applies because of the character and commitments of the multinational firm. It is likely to be influenced by the objectives of the decision-makers in terms of personal 'utility' objectives.

Stage 2:

At Stage 2 profitable multinational alternatives will need to be identified. This is because the character and commitment of the multinational firm mean that operations are conducted on an international basis. (2.11 and 2.12.). The alternatives are not given, but the decision-maker has to search for these (2.6. and 2.14.).

Stage 3:

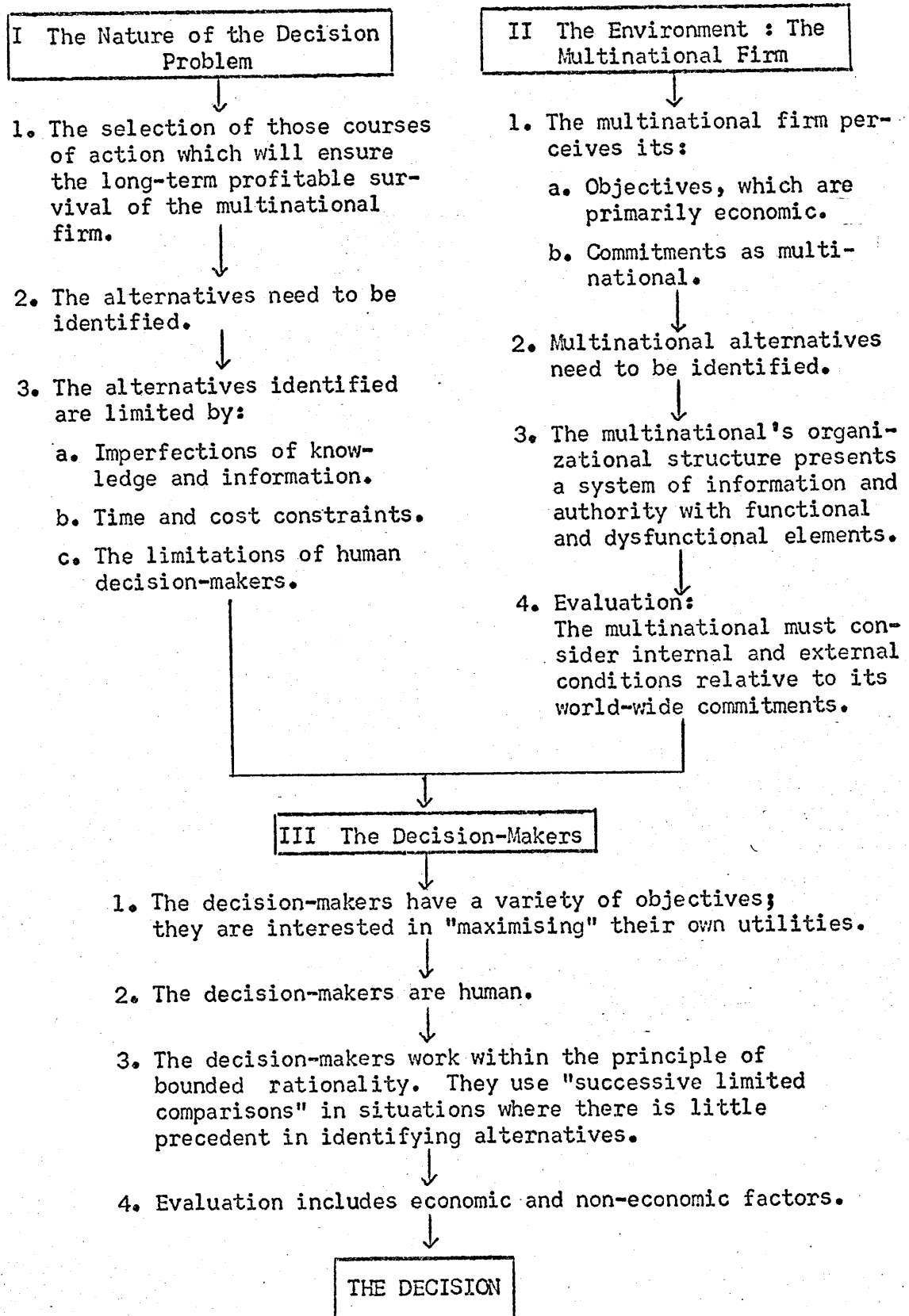
At Stage 3 the identification of alternatives is affected by constraints which relate to developing a problem solution, (2.9.) the organizational structure of the multinational enterprise, (see particularly Chapter III; 3.1, and 3.13.) and the limitations of the human decision-maker. (2.14 and 2.15.).

Stage 4:

At Stage 4 the multinational needs to consider internal and external factors relative to its international commitments. This will affect the evaluation of the alternatives by the decision-maker. (Chapter III; 2.8.).

The schema demonstrates that the decision is effected at two levels via the three components. The nature of the decision problem and the organizational structure of the multinational firm affect the way in which the decision-makers identify, evaluate and select alternatives. Ultimately, the action of making a deliberate choice between two or more alternatives is the responsibility of these persons.

Schema VI: The Structure of the strategic decision sequence in the multinational firm



2.18. In Section I the structure of the strategic decision sequence in the multinational firm has been examined with two perspectives: decision theory and the theory of organizational decision-making. The analysis has demonstrated that the assumptions of decision theory are not realistic. Perfect knowledge and awareness of all possibilities do not operate. Within an organization, such "imperfect" conditions are compounded by conditions of decision-making where several parties, with differing preference schedules, will be involved. From these modified propositions, the discussion has attempted to relate the contributions of the "neorationalists" within the organizational school, to the specific conditions of strategic decision-making in the multinational firm. The resultant schema integrates the explanations relative to decision-making, direct investment, and multinational organization which have been examined previously. This framework will be used in Section II in the analysis of the strategic decision sequence relative to the research problem.

Section II: The Strategic Marketing Decision Sequence in the Multinational Firm

3.1. In this section Schema VI will be applied directly to the analysis of the strategic marketing decision sequence in the multinational firm. The objective is to identify the specific conditions which operate within the three components of the process in terms of the research problem. As such these conditions will be identified on a general basis, using the material in Chapters I - III. In Part III of the dissertation the conditions which apply in actual multinational companies are set out in the appendix.

3.2. Marketing in the Multinational Firm:

There exists some argument amongst marketing specialists concerning the precise nature of the marketing function in the multinational firm. By definition this requires marketing on a multinational basis in international markets. At the strategic level, it will involve the identification, evaluation, and selection of alternative international marketing possibilities. (Chapter III: 2.10. - 2.12.). A recent paper by Henley (1972) (21) suggests that a firm is involved in multinational marketing as long as it views its marketing commitments as the need to identify opportunities on an international basis. In these terms a firm need not undertake direct foreign investment for the purpose of establishing overseas subsidiaries, nor need basic decisions consider international alternatives.

This dissertation differentiates between multinational marketing and marketing in the multinational firm. The environment (the multinational firm) will greatly affect the marketing function. Where a firm perceives its commitments as multinational, it will orientate its strategic decision making, adapt its structural and functional requirements at the administrative level, and integrate its operations so that it is able to exploit more efficiently its comparative

advantage. These conditions have been highlighted throughout the preceding chapters, and have been substantiated by Bieler (1973) (22). He states that a multinational firm in comparison with an export-orientated one, is in a position to obtain a full range of operating opportunities. These will include currencies, management and transfer pricing. This has been examined in Chapter II, 2.6. in the discussion of factor transference. Therefore marketing in the multinational firm is distinctive in its operations and implications from multinational marketing in the sense used by Henley.

3.3. The Marketing Function:

The marketing function in the multinational firm was examined fully in Chapter III. 4.7. - 4.9. The focus of this section is upon the marketing function relative to strategic decisions which determine the structure of the firm's relationship with the external environment. Schema V in Chapter III has demonstrated that theoretically the function is managed at two levels: at the centre (the parent) and in the field (the subsidiary). This differentiation tends to emphasise the involvement of the parent in terms of the provision of a central staff function, and the involvement of the field in an operating capacity. The nature of the marketing function, which requires operating in diverse local conditions, emphasises the importance of autonomy at the subsidiary level in terms of operational decisions. This proposition has been supported by Remmers and Brooks (1970) (23) (the "open" relationship) and in an empirical study by Aylmer (1971) (24). Aylmer's study found that the subsidiary's contribution to marketing operations could be more effective where independence was assured. The research problem is concerned with strategic decision-making. This is effected at the centre in liaison with the other functional areas. The structure of the strategic decision making described in the following subsection applies therefore, to the decision process at the centre.

3.4. The Structure of the Strategic Marketing Decision Sequence in the Multinational Firm:

I The Nature of the Decision Problem

1. The selection of those market opportunities which will ensure the long-term profitable survival of the multinational firm.
2. The alternatives need to be identified. The identification problem may be assisted by other functional areas and information from the subsidiaries.
3. The alternatives which are identified will be limited by:
 - a. Imperfections of knowledge and information.
 - b. Time and cost constraints.
 - c. The limitations of the human decision makers.

The process may however be assisted by guidance from other

functional areas and the existence of "on-line" information systems.

II The Environment: The Multinational Firm

1. The marketing function in the multinational company will perceive its:
 - a. Objectives as primarily economic.
 - b. Commitments as located in international markets.
2. Multinational alternatives will need to be identified.
3. The structure of the multinational firm will present a means of information and expertise transfer between the function and other functional areas, and between the marketing function at the centre, and in the field. There may however occur gaps and loss of information where the system does not function efficiently. (dysfunctions).
4. The marketing function must consider the overall commitments of the firm and other functional areas in the course of the decision sequence more particularly at the evaluation stage. It may be necessary to consider non-profitable, or less profitable marketing opportunities because of other corporate commitments, or in order to ensure the long-term profitable survival of the entire group.

III The Decision-Makers

1. The decision-makers (who are those persons directly involved in the identification and selection of market opportunities) have a variety of personal objectives. These are however integrated within the objectives of the marketing function. They will almost certainly play a part in the sequence however, by influencing the perception of the individual decision-maker.
2. The decision-makers are human. As such the perception condition stated above will operate.
3. The decision-makers work within the principle of "bounded rationality". Where there is little or no precedent for selection they may have to develop a policy solution in terms of a "successive limited comparisons" approach. However as persons who are involved in marketing, they will possess considerable expertise, and specialist knowledge which will assist in identifying the alternatives, and gathering the relevant information.
4. Strategic marketing decisions will need to recognise the overall commitments of the multinational. As such the decision-makers will need to consider local market conditions, and the demands of the subsidiaries, the home and the host country.

This will affect the evaluation of opportunities on a purely economic (profitable) basis.

The resultant decision is that which "best" maximises the objectives of these decision-makers subject to the constraints under which they operate. These have been identified at a general level in components I, II and III.

3.5. This section has completed the analysis of the strategic decision sequence in the multinational firm. By applying the framework developed in the preceding section, a specific structure of the decision sequence may be presented. The structure indicates that not only is the sequence dependent upon the interaction between the three components - The Nature of the Decision Problem / The Environment : The Multinational Firm / The Decision-Makers - but upon the interdependence of the separate functional areas within the multinational. This interdependence can realise the full advantages of multinational operations by making possible the efficient application of factor transferability. This may be seen to apply to both capital and non-capital factors. The second category comprises, information, and expertise. At the same time the interdependence may mean that the marketing function will have to forego "profitable" opportunities because of the corporate demands of other functions and external factors. The analysis does however demonstrate that the comparative advantage of multinational operations, realisable within the strategic area, needs to be considered in terms of a decision rule. This rule is intended to assist in the identification and evaluation of opportunities in the screening of market opportunities. This proposition will be examined in Section III.

Section III: The Decision Rule

4.1. In this section a decision rule will be formulated relative to the investigation of the research problem. The rule is based upon the notion of comparative advantage. It may be applied in two areas in the dissertation:

1. In the development of an heuristic model, intended to assist the decision-makers in identifying and selecting European market opportunities. (Part II).
2. In the examination of actual procedures used by multinational companies. The empirical study will incorporate the heuristic model for comparative purposes. (Part III).

4.2. The Notion of Comparative Advantage

The comparative advantage thesis was introduced in Chapter I, 5.1. in the discussion of international trade and the product-life cycle theorem. It was suggested that Vernon's study applied the comparative advantage thesis at the micro-level. The firm, operating at home in largely oligopolistic markets, would be impelled by internal and external conditions to consider overseas operations. The prospect may be enhanced where it is able to

apply existing information, knowledge, expertise and technological advantage in new markets. This will increase the firm's relative competitiveness. The comparative advantage of the multinational firm has been cited earlier in this chapter in 3.2. We may add to Bieler's work / that of McFadzean, (1972) (25), who lists the advantages of the Royal Dutch Shell Group as follows:

- (1) The advantages of transferability of capital and non-capital resources.
- (2) Access to world money markets.
- (3) Access to a variety of local labour markets.
- (4) The possibility of economies of scale.
- (5) Access to extensive information sources on a global scale.

These advantages need to be balanced against the disadvantages of investing and operating in diverse, widespread markets, where risk may be greater than at home.

Each of these elements has been discussed in Part I. If, however, we apply this listing to the present discussion of micro comparative advantage, we may propose that the multinational firm's objective should be to make the best possible use of its individual comparative advantage, relative to the disadvantages of managing dispersed business operations at a distance from the parent. This proposition needs at the next stage to be applied to the research problem.

4.3. Comparative advantage and the strategic market decision area

Where the comparative advantage proposition is applied to the research problem, the task of the multinational firm may be seen to concern the use of the advantage to select those market opportunities which "best" realise the objectives of the enterprise. The decision rule concerns therefore the provision of some criterion to achieve this. For decision purposes, the comparative advantage of the firm relative to information, (McFadzean's listing in 4.2.) expertise and experience will allow the multinational a basis for identification, and evaluation of market opportunities. This is comparable with Lindblom's "successive limited comparisons". (2.14.) The decision rule formalises this.

4.4. A Decision Rule for identifying and screening market opportunities:

The decision rule which may be applied states that where a multinational can identify markets which are similar to one another it may apply accumulated knowledge and expertise in evaluating these alternatives.

The reasoning behind this criterion is founded upon four elements:

- (1) The analysis of the structure of the strategic decision sequence

in the multinational has demonstrated that at both the general level, and in terms of the marketing function, only a limited number of alternatives may be identified by the decision-makers. This is the resultant of human capabilities, and the existence of bias and limited perception. It is further compounded by "dysfunctions" within the organizational structure. The decision rule seeks to limit this by applying a criterion for identification.

- (2) It is assumed that the multinational firm wishes to reduce the level of uncertainty implicit in this kind of decision making: to move closer towards a more acceptable level of risk. It may do so initially by implementing such a decision criterion which organizes certain elements within the decision sequence on a more formal basis.
- (3) It is assumed that alternative possibilities which might not have been identified in conditions of bias and time and cost constraints can be located where the criterion is systematically applied.
- (4) It is assumed that the multinational is willing and able to use the advantages of multinational operations in the management of the decision problem.

The notion of similarity between markets is not new. It has been applied elsewhere in terms of the operational decision area. Buzzell (1968) (26) has examined the elements of the marketing mix which may be amenable to this treatment. He includes product design, distribution, the sales force, and advertising and promotion in his study. His concern is however with what has been termed previously as operating decisions, where responsibility may be located at the centre or in the field according to the policy of the company. It is possible to go one step backwards and seek to determine how such market possibilities can be recognised initially. Where a market is identified as being "similar" to another market it may be considered as presenting an alternative for evaluation.

A multinational company will by definition be involved in direct investment and associated marketing operations in at least two countries. It will therefore possess at least one base for comparing whether a market is similar to another. Equally, it will have acquired expertise and experience in the exploitation of this market. (This will relate to both marketing and product policies.) Where, therefore, it can identify markets similar to one another, it is proposed that the

- i. relevant alternatives may be identified
- ii. the comparative advantage of the multinational company can be used more effectively. In this respect the technological advantages, expertise, and experience which are internal resources of the company may be applied.
- iii. The rule may have applications at both the strategic and operational levels: that is where markets are identified as "similar" to one another, marketing and product mixes which

are basically alike can be applied. This will provide a possibility for realising internal economies. Our prime concern in this study is with the strategic decision area.

The rule amplifies the contribution which knowledge and expertise can make in strategic market decision making. It has been demonstrated in Chapter III that the formal organizational structure provides a mechanism (sometimes imperfect) to transfer non-capital factor inputs of this kind within the firm.

The problem of determining and formalising "similarity" will be examined in Part II. The definition of the decision-problem suggests at this point the development of some heuristic technique of decision making to assist the decision makers in determining a suitable problem solution.

4.5. From this decision rule it is possible to formulate a general research proposition for empirical investigation. The proposition stated that:

Multinational companies in their identification and selection of market opportunities use a "similarity" criterion. This implies that they are able to reduce the uncertainty implicit in a strategic decision by applying the experience and expertise within the company. They may apply this criterion consciously or unconsciously. At a second level - that of operational decision making - similar marketing strategies (including the marketing and product mix) are applied in markets where conditions are not dissimilar.

The objective of research is therefore to develop a model of strategic decision making based upon propositions which are valid to marketing in the multinational company, and to examine this model with respect to reality; that is how do marketing executives at the centre plan strategic marketing policies; what are their information requirements; what is the decision criterion (if any) which they apply; are they able to co-ordinate marketing strategies at the operational level and realise economies of scale possible within the organisation of multinational operations. This will be examined fully in Part III.

Conclusion

5.1. This chapter has concentrated upon the structure of the strategic decision sequence in the multinational firm relative to the marketing function. The discussion in Section I indicated that it was a complex process, which involved interaction between three components: the nature of the decision problem; the multinational firm; and the decision makers. Decision making in organizations is not effected by a single individual, but is an activity which involves individuals and groups who enact a series of negotiations in determining corporate objectives. The multinational firm will therefore have primary objectives which are economic, and secondary non-economic or "social" objectives.

5.2. Section II outlined the structure of a strategic market decision sequence using the framework developed in Section I. This framework has integrated the major contributions of the analysis in the first three chapters of the study. The analysis of the strategic market decision incorporated much of the discussion on corporate planning and the marketing function in Chapter III. The problems which decision makers face concern the generation and screening of alternatives for evaluation.

5.3. In Section III this problem of "deficiencies" in identifying and selecting markets, whereby suitable alternatives might not have been located, was formalised into a decision rule. This rule applies a criterion derived from a notion of "micro comparative advantage" discussed in Chapters I and II. The advantage which the individual multinational possesses in terms of information resources, expertise and experience may be applied via a similarity criterion. The problems which the study needs at this point to face is how to make this criterion manageable in research terms.

5.4. The general proposition, which has been developed from the decision rule, suggests that investigation needs to proceed by two stages:

1. To develop a means whereby the similarity criterion can be applied on a systematic basis in the multinational firm.
2. To investigate the validity of the criterion relative to the actual procedures used by multinational companies in the strategic decision area suggested in the research problem.

5.5. In Chapter V which follows the decision rule and the general research proposition will be formalised into a research design. This will set down the purpose and management of each stage of the study.

CHAPTER V

THE RESEARCH DESIGN

Introduction

1.1. This chapter will specify the research design which is used in this study. Any research project is in itself a decision sequence. (i). The researcher is required to identify and qualify the research problem, and specify and implement an appropriate research design. The process requires a series of deliberate choices to be made.

1.2. An "appropriate research design" means here that the specification and management of a design is capable of providing a valid means of investigating the research problem. Problem identification and research design are themselves dependent upon the disposition of the researcher, and upon the resources available. Both activities imply a set of decisions, which require the selection of one, or several courses of action, in preference to another or others. The activity is affected by at least two classes of constraints (themselves relevant to the resource problem mentioned above) of time and cost. This perspective demonstrates that the problems of research management are themselves similar to those which an organization is likely to encounter in any problem solving situation. The formulation of a research design may therefore be viewed as a decision sequence. The material in this chapter will reflect this viewpoint. The exact nature of the relationship will be brought into perspective in the conclusion to this chapter.

1.3. The formulation of the research design will be treated here in two sections. In Section I the discussion will demonstrate the way in which the research problem, which has been extensively analysed in Chapters III and IV, complements the general scope of the study: strategic decision-making in the multinational firm. Section II will define the purpose of the research project. It is necessary to set out precisely what the study intends to investigate. The resultant research design attempts to complement this purpose as completely as possible within the research constraints indicated in 1.2. above.

Section I: The Scope of the Study

2.1. The background to the identification and formulation of the research problem

The growth of exchanges between the developed countries, and between the members of the three European trade blocks since 1958 has been accompanied by a concomitant expansion in the volume of multinational

(i) Chapter III, 1.2.

operations by business enterprises. Table II at the end of this chapter indicates the increase in the volume of export exchanges for the period 1958 - 1969. Table I (Chapter II, 2.7.) indicates the latest available asset value of world direct investment.

2.2. Theories of the development of the multinational firm comprise a set of explanations derived from the contributions of international investment and international trade. Empirical studies have been especially numerous in the United States of America, and many of the explanations are particular to the experiences of American industry. (ii). The "product-life cycle" theorem was formulated with direct reference to American trading patterns. There is a need to examine the explanations of the development of multinational enterprise presented in Chapter I, in terms of the experiences of non-American multinational companies. There may exist different patterns of development and commitment, which have initiated foreign investment decisions and which presently affect the strategic decision area. These need to be investigated in terms of the research problem.

2.3. The purpose of the multinational firm has been defined as the management of multinational operations in order to attain the long-term profitable survival of the enterprise. (Chapter III, 2.2. - 2.9.). Theoretically it is the task of the corporate planning function in the multinational firm to identify the directions which the firm may take to ensure this. Long-term survival and profitability requires in operational terms the investment of capital and non-capital resources in those projects (markets and products) which will realise the required returns on investment. (Chapter II, 2.4.).

2.4. If the explanations concerning the determinants of direct investment and extra-territorial expansion (2.2.) and the purpose of multinational operations (2.3.) are combined, a general research proposition may be identified. Existing models of multinational operations propose that the multinational firm will expand and maintain its international commitments either by:

- (1) recognising and applying its comparative advantage (in terms of capital and capital resources) in international markets.
- (2) protecting existing markets and interests.

It will be required to identify and select on a continuous basis market opportunities to realise these. This is the essence of the research problem as it has been applied to the marketing function. Thus, the long-term profitable survival of the multinational firm requires the identification and selection of profitable market opportunities. This implies a decision problem, and the precise line which the study will follow is set out in the analytical frame-

(ii) The outstanding example of this is the Harvard Multinational Enterprise Project. The research of Vernon, Stopford, and Wells amongst others has been managed within this project.

work below.

The Analytical Framework

2.5. At a general level this study is concerned with the conditions of strategic organizational decision-making. The nature of the decision problem is, as Chapter IV has demonstrated, determined by the character and commitment of the organization - in this instance the multinational firm. The decision problem is primarily an economic one; the decision makers are interested in profitable market opportunities. At the same time, the decision sequence is effected by individuals and groups with their own objectives. Therefore "non-economic" factors will interact in the process. Equally, the conditions of strategic decision-making are also susceptible to internal and external determinants (Chapter III, 2.8.) which may be beyond the control of the individual multinational.

2.6. In the preceding chapters, the analysis has attempted to match the general perspective of organizational decision-making with the particular conditions of strategic decision-making in the multinational firm. The framework which has been constructed emphasises therefore that the development and growth of the multinational (both at the micro and macro level) may be described as the resultant of a set of decisions made by the personnel within the organization. At the first stage these persons will select international opportunities in preference to domestic ones; at a second stage they are engaged in exploiting international opportunities on a continuous basis. This is directly reflected in the development of a working definition of the multinational firm, (Chapter II, Section III) wherein basic decisions (this will include strategic decisions) are made on an international basis.

2.7. This framework may be seen, within certain limits, to approximate a simple cybernetic system. (Chapter IV, 2.9.). The profitable survival of the system (the multinational firm) rests ultimately upon the ability of the decision makers to recognise the new opportunities attendant in a changing environment, and to incorporate these in strategic policy decisions. A cybernetic model will represent the firm in terms of a decision-making system. The role of the social system within the organization is not considered. In the analysis of the determinants of extra-territorial expansion in Chapter I, 9.1., the importance of informational and behavioural variables in the process was acknowledged. The analytical framework must therefore give considerable attention to these, and the model of the firm as a decision-making system needs several additions. In Chapter VI this argument will be pursued further. Sub-section 2.8. synthesises the analytical framework.

2.8. The framework comprises three elements:

1. The determinants of extra-territorial expansion

The growth of the multinational firm is dependent ultimately upon

the decision-makers' :

- a) willingness to commit capital and non-capital resources to international opportunities.
- b) perception of the problem area. What are the number and kind of marketing opportunities of which they are aware, and which they are able to recognise.

2. The basic objectives of the multinational firm

The analogy of the "profit maximisation" / "utility maximisation" continuum represents the theoretical polarities within which corporate objectives will be formulated. The long-term survival profitability thesis is matched in the short and medium term by the need to make the "best" decision - to select market opportunities which realise this objective subject to the constraints within which the decision makers operate.

3. The strategic decision sequence in the multinational firm

The strategic decision sequence and the strategic marketing decision sequence were analysed in Chapter IV. Schema V demonstrated that imperfections in the decision process are inevitable as long as the elements relative to the role of the "human decision-maker" and non-controllable internal and external factors are in-built (or structural) in the sequence. "Imperfection" refers here to the conditions of decision-making. They concern the limited capacity of the decision makers, the restricted availability of information for decision purposes, the possible dysfunctions of the organizational structure, and the constraints presented by existing commitments.

2.9. Part I of the study has identified and discussed each separate condition within these three elements. Section II of this chapter will demonstrate the way in which they will be applied to the formulation of the research design.

Section II: The Purpose of the Study

3.1. The purpose of this study is to investigate the decision processes involved in the selection and identification of markets in the multinational company. On the basis of the discussion in Chapters I - IV it has been possible to define a problem area relative to the marketing function in the multinational. From this material a decision rule and a general research proposal have been formulated. The analytical framework is founded upon contributions from several areas, including theories of decision-making within the behavioural and economic sciences. Although this framework is able to define the general parameters of the problem area, specific investigation is required relative to strategic multinational decision-making.

3.2. Much research in the multinational field has been conducted by American groups. There is some need to correct this imbalance. At the same time there is little material available which examines the role of marketing planning and strategic decision making within the context of corporate planning in the multinational company. This was discussed in Chapter III, Section III. This perspective seems to have been ignored. Studies concentrate either exclusively in the area of marketing and marketing decision-making (rather more at the operational level) or in the area of corporate planning. Yet, as the examples of actual planning procedures in Chapter III demonstrate, de-centralisation in terms of organizational structure, means that corporate planning has to be managed by a complex interchange of information within the functions of the organization, at both the centre, and, in the field. The perspective which has been developed here views strategic decision making for marketing purposes as part of the corporate planning function.

3.3. The specific objectives of the study:

The specific objectives of the study are defined as the following:

- i. To examine the procedures whereby multinational companies identify and select European market opportunities.
- ii. To do so within a framework which gives particular emphasis to non-American multinational companies.
- iii. To develop a system which will assist the decision process by programming certain elements within the research problem.

The objectives suggest a two stage approach to the problem:

- a. the design of a system which indicates on a heuristic basis how multinational firms may identify and select international market opportunities.
- b. the examination of actual procedures for identifying and selecting international market opportunities within a framework which satisfies objective (ii) above.

It is possible to combine these into a design which develops an heuristic decision model, and uses this model at some stage to examine the realities of this decision problem in multinational companies. In effect, two models will be developed; an heuristic decision model which is concerned with the way in which decision makers may analyze the problem and derive a solution, given a particular situation and specified information; and a descriptive model which identifies how such decisions are made. The descriptive model will considerably add to both the analysis of the decision sequence which was presented in Chapter IV and to the analytical framework developed earlier in this chapter in Section I.

3.4. The Heuristic Model:

The heuristic model will incorporate the decision rule as outlined in

Chapter IV, (4.1. - 4.5.). In effect this rule defines a means by which decision makers may manage the problem of identifying and selecting market opportunities. The model will be applied to a particular problem area and it will need to identify the relevant information required in the problem solution. It is not intended to be an exact replication of reality, but to be used for heuristic purposes in order to assist decision making.

3.5. The Descriptive Model:

The descriptive model will describe the actual procedures which multinational companies presently use to identify, and select international market opportunities. The empirical investigations will also seek to determine how valid the similarity criterion (used in the heuristic model) is in this decision area. The problems of comparative research are discussed extensively in Part III: Chapters IX and X. The heuristic model will itself be incorporated into this part of the study as 3.10. below will demonstrate. Equally, since we are interested in the validity of the decision rule, participants are required to evaluate the heuristic model in terms of their own procedures.

3.6. The Research Area:

The scope of the study has been determined by the time/cost constraint referred to earlier. In reality the researcher is required to identify some problem area, where the subject of the study has a direct application. The recent enlargement of the E.E.C. presents British multinational with a situation wherein it has a greater possibility to realise its comparative advantages in "favourable" conditions. The removal of tariff barriers increases the potential size and competitiveness of the E.E.C. for the products and services of British multinationals. At the same time there is the prospect of increased competition from community members in British domestic markets. It may therefore have to consider expansionist or defensive strategies of extra-territorial expansion of the kind examined in Chapter I, (8.2. - 8.6.). There is the possibility of an equivalent reaction amongst European firms in the face of community enlargement.

A second phenomenon, in terms of potential market opportunities, is presented by Eastern European markets. Recent moves within COMECON have increased both the demand and the prospect of multinational marketing here.

It is possible therefore to investigate the similarity between the 20 national markets which comprised the three European trade blocks on December 31st, 1973. (E.E.C.: E.F.T.A.: COMECON). This is the precise definition of the "European Complex" in this study.

3.7. The Design of an Heuristic Model: (Part II)

The development of an heuristic model to assist the decision maker in identifying and selecting market opportunities (within the European

complex of 20 national markets) is based upon the use of the similarity decision rule. The rationale for using this criterion has been discussed in Chapter IV. The similarity criterion (decision rule) enables the knowledge and expertise of the decision maker to be incorporated at the second stage of the process - the evaluation and selection of market opportunities. The model will be tested by comparing it with the realities of strategic market decision making in multinational companies.

The model incorporates the use of a computer program. The advantages of data processing include the treatment of a larger volume of information inputs than are possible to manage mechanically. This was recognised as one restraint imposed upon decision makers. (Chapter IV: 2.13. and 2.14.). The problem of defining "similarity" will be discussed extensively in Part II.

The objectives of the heuristic model are:

- (1) To provide a systematic means of treating information relevant to the identification and selection of market opportunities.
- (2) To increase the competence of information management, which tends to restrict the activities of the decision maker in the identification of appropriate alternatives.
- (3) To apply a simple decision rule in order to generate appropriate alternatives.
- (4) To enlarge the perception of the problem area. It is impossible, for example, for a decision maker to perceive by conventional means market opportunities in terms of 20 national markets, and in market segments within these.

Comparison with the realities of actual strategic decision procedures

3.8. The selection and management of the sample:

Chapter X will examine the sample frame used in the empirical research. All participants were required (with one exception) to satisfy conditions 1 - 5 in Chapter II, Section III relative to the working definition of the multinational firm. The management of the investigation required a three stage enquiry to be conducted in Great Britain and Western Germany using a sample of twelve European and American multinational companies. The personal interviews were supplemented by a postal questionnaire administered in Western Germany.

3.9. The objectives of Empirical Investigation (Part III)

1. To examine the way in which multinationals perceive the problem of selecting European marketing opportunities.

In Chapter IV reference has been made to in-built bias in both the planning system (because of communications problems within the organizational structure) and in the decision-making by human beings. (Schema VI). What is the nature of bias in the perception of European marketing opportunities?

2. To examine the objectives of strategic marketing decisions.

Determinants of direct investment have been examined in Chapter II. The objectives of marketing planning policies and concomitant investment requirements are still somewhat neglected in the literature of multinational operations.

3. To identify the information which is used in identifying and selecting markets.

It is intended here to compare the inputs used in the heuristic model with actual requirements. At the same time each participant is required to specify the variables used by the company. A clearer picture of the information requirements will be developed.

4. To examine the constraints which operate in strategic marketing decision-making.

Section I, 2.2. has argued that patterns of development in non-American multinationals may be different. Therefore, perception of opportunities and present commitments and organization for multinational operations may act as constraints. The pattern of general constraints which emerges may be related to the composition of the sample. Do firms in the same industrial sectors identify similar constraints?

5. To examine the basis of evaluation of European market opportunities.

This requires specifically:

At the first stage an examination of the general validity and reliability of the similarity criterion. At a second stage are there instances where standardisation of marketing efforts exist at both the strategic and operational level?

6. To examine strategic market decision sequence in each multinational company.
 - i. What role does the contact in each multinational company play in the decision sequence?
 - ii. How does each contact evaluate the heuristic model? Do multinational companies with the same product-lines evaluate the model in the same way?
 - iii. How does the product affect the decision procedure? Do companies of different nationality but the same product group formulate similar market objectives, and work within

a similar set of constraints when selecting markets?

- iv. Does the perception of market opportunities affect the decision sequence? Are many opportunities never identified because of corporate bias or limited perception of the range of possibilities?
- v. What effect does the company have upon the sequence? Given that a multinational company will be involved in multinational operations, are the marketing objectives and constraints of multinationals in the same industrial sector, but of different nationality, similar?

3.10. The Management of the Empirical Investigation:

The descriptive model will attempt to define more precisely the conditions under which strategic marketing decisions are taken in a sample of multinational companies. The comparisons which are generated need to be managed in a meaningful manner. Each firm will have a separate product-market-company complex. This relates to the product lines (and industrial sector) which it manufactures; the markets in which it operates; and the commitments, history and tradition which it possesses. The empirical investigation needs to be managed on a common basis. Objectives 1 - 6 (3.9.) can be partially investigated within the framework provided by the heuristic model.

The product complex: The contacts will attempt to evaluate the usefulness of each variable in the heuristic model in terms of the company's own products. A first proposition is that companies located in the same sector will specify the same variables. Equally, each contact is asked to specify particular variables used to identify and select market opportunities. Using the inputs of the heuristic model, the researcher may investigate inter-sectoral and international differences between companies. (3.9. : 6 ii - v.).

The market complex: The heuristic model examines twenty European markets. The contacts are asked only to consider these when framing their answers. In this way the framework for comparison is itself held constant. (3.9. : 1-6 inclusive).

The company complex: Each company will possess a different history, tradition, and pattern of commitment. The sample is however structured so that inter and intra sectoral (industrial sectors) comparisons can be made. In addition the heuristic model asks the respondent to consider the same market complex in the

European market, and to state its individual corporate objectives and constraints within this total market area. (3.9. : 2,3 and 4.)

Conclusion:

4.1. This chapter has developed a research design to be implemented in Parts II and III of the study. The basis of the design is the development of two models - an heuristic and a descriptive model - of decision making for strategic marketing purposes in the multinational company. Both models are intended to extend the understanding of this decision area. They will be interactive. The heuristic model will provide a limited means for comparing approaches within the decision sequence: the identification and screening of potential market opportunities. The realistic model will incorporate for comparative purposes certain aspects of the heuristic model. This will be discussed fully in chapters IX and X.

4.2. At this juncture, we may re-introduce the argument presented in 1.2. which relates the research problem to a decision sequence. Below we present the "phase-theorem" approach to problem solving. This is used extensively in demonstrating a theoretical approach to managerial problem solving. (Alexis and Wilson: 1967) (1). The six stages represent an approach which may be aligned to a decision theory model. (Chapter IV: 2.2. - 2.3.) In reality the sequence may not be conducted as systematically as these six stages indicate. The reasons for this were argued extensively in Chapter IV in terms of the "imperfections" of organizational decision-making. However, the "phase-theorem" may be applied here to indicate the areas which each part of the study will examine.

The "phase-theorem"

1. Identifying the problem.
2. Obtaining the necessary information.
3. Production of possible solutions.
4. Evaluation of such solutions.
5. Selection of a strategy of performance.
6. Actual performance of an action or actions.

In effect stage 1 has been completed in Part I. Stages 2 and 3 will be examined in Part II by the heuristic model. Stages 4 - 6 will be examined in Part III in the descriptive model. The study should not however be viewed as a problem-solving exercise. This chapter, in formalising the research design, has indicated that the interest in the way in which firms make decisions in certain areas, is a

pre-requisite for understanding how decision processes are enacted. At a further stage, by understanding how decisions are made, decision-making can be improved. We may move nearer to conditions of "riskless choice".

TABLE II

EXPORTS BY PROVENANCE AND DESTINATION 1958 - 1969

SOURCE: U.N. YEARBOOK OF INTERNATIONAL TRADE STATISTICS 1969

Copyright (N.Y.) U.N.: Dec, 1971. pp 20 - 31

(F.o.b. value in million U.S. dollars) (see notes)

EXPORTS FROM	EXPORTS TO	DEVELOPED MARKET ECONOMIES				CENTRALLY PLANNED ECONOMIES		
		EUROPE						
		YEAR	TOTAL (1)	EEC (1)	EFTA		EUROPE AND U.S.S.R. (1) (2)	U.S.S.R.
					TOTAL	U.K.		
E.E.C. (1)	1958		13 580	7 530	4 950	1 330	620	205
	1969		53 370	36 460	12 750	3 370	2 700	1 060
EFTA	1958		7 370	3 650	2 800	950	450	145
	1969		20 460	9 050	8 470	2 340	1 480	480
CENTRALLY PLANNED ECONOMIES (1) (2) EUROPE + USSR (4)	1958		1 810	700	620	275	6 060	2 220
	1969		5 490	2 430	1 780	790	16 620	6 060

Continued over page

EXPORTS FROM	EXPORTS TO	DEVELOPED MARKET ECONOMIES / EUROPE				CENTRALLY PLANNED ECONOMIES		
		YEAR	TOTAL (1)	EEC (1)	EFTA		EUROPE AND U.S.S.R. (1) (2)	U.S.S.R.
					TOTAL	U.K.		
U.K. (3)	1958		2 750	1 260	890	...	130	66
	1969		6 070	2 860	1 870	...	540	230
U.S.A.	1958		5 390	2 840	1 560	890	115	3
	1969		12 190	6 900	3 860	2 280	250	105
U.S.S.R. (4)	1958		710	270	235	145	2 320	...
	1969		2 150	860	660	425	6 200	

NOTES

(1) The transactions between Germany, Fed. Rep., German Democratic Republic have been omitted. Based on data reported by the sender they are as follows:

	Value in Millions	U.S. Dollars
	1958	1966
Germany:		
Fed. Rep. to		
German		
Dem. Rep.	191	577

German		
Dem. Rep. to		
Germany Fed. Rep.	211	366

(2) U.S.S.R., Albania, Bulgaria, Czechoslovakia, German Democratic Republic, Hungary, Poland and Romania.

(3) In all years exclude trade between U.K. and Channel Islands.

(4) In 1969 exports from the U.S.S.R. for which countries of destination could not be attributed amounted to \$580 million. This amount is included in total exports to developing market economies.

(5) DEVELOPED MARKET ECONOMIES (as defined by U.N.)

1. U.S.
- Canada
- Europe
- Japan
- Australasia
- New Zealand
- South Africa

CENTRALLY PLANNED

2. Europe (Socialist States)
- China
- Korea
- Mongolia
- N. Vietnam

3. DEVELOPING ECONOMIES

Not included in (1) and (2)

P A R T I I

In Part II the analysis moves towards the examination of the role of information in the strategic marketing decision sequence. The identification and selection of market opportunities has been defined in Chapter III as part of the strategic decision area. As such Ansoff's statement that such decisions are "concerned with establishing the relationship between the firm and the environment" (i) brings into focus the role of information relative to the marketing environment for marketing planning purposes. The contents of Part II are concerned with determining at what point information may be introduced into the decision sequence, and how may it be transformed in order to derive a theoretical solution to part of the decision problem of identifying and evaluating (screening) market opportunities in the European Complex.

In Chapter VI the notion of marketing systematics is fully explained. The approach sets the principle guide-lines for examining the inter-relationship between information and the decision problem. A distinction needs to be drawn here between the informational variable in decision-making (Chapter I) and information. The former is concerned with the general range of information and communication available to the decision-makers; the latter relates in this study to the actual input of information into the heuristic model. This distinction is brought fully into perspective in the "systems approach" model introduced in this Chapter.

Chapter VII is concerned with identifying a method for transforming information which complements the objectives of the heuristic model set down in Chapter V. The chapter deals with two aspects of the problem. The selection of input needs to be determined on a basis which is valid and appropriate to the special demands of strategic marketing decision-making. The precedents in this area have determined the search and selection of information by the researcher. The "Clustan" programme provides the means to transform this information in accordance with research demands.

Chapter VIII presents the results of the computer runs. The interesting "similarity" patterns and clusters are analysed closely in the text. These results demonstrate both the potential of the approach in this area, and the extent to which the decision problem may be systematised.

Two technical appendices are included at the end of the text. These comprise technical specifications relative to the clustering operation and to the "Clustan" programme.

- (i) Ansoff, H.I. "Toward a Strategic Theory of the Firm".
Economies et Sociétés. Vol. 2, 3, 1968.

CHAPTER VI

MARKETING SYSTEMATICS

Introduction

1.1. This chapter will follow through the statement of the objectives of research made in the preceding chapter. It will concentrate upon the informational factor which is part of the complex decision sequence which the study is examining. The objectives of research require that in order to develop an heuristic model (which is an integral part of the informational variable in this study) the following need to be investigated:

- a. What does the decision sequence entail?
- b. What part or parts of the sequence may be programmed?
- c. How may this be done in conjunction with the decision rule?

This chapter will treat all of these by attempting to demonstrate how they may be managed in terms of the objectives of the study. The actual programming solution and the application of the decision rule (b. and c.) will be dealt with in Chapters VII and VIII. The approach which will be used here to discern what the decision sequence entails is that of systems theory.

1.2. Systems theory provides a suitable theoretical framework for examining the interrelationships between the economic, informational, and behavioural variables which affect the output of a strategic decision in the multinational firm. This was formalised in Chapter IV, Schema VI. There exist both conceptual and real systems. The analysis of the role of each of these variables represents a conceptual system. The organizational structure of a multinational firm (Chapter III) is an example of a real system. Marketing systematics is seen here as an attempt to design a real system for strategic marketing decision purposes. The system will incorporate b. and c. in 1.1. above. The design of such a system is in direct response to one of the specific objectives of the study:

"To develop a system which will assist the decision process by programming certain elements within the decision problem?" (i)

It implies the methodical and on-going collection and selection of relevant information. The treatment of this information requires the application of some general criterion (the decision rule) to control the activity.

(i) Chapter V, 3.3.

1.3. Section I of this chapter will use a model-building approach to analyse strategic decision-making. It will integrate the simple written models which were used in Part I.

In Section II a systems approach will be used to define more precisely the interrelationships in the conceptual system of strategic decision-making developed in Part I. The principle of the "open" system implies that in order to survive the multinational as an energetic input-output system. This complements the definition of the strategic decision area (Chapter III, 2.10.) applied in this study.

In Section III the validity of the heuristic approach in formulating a problem solution is discussed. The relationship between marketing systematics, systems theory, and the development of the heuristic model is analysed in terms of the "conceptual systems-real systems" framework. It will be shown that the two approaches find common ground in this particular problem area in terms of the conditions of perception and cognition in decision-making.

Section I: Model-Building and Decision Analysis

2.1. Model-building is probably the most pervasive technique which is presently in use in the social sciences. (Management studies are considered here as a sub-set within the area.) In this section the purpose of the discussion is to demonstrate that the analytical framework developed in Part I comprises a series of written models. Furthermore, the models present a progression of inter-connected explanations of strategic decision-making relevant to the research problem.

2.2. At the simplest level, a model may be defined as a construct which represents on a smaller scale the essential elements or qualities of some entity. At a higher level it may be stated that the complexity of the construct will be determined by the purposes for which the analyst requires the model. It is therefore useful at this point to make a broad distinction between the categories of models which are used in this study. They are:

- (1) Models which are intended to describe the decision-making process in the multinational firm.
- (2) Models which are intended to assist in the decision-making process in specific problem-areas in the multinational firm.

Models in the first category attempt to define and to describe the relationships between the different elements which constitute the process. These elements have been defined earlier (at a general level) in terms of economic, informational, and behavioural determinants which affect the identification and selection of market opportunities.

Models in the second category are intended to assist the decision-

maker by managing these relationships in such a way so as to aid him in deriving a feasible and appropriate solution to the decision problem.

In Part I the models were primarily those of Category I. They attempted to describe and to explain strategic marketing decisions in terms of the corporate planning needs of the multinational firm. In Part III the analysis will be concerned with the formulation of a category (2) type model.

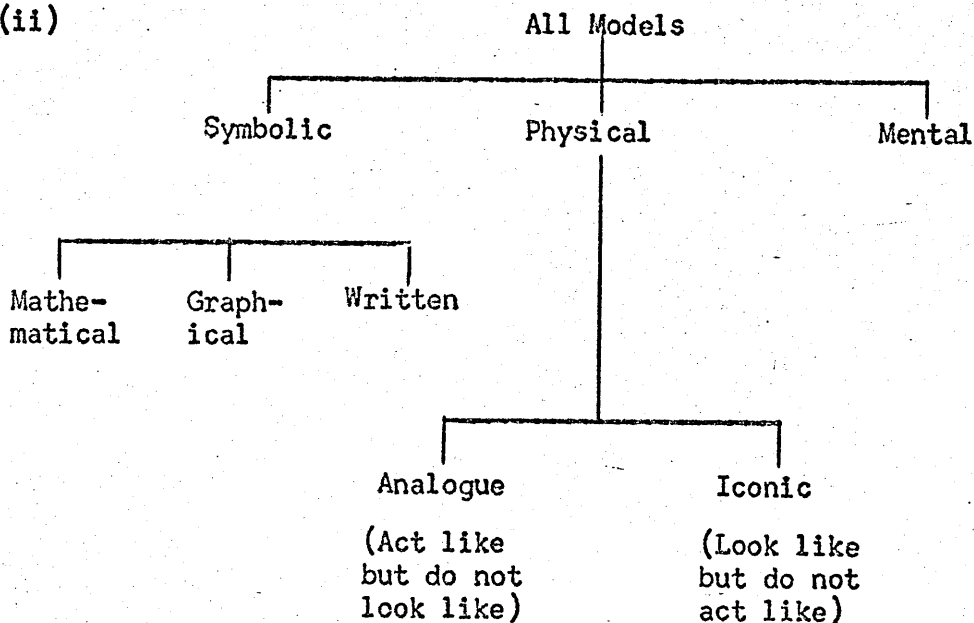
The empirical study in Part III will attempt to assess the validity and reliability of the models used from both categories in terms of the actual conditions and procedures in multinational companies.

In order to demonstrate the way in which the written models in Part I present a progression which may be analysed within a systems framework, a brief re-evaluation of these is presented below.

2.3. Models of Multinational Operations

In a recent paper Howard (1970) (1) has presented a comprehensive classification of models. This is reproduced below in a footnote. (ii). Howard's discussion of the use of model-building for managerial decision-making purposes complements much of the material presented in this study. His analysis implies that a model may be seen as an aid to the decision-maker; it is not in itself a substitute for decision-making. The decision-maker must therefore construct a model which is appropriate both to the particular decision problem, and to the objectives of the decision-maker. (This is the objective of Part II relative to the identification and selection of market opportunities in Europe.)

(ii)



The discussion here will focus upon the "symbolic" class of models. Although the basic formulations for the models presented in Part I incorporate both mathematical and graphical principles, they have been presented in terms of written explanations.

2.4. (1) The "Corporate Growth" Model

The "corporate growth" model provided the basis for the analytical framework used in Chapter I. The model assumes (in accordance with Penrose's thesis) that under a set of not "unfavourable" internal and external circumstances, the firm will continue to expand. The functional relationship implied within the model may be expressed as:

$$G_x = f(E_x, O_x, A_x, B_x)$$

where : G_x is the growth of a firm x

and: $E, O, A,$ and B are these circumstances.

E_x are the environmental and market conditions in which the firm operates.

O_x the structure of the organization within the firm.

A_x the comparative advantage of the firm.

B_x managerial behaviour relative to decision-making within the firm.

The function may also be applied in terms of a general explanation of extra-territorial growth. The "product-life cycle" theorem, and classical and neo-classical theories of direct investment, elaborate the basic model. They argue that extra-territorial expansion (and in some instances the consequent development of the multinational firm) are dependent upon conditions of comparative advantage, and satisfactory return-on-investment.

Implicit within the general combination of these explanations is the role of decision-making. In the final analysis corporate growth, and the evolution of a multinational firm, will only be effected when decision-makers release some of the firm's resources for multinational as opposed to domestic operations. This has been termed here as a managerial "dynamic". It can determine:

- a. whether a firm survives
- b. whether it does so in the form of a multinational.

2.5. (2) The "survival-profitability" model

The "survival-profitability" model discussed in Chapters I and II

seeks to explain the purpose of managerial decision-making. It proposes that the objectives which decision-makers seek to realise in the long-term are those of survival and profitability.

Survival is the fundamental objective of both natural and man-made systems. The profitability objective indicates the character and commitment of the system. (The multinational firm). The profit-maximising model of the firm presented in economic theory is modified here in terms of the constraints (real and perceived) which prevent its attainment.

2.6. If this model is combined with the "corporate growth" model, they imply that the realisation of such objectives is related to the behaviour of decision-makers. More specifically, survival and profitability are dependent upon:

- a. the perception and cognition processes of decision-makers: do they recognise the opportunities made available by prevailing internal and external circumstances which will realise the firm's objectives?
- b. the willingness to take risks and innovate in terms of undertaking overseas operations ("product-life" cycle"/ direct investment theory).
- c. the ability to exploit the comparative advantage of the firm.

In addition to economic objectives, decision-making in an organization implies the formulation of other objectives on the part of the decision-maker. The "profit-maximisation / utility-maximisation" continuum attempts to reconcile these within the basic explanation. It may also be applied in a third model which comprises factors a - c above.

2.7. (3) The "Decision Theory" Model

The "decision theory" model introduced in Chapter IV, 4.4. comprises the basic premise of decision theory: the decision-maker attempts to maximise his utility. The utility concept is applied in two ways in this study:

- (1) In terms of a set of explanations with which it qualifies the objectives of the decision-makers in the multinational company.
- (2) In terms of suggesting a set of proposals which may be incorporated into the research project - namely how may the decision-maker satisfy utility in the multinational firm for strategic marketing planning purposes.

2.8. (4) The "Cybernetic" Model

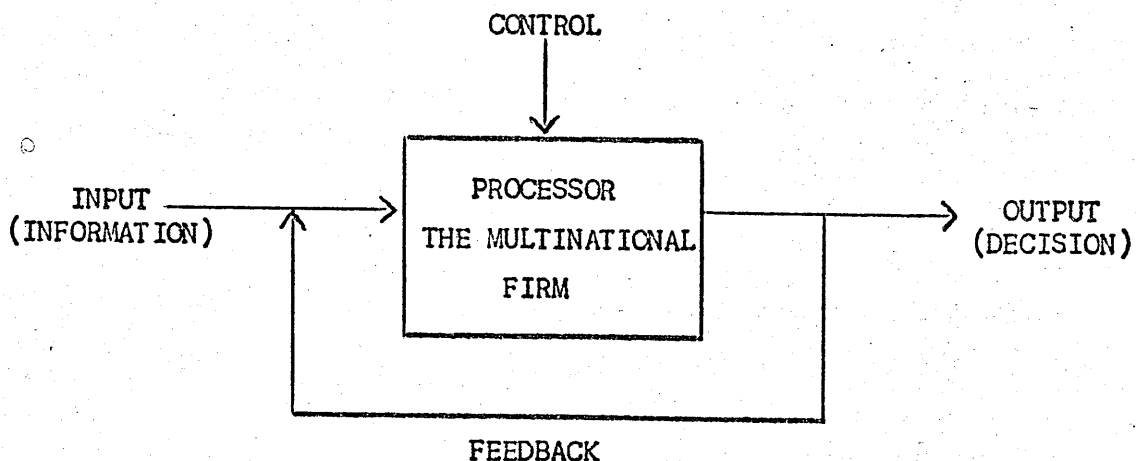
In the "cybernetic" model (Chapter IV, 2.9.) the multinational firm is described in terms of a decision-making system. The principle

of the cybernetic approach is derived from control theory; the essential elements being those of communication and control. The model examines decision-making in terms of:

- a. the transfer of information (communication) between the firm and the environment, and within the firm itself.
- b. feed-back (control) of the function of the firm with reference to the environment.

A "cybernetic" system is generally analyzed in terms of five properties: an input function; an output function; a processor; a control function; and a feedback loop. (Wiener: 1965) (2). If the "cybernetic" model is applied to this particular problem, input may be identified with information gathering and research, and output may be identified as the resultant decision of selecting market opportunities. The processor function represents the process in the firm whereby the decision is reached. This is the problem-area with which the study is concerned. The control function may be described in terms of the efforts being made by the multinational to monitor such decisions. The feedback function provides the means of monitoring the design itself and presenting this to the decision makers for evaluation.

The "cybernetic" model



The concept of the firm as a decision-making system introduces into the analysis new possibilities, and these will be more fully explored in the next section. For present purposes the applicability of the "cybernetic" model is demonstrated by cross-reference to the preceding models. (iii)

(iii) Systems theory and cybernetics should not be confused. Cybernetics are a part of the general theory of systems: cybernetic systems are an example of systems showing self regulation.

2.9. It is apparent that each of these models is able to offer a set of explanations which can account for only part of the decision sequence. The "corporate growth" model considers the expansion of multinational operations as primarily a resultant of economic determinants. The "survival-profitability" model emphasises the role of long-term objectives relative to this expansion. The "decision theory" model is concerned with the behaviour of the decision-maker. It asserts that his motive is to maximise his utility. The proposition is applied in a different sense in the study - in terms of maximising the comparative advantage of the multinational firm subject to the constraints of multinational operations. The "cybernetic" model is concerned with the behaviour of the system (the multinational firm). It attributes system maintenance and expansion to the communication and control mechanisms within the firm.

Two general propositions emerge from these relative to the identification and selection of market opportunities.

- (1) The initial decision to commit resources to international operations may be made in response to the survival-profitability objective. It can be seen to be effected by communication and feed-back mechanisms which relay information about new possibilities.
- (2) This principle of communication and control will effect all successive strategic decisions relative to marketing planning in the multinational company.

The analysis in Chapter IV has demonstrated that such strategic decision problems are complex. It is necessary therefore to develop a framework which may combine the economic, informational, and behavioural variables identified in these models. The framework will direct both the formulation of a problem solution (an heuristic model) and the evaluation of actual decision processes. It is possible using a systems approach to develop such a framework.

Section II: The "systems approach" model

3.1. The aim of the "systems approach" model is to explain the way in which the economic, information, and behavioural variables interlock in terms of this decision problem. The model will demonstrate much more clearly the basis of the research problem.

The precedents for the model are derived from systems theory and systems analysis. These disciplines present complex subject areas. As a result there exist constant and often challenging dialogues between theorists and experts. It is important here to apply a pragmatic approach. Our concern is not so much with the theory of systems, but with the insights which the theory may be able to provide in developing at the first a framework within which to develop both a potential solution to the problem, and at the second stage to evaluate this solution by examining the actual procedures

used by multinational companies. Examination of controversial issues in systems theory will be included only where they are pertinent to the research objectives.

3.2. General Systems Theory and "Systems Thinking"

The possibility of a systems approach to the problem has been introduced in the "cybernetic" model. The propositions in 2.9. indicate the importance of information and feedback in determining the way in which the firm attempts to plan and control the interaction with the environment. This is expressed more formally in corporate and marketing planning activities.

The term "system" implies the existence of some entity, which comprises a set of interconnected parts. The system may be analyzed by examining the relationship between the properties (attributes) of these parts (objects) and between the parts and the environment.

This interaction between the system and the environment is of fundamental importance. In his classic paper, von Bertalanffy (1950) (3) shows that a system in order to survive, and to maintain "continuous working capacity" must be "open". An "open" system is able to import from the environment the necessary energy for survival. It will transform this energy, and export the resulting product or energetic output into the environment, where it may provide the basis for further import at a later stage. In effect system maintenance is dependent upon a continuous flow of energy.

This basic formulation has been applied extensively in both the physical and natural sciences. There are certain parallels relative to the operations of both economic and social systems (iv).

It is sometimes argued that the application is as universal as some theorists suggest. von Bertalanffy (1971) (4) brings this problem into focus with his statement that systems theory is concerned with:

"... the scientific exploration of "wholes and "wholeness" which not so long ago were considered metaphysical notions transcending the boundaries of science".

The problem is to identify this "whole" (the boundaries of the system). At the same time the objective of seeking unifying principles for

(iv) See for example:

- | | |
|-----------------|---|
| Johnson, R.A. | The Theory and Management of Systems. |
| Kast, F.E. | New York, McGraw-Hill, 1967, Chapter 1. |
| Rosenweig, J.E. | |
| Katz, D. | The Social Psychology of Organizations. |
| Kahn, R.L. | New York, John Wiley & Sons, Inc., |
| | 1966, Chapter 2. |

both the natural and social sciences has not been achieved. (v)

Emery (1969) (5) suggests a way to resolve this dilemma. He argues that the contribution of systems theory does not lie in the direction of developing a general theory, but in proposing a means of examining complex entities: "systems thinking". His "six principles" synthesise the potential applications of a systems approach to managerial problems. (vi).

They are valid here because they demonstrate that system maintenance will depend upon the way in which the firm is able to manage this state of inter-dependence with the environment. Strategic marketing decision-making applies directly to the management of the relationship between the firm and the environment. It is possible to use the approaches suggested by systems theory and "systems thinking". By determining the relationships which connect a system together, it is possible to build a model of that system. At a further stage, this may be used to examine the precise nature of these relationships.

3.3. Identifying the system:

"System" means here the decision sequence involved in the identification and selection of market opportunities. It will comprise problem recognition, the taking of the decision, and the implementation of that decision. (Chapter III, 1.3.). In order to identify the system, it is possible to use two methods:

- (1) To define the relationships which tie the system together.
- (2) a. To trace the pattern of activity which results in the decision.
- b. To determine how the decision will re-activate the activity.

3.4. (1) The relationships within the system:

Jordon (1960) (6) offers the most comprehensive definition of a system which may be applied here. He states:

"Whenever a person can point to or explain a set of elements and the nature of the connectivity between

(v) For a full statement of the aims of systems theory see:

von Bertalanffy, L. General System Theory.
Allen Lane, The Penguin Press, 1971,
Chapter 2, pp 35 - 38.

(vi) Emery, F.E. Systems Thinking.
Harmondsworth, Penguin Books Ltd.,
1969, pp 7 - 13.

these elements to another person, then, the other person will perceive/conceive of the set as an entity, or thing. The word "system" will then spontaneously emerge as the adequate expression, as the proper name for this thing. A system is therefore an interaction between what is "out there", and how we organize it "in here". "System" denotes an interaction between the objective world and how it is looked at or thought about; it denotes a mode of perceptuo/cognito organization."

The last sentence is vital. If the definition is applied directly to this study, a series of conceptual systems can be identified.

The multinational firm may be defined as a system. This was demonstrated in Chapter IV in the analysis of organizational functions and their contribution to the operation of the firm. A second approach defines the firm as a social system. This was examined in terms of organizational decision-making in Chapter IV. The third approach is that of the firm as a decision-making unit which is implied in the inter-connection of the four models in Section I. All these systems present a series of economic, behavioural and informational relationships which delineate the boundaries of any decision sequence within the multinational.

3.5. (2) The pattern of activity

Given these basic relationships, the problem is to combine them into a system which represents the decision sequence in terms of strategic marketing decision-making. Following the "cybernetic" model, we may state that the out-put is the selection of the market opportunity, and the input will be data (information) relevant to the decision problem. In between these functions two activities will take place; the transformation of information for decision purposes and the modification of this information in terms of economic and behavioural variables. Feed-back in terms of a learning and re-learning process (evaluation of the out-come) is relayed back into the system, and supplies a re-activating role. This is included in the notion of "micro-comparative advantage" as defined in Chapter IV.

3.6. This very simple construct places into perspective the elements which compose the decision problem.

1. Data.

The first consideration will be to determine the necessary information for decision purposes. Up to this point it has been accepted that the role of information is vital in the process, but it is necessary to examine what constitutes "relevant" information.

2. Transformation.

This stage of the activity refers to decision rule which has been defined in Chapter IV. Uncertainty avoidance is seen as one objective

of the decision-maker. Within the transformation activity an attempt will be made to process information in such a way that markets which are similar to one another may be identified.

3. Modification.

This stage introduces the role of economic and behavioural variables into the sequence. The economic goals of the firm will be modified by the goals of the decision-maker. (The "profit-maximisation" - "utility maximisation" continuum). The proposal that the multinational firm should attempt to satisfy its own utility subject to the constraints of multinational operations operates both here and at stage 2.

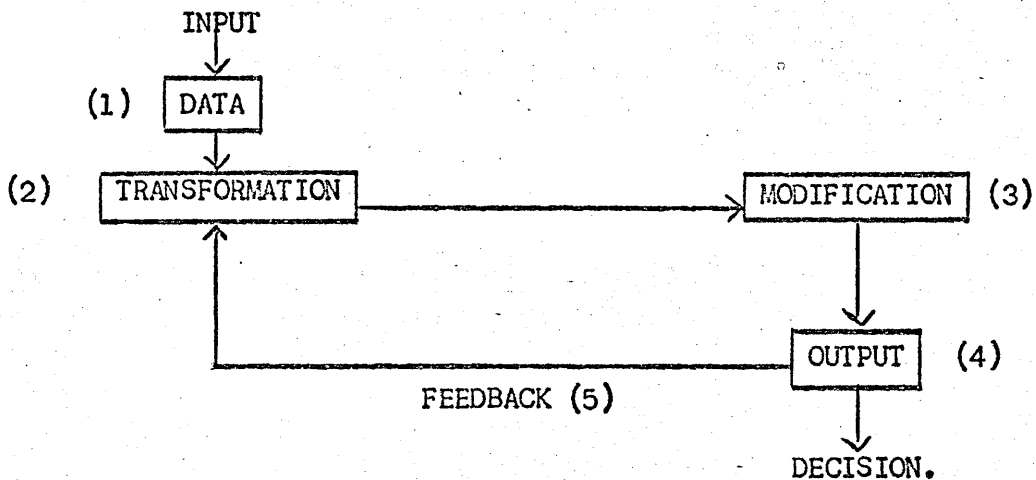
4. Output.

The output is the actual selection of market opportunities.

5. Feedback.

This is the activity which has been implied in preceding discussions of the concept of utility when applied to decision-making for marketing planning purposes in the multinational. There is a learning/re-learning process which will affect both the transformation and modification stages.

THE "SYSTEMS APPROACH" MODEL



Section III: Marketing Systematics

4.1. Stages (1) and (2) of the "systems approach" model apply directly to the development of an heuristic model. The basis of the model rests upon the concept of marketing systematics: the discovery of similarities between markets (the decision rule) which may be used as a basis for screening market opportunities at stage (3).

The heuristic model:

The objectives of the heuristic model have been clearly presented earlier. (Chapter V, 3.7.). The purpose of the model is in order to minimise some of the deficiencies which are in-built into the decision problem. The contribution of the heuristic model needs to be viewed in two ways. Firstly it is not a "normative" decision model as such. It does not present a choice principle(s) which ought to be followed, but suggests a means which will assist the decision-maker in screening market opportunities for evaluation. Secondly, since the objective of the model is to compensate for some of the deficiencies implicit in the decision problem, it will apply the basic "utility" (the decision rule) principle which has been defined earlier. This "utility" principle has been formulated in terms of similarity. The model therefore seeks to identify those markets which are similar to one another.

Taylor (1965) (7) has described the means of applying an heuristic model in order to develop a solution. The decision-maker should attempt to find an analogy between the situation and similar situations which have been dealt with successfully in the past. There are two major precedents (in terms of methodology and approach) which have been developed in problem-solving situations which approximate this one: market segmentation, and classifying international markets. Each of these is examined briefly below. A more complete analysis will be found in Chapter VII.

4.2. Market segmentation

The value of segmentation for marketing decision making rests with the possibility of identifying groupings or classes of similar segments among markets which may appear heterogeneous. The decision-maker is able therefore to approach marketing and product-mix decisions with knowledge of the nature of the relationships between these markets. The range of techniques which have been developed for these purposes demonstrate the role of computer programming in processing the information. The basic problem is to determine what information should be used to discern these relationships.

4.3. Classifying international markets

The principle of market segmentation has been transferred to the problem of classifying international markets. The approach remains essentially the same. If the decision-maker can identify markets which are similar to one another in terms of some prescribed criterion, he may guide his decision-making relative to marketing and product mixes.

4.4. The concept of marketing systematics takes these precedents further. There are presently several methodological precedents for classifying international markets, and these will be evaluated much more fully in the next chapter. In this study classification is viewed as part of the decision problem at a

strategic level. This refers here to the framework within which this study views strategic marketing planning decisions. These are seen as part of the corporate planning function. (Chapter IV, Schema V). It is intended therefore to use the systematics concept in the following terms:

1. To examine the "utility" objective relative to multinational operations. This has been given formal status in the "decision rule".
2. To treat the selection of markets as a decision problem, where a major contribution can be made by reducing the uncertainty which is implicit here.
3. To use the systematics concept in order to compare at a later stage the way in which multinational companies actually approach this problem.

In this way the heuristic model becomes an essential part of the research. The means of assessing how firms recognise and perceive opportunities depends upon developing a system which can act as a comparison. The heuristic model may be seen as the development of a physical system which identifies the relationships between the markets.

Conclusion

5.1. This chapter has introduced the concept of marketing systematics as it is seen to apply in this study. In order to understand the way in which the concept will be used in the research project, it has been necessary to identify its precise role in terms of the information factor in the strategic marketing decision sequence.

5.2. The decision sequence is seen to represent a system. Section I supports this approach by demonstrating the need to integrate the various partial explanations of decision-making in the multinational firm introduced in Part I, into a model which defines each stage in this particular decision process.

5.3. The "systems approach" model examined in Part II integrates the four written models used in Part I. The relationship between the economic, informational, and behavioural variables in the sequence is defined in the model.

5.4. Marketing systematics is concerned with the management of the information variable. Section III argues that the concept will be applied in two ways in the study:

1. In the development of an heuristic model.
2. In the examination of actual procedures relative to the decision problem in multinational companies.

CHAPTER VII

THE ROLE OF INFORMATION IN THE DECISION SEQUENCE

Introduction

1.1. This chapter will examine the function of the information variable in the decision sequence. The role of information has been located in the "systems approach" model in Chapter VI. The mechanism by which information can be passed from the field to the centre (subsidiary to parent), and between the functions within the multinational's organizational structure was examined in Chapter IV. Our objective at this point is to translate this role into an heuristic model, which systematises the gathering and transformation of information for strategic decision purposes. (The concept of marketing systematics.)

1.2. This approach may be seen to demonstrate certain similarities to what are sometimes termed as "on-line marketing information systems". Ream (1964) (1) defines an "on-line" or "real-time" information system as one:

"whose primary product is management information, as opposed to systems such as process control and command and control, in which the production of such information is treated as a by-product."

In this study the purpose of the heuristic model is seen to be separate from either of these. The fundamental distinctions are examined below.

1.3. Firstly, the heuristic model is viewed as an integral part of the research study. It will provide in part a common framework for comparison in the empirical investigation. This was discussed briefly in Chapter V, 3.10., with reference to the "product-market-company" complex, and will be brought more fully into perspective in Part III, Chapters IX and X.

Secondly, the model reflects the problem of identifying and selecting information relevant to this particular decision problem. There are two arguments which are implied here: the economies of data collection and processing; and the value of information to the decision-makers. Both questions will be examined with reference to the development of the model in this chapter (Section II), and in Part III of the study with reference to the actual processes used by multinational companies.

Thirdly, the model incorporates the decision rule defined in Chapter IV, 4.4. The identification and selection of markets is a decision problem, which has to be managed under conditions of uncertainty. In this kind of situation a criterion is applied - that of similarity between markets - with which to transform the

information in order to assist the decision-makers in their identification and evaluation (screening) of profitable market opportunities. This criterion is the resultant of earlier discussions of the concept of "utility" ('micro-comparative advantage') as it is seen to apply to the research problem. In Chapter VII it is necessary to examine the selection of information, and the processes involved in transformation for decision purposes.

Finally, the model seeks to compensate for some of the structural deficiencies in-built into decision-making. (Chapter IV, Schema VI). In complex decision situations alternatives are never given but have to be sought by the decision-maker. The "satisficing" principle suggested by Simon will limit the time and resources which the decision-maker is prepared to allocate to the search. Equally, there are limitations to the number of alternatives which the human mind can perceive, and compare. The model uses data processing to extend these limitations by increasing the volume of information and decreasing the time involved in the management of that information.

The model needs to be viewed in two ways:

- (1) It examines the feasibility of applying the decision rule to the management of information for strategic marketing decision purposes.
- (2) The model will provide in Part III a common framework for parts of the comparative analysis of actual company procedures.

1.4. The structure of this chapter will follow the framework set out by Boddewyn (1969) (2) :

"... The interest in comparative management and marketing (however) immediately gives rise to four basic questions:

1. Why should we compare U.S. systems with those abroad?
2. What elements of the systems should be compared?
3. How should this be done?
4. What has been accomplished and what remains to be done?"

In this chapter we shall deal with questions 1 - 3: Chapter VIII will treat question 4.

Section I will modify question (1) above. "Why should we compare certain systems within those 20 nations which comprise the European Complex?" brings into focus the specific objectives of the heuristic model in this study. The fundamentals of the model set down in 1.3. above indicate that the model itself represents a comparative study within a comparative study. This section (together with Section II) will examine the basis for this statement.

Section II will examine precisely what elements of what systems need to be compared. The discussion will define what are the variables which comprise each system, and why the resultant socio-economic and demographic profiles of the 20 countries in the complex should be useful for strategic decision-making.

Section III will determine how these profiles may be compared. It will comprise an analysis of the precedents for multi-dimensional comparisons. The "Clustan" programme used in the heuristic model permits the multi-dimensional comparison of variables using a cluster analysis technique. The advantages and disadvantages of cluster analysis will be discussed, together with the treatment of the actual input in the model.

Technical specifications are included in Technical Appendix I.

Section I: The Reasons for Comparing Countries within the European Complex

2.1. This section will discuss the reasons why a major part of the study should be concerned with comparing markets within the European Complex. Three factors are relevant here:

- A. The objective of research.
- B. The European Complex.
- C. Comparing countries for strategic planning purposes.

2.2. A: The Objectives of Research:

i. The research problem:-

The research problem is concerned with the purpose of the marketing function in the multinational firm relative to the corporate planning activity: the identification and selection of marketing opportunities. Chapter III justified the formulation of the research problem. If the underlying objective of the firm is profitable survival in the long-term, then this particular response is required on an international level from the marketing function in the multinational.

ii. The decision problem:-

Section I of Chapter III demonstrated that the research problem presented a decision problem, which is part of the strategic area of decision-making in the firm. The analysis of the strategic decision sequence (at the general and marketing levels) in the multinational firm in Chapter IV identified the "imperfections" of decision-making particular to this kind of organization in this problem area.

iii. The research objectives:-

The research objectives require at the first stage the formulation of some means to reduce the uncertainty factor in the identification and screening of market opportunities. The heuristic

model is required to present a method of identifying similar alternatives for evaluation.

iv. The design rule: the similarity criterion:-

The decision rule and the similarity criterion are derived from the notion of "micro comparative advantage" discussed in Chapter IV, 4.3. - 4.5. In order to determine whether markets are "similar" to one another it is necessary to compare them in terms of certain pre-specified elements. Therefore, the heuristic model is a comparative study of the countries within the European complex. The means by which the similarity criterion can be formalised into a workable decision rule, will be examined specifically in Sections II and III.

2.3. B: The European Complex:

i. Present conditions in the European Complex:-

The potential of the European Complex for the multinational firm was discussed in Chapter V, 3.6. At this point in time (1973) the Complex presents a set of especially interesting circumstances: the enlargement of the E.E.C.; the removal of tariff barriers; a new East-West rapprochement. The determinants of extra-territorial expansion discussed in Chapter I (more specifically 8.1. - 8.6.) are such that multinational companies will need to consider the complex in their corporate planning because of this potential and because of the likelihood of competitors' activities.

ii. The potential of Western Europe:-

In this study Western Europe comprises those countries which were members of the E.E.C. and E.F.T.A. communities on 31st December, 1972. The issue of central importance at the present time is the enlargement of the European community. The Common Market represents the largest single economic block outside the U.S.A. Membership gives to each nation, and the companies operating within each member nation the right to transfer goods and services within the community without the problem of tariff restrictions. This has been an important factor in extra-territorial expansion, and it needs to be viewed in the reverse by the multinational firm. If restrictions and barriers are minimised or removed entirely, the benefits from free trade will be matched by increased competition. The situation does however need to be viewed in perspective; if the greater market potential is there then the firm (in this instance the multinational) needs to be able to identify and to meet it as efficiently as possible.

iii. The potential of COMECON:-

Dudinsky (1973) (3) has argued that COMECON presents the world's largest industrial complex. He asserts its capacity now exceeds the industrial potential of the common market countries. The claim relates to "potential" not "real" output. Despite this, an economic block with 10% of the world's inhabitants, and 27% of the world's share of income, matched by 33% of its output.

presents a considerable market potential by any standards. In spite of the political factors which have marred exchanges between Eastern and Western Europe, Table II (Chapter V) indicates the increase in the total value of exports between COMECON and the EEC.

2.4. C: Comparing Countries for Strategic Planning Purposes:-

In a recent article van Dam (1972) (4) indicates why classifying countries is important for planning purposes. He states:

"In a nutshell, the objective is to determine whether, when and how which developing countries will be able to absorb which products and services - and at which cost/benefit criteria to the developing countries as well as multinational operations."

van Dam is concerned with the potential which developing countries present to multinational companies. His objectives may be seen to complement the "product-life cycle" theorem (Chapter I, 5.1. - 5.6.). As the level of economic development of a country increases, its ability to purchase certain products increases. In the same way, nations at differing levels are interested and able to purchase different products and services.

The classification system which van Dam has developed employs 45 "development gauges" relative to economic development. These are not specified as such in the article but include "total population, income patterns, and the market size for different products". The categories bear some resemblance to earlier work by Rostow (1961) (i). They are:-

- | | |
|---------------------------|----------------------------------|
| 1. The dormant society | Cameroon, Ethiopia, Sudan |
| 2. Traditional society | Burma, Liberia, Senegal |
| 3. Stage of Transition | Indonesia, Kenya, Paraguay |
| 4. Pre take-off | China, Salvador, Ghana |
| 5. Take-off stage | Brazil, Lebanon, Taiwan |
| 6. Age of innovation | Jamaica, Mexico, Portugal |
| 7. Sustained rapid growth | Romania, South Africa, Venezuela |
| 8. Technological Maturity | Czechoslovakia, Italy, Japan |
| 9. High mass-consumption | Australia, Denmark, France |
| 10. The affluent society | Canada, Sweden, West Germany. |

van Dam's approach indicates the importance of economic criteria in establishing a system. His work differs from many contemporary

- (i) Rostow, W.W. The Stages of Economic Growth.
London, Cambridge University Press, 1961.

studies since the classification was conducted in terms of a ten year future projection.

Dichter (1962) (5) selected a different criterion for classification. He proposed that countries may be classified on the basis of the degree of affluence of their middle-class. This criterion may serve to explain the differences of standards of living and technological and economic development. These will affect the purchasing patterns of these countries. Dichter used as an example the motor car. His resultant classification comprises:

1. The almost classless society, contented countries - the Scandanavian countries.
2. The affluent countries - the U.S.A., West Germany, Switzerland.
3. Countries in transition - the U.K., France, and Italy.
4. Revolutionary countries - Venezuela, Mexico, and Argentina.
5. Primitive countries - the African countries.
6. The new class societies - Russia and its satellites.

The most comprehensive approach to classification to date has been developed by Sherbini (1967) (6). This study illustrates the potential use of classification for marketing purposes at both the strategic planning level, and at the operational level in terms of the marketing and product mix. Sherbini demonstrates the feasibility of classifying countries using the multivariate techniques which previously had wide application in market segmentation studies. He used a cluster analysis technique, and a two-dimensional score approach to classify over 88 countries on three bases:

- (1) levels of development (ii)
- (2) Intra-regional variability
- (3) The assessment of the relative standing of population in a country in terms of two dimensions:
 - (A) the degree of economic and demographic mobilization in that country
 - (B) domestic stability and cohesion.

(ii) This has been based upon an earlier study by Berry. It comprises five categories:

- | | |
|--------------------------|-------------------------|
| 1. Most Highly Developed | 4. Underdeveloped |
| 2. Developed | 5. Very Underdeveloped. |
| 3. Semi-Developed | |

Berry, J.L. "Patterns of Economic Development "
in Atlas of Economic Development, (ed.)
N. Ginsburg, Chicago, University of
Chicago Press, 1961.

Collectively these studies demonstrate:

- (1) That countries may be classified for management decision-making. The way in which classifications are derived is dependent upon the criteria applied by the analyst, and the method by which the information is transformed.
- (2) That classifications may be derived by both one dimensional and multi-dimensional procedures (van Dam/Sherbini).
- (3) That classifications which have been derived may be applied for decision purposes - more particularly:
 - a. Corporate planning (van Dam)
 - b. Product planning and consumer research (Dichter)
 - c. Comparative marketing analysis (Sherbini).

The reader should note that the studies which have been examined here relate to international management. There exist numerous studies which have examined the feasibility and usefulness of classifying domestic markets and consumers for management purposes. This will be examined further in Section III.

2.5. Comparing markets within the European Complex

If A, B, and C above (2.2. - 2.4.) are integrated, a more precise formulation of the rationale for comparing markets within the European Complex may be presented. Three elements emerge:

1. That the objectives of research require (at the heuristic model stage) a comparison of the markets within the complex.
2. That the potential of the European Complex presents in itself a problem area which is of significant importance to the particular strategic decision area which the research problem has defined.
3. That it is feasible to compare international markets on a multinational basis.

If the precedents for international comparisons are re-examined in terms of the problem area and the research objectives a second set of conditions emerges.

1. The precedents for international comparisons:

The examination in 2.4. has demonstrated that comparing international markets is both methodologically feasible, and valid for the strategic area relative to corporate planning. If the contents of those classifications discussed here are re-examined, there are certain limitations with regard to the European Complex in existing studies. Sherbini completely ignored the COMECON area in his study.

This was because he considered the data presently available to be insufficient (1966). This criticism will be examined in Section II. There are limitations in the availability and reliability of statistics in this area, but they may be managed.

van Dam and Dichter include COMECON but only on a restricted basis. van Dam's study selected at random three countries to illustrate the ten category ranking which he developed. Czechoslovakia is therefore included as one country which is representative of "technological maturity". There is no explanation of the way in which it relates in terms of this factor to the other COMECON members or to other countries in the European Complex. Dichter includes "Russia and its satellites" into a category termed as "The new class societies". This is because these countries do not have a middle-class in the sense of Western Europe or North America. There may however be differences in the purchasing patterns of the countries in this category, and similarities between these patterns and those in Western Europe, or elsewhere in the world. The classification does not consider this.

2 and 3: The problem area and the objectives of the heuristic model

The problem area is concerned by definition with both Eastern and Western Europe. Classification of all markets within the complex has therefore to be considered. The objectives of the heuristic model (Chapter V, 3.7.) demonstrate that the model is required to enlarge the decision-makers' perception of the problem area. Simon's proposition in Chapter IV (2.13.) that decision-making is ultimately dependent upon the perceptual and cognitive processes of those taking the decisions refers directly here to conditions of classifying countries and identifying alternatives where the choice is pre-determined consciously or unconsciously. In the same way the generation of alternatives for evaluation is limited by the in-built "imperfections" of the decision sequence. We may state therefore that comparing national markets in the European complex has the following purposes:

- a. To satisfy the demands of the research problem and the research objectives.
- b. To identify and screen market opportunities in the European complex by a means which enlarges the perception of the decision-makers when generating alternatives. These may otherwise be limited by pre-determined classifications.

These propositions introduce the problem of determining the "similarity" criterion basic to the comparison of markets. This will be examined in Section II.

Section II: Comparing Markets within the European Complex: the determination of market profiles

- 3.1. This section will determine the similarity criterion to be used in the comparison of European markets. The discussion

in this section focuses upon the second factor in the Boddewyn framework (1.4.): what elements of the system should be compared? By defining the systems to be compared, the relevant elements within these may be identified.

3.2. The material presented in this section introduces the major contributions in the field of the theory of comparative marketing analysis. These frameworks will considerably augment the earlier discussion of the role of the heuristic model in the total research study. At the same time the determination of the systems (and elements) needs to possess certain methodological precedents. The work of Bartels and Boddewyn will provide these.

3.3. The Theory of Comparative Marketing Analysis:

The contents of Section I have established that the heuristic model will entail the comparison of those national markets which comprise the European Complex, so that markets which are similar to each other may be identified. As such the heuristic model is itself a means to undertake comparative analysis of these countries.

3.4. The first comprehensive statement of comparative analysis for marketing purposes was made by Bartels (1963) (7). Bartels proposes that comparative marketing involves three types of interpretation:

- (1) of the relation between social conditions in the country and the manner in which marketing is practised there.
- (2) of the character and operation of the marketing mechanism itself.
- (3) of the patterns of personal behaviour and interaction in the socio-marketing activity.

This conceptual framework requires comparison with the research problem being examined in this study. The general research proposition in Chapter IV, 4.5. demonstrates that the major interest of this study is not with marketing per se, or indeed with the marketing systems of the countries within the European Complex, but with the way in which multinational companies handle the problem of identifying and selecting market opportunities. Marketing systems are therefore a less central issue in the investigation; our concern is with strategic decision-making for marketing purposes.

3.5. 'Bartels' concentration upon environmental conditions and the inter-face with the marketing function has been re-considered in a later work by Boddewyn (1969) (8). Boddewyn's "Comprehensive Construct for the Comparative Analysis of Exchange Systems" attempts to off-set the imbalance within Bartels' framework (in terms of over-concentration on environmental issues) by integrating

"the various dimensions suggested by the literature of

marketing, comparative marketing, and the social science around the related concepts of actor, process, structure, function and environment."

Therefore where Bartels' concept considers that the nation, the society, the economy, and the market need to be included in the analysis, Boddewyn builds these into a construct which comprises the three types of interpretation of comparative marketing listed by Bartels. (3.3.)

The construct comprises the following:

- "1. Function refers to what exchange contributes to the economy and society at large, to the smaller economic units represented by firms, and to the individual participants.
2. Structure deals with the relationships among actors in their social roles.
3. Process encompasses the various activities (buying selling, promoting etc.) that bring actors into interaction and allow them to make their contributions.
4. Actor applies to buyers, sellers, resellers and other relevant participants.
5. The environment has various physical, economic, political, cultural dimensions which affect and are affected by the actors, processes, structures and functions, in a host of direct and indirect ways."

We may use this construct to demonstrate the role of the heuristic model within the research study, and to identify the systems to be compared.

3.6. A comparative study within a comparative study:

The total research project may be seen to comprise each of the elements in the Boddewyn construct.

1. The function is the multinational firm.
2. The structure is the formal organizational structure and the relationship which it defines for strategic marketing decisions in the multinational firm. (Chapter IV, Schema V).
3. The process is the actual strategic marketing decision sequence.
4. The actors are those persons involved in the decision sequence.
5. The environment comprises the European Complex.

The comparative study is concerned with the way in which multinational

companies actually identify and select markets, and at this stage with developing a method which will enable them to do so. Part III will be concerned with comparing and analysing the approaches made by multinationals to the decision problem. As such it will be concerned with elements 1 - 5 inclusive. In Part II the emphasis is upon the environment; the object is to compare the countries within the environment. The need at this point is to define more precisely the systems, and the elements within these which will be examined in the heuristic model.

3.7. Determining the dimensions of the environment:

Boddewyn's description of the environment comprises four dimensions. The problem is to determine which dimension(s) is the most useful relative to the research problem. The solution which we shall propose in the following sub-sections is an attempt to manage these dimensions in a way which will provide information relevant to the demands of both the research problem and the heuristic model. This has to be managed within the "time and cost" constraints of the actual research project.

The Kahn and Wiener Projection:

Kahn and Wiener (1967) (9) have identified thirteen rubrics which present the basic multifold trend of Western society. They trace the basis of the trend back to a "common set of sources in the rationalization and secularization of society". They state that:

"As basic trends, these elements seem very likely to continue at least for the next thirty-three years, though some may saturate or begin to recede beyond that point."

The thirteen rubrics are:

1. Increasingly sensate (empirical, this-world, secular, humanistic, pragmatic, utilitarian, contractual, epicurean or hedonistic) cultures.
2. Bourgeois, bureaucratic, "meritocratic", democratic (and nationalistic?) elites.
3. Accumulation of scientific and technological knowledge.
4. Institutionalization of change, especially research, development, innovation, and diffusion.
5. World-wide industrialization and modernization.
6. Increasing affluence and (recently) leisure.
7. Population growth.
8. Decreasing importance of primary occupations.

9. Urbanization and (soon) growth of megalopolises.
10. Literacy and education.
11. Increased capability for mass destruction.
12. Increasing tempo of change.
13. Increasing universality of these trends.

The Kahn and Wiener model presents a framework for determining on a quantitative the dimensions of the environment to be considered. In 3.8. below the constraints implicit in investigating these dimensions (time/cost/value of information) are considered in terms of their affect upon the development of the heuristic model.

3.8. The "cost" and "value" of information

The "cost" and "value" of information for strategic decision purposes may be examined here within three perspectives:

- (1) The "cost" and "value" of information in any decision problem.
- (2) The "cost" and "value" of information relative to the screening and selection of international market opportunities.
- (3) The "cost" and "value" of information for the purpose of the heuristic model.

(1) Information is not as some sectors of economic analysis assume, a free commodity. The decision-maker will pay for it either directly or indirectly. In practical terms this will mean either the multinational will allocate some of its resources to the activity, or it will pay some-one else to collect the information. Latterly, considerable efforts have been made to examine the economics of information, and to assess its role in decision-making processes. (iii). The "product-life cycle" theorem recognises specifically the role of information and entrepreneurial skills in the process of extra-territorial expansion.

McDonough (1963) (10) has defined information as:

"... the measure of the net value (worth) obtained from the process of matching the elements of the present problem with the appropriate elements of data."

The decision-maker attempts to reduce the uncertainty involved in each decision by gathering that information which assists in selecting

(iii) For example:

Lamberton (ed.) Economics of Information and Knowledge.
Harmondsworth, Penguin Books Ltd., 1971.

that course of action which will result in the "best" decision being made. The cost of information gathering is determined by the information requirement of the decision. As a rule the cost of acquiring information (in terms of both time and resources) can be reduced where the information needs are known, and where it is possible to store information on a continuous basis.

(2) and (3). The information needs for identifying and selecting market opportunities will at this stage be limited to the demands of the heuristic model. If (1): the cost of information - is applied, then the researcher needs to identify the information requirements relative to the Kahn/Wiener projection within the following constraints:

- a. The model may at this stage use only secondary data. It is not possible to ascertain the particular requirements of each company interested in the European Complex.
- b. The researcher needs to interpret the rubrics within the projection in such a way that they are relevant to the research problem, and may be quantitatively defined via secondary data.

3.9. The determination of market profiles:

It was considered that rubrics 11 to 13 inclusive were not amenable to measurement of any kind in secondary sources. They are judgements based upon Kahn and Wiener's own observation of trends and developments since 1900. They are useful as general indications, but not possible to measure in quantitative terms. The same conditions apply to rubrics 1 and 2 although these may indirectly affect economic development, and other societal and marketing trends as the Dichter model (2.4.) which was examined earlier has shown. It was therefore decided to attempt to consolidate rubrics 3 to 10 inclusive into quantitative data relative to the European Complex.

The eight rubrics may be sub-divided into two groups; rubrics relative to the socio-economic system within a national market, and rubrics relative to the demographic system within a national market. Into the first category fall rubrics 3 to 6 and 10. The second category comprises rubrics 7 to 9 inclusive. Each of these categories is termed here as a profile.

A. The demographic profile:

The demographic profile will need to consider the demographic system in terms of measures of population growth and density, urbanization, and the structure of the population on the basis of ethnic affinity (this corresponds to rubric 1) and employment in primary, secondary or service industries. (This partially corresponds to rubric 2.)

B. The socio-economic profile:

The socio-economic profile reflects Bartels' opinion that the

practices of a country may be interpreted in terms of the prevailing socio-economic conditions therein. Economic growth and development as Rostow (1960) (2.4.) demonstrated is dependent upon rubric 3, the accumulation of scientific and technical knowledge, and upon rubric 10, literacy and education. These will affect and themselves depend upon the industrialisation in that country, and the resultant affluence. Therefore the elements of the socio-economic system which the comparative analysis will be concerned with will need to include measures of industrialisation, education and literacy, and communications.

3.10. Developing the Demographic Profile

Before discussing the development of the demographic profile, it is useful to assess its usefulness in marketing terms. The basic problem of determining which are the appropriate markets and products to consider exploiting, involves an examination of the structure of the country in terms of the demographic structure of the market. Interest therefore is focussed upon the total size of the market (in macro terms - population) and the way in which this population is divided in terms of occupation and location. This had direct relevance to marketing management. Highly concentrated urban areas, with a large percentage of the working population in the commercial and services sector, will mean a demand for reasonably sophisticated non-durable goods and services. In addition in urban areas retailing and wholesaling systems, advertising, and promotion are likely to be highly developed. Agricultural communities do not necessarily mean a lack of demand for non-durables, or less advanced distribution systems, but will mean a demand for products aligned to agricultural needs. This is reflected in Part III, where companies in different industrial sectors tended to view different variables as being more useful to them.

The demographic profile comprises 10 elements or variables. Selection of variables was directed by the demands of the Kahn/Wiener projection. The variables are presented overleaf.

The profile may be broken down into four components, each relative to different aspects of the structure and character of the demographic system of each market.

Variables 1 - 3 are concerned with the basic structure of the population in terms of population, population density and population growth. They correspond to rubric 7 in the Kahn/Wiener model.

Variables 4 - 7 are concerned with the occupational structure of the demographic system. The population needs to be considered in terms of those of working age therefore actually available for employment, and of the separation of the working population into primary and secondary sectors. The profile concentrates particularly upon agriculture and the commercial and services sector. The first reflects rubric 8 and is particularly important in view of the transition presently taking place in the European Complex in terms of the moves towards industrial growth in COMECON, and a

A.

DEMOGRAPHIC PROFILE

1. Population.
2. Population density.
3. Annual rate of increase in population.
4. Percentage of population of working age.
5. Agricultural population as % of total population.
6. Agricultural population as % of total working population.
7. Percentage of population employed in commerce and services.
8. Percentage of population in cities of over 100,000.
9. Population of primate city as % of total population
of 4 largest.
10. Predominant religious group.

common agricultural policy in the EEC area. The second reflects increasing affluence (rubric 6), and the greater importance of this area within the EEC and EFTA in comparison to COMECON members. The data array in the appendix reflects this.

Variables 8 and 9 are measures of urbanization (rubric 9) and variable 10 is a measure of religious affiliations. This is partially related to rubric 1. This was considered particularly important in terms of Europe's religious history and tradition.

3.11. Developing the Socio-Economic Profile

The socio-economic profile comprises twenty-four elements or variables. The profile may be broken down into seven components although there is some overlap between certain of these. The profile attempts not only to complement the Kahn/Wiener model, but to provide some basic measure of economic development which was shown to be important in the three precedents for international comparisons discussed in Section I, (2.4.). The practical applications for planning purposes of determining markets similar to one another in terms of economic development is found in the "product-life cycle" theorem. In effect economic development is associated not only with the production volumes of basic materials, but with health services, mortality rates, literacy, education and transportation systems. These are included in the profile.

1. Variables 1 - 3 are crude measures of industrialization. (Rubric 5). The production of power, and the consumption of steel and energy are related to concomitant volumes of industrial production.
2. Variables 4 - 6 are measures of economic growth in terms of gross national product, and rates of growth in the two major sectors of the national economy: agriculture and industry. They reflect upon the relative affluence of the country, and to some degree the industrialization and technological advancement of the nation. (Rubrics 3, 4 and 6.)
3. Variables 6 and 7 are considered important in terms of balance of payments. As a general indicator they may be useful to the firm considering overseas direct investment. (Chapter II, Section I.).
4. Variables 9 - 12 are indications of the health services, and general welfare of the nation. They indicate the level of affluence of the country, and its modernization and accumulation of scientific knowledge, and commitment to research and development. (Rubrics 3 - 6 inclusive.).
5. Variables 13 - 16 are measures of literacy. Education does however have effects upon all the rubrics in the array in terms of the direct and indirect contribution it will make to the economic development of the nation.
6. Variables 16 - 19 are indicators of both affluence, communications,

B.

SOCIO-ECONOMIC PROFILE

1. k/w hours per capita of electric power production.
2. Energy consumption/kilo.p.c.
3. Apparent steel consumption expressed in terms of crude steel p.c.
4. G.N.P. per capita at factor cost.
5. Annual rates of growth of agriculture (%).
6. Annual rates of growth of industrial activities (%).
7. Total value of imports (c.i.f.)
8. Total value of exports (f.o.b.)
9. Average number of years of life for persons surviving birth.
10. Infant mortality rate.
11. Inhabitants per physician.
12. Inhabitants per hospital bed.
13. Primary school enrolment.
14. Secondary school enrolment.
15. Tertiary level: number of students graduating per 100,000 inhabitants.
16. Newspapers circulation per 1000 population.
17. Radio receivers per 1000 population.
18. Telephones per 1000 population.
19. Television receivers per 1000 population.
20. Passenger cars per 1000 population.
21. Commercial vehicles per 1000 population.
22. Road density k/m per 100 sq/km.
23. Railway density k/m per 100,000 persons to population distance.
24. Rail freight utilization NET TONS / KMS.

and literacy. Television receivers belong to the first category, radio receivers and telephones to both the first and second, and newspapers to the second and third.

7. Variables 21 - 24 are indicators of communication and transportation. Passenger cars may also be regarded as associated with affluence. Transportation systems are themselves demonstrative of a nation's modernisation and relative application of technology in terms of engineering. In the same way an industrial system requires an adequate transportation system. Airline passengers and air freight were also considered as potentially important, but the international character of the industry has meant that the available statistics tend to distort the country of origin.

3.12. The problems of collecting and using information from secondary sources:

This section will conclude with a discussion of the availability, reliability, and comparability of the secondary data used in the model.

(i) The availability of data:

It was decided to use a common base year in the model (1968) since this at the time of research (Winter 1971) was the latest date for which secondary information was available for most of the variables. The data array indicates that in certain instances this has not been possible. In general the deviations are within ± 1 year of the base year. This situation reflects the basic problem of investigating and data in secondary sources. The data array clearly shows that in every instance there are statistics available for both Eastern and Western Europe. These have had to be sought from a variety of sources. (See Sources Statistical Information: Appendix.) The relative cost of this activity for a commercial firm would have been high.

(ii) The reliability of data:

Data in secondary sources is based upon the national returns given by these countries. There are tendencies to under or over estimate the values submitted. The international bodies demand certain standards, but there will occur inaccuracies. Variable 4 is the G.N.P. per capita of all the countries in the Complex. In centrally planned economies special problems will arise. The national accounts for these countries are compiled in terms of the net material product per capita. The statistic used in the model is an estimate made by the World Bank for Reconstruction and Development for 1968. Adjustments have been made to the N.H.P. per capita figures to give an estimation in terms of G.N.P. at factor cost. In addition per capita rankings fail to take into account the total population, and variations within this in terms of income variations, and regional differences.

(iii) The comparability of data:

The comparability of data brings into focus the two preceding problems (i) and (ii) in terms of the heuristic model. The real problem of comparing markets via the systems within these markets rests ultimately upon the information input. A great deal of research effort has had to be reserved for the problem of determining how to develop an heuristic model which is valid, reliable, and compares systems in a meaningful way. The last factor, the comparison of the systems will be examined in the next section. However, the results of the analysis are dependent upon the information itself rather than techniques used to transform it for decision purposes.

It is difficult to judge the reliability of information for COMECON. Certainly, it is the best available in secondary sources. The decision-makers (and the researcher) have to recognise this. A more fundamental question arises in the comparability of countries which are centrally planned. Marketing in terms of Western understanding of the activity does not exist. What however does exist is some evidence for the initiation of the beginning of marketing practices. Robinson (1964) (11) has demonstrated that consumption planning is achieved by very crude extrapolations employing time trends, household budgets, and costing studies. We need however to reconsider an earlier observation in 3.4. concerning the objectives of the study. This is not a comparative analysis of marketing systems or practices in terms of the Bartels' framework, but an attempt to develop a model which will assist decision-makers identify and screen market opportunities. Whether the systems are fully comparable is not therefore a central issue here. The objective is to determine similar entities so that the notion of micro comparative advantage, and the propositions of the "product-life cycle" theorem may be realised. This may be examined more clearly by examining the role of the multinational firm vis à vis Eastern European economies.

3.13. The multinational firm and COMECON:

Three sets of conditions may be identified. These are based upon earlier discussions in Chapters I and II.

(1) The first set of conditions relate to the particular contribution which the multinational firm can make to Eastern European economies. Sosnowski (1972) (12) is presently engaged in a study of the role of the multinational firm in Eastern Europe. He analyses the situation in terms of two-way contribution for both the firm and the national economy. Eastern Europe presents the prospect of large markets and lower production and labour costs. This prospect is enhanced by new conditions of stability and security. In return the host country is likely to gain new technologies, management techniques, and a higher standard of living.

(2) The second set of conditions relate to the notion of exploiting the firm's own comparative advantage discussed in Chapter I. This

is one of the determinants of extra-territorial expansion. This applies to (1) in terms of the gains from co-operation for both the firm and the host country.

(3) The third set of conditions relate to the definition of the multinational company as developed in Chapter I. Condition 5 proposes that the multinational company will consider national and international alternatives equally. Eastern Europe can therefore be seen to present the prospect of very real alternatives.

These conditions apply equally to the EEC/EFTA areas.

These final comments demonstrate the reasons why it is useful to compare countries within the European Complex for marketing planning purposes, and why the model should consider both Eastern and Western Europe despite disparities between marketing systems. The next section will discuss the means by which the demographic and socio-economic systems may be compared.

Section III: Cluster Analysis and the comparison of the countries within the European Complex

4.1. Section III will examine how the markets within the European Complex may be compared. The demands of the research problem require that comparisons be made which identify countries within the Complex which are "similar" to one another. Section II has argued that the similarity be measured in terms of:

- (A) The demographic profile.
- (B) The socio-economic profile.

The purpose of the heuristic model is to provide the means to identify and screen markets within the Complex in terms of the decision rule (the similarity criterion). This requires that the comparisons which are made should:

- (1) Identify similar alternative market opportunities.
- (2) Group these on the basis of similarity for the purpose of screening.

The researcher needs therefore to identify a means of comparison which may treat the variables in A. and B. in such a way that (1) and (2) above may be effected.

A solution may be found by examining the methodological precedents for comparing entities in the market research area. The most relevant contribution is that of market segmentation. The extensive use of cluster analysis in this area to deal with problems similar to the research problem provides a means to compare international markets. The "Clustan" programme which was selected as the basis for the model ensures that a multi-dimensional analysis may be made in the manner which profiles require. At the same time the technique

identifies similar alternatives before grouping these.

4.2. The Concept of Market Segmentation

The concept of market segmentation has been developed in line with the marketing concept. The affluence present in some contemporary economic systems, has meant the development of demand for differentiated and new products. At the same time, the developing countries present fast-growing potential markets in which existing products may be marketed or for which new products may be developed.

As such the principle of product standardisation may no longer prove profitable. Successful marketing policies require that the size and characteristics of these segments within the total potential market be identified. In this way marketing planning (in terms of product and market strategies) can be designed to meet apparently heterogeneous consumer demand.

In a recent work Frank et alia (1972) (13) discern two "schools of thought" in market segmentation research. The first they define as "the behaviourally orientated school" which is concerned with the relationships between consumer characteristics and buyer behaviour. The second, which they term as "the decision orientated or normative school", assumes that there may be differences in the consumption patterns, and the researcher needs to be able to group these into homogenous groups. In this way, he is better able to determine where and in what ways effective marketing strategies can be applied.

4.3. The relevance of this analogy

The second school offers the most appropriate analogy; the assumption that there are homogenous groups complements the discussion of a decision rule presented in Chapter IV. Consider the following example which is pertinent to the European Complex. The number of national markets which comprise the Complex is twenty. An "a priori" classification (dependent upon the criteria used) might yield the following categories.

	Criterion	No.	Identity, of Groups
(1)	Classification on the basis of trade blocks	3	EEC / EFTA / COMECON
(2)	Classification in terms of political affiliation	2	W. Europe (EEC / EFTA) E. Europe (COMECON)

In order to derive such classifications a criterion has to be

established and the nature of that criterion defined. In this example the term "trade block" applies to those countries which were signatories to a common treaty regularising exchanges between members on 31st December, 1972. "Political affiliation" refers to political identity connected with ideology. The distinction here is much more subtle, and depends upon the pre-dispositions of the person making the classification. In order to identify groups, where the members are more like one another than non-members, the criterion has to be broken down again into two elements - communist and non-communist. Eastern European countries (COMECON) are more like one another in terms of a common political philosophy (communist) than Western Europeans (non-communist).

4.4. This very simple example illustrates the way in which different classifications may be derived on the basis of different criteria. The selection of the criteria depends upon the objectives of the analyst. The second example demonstrates the affect which perception and cognition will have upon the classification. (iv). In this instance the criterion was defined as comprising two variables "communist" and "non-communist". The definition of the variables, and the way in which it is seen to apply has affected the grouping. Another individual, in another culture, might have derived different groupings from the same criterion. Our objective is to attempt to minimise these conditions, (more particularly those of perception/cognition) by applying a technique which will derive "natural" groupings relevant to the two systems identified in Section II without the application of a pre-determined criterion. (v).

4.5. Comparing Countries: The identification of "natural" groupings.

Cluster analysis offers a method of identifying "similar" markets relevant to the problem of screening alternatives.

Wishart (1969) (14) offers the following general definition of cluster analysis.

"The actual process of clustering is extremely

(iv) Simon's thesis. Chapter IV, 2.13
Chapter VII, 2.5.

(v) In the study "similarity criterion" is applied in conjunction with a decision rule formulated in Chapter IV. It refers to the means of comparing markets, i.e. on the basis of their similarity. It is used therefore in a separate sense from a "pre-determined criterion" as demonstrated in the example in 4.3. overleaf.

straightforward. M variables are measured for each of N objects (v_i) and the similarity between any two objects, between two groups of objects, or between an object and a group is defined for each method in terms of the types of variable which are used.

.... Next, objects are clustered systematically according to the computational rules of the appropriate method. The analysis objective, common to all methods, is to arrive at a grouping of N objects which is "meaningful in the context of the data subject."

This definition incorporates the most salient points relative to the use of cluster analysis. These will be reviewed here in terms of this particular research project.

Cluster analysis identifies "natural" groupings, where the number of objects (countries) are grouped in such a way that the members of each group possess certain common attributes. Furthermore, classification is in accordance with the overall similarity between countries where there is no pre-specified membership criteria. This type of classification is analogous to taxonomic classifications which are used in the biological sciences. The groups which are identified by this means are similar to "polythetic" groupings. These are groups which are composed of objects (countries) with the greatest number of shared characteristics; no single feature is either essential to cluster membership or sufficient to assign a market to a particular group.

The computational method which has been applied in this instance is that of Euclidean distance. The concept of Euclidean distance is examined fully in the appendix attached to this chapter. It is a distance measure which measures the degree of similarity between two or more objects in terms of their scores or values in two, three or an " n " dimensional space.

4.6. The weaknesses of cluster analysis

Despite the potential of cluster analysis, it is important to examine the weaknesses of the technique. Frank and Green (1968) (15) have made the following comments with regard to the validity of cluster analysis. These are reviewed below in terms of the specific approach developed in this chapter.

They state that the deficiencies lie in the following areas:

1. The researcher will select both the objects and the variables to be examined. The selection is often arbitrary.
2. The researcher has assumed at least "partial" homogeneity exists among samples, otherwise why bother to cluster.

(vi) M variables: A - the demographic profile.
 B - the socio-economic profile.

N objects: The European Complex: 20 countries.

3. Clusters will be determined on the basis of the data presented not on the basis of external criteria. Therefore no tests of "significance" may be made between the groups.
4. Neither objects nor variables may be assumed to be normally distributed.

The first criticism is vital to the whole research project. Section I examined the reasons for comparing markets within the European Complex. (2.1. - 2.5.). The need to compare markets was substantiated by the demands of the research problem, the present circumstances within the European Complex, and the objectives of research. In Section II the determination of the two profiles, and the selection of the elements (or variables) within these systems was clearly documented. The methodological precedents for the approach determined that the "arbitrariness" of the methodology used was as carefully controlled as possible.

The "partial" homogeneity criticism is valid. However the deficiency needs to be evaluated in terms of the research objectives. Existing groupings in terms of homogeneity may have missed important relationships, and these are of particular importance to the strategic decision area in the European Complex.

The "tests of significance" critique applies to all methods of cluster analysis. The analyst needs to take especial care in the interpretation of data. In Chapter VIII we shall demonstrate that the analyst will be interested in the stable separation of entities into clusters when evaluating the output.

The fourth criticism is related to the third. The interpretation of results is therefore of particular importance, as the following chapter will indicate.

4.7. Comparing Countries: The "Clustan" Programme

Despite these deficiencies, the extensive use of cluster analysis in marketing demonstrates the potential usefulness of the technique. In addition to Sherbini's study, a further study by Sethi (1972) (16) has applied a more sophisticated technique to clustering international markets using the BC TRY SYSTEM. Their work is complemented by studies in the field of domestic market segmentation which have used cluster analysis techniques. (vii). It emerges that the computational procedures can be handled by packaged computer programmes. One of the most successful which has been used is the "Clustan" suite developed by Wishart. It incorporates the "mode

(vii) See for example:

- | | |
|----------------|---|
| Frank, R.E. | Cluster Analysis in Test Market Selection. |
| Green, P. | Management Science, Vol. 13, 1967, |
| Robinson, R.J. | pp 387 - 400. |
| Clemens, J. | Evaluating non-existent products. |
| Thornton, C. | Market Research Society |
| | Paper given at the Annual Conference, 1963. |

analysis" technique of clustering. (A complete review of mode analysis is presented in the appendix). The "Clustan" suite has been used in a variety of classification projects relating to both the natural and social sciences. Two contemporary studies by Christopher (1969) (17) and Lessig and Tollefson (1970) (18) have experimented with the programme in the fields of marketing research and market segmentation respectively. It was decided therefore to use this programme as the basis of the heuristic model. Discussion of the computational procedures and techniques involved in managing the programme are dealt with in Chapter VIII.

The advantages of the programme lie with the possibility to submit numeric, binary, and multi-state data. The output identifies:

- (i) The five most similar objects to each object in turn.
- (ii) The assignment of all objects in the sample to that group where the objects are more like one another than those not included in the grouping.

Each stage complements the purpose of the heuristic model as set out in 4.1. : (1) and (2).

Conclusion

5.1. This chapter has identified one means to transform information for strategic marketing decision-making. Building upon the "systems approach" model, and the concept of marketing systematics, introduced in Chapter VI, our objective has been two-fold:

- (1) To identify a means to transform information in accordance with the decision rule and the objectives of the heuristic model.
- (2) To identify an information input for the model which is relevant to the particular decision area implicit in the research problem.

5.2. These problems have been managed here by structuring the material in this chapter around Boddewyn's framework for a comparative study in management and marketing. (1.4.).

Section I examined the purpose of comparing countries within the European Complex. The rationale lay within the objectives of research, the actual potential and importance of the European Complex to the multinational (particularly Eastern Europe), and the use of comparative analysis for marketing planning purposes.

5.3. The precedents for comparing international markets introduced in Section I led to the more specialised discussion in Section II of comparative marketing analysis. The Bartels/Boddewyn frameworks were shown to complement the approach used in this study in examining the decision problem within the research

area. They demonstrate that comparative analysis is more than a comparison of the marketing environment. Boddewyn's construct was applied directly in 3.6. to illustrate this relative to the research problem and design being applied in this study. The discussion showed that if Chapters VII and VIII were intended to concentrate more particularly upon the environmental issues in the strategic decision area, then attention had to be paid to the methodological approach. The selection of relevant information input (in line with the notion of marketing systematics) needed to be effected on a methodologically sound and proven basis. The Kahn/Wiener projection provided the qualitative framework for the determination of information input in the heuristic model. The resultant profiles are founded upon the use of secondary statistics. Their formulation is the product of a series of decisions which have had to consider the time and cost of the exercise within the demands of the research problem.

5.4. Section III argued that the precedent for using cluster analysis in order to transform the information for these particular decision purposes was substantial. The proposition that opportunities could be missed or ignored because of preconceptions on the part of the decision-makers, or because of "imperfections" within the decision sequence, re-affirmed the validity of the technique. In addition, the "Clustan" programme may yield an output in a form which satisfied the particular objectives of the heuristic model: the generation of alternatives and the grouping of "similar" markets. The limitations and deficiencies of cluster analysis were carefully evaluated in the latter part of this section.

CHAPTER VIII

NUMBERS ARE NOT SOLUTIONS: THE PRESENTATION AND EVALUATION OF THE RESULTS OF THE "CLUSTAN" PROGRAMME

Introduction

1.1. This chapter will critically evaluate the role of the heuristic model (in terms of the "Clustan" programme) in the decision sequence. This will be done in two stages:

I. The examination of the way in which cluster analysis is able to transform information for decision purposes.

II. The assessment of the extent to which the heuristic model, and the cluster analysis technique implicit in the model, contribute to the problem of identifying and selecting market opportunities in the European Complex.

1.2. We may re-consider the theoretical stages of problem solving presented by the "phase-theorem" in conjunction with the operational sequence (Marketing Systematics) which is completed by the "Clustan" programme. (i). The connection is presented below.

The "Phase Theorem"

1. Identification of the problem.
2. Obtaining the necessary information. →
3. Production of possible solutions. →
4. Evaluation of such solutions. →
5. Selection of a strategy for performance.
6. Actual performance of an action or actions.

↓
Marketing Systematics

↓
The "Clustan" Programme

1. Choice of markets.
2. Discovery and measurement of characteristics (variables).
3. Coding of variables.
4. Calculation of affinity between markets.
5. Extraction of data on markets.
6. Identification of clusters.

(i) Chapter V, 4.2.

1.3. The heuristic model fits into stages 2 - 4 of the "phase theorem". In the preceding chapters in Part II three factors have been discussed which are related to these stages: marketing systematics; the heuristic model; and cluster analysis. The notion of marketing systematics proposes that the strategic marketing decision sequence (identifying and selecting marketing opportunities) may be programmed in order to decrease the uncertainty factor in the sequence. The objective of Part II is to programme those parts of the sequence which involve the identification and screening alternatives. Where similarities and differences between countries can be examined on a systematic basis, some of the structural "imperfections" in the sequence may be controlled. (Chapter IV, Schema VI.).

1.4. The chapter will comprise three sections.

Section I will be concerned with the treatment of the data input for both profiles. This is displayed in Technical Appendix I at the end of Chapter VII. Using as an analogy the cybernetic model presented in Chapter VI, 2.8. this section will:

- (1) discuss the way in which the data (input) has been ordered for the purposes of the "Clustan" programme.
- (2) indicate the way in which the data has been treated (transformed) by the programme.

Section II will present the results of the output. It will also include a general discussion of the interpretation of results in accordance with the procedures of the programme.

Section III will take the interpretation a stage further. It will be concerned with Stages II in 1.1. overleaf: to what extent do the results assist strategic marketing decision-making? This will provide the conclusion to Part II.

Technical specifications are included in Technical Appendix II.

Section I: The operation of the "Clustan" programme

2.1. This section will examine the treatment of data input for the "Clustan" programme. Although the principle of cluster analysis is relatively simple, the operation of a cluster analysis programme is more complex. For this reason many research projects rarely give it the consideration which it merits. The way in which the information is ordered and the results interpreted is determined by a set of fundamental decisions on the part of the researcher. In this section I will attempt to examine the operation on a stage-by-stage basis, and to indicate the points in the sequence where these decisions have been made.

2.2. The input of data: the demographic profile:

The data input represents a 10 x 20 matrix where 10 is the number

of variables for each object and 20 the number of objects (countries in the European Complex). All the data was in a quantitative form with the exception of variable 10 which had to be transformed. This was done in the following manner.

Variable 10: PREDOMINANT RELIGIOUS GROUP: was formulated on the basis of rubric 1 in the Kahn/Wiener model (Chapter VII, 3.10.). In order to make the data suitable for the programme's requirements a quantitative indicator of religious affiliation had to be produced. This was achieved in the following manner. Three categories were identified:

1. Catholic + 60%
2. Protestant + 60%
3. Mixed

Each country was assessed in terms of the percentage of the population which made up the largest single religious group. Where religious affiliation of this group was greater than 60% in either of the first two categories, the country was assigned to either the catholic or protestant group. Where this condition did not apply, the country was assigned to the third group.

The categories were transformed into numeric values thus:

	Ordered Multi-State	Numeric Value
Catholic	1	1.0
Protestant	2	2.0
Mixed	3	3.0

This is an example of the flexibility of the programme. It indicates the way in which future analysis could use and transform quantitative data. A cluster analysis of international markets may in future be effected using this type of approach, and the potential for this in situations where data cannot be quantified needs to be investigated.

The input of data: the socio-economic profile:

The data input represents a 24 x 20 matrix, where 24 is the number of variables in profile, and 20 is the number of countries in the European Complex. All the data was in quantitative form (see data array: Technical Appendix 1). Transformation was not required.

2.3. The treatment of data: the "Clustan" programme:

There are presently several computer routines (of which "Clustan" is one) which are able to perform analysis on a large array of data.

The basic routine which employs the "distance" method has been discussed by Frank and Green (1966) (1). This is reproduced below.

1. Each characteristic is first converted to a standardised variate with zero mean and unit standard deviation.
2. Euclidean distances are then computed for each of all possible parts of points (ii).
3. The pair with the smallest distance is chosen as the mode of the first cluster, and the average of this pair is computed.
4. Additional points are added to this cluster (based on closeness to the last-computed average) until:
 - a. Some pre-specified number of points has been clustered.
 - b. The point to be added to the cluster exceeds some pre-specified distance-cut off or threshold number.
5. The programme then proceeds to the next pair of points which are closest together of all unclustered points, and the above process is repeated.
6. If desired the programme may be modified to allow points to be in more than one cluster.
7. The programme can be further modified to shift points from cluster to cluster to obtain clusters which are best in the sense of having the lowest average within cluster distance summed over all clusters at a given stage in the clustering.

Appendix II at the end of this chapter contains a full outline of the actual operation parameters of "Clustan". The basic procedures follow the routine discussed above.

The following section will examine the results of the transformation.

Section II: The Results of the "Clustan" Programme

3.1. This section will present the results of the cluster analysis. For the purposes of clarity only the actual results are presented in this chapter. The technical explanations are placed in Appendix II. Appropriate references will be made to these where necessary.

3.2. Stage 7 in the routine (2.3.) poses the most problems for the analyst. These are compounded by impossibility of testing the significance between the groups. This was discussed fully in chapter VII, 4.6. There are however means of assessing inter-correlations between the variables in each profile which are

- (ii) See Notes on Euclidean Distance and Mode Analysis:
Technical Appendix I.

likely to distort the resultant clusters. The "Clustan" package provided a facility to undertake a principal components analysis on a sample size of less than 35. This was selected. Three additions were made to the final output.

- (1) Inter-correlation matrices for both profiles.
- (2) Eigenvectors or factor loadings obtained from the principal components analysis. Values which exceed unity may, in accordance with Kaiser's rule, be considered significant.
- (3) Factor scores obtained from the eigen values. These are the component factor weightings attributed to each sample. A high positive value indicates that the sample is associated with the factor in one extreme; a high negative value that it corresponds to the other extreme.

A principal components analysis allows the analyst to see the extent to which each of the variables in the profile is correlated with each of the others. The inter-correlation matrices are presented in Technical Appendix II. The tables indicate that the number of variables which inter-correlated is very small indeed, and limited to the socio-economic profile. Analysis of the eigenvector and factor scores tables showed that high positive and negative values were not present. There was therefore no need to remove variables from the profile and to revise the remaining because of an implicit weighting towards any one variable. It should however be noted that the product-moment coefficient (r) is a measure of linear association; where the relationship is non-linear this will have been understated in the matrix.

3.3. The interpretation of results:

A: The Demographic Profile

The foundations and content of the demographic profile were discussed in Chapter VII, 3.10. Basically the relevance of the profile for marketing decision purposes is related to the indications which the variables give of market size, and occupational structure and location. The analysis of results will proceed by structuring the discussion around the example of grouping given in Chapter VII, 4.3. This example demonstrated two possible groupings of countries within the Complex on the basis of trade block membership, and political affiliation. The resultant classes are derived on the basis 3 and 2 groupings respectively (EEC; EFTA; COMECON : EEC & EFTA; COMECON) with no indication of intra and inter-block similarities. In other words are there countries within this total Complex which are more like one another in terms of certain variables, but whose affinity is distorted or hidden because of membership of different trade blocks. The heuristic model may be seen as attempting to identify alternatives which are similar but are concealed because of limited perception and cognition on the part of the decision-makers operating at the level of strategic decision-making.

In the tables which follow, the five most similar countries to each country in turn are presented. The tables divide the sample into three sectors on the basis of the trade blocks. The analysis which accompanies these tables will assess the patterns of affinities. Following these tables, the clusters or groupings of countries are presented and evaluated.

3.4. (i) Generation of alternatives: the "nearest neighbour"/
(K-Max) Lists:

Profile A : K-Max Lists gives the five countries most similar to each country in the Complex on the basis of the Euclidean distance of each country from the nineteen others in the sample. Examination of the contents shows that there are intra- and inter- block affinities which may not otherwise have been identified. We may evaluate these by developing matrices which indicate the way in which this variation occurs. The analysis table which follows "Profile A : K-Max" illustrates this by listing beside each country the identity of its "nearest neighbours" in terms of membership of each trade block. For example the first market, Great Britain, has a "nearest neighbour" in the EEC (West Germany). Her other neighbours are Belgium, France, Sweden and Italy respectively. These constitute in aggregate 1 EFTA member, and 4 EEC members respectively.

Analysis : Profile A : Intra- and Inter- Block Similarities

The break-down in the Analysis table demonstrates clearly the measure and range of intra- and inter-block similarities. The least "homogenous" block in terms of the demographic profile is EFTA. Four of the seven members have a first nearest neighbour within the block; two - Great Britain and Switzerland - have a "nearest neighbour" in the EEC (West Germany) and one - Portugal - has a COMECON "nearest neighbour" (Hungary). Neither of the EEC nor COMECON have quite the same range, the inter-block affinities being 4 / 2 and 5 / 2 respectively.

The aggregate columns indicate that intra-block similarities in terms of the five nearest neighbours are between 30% and 40%. Thus, from a total of possible neighbours of 35 (5 x 7) there were in the EFTA group 14 who were from EFTA, 14 from the EEC, and 7 from COMECON. In the EEC group of a possible 30 "nearest neighbours" 14 were from the EEC, 13 from EFTA and 3 from COMECON. In the COMECON complex from a total possible of 35, 15 were from COMECON, 12 from EFTA, and 8 from the EEC.

The question which needs to be posed at this point is would these similarities have been realised otherwise. The first problem is to examine the validity of grouping these twenty markets on the basis of trade block membership. This is a politico-economic grouping, which might not be used at all by decision-makers. It is applied in this example to show how perception may distort the generation of similar alternatives. A trade block is seen in the

PROFILE A : K-Max

Country		Nearest Neighbour				
		1	2	3	4	5
1. GREAT BRITAIN	GB	WG	BE	FR	SW	IT
2. NORWAY	NO	SW	CZ	WG	DE	SZ
3. SWEDEN	SW	NO	LU	SZ	IT	WG
4. DENMARK	DE	NO	AU	SW	HU	WG
5. PORTUGAL	PO	HU	CZ	DE	NO	IT
6. SWITZERLAND	SZ	WG	NE	SW	IT	NO
7. AUSTRIA	AU	SW	IT	RO	CZ	PL
8. FRANCE	FR	IT	GB	SW	WG	AU
9. W. GERMANY	WG	GB	SZ	SW	NE	NO
10. ITALY	IT	WG	LU	SW	BE	PL
11. NETHERLANDS	NE	SZ	WG	BE	GB	IT
12. BELGIUM	BE	LU	GB	IT	WG	SW
13. LUXEMBURG	LU	BE	SW	IT	PL	CZ
14. U.S.S.R.	UR	WG	IT	PL	RO	SZ
15. BULGARIA	BU	RO	PO	EG	WG	BE
16. ROMANIA	RO	PL	BU	AU	SZ	SW
17. E. GERMANY	EG	CZ	SW	LU	NO	HU
18. POLAND	PL	LU	IT	RO	SW	SZ
19. CZECHOSLOVAKIA	CZ	EG	HU	NO	SW	LU
20. HUNGARY	HU	CZ	PL	NO	DE	EG

ANALYSIS : PROFILE A : INTRA- AND INTER-BLOCK SIMILARITIES

Country (x)	Neighbour				EFTA	EEC	COMECON	Total of possible similarities
GREAT BRITAIN	EEC		1		1	4	-	5 x 7
NORWAY	EFTA	1			3	1	1	
SWEDEN	"	1			2	3	-	
DENMARK	"	1			3	1	1	
PORTUGAL	COMECON			1	2	1	2	
SWITZERLAND	EEC		1		2	3	-	
AUSTRIA	EFTA	1			1	1	3	
$\sum x$	7	4	2	1	14	14	7	35
FRANCE	EEC		1		3	2	-	5 x 6
W. GERMANY	EFTA	1			4	1	-	
ITALY	EEC		1		1	3	1	
NETHERLANDS	EFTA	1			2	3	-	
BELGIUM	EEC		1		2	3	-	
LUXEMBURG	EEC		1		1	2	2	
$\sum x$	6	2	4	-	13	14	3	30
U.S.S.R.	EEC		1		1	2	2	5 x 7
BULGARIA	COMECON			1	-	2	3	
ROMANIA	"			1	3	-	2	
E. GERMANY	"			1	2	1	2	
POLAND	EEC		1		2	2	1	
CZECHOSLO- VAKIA	"			1	2	1	2	
HUNGARY	"			1	2	-	3	
$\sum x$	7		2	5	12	8	15	35

analysis to be analogous to "imperfections" in the process of identifying alternatives. If the decision-makers perceived only trade-block members as alternatives then between 60% and 70% of possible alternatives may have been omitted.

The interesting similarities revealed in the K-Max lists are those between Portugal and Hungary: West Germany and the U.S.S.R.; and between Great Britain and West Germany and Belgium and Luxemburg. This last set of relationships comprises countries who are the first "nearest neighbours" of each other. (See Profile A : K-Max.) The similarities are shown on a two-dimensional plane in Technical Appendix II.

3.5. Analysis : Profile A : Clusters

The clusters derived from Profile A using the "Clustan" programme present the classic dilemma of cluster analysis. In accordance with Wishart's observations in Chapter VII, 4.3., the objective of the technique is to arrive at some grouping which is "meaningful in the context of the data subject". Two clusters have been derived at $K1 = 1$. The clustering was therefore in accordance with the "single-linkage" procedure developed by Sneath. (iii). The countries in each cluster are more like each other in terms of the demographic profile than those not included in the cluster. The contents of each cluster spans each trade block. Cluster I comprises two EFTA members, two EEC members, and three COMECON members. It is difficult to identify this cluster in terms of its distinctiveness from Cluster II. These countries range in their population, structure, urbanization and religious affinity. There is no area by which the analyst may clearly distinguish the identity of this cluster. These conditions apply equally to Cluster II. (The analysis of Profile B will reveal an entirely different set of circumstances.) By plotting a mode dendrogram for the profile this difficulty can to some measure be understood. The dendrogram is in Technical Appendix II. The vertical axis indicates the "dense points" in the sample (see Technical Appendix I for an explanation). There is no clear demarkation of the two clusters. The points are fused at the coefficient values shown on the horizontal axis. The nuclei of the two clusters may be discerned at dense points 1 and 9. (Cluster I / Great Britain and Western Germany) and 3 and 13 (Cluster II / Sweden and Luxemburg). The planar representation (also in the Appendix) reveals a non-distinctive pattern. The points are spread around the co-ordinates. tracing the pattern, Cluster I moves from the top towards the left, in a south westerly direction, and is enveloped by Cluster II which spreads across the plane. This is borne out by the mode dendrogram which shows Cluster I almost tucked into Cluster II. We may conclude therefore that the clusters derived from Profile A are difficult to assign a precise identity to. The "natural" groupings which have been derived are for present purposes neither clear nor reliable enough. There are two conclusions which may be drawn from this. The first conclusion is that the European Complex presents a sample of markets where overall demographic dissimilarities

(iii) See Technical Appendix I: Note on Mode Analysis.

PROFILE A : CLUSTERSCluster I : Total 8

Countries: Great Britain
Switzerland
France
W. Germany
Netherlands
U.S.S.R.
Bulgaria
Romania

Cluster II : Total 12

Countries: Norway
Sweden
Denmark
Portugal
Austria
Italy
Belgium
Luxemburg
E. Germany
Poland
Czechoslovakia
Hungary

Specifications:*

K1 = 1

Enc. ratio : 0.40

Coefficient : 0.64

* See Technical Appendix II for explanation of specifications.

between countries are small, and affinities common. Examination of the data array shows that this does not hold. There are considerable variations. The second conclusion concerns the importance of interpreting results. The mode dendogram, and the planar representation reveal that the meaning of the clusters are difficult to assess. In terms of identifying "similarities" between markets the "nearest neighbour" results (particularly the first K-Max value) are more useful to the analyst than an attempt to evaluate and screen markets on the basis of cluster membership.

3.6. The interpretation of results:

B: The Socio-Economic Profile

The foundations and content of the socio-economic profile were discussed in Chapter VII, 3.11. The profile had two objectives. Firstly, it was intended to reflect the Kahn/Wiener model in quantitative terms for those rubrics which related to this area. In addition the profile could provide a general indicator of economic development. Countries which were "similar" to one another in terms of the profile, were likely to have achieved comparable levels of economic development. This was seen to be useful in two ways. Firstly, might similar levels of economic development be achieved in different economic systems? This applies particularly to the European Complex where centrally planned and "free" market systems operate. This differentiation may at an initial level distort the perception of decision-makers. Secondly economic development is a useful general indicator of the kinds and types of products markets require. The Dichter example in the preceding chapter demonstrated this. The other general precedent is the "product-life cycle" theorem. (iv).

The analysis of results will follow the structure used for Profile A in the preceding sub-sections. The examination will proceed by identifying and discussing intra- and inter- block variations using an Analysis table as in the previous example.

3.7. (i) Generation of alternatives: the "nearest neighbour" / (K-Max) Lists:

Profile B : K-Max Lists gives the five countries most similar to each country in the Complex on the basis of the Euclidean distance of each country from the nineteen others in the sample. Intra- and inter block affinities are demonstrated in the Analysis table which follows the K-Max Lists. This table shows that the most "homogenous" block in the sample is COMECON. All seven members' first "nearest neighbour" are from the same block. The level of economic development within the block is very similar and this is reflected in the aggregations of "nearest neighbours" being (from a maximum of 35 : 7 x 7) 20 from COMECON itself, 13 from EFTA, and 2 from the EEC. Aggregations in the other blocks reveal

PROFILE B : K-Max

Country		Nearest Neighbours					
GREAT BRITAIN	GB	1	FR	EG	NO	WG	DE
NORWAY	NO	2	FR	DE	AU	EG	BE
SWEDEN	SW	3	DE	EG	SZ	NO	GB
DENMARK	DE	4	AU	EG	FR	SZ	BE
PORTUGAL	PO	5	RO	HU	PL	BU	AU
SWITZERLAND	SZ	6	DE	EG	AU	FR	BE
AUSTRIA	AU	7	DE	EG	FR	SZ	BE
FRANCE	FR	8	DE	BEL	AU	NO	SZ
W. GERMANY	WG	9	FR	EG	GB	DE	NE
ITALY	IT	10	PL	FR	BU	AU	SZ
NETHERLANDS	NE	11	BE	DE	FR	EG	SZ
BELGIUM	BE	12	FR	DE	NE	AU	NO
LUXEMBURG	LU	13	SZ	DE	AU	EG	BE
U.S.S.R.	UR	14	BU	PL	FR	WG	EG
BULGARIA	BU	15	PL	HU	RO	AU	SZ
ROMANIA	RO	16	BU	PL	HU	PO	AU
E. GERMANY	EG	17	CZ	DE	AU	SZ	NO
POLAND	PL	18	BU	HU	RO	AU	EG
CZECHOSLOVAKIA	CZ	19	EG	HU	AU	DE	SZ
HUNGARY	HU	20	BU	PL	RO	AU	CZ

ANALYSIS : PROFILE B : INTRA- AND INTER-BLOCK SIMILARITIES

Country (x)	Nearest Neighbour				EFTA	EEC	COMECON	Total possible similarities
GREAT BRITAIN	EEC		1		2	2	1	7 x 5
NORWAY	EEC		1		2	2	1	
SWEDEN	EFTA	1			4	-	1	
DENMARK	EFTA	1			2	2	1	
PORTUGAL	COMECON			1	1	-	4	
SWITZERLAND	EFTA	1			2	2	1	
AUSTRIA	EFTA	1			2	2	1	
$\sum x$	7	4	2	1	15	10	10	35
FRANCE	EFTA	1			4	1		6 x 5
W. GERMANY	EEC		1		2	2	1	
ITALY	COMECON			1	2	1	2	
NETHERLANDS	EEC		1		2	2	1	
BELGIUM	EEC		1		3	2	-	
LUXEMBURG	EFTA	1			3	1	1	
$\sum x$	6	2	3	1	16	9	5	30
U.S.S.R.	COMECON					2	3	7 x 5
BULGARIA	"				2	-	3	
ROMANIA	"				2	-	3	
E. GERMANY	"				4	-	1	
POLAND	"				1	-	4	
CZECHOSLO- VAKIA	"				3	-	2	
HUNGARY	"				1	-	4	
$\sum x$	7				13	2	20	35

a more "heterogeneous" range. This is particularly so overall in EFTA where of a total possible number of similarities of 35, 15 were from EFTA, 10 from the EEC, and 10 from COMECON. This is reflected in the identity of the first "nearest neighbour" being 4, 2, 1 for EFTA, the EEC, and COMECON respectively. The EEC shows indications of being in aggregate more like EFTA than COMECON, although the range of similarities are mixed. The table shows a first "nearest neighbour" range of 2, 3, 1 for EFTA, the EEC, and COMECON respectively, and for a total possible number of similarities of 30 an aggregate of 16, 9 and 5 for each of the blocks.

The most useful aspect of the break-down is the way in which it permits the identification of the exceptions in terms of inter-block similarities. The most outstanding examples are those of Portugal and Eastern Germany. In the case of the former the Analysis table reveals that her first "nearest neighbour" is a COMECON member - Romania - and that a total of four of the five samples in the K-Max Lists are from COMECON. The other exceptional case is Eastern Germany. This country is the significant member of COMECON in economic terms. She appears no less than 9 from a possible 13 times in the K-Max Lists for the EEC and EFTA (7 + 6). In addition there is a direct pairing in the lists in first "nearest neighbour" terms between Czechoslovakia and Eastern Germany.

The pertinent question here again is would these relationships and affinities have been recognised without the calculation of affinities between objects. East Germany is the outstanding example (with Czechoslovakia) of similarity between an individual country in Eastern Europe with individual countries in Western Europe. Verification of this is supplied by the planar representation of the profile in Technical Appendix II. In the same way Italy, and Portugal have affinities in economic terms with Eastern European countries. For the individual firm, knowledge of these affinities could greatly assist the decision-makers perception of the problem area - and, ultimately, the alternatives considered for selection.

3.8. Analysis : Profile B : Clusters

Two clusters were identified at KL = 1 (single-linkage) within the profile. These are listed overleaf, and comprise 13 and 7 countries respectively. The cluster compositions overlap. In Cluster I East Germany and Czechoslovakia are listed together with 6 EFTA members, and 5 EEC members. This cluster may be identified as comprising those countries within the European Complex with a higher level of economic development than those not included in the grouping. Cluster II comprises in addition to 5 of the 7 COMECON members, Portugal and Italy. Portugal's relative economic strength has always been below those of her Western neighbours. Italy's considerable regional variations have tended to distort her real level of economic development. The mode dendrogram for the profile (located in Technical Appendix II) illustrates the stable separation between clusters. The significance and reliability of these results is therefore greater than in the preceding example, where Profile A exhibited none of the distinctive classifications.

PROFILE B : CLUSTERSCluster I :

Countries:

Great Britain

Norway

Sweden

Denmark

Switzerland

Austria

France

West Germany

Netherlands

Belgium

Luxemburg

East Germany

Czechoslovakia

Cluster II :

Countries:

Portugal

Italy

U.S.S.R.

Bulgaria

Romania

Poland

Hungary

Specifications:*

K1 = 1

Enc. ratio : 0.60

Coefficient : 0.81

* See Technical Appendix II for explanation of technical specifications.

3.9. Preliminary Evaluation

This sub-section will serve as a prelude to the final section of this chapter, which will evaluate the total contribution of clustering to the decision problem, and, ultimately, to the research problem. In the analyses of the profiles in 3.3. to 3.8. the affinities have been interpreted on the basis of intra- and inter-block similarities. It was proposed in 3.4. that this pre-classification was analogous to the preconceptions which decision-makers are likely to possess when identifying and screening market opportunities. The results therefore have indicated that similar alternatives may be generated using Euclidean distance as a means of achieving this. Two elements of the analysis need to be examined here: the relevance of these patterns for strategic marketing decision-making and the overall usefulness of cluster analysis for this particular decision-area.

The first element is really posing the question were these patterns known and recognised prior to this analysis? The inconclusiveness of the cluster results for the demographic profile indicate that the overall reliability for discerning stable relationships (in demographic terms) for the Complex is limited. The "nearest neighbour" tables are more useful for generating alternatives. The socio-economic profile reveals much more stable groupings, and the intra- and inter-block similarities indicate a range and spread of affinities which are unlikely otherwise to have been located. Nevertheless, the relatively advanced economic systems of East Germany and Czechoslovakia were well known prior to this analysis. The dilemma which arises in assessing whether this pattern would have been perceived by decision-makers as relevant to their strategic decision-making, is really the key question here. Decision-makers may indeed be aware of these conditions, but it is arguable whether they may recognise the significance of them for their own decision-making. This will be examined further in Part III.

The second element, the overall usefulness of cluster analysis for strategic marketing decision-making, may be examined by reference to the results for each profile. The results reveal that different variables for the same sample may yield different similarity patterns and clusters. This indicates that the individual multinational may develop its own profile, comprising those indicators (variables) which it considers significant for its own operations, and generate its own alternatives and clusters. In the same way, it may develop several profiles for different products and market areas relative to its product-line and international commitments. We shall take this proposition further in Part III.

Section III: The Heuristic Model and the Screening of Marketing Opportunities in the European Complex

4.1. This section will serve as a conclusion to Part II of the study by assessing the contribution of the heuristic model to the research problem. The material presented here will be structured around the "Objectives of the Heuristic Model" presented

in Chapter V, 3.7.

The objectives propose that the purposes of the heuristic model should be the development of some systematic means of treating information for strategic marketing decision purposes, so that the uncertainty involved in the identification and evaluating of market opportunities may be decreased. More particularly the model should allow the competence and perception of the decision-makers in this activity to be enlarged.

4.2. The foundations for the model were identified in Chapter VI.

The "systems approach" model simplified the decision sequence in terms of the relationship between information and transformation of information which inter-connect to produce the resultant strategic decision. Chapter VII developed a framework for identifying relevant information and selecting a suitable method to transform it for decision-making purposes.

4.3. The fundamental objective of the model is seen as an attempt to programme certain aspects of the decision sequence in order to control or reduce some of the structural deficiencies in that sequence. The development and operation of the system required that the following be realised:

- a. the generation of alternatives for evaluation in terms of similarity.
- b. the grouping of these alternatives on the basis of overall similarity.

The use of a similarity measure corresponded to the formulation of a decision rule in Chapter IV.

Evaluating the cluster analysis results in this chapter, it is evident that (a.) and (b.) above have been effected in the model in terms of the K-Max Lists and the clusters (Mode Analysis) respectively.

In examining each stage of the operation, I have outlined many of the difficulties which confront both the analyst and the firm in the treatment of data and the interpretation of results. The use of two distinct profiles indicates that different groupings can be derived for the different variables proposed by the individual company. Given the situation of being unable to specify such variables, I have attempted to provide a solution to the problem by the use of macro variables from secondary sources. The results indicate that some of the pre-determined groupings that might have been applied by the decision-maker (for example here the three block European Complex) are not always valid. There exist intra-block similarities which the decision-maker (limited by time and cost, and pre-conceptions) may not have recognised.

The use of a computer programme demonstrates that information management and transformation for decision purposes in this area may be

affected on a continuous basis. The examination of two profiles, with the markedly different results, reveals the potential flexibility and range of the model in terms of the individual requirements of the multinational firm. At the same time caution needs to be exercised in the interpretation and use of results. The demographic profile is a concrete example of this situation.

4.4. Theoretical solutions and practical problems

In concluding the material presented in Part II certain observations need to be made which will bridge the research in Chapters VI - VIII with the empirical investigation in Part III. Part II has investigated the problem of collecting and transforming information relative to strategic marketing decisions. A theoretical solution to the problem has been developed in accordance with the objectives set down in Chapter V. Information management is however only one part of the informational variable within the decision sequence. We need to assess the validity of the approach for multinational companies themselves. It is insufficient for the multinational to know merely the demographic or socio-economic profiles of a market in order to select it. Two further elements have to be considered. In the analysis in Part I the decision sequence was broken down into three variables: economic, informational, and behavioural. The importance of variables (i) and (iii) has been identified in the "systems approach" model. These will be inter-related with the companies own "product-market-company" complex described briefly in Chapter V, 3.10. This complex determines the way in which the economic informational and behavioural variables interact in the evaluation of opportunities. Given that it may be possible for a firm to specify its own profile, and determine similarities between markets (using in this instance a cluster analysis technique), the way in which it will evaluate either the nearest neighbour samples or the groupings will depend upon these factors. In an analysis of decision-making therefore, the researcher needs to examine much more closely these.

In Part III the study will move towards this objective. It will examine the "product-market-company" complex for a sample of multinational companies, and the way in which this relates to the economic, informational and behavioural variables in the decision sequence. The design of the empirical investigation will rely to some extent for comparison and evaluation upon the heuristic model developed in Part II.

P A R T I I I

Part III is concerned with the third element in the project: the empirical study. It comprises four chapters, two appendices and a conclusion. Each deals with the problem of comparative analysis as it is seen to apply here in determining what factors affect the identification and selection of market opportunities in the European Complex, and what procedures are employed in order to do so.

Chapters IX and X represent a single unit. Together they demonstrate the way in which a solution pertinent to the objectives and dilemmas of this research problem has been evolved.

Chapter IX treats the first problem - the development of a common framework for comparative analysis. The questionnaire which was designed employs the material presented in Parts I and II of the study. The heuristic model is built directly into the questionnaire for the purposes of managing the "product-market-company" complex suggested in Chapter V.

Chapter X explains why these particular entities (the multinational companies in the sample) cannot be identical. The proposal of an "ideal" sample provides the starting point for examining the actual composition of the sample. The chapter uses a perspective of "the researcher as decision-maker" in order to demonstrate precisely how this composition has been generated and why it may be considered suitable for comparative purposes.

Chapter XI is concerned with the comparative analysis itself. The format which is used here has been designed to allow comparisons to be made on the basis of nationality and membership of industrial sectors. Technical Appendix IV gives a full reportage of the interviews with each multinational. Two points of great importance emerge during this chapter. Firstly, there is a separation between the formal objectives of the organization and the informal objectives of those persons being interviewed. This may ultimately affect the decisions which are made since they rely directly or indirectly on the recommendations and activities of these particular contacts. Secondly, considerable emphasis needs to be given to the role of the researcher in the empirical study. In the administration of the questionnaire I became an actor in each interview situation.

Certain patterns have emerged from these results. There are similarities between the objectives of strategic decision-making in companies within the same industrial sector regardless of nationality. Counter-balancing this is the factor of perception of opportunities which seem to depend more upon nationality.

Chapter XII presents the results of the postal questionnaire which was administered in Western Germany. A limited comparison is made between these results and those generated in Phases I and II of the investigation.

The Conclusion sets into perspective the range of theoretical and empirical material presented in the study. These are integrated in a descriptive model of the "typical" marketing decision sequence.

CHAPTER IX

MANAGING THE EMPIRICAL RESEARCH STUDY : DEVELOPING A FRAMEWORK FOR COMPARATIVE ANALYSIS

Introduction

1.1. This chapter together with Chapter X will examine the problem of comparative analysis as it applies to this, the empirical part of the study. Comparative analysis relates here to the examination of the way in which multinational companies develop and use procedures for identifying and selecting market opportunities in the European Complex. There are two sets of problems implicit in this definition:-

- (1) the means by which to compare such procedures
- and (2) the management of a sample of multinational companies for the purpose of comparative analysis.

Chapters IX and X should therefore be seen in terms of a single unit which attempts to develop a two-stage solution to the problems set out in (1) and (2) above.

1.2. This chapter is concerned with the first set of problems: comparing procedures. The objectives of the empirical study have been set out clearly in Part I. (i). They relate to:

- (A.) The heuristic model - to what extent does it conform to the realities of market selection?
- and (B.) The five elements seen to affect the decision sequence:
 - 1. The way in which the problem is perceived by the multinational company.
 - 2. The strategic marketing objectives of the multinational company.
 - 3. The constraints which modify these objectives.
 - 4. The information needs in the decision sequence.
 - 5. The factors which affect the way in which opportunities are evaluated.

1.3. The purpose of the comparative analysis in Part III is seen as the means to build up a realistic model which describes the actual strategic decision sequence of identifying and selecting market

(i) Chapter V, 3.8. - 3.9.

opportunities. The analysis will use in part the heuristic model in order:

- (i) To assess how applicable the approach which it uses may be to multinational companies in identifying and selecting market opportunities in the European Complex.
- (ii) To provide (in part) a common framework for comparison in terms of inter-sectoral and international conditions amongst the companies in the sample.

1.4. The problem of all comparative research in the social sciences rests with the difficulties involved in controlling the conditions of comparison within complex and changing situations. This is implied in 1.3. (ii) above. The subject of this chapter may be seen therefore in terms of developing a common framework which assists in minimising these disadvantages.

In Section I a solution to the comparative research problem is formulated by integrating three elements (all of which have been examined in the preceding analysis in Parts I and II) into a framework for comparison.

In Section II the questionnaire, which was designed to implement this framework, is discussed. This questionnaire was used with the multinational companies in the research sample.

Section I: Formulating the Comparative Framework:

The Theory of Comparative Analysis (ii):

2.1. We may re-assess the elements of the Boddewyn framework for comparative analysis introduced in Chapter VII, 1.4. (These are reproduced fully in footnote (ii) below). These elements have been amended so that they apply directly to this study. The reasons why the strategic marketing decision sequence should be interesting and worthwhile to compare have been well documented in Section I of Chapter V. By understanding how and why decisions are made, we may improve not only our general understanding of such decision-making, but, go some way to make better decisions. The system which the study proposed to examine was defined in Section II of Chapter V. Investigation is limited to the way in which multinational companies identify and select market opportunities in the European Complex. Initially concentration has been directed (via the heuristic model) upon the countries themselves. The "Objectives of the Descriptive Model" in Chapter V, 3.8. - 3.9. set out a series of comprehensive objectives which include the way in which companies perceive the problem of identifying and selecting markets, and the objectives, constraints and information requirements within which they effect

- (ii) 1. Why should we compare strategic marketing decision sequences in multinational companies in the European Complex?
- 2. What elements of the sequence should be compared?
- 3. How should this be done?
- 4. What has been accomplished and what remains to be done?

the decision sequence. Two questions arise from these objectives: how may we examine the decision sequence relative to these, and in which way is this examination orientated?

2.2. The question of how to examine the decision sequence parallels the third element in the Boddewyn framework. The objectives of the descriptive model re-affirm the contents of an earlier discussion in Chapter VII of Boddewyn's "Construct for Comparative Analysis of Exchange Systems". (iii). Comparative analysis needs to include more than an examination of the marketing environment. It must consider what part the organization (the multinational firm) and the organizational structure, play in determining the "process" of decision-making. The examination (at the theoretical level) in this study of the marketing environment via the heuristic model was confined to a consideration of the demographic and socio-economic dimensions of the problem. Political factors were not at this stage considered. The remaining element, the "actors" in the "process" has been given little attention up to this point. This is important in determining the orientation of the comparative analysis.

2.3. The orientation of the comparative analysis:

"Actors" here refers to the roles and identity of all the participants in the decision sequence. Chapter III confined the consideration of the individual in the multinational firm to the consideration of the way in which the "utility maximisation" hypothesis affected the objectives and behaviour of decision-makers. If this study was concerned with the role of the participants in the decision sequence, it would need to consider within the comparative framework, the identity, contribution and tasks of such persons. The purpose of this study is not directed at a "micro" level analysis of this kind, but rather with the total environment in which the strategic decision sequence takes place. An example of this difference will bring the study's orientation into perspective.

The "micro" level:

A "micro" level strategic marketing decision sequence is seen to involve activities which culminate in the selection of market X in preference to any other market for exploitation by the individual multinational firm. A comparative analysis would involve a precise study of a variety of such decisions in a number of multinational companies. The comparative framework would need to consider each stage in the sequence, the conditions under which they were enacted, and the involvement and identity of all those persons concerned directly or indirectly with the process. This study is neither designed nor intended to deal with the specifics of the individual "micro" sequence.

(iii) Chapter VII, 3.5.

The "general" level:

In examining the total environment in which such sequences are managed in multinational companies, we shall be concerned with their objectives and the constraints within which they must work in this area. We shall also be concerned with the procedures which they have evolved to handle such decisions. As such a major contribution of the study is at the "general" level: how have certain multinational companies in the past, and how are they presently evolving and implementing procedures to identify and select market opportunities in the European Complex? The study is not therefore concerned specifically with the role of the "actors" in single strategic decisions. It will concentrate more upon the contributions of the contacts (the persons within each company) which participated in the empirical investigation. These were the persons who were able to explain the way in which each multinational company approached the decision problem. They assisted in understanding how such decisions were made in the company. Their role in the decision sequence was not of primary significance. It is this "general" orientation which determined the comparative framework.

2.4. The elements of the comparative analysis:

The three elements which together may be combined to make up a basic framework for comparative analysis are:

(1) The "systems approach" model/the elements which affect the decision sequence.

(2) The product-market-company complex.

and (3) The heuristic model.

It is possible by examining each of these sequentially to elaborate upon the way in which they may be combined within a common framework for the purposes of comparative analysis.

2.5. (1) The "systems approach" model

The analysis in Chapter VI argued that the range of explanations of multinational operations presented in Part I could be distilled into four models; a fifth - the "systems approach" model - describes the way in which the economic, informational, and behavioural variables, evident either separately or in some combination in the other four models, "may be inter-locked together in terms of the decision problem". (iv).

This model identifies five stages in the decision process. In Part II the heuristic model has suggested ways by which Stages 1, 2, and 5 may be incorporated into a system of information gathering and

(iv) Chapter VI, 3.1.

transformation which may operate on a continuous basis. (Marketing systematics). In Part III the comparative analysis is concerned with all five stages in the process in terms of actual (rather than theoretical) procedures used by multinationals. The framework must therefore be able to discern:

I: at the level of the individual multinational

- a. the information requirements (1.)
- b. the management of information (transformation) (2.)
- c. the behavioural and economic variables which affect evaluation (modification) (3.)
- d. the decision (output) (4.)
- e. the learning process (feedback) (5.)

II: at the level of comparative analysis

the way in which each of these elements are similar or dissimilar for:

- a. multinationals in different industrial sectors
- b. multinationals of different nationality

The "systems approach" model defines precisely what is being compared; the decision sequence in terms of the identification and selection of market opportunities in Europe. Furthermore, it sets out the elements within this process. (See I above.)

When I and II are combined they are seen to complement objectives 3 and 4, of the empirical study as defined in 1.2. These concern the information requirements of the sequence and the constraints which operate in strategic marketing decision-making. The problem is to develop a framework which will compare these together with the questions of perception and the objectives of marketing planning. A further problem is presented by the additional objective of comparing the heuristic model with the realities of the actual decision problem.

2.6. (2) the product-market-company complex
(3) the heuristic model

The difficulties of effective comparative analysis rest (as the introduction to this chapter has indicated) with the need to design a framework which may actually compare these procedures. The complications stem in part from the composition of the sample, and in part from the difficulties involved in examining complex phenomena in a state of flux. Comparing like with like is not always feasible when the companies within the sample are located in various industrial sectors, marketing different products, and are corporations with different organizational structures, histories, and

commitments (the product-market-company complex) (v).

Two solutions are possible. The first concerns the heuristic model, and the second the five stages in the decision sequence in the "systems approach" model. (See 2.5. above).

2.7. The first solution is to use the heuristic model as a common factor in order to compare each of these complexes for the individual multinational. Since each respondent will have a separate product-market-company complex, by incorporating the parameters of the heuristic model (N : the number of markets in the European Complex / M : the number of variables in each profile) a common comparative framework may be formulated.

The Product Complex: The decision-maker will attempt to evaluate the usefulness of each variable used in the heuristic model in terms of the company's products. A first proposition is that firms located in the same industrial sector will specify the same variables. Equally, each firm will specify individual variables used to ascertain the potential of the product in the market. Using therefore the inputs of the heuristic model, the researcher can investigate how common certain variables may be in identifying and selecting markets.

The Market Complex: The heuristic model examines twenty European markets. Participants are therefore asked to examine only these. In this way the framework of comparison is held constant.

The Company Complex: Each company will have a different organization and history. The corporate commitment of each will vary. Therefore the marketing objectives and constraints will follow different patterns. However the parameters of the heuristic model require that each contact consider the same market complex (The European Complex) and examine his company's objectives and constraints within his total market area.

This approach was introduced initially in Chapter V, 3.10.

2.8. The second solution is to build upon the framework of comparison which the heuristic model offers, and to incorporate the five elements (stages) in the "systems approach" model, into a questionnaire. In this way the framework of comparison can be controlled in the following ways:

(v) Chapter X will examine the problems associated with generating and managing the sample; the reasons why it has been structured in a particular way.

- (1) The "systems approach" model defines what the empirical research is concerned to examine amongst all companies in the sample. Further it determines what should be the content of the questionnaire required to make the necessary comparisons.
- (2) The heuristic model determines precisely the area (the 20 countries in the European Complex) to which the content of the questionnaire needs to be directed.
- (3) The "product-market-company" (derived from the heuristic model) complex allows inter-sectoral and international comparisons to be made amongst sample members relative to their reactions to the heuristic model.

This section will conclude with a general comment on the generality of the comparisons likely to be generated using this particular comparative framework. Several of the outstanding issues in these comments relative to sample composition will be resolved in Chapter X.

2.9. The comparative framework : generality v. specific applicability of comparisons:

The use of a wide range of companies from more than one industrial sector, and of more than one nationality, extends the range and scope of the comparisons which may be made. At the same time there does develop a "trade-off" situation between the general and specific applicability of these comparisons. This is amplified in this instance since the framework of comparisons (the European Complex : the questionnaire) will control the number of situations which respondents are required to consider. At the same time a range of pre-specified variables are presented for evaluation. (The heuristic model). An opportunity must therefore be available for the firm to present its own variables. Therefore, the resultant pattern will be relevant to those marketing decisions which involve the European Complex. It is necessary to be aware of these limitations. In developing a framework for comparative analysis the general applicability of the study's results will be limited to some extent by two factors: the parameters laid down by the framework, and the composition of the sample.

Section II: Designing and Implementing the Questionnaire

3.1. The questionnaire which has been designed needed to incorporate the comparative framework discussed in the preceding section. The full text of the Questionnaires I and II are included in Technical Appendix III at the conclusion of the dissertation.

3.2. Administration was conducted by personal interview in Phases I and II and by post in Phase III. Phase III will be dealt with separately in Chapter XII. Certain modifications needed to be made in the format because of the different form of management. We

are concerned here with the design of the basic format, and administration during the first two phases. (vi).

The objective was to design a simple questionnaire, where emphasis was placed upon the respondents' contributions and elaborations to each question. In effect the questions were seen not as an end in themselves, but as a means to probe and to obtain insights into the decision sequence. The design of the questionnaire was therefore effected in terms of these considerations.

The questionnaire comprised two parts. Part I was administered at a first visit. Its purpose was to determine whether the company corresponded to the working definition of the multinational company. Part II was administered at the second interview, when the information search and computer runs for the heuristic model had been completed.

3.3. The Questionnaire: Part I

Part I comprised two sections. Each respondent was required to undertake three tasks: to answer each part and to specify in response to Q.6, Section I, the formal organizational structure of the firm.

The objective of Part I was to ensure that each multinational company which participated in the empirical investigation satisfied the conditions of the working definition developed in Chapter II, Section III. The working definition modifies contemporary definitions of the multinational enterprise by including the following additions:

- (i) A minimum level of European commitment in terms of production facilities.
- (ii) The consideration by management of international alternatives before strategic (basic) decisions are made.

Section I comprises 9 questions. The contacts in each company were required to answer all of these. They were also encouraged to elaborate and qualify each reply. This was considered, as 3.2. has argued above, to be a fundamental part of questionnaire administration. In order that a company be included in the research "affirmative" responses were required for questions 1 - 4 inclusive; 5 (iii); 7 - 9 inclusive. "Affirmative" here means that the company be able to satisfy the minimum conditions set out in each question.

3.4. Questionnaire Description:

Questions 1 - 7 inclusive follow the pattern set out by contemporary definitions of the multinational company discussed extensively in

- (vi) A full discussion of the three phases of research is given in Chapter X.

Chapter II. A company may be termed as "multinational" when it conducts manufacturing or the provision of services in at least two countries. The service sector will include banking, insurance, and finance companies. Questions 1. and 2. apply this basic criteria thus:

- Q.1. Does the company manufacture in at least two countries in the world outside the European Complex?
- Q.2. Does the company provide a service (i.e. an activity distinct from manufacturing) in at least two countries outside the European Complex?

The content of these questions concentrates upon the company's worldwide activities outside the European Complex.

Questions 3. and 4. consider the basic purpose of the multinational enterprise. These questions incorporate the earlier discussion in Chapter III of the objectives of the multinational firm. Therefore it is important that each contact perceive that corporate long-term survival and profitability be dependent upon international operations.

- Q.3. Does the company consider its long-term survival to be dependent upon manufacturing and the provision of a service taking place on an international basis?
- Q.4. Does the company consider its long-term profitability to be dependent upon international operations?

Question 5. re-affirms Questions 3. and 4. by examining the level of international participation within the company itself. No criterion was attached to 5.i. and ii. These were included to give a general indication of such participation in terms of shareholders' equity and top management personnel at director level. The "transnational" company is still rare as the discussion in Chapter II, Section II has demonstrated. 5.iii. sets a criterion of + 20% worldwide sales to be realised. This condition had to be met by all sample members.

- Q.5. Is the company internationally controlled in terms of:
 - i. Shareholders' equity?
 - ii. Top management personnel at the level of the Board of Directors?
 - iii. Are at least 20% of total company sales realised in international markets?

Question 6. brings into focus the problem of organizational structure. Following the response of each contact to the initial question, the seven basic structures discussed in Chapter III were shown. Rarely will the company have an organization which completely duplicates any of these structures. It is more likely that the company will approximate one better than the others. Each contact was required to evaluate each of these, and to select the one which he considered best to replicate the company's formal organizational structure.

- Q.6. Does the company have a separate international division responsible for international operations?

Which of the 7 structures which will be presented to you do you consider best approximates the formal organization of the company?

Question 7. is the key question at this stage of the research. Since the study is concerned with decision-making for marketing planning purposes in the multinational firm, the respondent must answer in the affirmative here. The question is phrased to consider top-management in terms of the board of directors of the company. This is where the basic lines of corporate philosophy are determined. Decision-making here sets the direction of the company. The question is posed in general terms: the consideration of international alternatives. At this stage the formal role of the contact in the strategic marketing planning activity is not considered. This will be investigated during the actual management of the study. (See more specifically Chapters X and XI.)

- Q.7. Does the company's top management (Board of Directors) consider international alternatives before strategic decisions are made?

Questions 8. and 9. bring into focus the role of the European Complex vis à vis the international operations of the companies in the research sample. The company must have undertaken direct investment within the complex. (Question 8.). It must be concerned with manufacturing or the provision of a service at the levels outlined in 3.3. : (i) and (ii).

- Q.8. Does the company manufacture/provide a service in at least two countries in the European Complex?

- Q.9. Does the company have overall control of producing facilities in at least two countries in the European Complex?

In Section II, Part I, the exact form of these operations is examined. Each participant was required to indicate the producing and marketing facilities of the company in the European Complex. A "producing facility" here means the location of a manufacturing plant. A "marketing facility" refers to the location of a marketing centre which services the marketing and sales operations of the company in one or more of the countries.

Part I attempted to determine two issues:

1. That the company was multinational in terms of conditions 1 - 5 in Chapter II.
2. That the company was able to participate in the study since it had interests and commitments in the European Complex of sufficient volume and standing to be able to evaluate the heuristic model, and to elaborate upon the objectives and constraints involved in the

selection of market opportunities there.

From this data it has been possible to build up a profile of each participant which demonstrates its level of international involvement

1. on a global basis
2. on a European basis : The European Complex.

This will be discussed further in Chapter XI, and Technical Appendix IV.

The Design and Implementation of Part II of the questionnaire

4.1. Part II of the questionnaire comprised three sections. These were designed to integrate A. and B. set out in 1.2. : the heuristic model and the five elements which affect the decision sequence. It was decided to present a format which was simple for both the researcher and the contact to manage. In addition the contact needed to be able to participate actively in the project. He was encouraged to elaborate upon each question and evaluate it in terms of the experiences and formal processes of strategic marketing decision-making employed by the company.

After the first visit communications were maintained with each company in Great Britain (Phase I of the empirical study). Between the first and the second visits each participant received an explanatory paper on the cluster analysis technique, together with the specifications and results of the computer programme (presented in Part II of this study). As participants they were entitled to these results. A copy of the questionnaire was sent to each before the second visit in order to avoid time and information loss during the interviews. Each participant was therefore fully informed at each stage of the project.

4.2. Questionnaire Description

Section III

Section III comprised five questions. It attempted to identify the objectives and constraints which were considered to affect the strategic marketing decision sequence in the multinational. (Elements 2. and 3. of the decision sequence: see sub-section 1.2.).

The five questions were divided into two components : Eastern and Western Europe. The decision to do this reflected the need to provide separate sets of determinants which corresponded to the particular conditions in each market area. In the heuristic model no distinction was made between the twenty national markets in the Complex. Each was considered in terms of the two profiles, and the variables which composed these. The resultant relationships and groupings have indicated that there are, in individual cases, certain inter- and intra- block relationships. The analysis was however undertaken without any prior separation into these divisions.

In this section it was decided that the differences were significant enough to require particular consideration. The decision reflected the need to consider political variables in the decision sequence. These had not been included in the heuristic model.

Question 1. and 3. consider separately whether the individual multinational has expanded its operations in Eastern and Western Europe (EEC/EFTA/COMECON) since 1969. Two reasons determined this question. Firstly Table II, Chapter V, demonstrates the growth in the value of exchanges between members. It was important to relate these to the operations of the individual multinational company. Secondly, if the company had or had not expanded its operations within the Complex for what reasons was this so? These two questions acted as a cue for questions 2, 4 and 5.

Question 2 and 4 followed this through and suggested three separate reasons. The respondent was invited to elaborate on these. 2 (i) and 4 (i) suggested extraneous factors within the actual marketing environment which may have prompted the decision. 2 (i) presented the situation of the enlargement of the E.E.C. on 1st January, 1973. This may have encouraged a multinational in any of the three blocks to consider the possibility of increased market potential presented by the removal or unification of tariffs.

4 (i) examined the same politico-economic situation in terms of the COMECON complex. The question was itself based upon recent initiatives between Eastern and Western Europe. Examples of this are the "Öst-politik" policy on the part of Western Germany and her European neighbours; the recent detente in East - West relations encouraged by new moves in American policy since 1969; the liberalising of international exchange conditions within COMECON. This last condition refers particularly to new moves in Hungary which allow direct contact between individual firms without Foreign Trade Enterprise intervention. (Hovanyi : 1972)(1). This is in itself part of a larger movement to encourage Western technical and economic support in Eastern European industrial and commercial projects. (Sosnowski : 1972) (2). These questions have given therefore a particular emphasis to the political environment.

Questions 2 (ii) and (iii) and 4 (ii) and (iii) presented distinctly micro determinants, more relevant to the company and the industry in which it was located. Both sets of questions have attempted to identify the objectives of decision-makers in their marketing planning. (ii) and (ii) suggested expansionist strategies; 2 (iii) and 4 (iii) defensive strategies. The second set of possibilities present conditions of decision-making under conditions of duress.

Question 5 has tried to re-emphasise the interdependence of multinational operations. It complemented the Vernon definition of the multinational set out in Chapter II. Marketing decisions for strategic purposes may have equally to be undertaken under conditions of relative obligation in order to ensure the profitable survival of the entire company. The question has sought to probe the conditions and circumstances of these in the European Complex.

Section III

- Q.1. Have you expanded your operations in Western Europe (EEC/EFTA) in the last three years?
- Q.2. Which of the following reasons have you used when considering new opportunities in the Western European market?
- i) The projected enlargement of the EEC.
 - ii) The need for greater markets for your product(s).
 - iii) Because your competitors have done so.
 - Others.
- Q.3. Have you expanded your operations in Eastern Europe (COMECON) in the last three years?
- Q.4. Which of the following reasons have you used when considering new opportunities in the Eastern European market?
- i) The development of a more favourable climate for business between:
 - a) Your firm and individual Eastern European foreign trade enterprises.
 - b) Your firm and individual Eastern European firms.
 - ii) The need for greater markets for your product(s).
 - iii) Because your competitors have done so.
 - Others.
- Q.5. Has the company made a financial investment in Eastern or Western Europe (The European Complex) in the last 10 years, of which it was known, prior to investment, that the accepted level of return applied to investment decisions by the company could not be realised?
- Please specify.

Section IV

4.3. Section IV presented eight criteria which related to direct investment. This section has attempted to inter-connect the role of direct investment in multinational operations (Chapters I and II) with that of strategic marketing decision-making. At the same time it emphasises further the conditions of inter-dependence found in multinational operations. No differentiation was made between Eastern and Western Europe. Respondents were required to rank their replies to those criteria which they considered important. Section IV is a blend of elements 1, 2, 3 and 5 in B, 1.2. The objectives and constraints of marketing

planning are considered together with the circumstances of multinational operations discussed in Chapters I and II. (Section III, 1 and 3).

Question I presented the growth determinant in terms of direct investment criteria for the entire Complex. This may in itself have been facilitated by changes in the marketing environment. (Section II: Question 2 (i) and 4 (i)).

Question 2 examined the changing circumstances in traditional markets outside the European Complex. This again focuses upon the interdependence of group operations in the multinational corporation. This question is particularly relevant to European firms where "imperial" markets have been encroached or changed since 1945. The significance of this question was originally examined in Chapter V under Section I: "The background to the identification of the research problem". Do non-American multinationals face a peculiarly different set of circumstances in terms of their operations?

Question 3 presented the defensive objective on a general level relative to direct investment. (Section III: Question 2 (iii) and 4 (iii)).

Question 4 presented the tariff issue applied to the European Complex. This has been considered an important determinant for direct investment purposes in Chapter I, 2.1. - 2.8. : 8.1. - 8.3.

Question 5 presented the costs issue also examined in Chapter I.

Both these questions have been based upon the general analysis in Chapter I, which elaborated the corporate growth model in terms of extra-territorial expansion.

Questions 6, 7 and 8 re-phrase 4 and 5 in terms of:

- a. the economies possible via international operations
- b. the logistics of international operations
- c. the interdependence of operations in the multinational group.

The European Complex is seen in the context of one part of the company's worldwide commitments. The foundations for each of questions 4 - 8 were examined in Chapters I and II in the discussions of the development of the multinational enterprise at the general level. They re-emphasise the advantages of multinational operations in terms of the economics and logistics involved in the manufacture and marketing of products in several international markets.

Section IV

Please remember the European Complex here refers only to those 20 countries in the EEC/EFTA/COMECON blocks on 31st December 1973.

Which of the following statements concerning Direct Investment Criteria do you consider important when identifying and screening (evaluating) potential markets in the European Complex?

Please mark those you consider important in their order of importance. The statement you consider to be most important should be ranked 1, the next most important 2, and so on. Those you do not consider important should be left without a ranking.

1. The rapid growth in foreign demand for the company's products in those 20 countries.
2. A levelling off or decrease for the company's products in existing markets (these may be located in Europe or anywhere in the world).
3. The need to meet competition from competitors in Europe.
4. In order to derive protection from tariffs or other foreign duties in the European market.
5. The lower production costs of the European market.
6. The possibility to re-export goods manufactured in these 20 European countries to any other market(s) in the EEC/EFTA/COMECON complex.
7. The possibility to re-export goods manufactured in these 20 European countries to any other European market(s) OUTSIDE the EEC/EFTA/COMECON complex.
8. The possibility to re-export goods manufactured in these 20 European countries to markets located anywhere in the world.

N.B. Please remember EUROPE here refers only to those countries in the European Complex.

Section V

4.4. Section V presents the variables incorporated in the heuristic model. This represents element 4 in the decision sequence, that of information and transformation of input. The contact was required to consider each of these separately, and to indicate those actually used by the company in identifying and selecting opportunities in the European Complex. Each respondent had to specify the company's product group. In this way analysis of the choice of variables, and variables specified by the firm (Question 2) allowed comparisons to be made between firms in the same industry of the same or different nationality, and between firms in diverse industries of the same or different nationality (the product-market-company complex). The variables are not

presented here but in Technical Appendix III.

Question 3 concerned the use of a decision rule in the process of market identification and selection. This question tried to probe respondents' opinions of the use of a similarity rule as a means to transform information for decision purposes. This question sought to ascertain the validity of the approach for these purposes. By an informal means the researcher attempted to probe:

1. Did the respondent's company actively use any of the variables in each profile in order to identify and select market opportunities?
2. Did the respondent's company use a technique or set of techniques which approximated the heuristic model (formally or informally) in order to identify and select market opportunities?

Section V

- (1) Presentation of the variables in the demographic and socio-economic profiles for evaluation by the contact.
- (2) If you do not already use any of these variables would you specify here what others you use or have used?
- (3) Do you attempt to identify markets similar to each other as a basis for selecting market opportunities in the European Complex (the heuristic model).

Comments: (probe)

Conclusion:

Re-appraising the role of the questionnaire

5.1. This chapter has argued that the role of the questionnaire should be seen as being quite distinct from that of presenting a set of questions pertinent to multinational operations in the European Complex. The design of the questionnaire has attempted to serve a dual purpose:

- (1) Its contents serve to integrate the major themes of the study. The heuristic model, the "systems approach" model, and the product-market-company complex are co-ordinated in order to allow the decision process to be examined. In this way the objectives and constraints of strategic marketing decision-making (particular to both firms and industrial sectors) have been considered.

(2) It provides a means whereby the problems implicit in this type of decision-making may be examined on a comparative basis. It has attempted to define a framework which can examine the actual procedures used by multinationals.

The material here does however treat only half the problem of comparative analysis. Throughout the chapter reference has been made to the composition and management of the sample. The importance of the "generality v. specific applicability" argument needs further examination by reference to the actual sample to be used. In the next chapter the problem of comparative analysis will be examined from this perspective. This will complete the solution suggested in the introduction to this chapter.

CHAPTER X

MANAGING THE EMPIRICAL RESEARCH STUDY : GENERATING THE SAMPLE

Introduction

- 1.1. This chapter will complete the examination of the framework of empirical research which will be used in this study. It will deal with the second set of problems identified in the introduction to Chapter IX: the management of a sample of multinational companies for the purpose of comparative analysis.
- 1.2. It is possible, by giving a detailed explanation of the way in which the sample has actually been generated, to re-examine the very real problems of comparative analysis. This deserves much greater attention than it has so far received in Part III.
- 1.3. In generating a sample, the researcher is again faced with a set of decision problems which mirror the basic processes of decision-making discussed extensively in Chapter IV. The activity will be affected by the objectives of the researcher (more formally presented under "The Objectives of the Study" : Chapter V), and the constraints within which the project has had to be managed.
- 1.4. Section I will examine the problems of developing a sample which is suitable for comparative purposes.

Section II will use the perspective of "the researcher as a decision-maker" (introduced in 1.3. above) in order to demonstrate the precise sequence of decisions which were involved in building and managing the sample. In this way the sample's structure and composition can be explained.

Section I : Developing the sample

2.1.

This section will describe the two activities which were involved in the implementation of the empirical study: the development and management of the sample. Each activity has necessitated a series of decisions; each decision was required in order to formulate a valid and workable solution to the problem of comparative analysis. Probably the best way to demonstrate the role of these decisions is to examine these in terms of an actual decision sequence. In this way the justification for the resultant sample may be detailed. The rationale for any decision in the face of a complex situation reflects the decision-maker's (the researcher's) perception of the problem, and the way in which it has been defined. This was presented in the analytical framework developed in Part I and the treatment of information in the decision problem in Part II.

2.2. The objectives of the empirical study:

The objectives of the empirical study were set out in Chapter V. In Chapter IX these were re-appraised in terms of designing a questionnaire, which would (within limits) provide a common framework for comparison. We have argued that this framework (integrated within the questionnaire) provided one means of satisfying the research objectives. Developing a common comparative framework is only one part of the problem of comparative analysis. The second part involves the sample which is used in order to derive the comparisons. Maintaining the "objectives/constraints perspective" introduced earlier, this section needs to examine the objectives and constraints involved in the sample design.

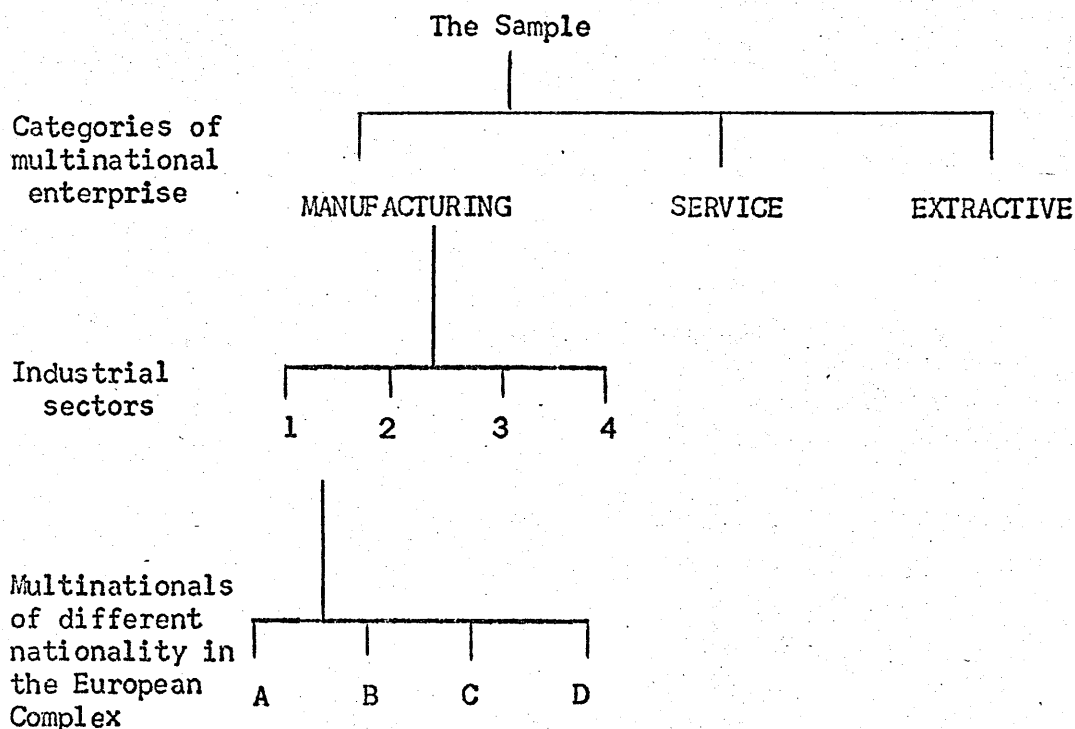
2.3. (i) The objectives of the sample design:

The objectives of the sample design may be divided into two categories: the "ideal" sample and the "attainable" sample. The use of the words "ideal" and "attainable" here introduces the notion that there may theoretically exist some sample composition which is the most appropriate possible. It would complement the research objectives precisely. It would be therefore the most proper for the purposes of comparative analysis. In reality this situation is not attainable. This occurs for one (or both) of the following reasons. Either the "ideal" sample is not attainable even under the most perfect conditions (i.e. circumstances which do not involve operational constraints of time and cost). The alternative situation occurs where it is not possible because the researcher must work within such operational constraints. Generating an "ideal" sample probably requires "ideal" conditions. This is analogous to the theoretical decision situation where perfect knowledge and information are available to the decision-maker.

In this study the "ideal" sample would comprise a number of multinational firms of approximately the same size (in terms of assets and sales) with similar operating locations on a global and European basis.

The sample would be sufficiently large to be broken down into the three major categories of multinational enterprise: the manufacturing, service, and extractive industries. (Behrman : 1969)(1). These categories could in turn be divided into smaller units comprising the separate industrial sectors within each category. For example the manufacturing category could be broken down into a minimum of two sectors - chemicals and engineering. Each sector would itself be composed of multinationals of different countries of origin in the European Complex. In this way inter- and intra-sector comparisons could be effected on a fully European basis. This process of segmentation is shown overleaf.

The Composition of the "ideal" sample



2.4. In reality, even given "perfect" research conditions the "ideal" sample would not be attainable. Multinational companies are often conglomerates, and spread their interests over several sectors. Their size and the pattern of their operations will vary from corporation to corporation. At the same time the volume of direct investment is concentrated in the developed economies of Western Europe and North America. (Vernon : 1971) (2). The preponderance of American investment has shown signs recently of levelling off. Hymer and Rowthorn (1969) (3) have noted that there is every indication that the volume of European investment will equal that of U.S. Corporations in the next decade. Direct investment (and consequently multinational corporations) is provided primarily by these countries. (i). In Eastern Europe the multinational enterprise as it has been defined in this study does not presently exist. International exchanges take the form of international trade managed by the state owned Foreign Trade Enterprise of each COMECON member. The prognosis for multinational operations is, as Sosnowski has suggested (1972) (4), favourable. The form of investment may however be limited to technical and/or economic participation, rather than direct investment allowing the control of decision-making. An "ideal" sample is not therefore possible because of these in-built deficiencies. A realistic

(i) This imbalance shows some signs of being corrected with the emergence of Japanese industry in European markets. At present however they have tended to concentrate in the importing and servicing areas rather than the manufacture of goods in these markets.

approach must therefore determine what is "attainable" within the constraints which the researcher is required to manage.

2.5. (ii) Managing the constraints of sample design

The constraints of sample design and management are presented by two factors: the economics of doctoral research and the contents and administration of the questionnaire.

a. The economics of doctoral research:

The economics of doctoral research present two major sets of constraints - resources and time. Once again this situation mirrors conditions of organizational decision-making, where "perfect" circumstances do not apply. The researcher will attempt to manage these as effectively as he or she is allowed. Theoretically, the time constraint is represented by the length of the studentship (in this instance three years) and its value. In addition to this, the researcher may count upon using some of the available resources of the research organization. An example of this is the use of computer time for the heuristic model. However, these constraints only define the total resources available, they do not indicate how they need to be managed in order to ensure that a valid comparative study is undertaken. At certain times during this three year period different sources of finance and sponsorship had to be found in order to ensure that comparisons could be made. We shall discuss these further in the analysis of the decision sequence involved in sample management which follows.

b. The contents and administration of the questionnaire:

This set of constraints is related to the actual framework of the questionnaire. The contents require that the information sought may only be provided by persons informed about this kind of decision-making. They need not (as Chapter IX, 2.3. has argued) be necessarily involved in the process. Persons likely to be so "informed" would be found either at the head office of the company or in the European Division Centre. These are the areas involved in the strategic marketing decision area, and it was therefore at these locations that the contacts were made.

Section II: The Structure and Composition of the Sample: the Researcher as a "Decision-Maker".

Sample management: the decision sequence

3.1. The first decision taken at Stage I of the empirical study (May - September, 1971) was to build a multinational sample in the manufacturing category. It was decided to concentrate in the chemicals sector, and initially to pay particular attention to a sub-set of the chemicals industry, that of pharmaceuticals. This decision satisfied the economic constraints since there are at

present in Great Britain the head offices of several multinational pharmaceutical companies, and the European centres for several American pharmaceutical companies. The composition of the sample would therefore be organised at a very specific level. It would comprise multinational companies whose country of origin was either Great Britain or the U.S.A.

The Chemical Industry : An Overview

3.2. The chemical industry presents an example of an industrial sector which is capital intensive, is heavily involved in developing and implementing technological advances, and supports a high volume of direct foreign investment. Sudworth (1970)(5) has described the range of industries in the chemicals sector. They include the production of basic chemicals, the manufacture of intermediate products such as textiles, and the preparation of pharmaceuticals. Sudworth includes in his analysis an example of fixed capital investment per employee for the industry in Great Britain for the five year period 1963 - 1968. (ii).

3.3. The European chemicals industry presents in itself an interesting case study. Roig (1972) (6) has shown that the diverse interests within the industry are the result of chemical processes. Since natural molecular linkages exist both between compounds and production procedures, a single plant can manufacture a wide range of chemical based products. This accounts therefore for the diversity within the industry. In general, Roig states the European firms are less diversified than their American counterparts, who are now via vertical integration beginning to reach towards the consumer market. An example of diversification in Europe is that of Hoechst, the German chemicals firm. The firm is presently involved in the manufacture of plastics and paints, fibres and films, dyestuffs, pharmaceuticals, fertilisers, plant construction and welding, industrial gases, and inorganic chemicals. This basic diversification format is complemented by several firms in the sample. (iii).

(ii) Fixed Capital Investment per Employee : 1963-8 : Great Britain

Chemical Industry	Mineral Oil Refining	Food & Drink	Manufacturing Industry Average
£	£	£	£
426	185	200	150

(iii) Palmer, J.

"How Hoechst runs its Empire" in
The Financial Times, August 15, 1973.

3.4. Pharmaceuticals follow the basic pattern of capital investment, and technological advance in the chemicals industry. Jones (1972)(7) in his examination of the multinational structure of the industry, observes that these factors are intensified by the limited product life of a preparation. Therefore the industry has moved rapidly into multinational operations. This situation supports many of the basic theses in the multinational business area which were examined in Part I. Pharmaceuticals are a specific example of the "product-life cycle" in action. Vernon (1966) (8) and Gruber et alia (1967) (9) have described the importance of research and development in maintaining a company's competitive position in international markets. In this study these factors have been synthesised into a general concept of comparative advantage at the micro level in the multinational firm. We have applied it here in terms of the search to optimise the use of capital and non-capital resources in order to identify and select market opportunities in the European Complex.

3.5. The response of the pharmaceutical industry to highly competitive conditions has been for each company to tend to concentrate in a specific area. In this way the firm attempts to procure monopoly or near monopoly conditions for marketing purposes. This may be further supported by the use of patents, whose effectiveness may vary from country to country. (The least effective in Europe being presently Italy.) The actual marketing of pharmaceuticals is complicated by the role of the physician in the prescription process. Although it is possible to use advertising and information services, and to be aware of all factors (including local medical services) in a market, it is not possible to systematically investigate the moment at which a physician will prescribe one drug manufacturer's product in preference to another. (Breckon (1972) (10)).

3.6. Stage I:

At Stage I a sample frame of 10 suitable anglo-american firms were generated with reference to U.K. Kompass (1971) (11) and Guide to Key British Industries (1971) (12). Contact was made, and three of these agreed to co-operate. All satisfied the conditions laid down in Part I of the questionnaire.

At this point the composition of the sample was:

Company	Sector	Nationality
A	Pharmaceuticals	British
B	"	British
C	"	American

The composition of the sample at Stage I reflects the "generality v. specific" applicability factor examined in Chapter IX, 2.9. The comparison at this point is limited to a sub-set of one industrial sector, and to only two national groupings.

3.7. Stage II:

At Stage II the decision was made to extend the sample frame in order to include a greater range of companies. The frame now included the chemicals industry, in which the firms had an interest in pharmaceuticals. The economic constraint meant that again the sample was limited to Great Britain. (The head-office/European Centre constraint: 2.5.). A sample frame of 8 possible firms was identified from the same reference sources used previously. Three companies agreed to co-operate. Company D is a multinational with extensive interests in the chemical industry. It operates an important pharmaceutical division. The questionnaire was directed to this division. E and F concentrate in the area of household chemicals, and have some pharmaceutical interests in proprietary pharmaceuticals. The questionnaire was directed to their head offices and the contacts were asked to consider all company operations.

The composition of the sample comprised at this point of the following companies:

Company	Sector	Nationality
D	Chemicals (pharmaceuticals)	British
E	Chemicals (minority interest pharmaceuticals)	"
F	Chemicals (as above)	"

3.8. Stage III:

At Stage II a decision was made to extend the range of the sample in order to allow inter-sector comparisons to be made in the manufacturing category. It was decided to include the intermediate level of the chemicals sector (textiles) and the engineering industry. The sample was based upon Rolfe's analysis (1969) (13) which had used the Reddaway Report (1967) (14).

The engineering industry : an overview

The O.E.C.D. report on the engineering industries in Europe, North America, and Japan (1967) (15) identifies the three sectors in which

the firms within the industry may be divided. These are capital goods, intermediary industries, and durable consumer goods. (iv).

Roig's (1972) (16) analysis of the international manufacturing industry (including engineering) argues that capital investment and the possibility of economies of scale being made, makes international operations desirable.

From a sample frame of eight firms, using the same sources, three were prepared to assist. Again the economic constraints operated and the home country of the multinational was restricted to Great Britain.

The resultant composition was:-

Company	Sector	Nationality
G	Chemicals (textiles)	British
H	Engineering <u>Capital Goods</u> (Ships and office equipment)	British
J	Engineering <u>Capital Goods</u> Telecommunications equipment.	British

The final company to be included was an East German company which operates an extensive world-wide sales organization and after-sales service. This company does not in fact fulfil one of the necessary conditions laid down in Chapter II, Sections II and III. Its manufacturing activity is confined to one location in Eastern Germany.

(iv) <u>Capital Goods</u>	<u>Intermediary Goods</u>	<u>Durable Consumer Goods</u>
Precision instruments.	Containers	Household Appliances
Ships	Components	Photographic Equipment
Commercial and Office equipment	Parts	Domestic electric goods
Telecommunications equipment	Engines	Private transport (excluding motor cars)
Industrial Equipment		Motor cars.

However the volume and location of its world sales, its employment of foreign nationals, and its unique position in world markets necessitated its consideration. K is therefore a company which is a qualified example. The conditions of the non-existence of "multinational" companies in Eastern Europe has been considered previously in 2.4. It was therefore decided to include it in the sample as a particular case.

Company	Sector	Nationality
(K)	Engineering <u>Capital Goods</u> Precision Instruments <u>Durable Consumer Goods</u> Photographic and Optical Equipment	East Germany

3.9. Stage IV:

At Stage IV (July - December, 1972) it was decided to extend the base of the sample; that is to include multinationals whose country of origin was not located in Great Britain. It was necessary to obtain additional finance and sponsorship in order to initiate a similar research project in another country in the European Complex. Western Germany presented an excellent prospect. In the last decade the West German economy has developed to the extent that the Deutsch Mark is considered to be one of the strongest world currencies. Like Great Britain, the pattern of development of multinational enterprise in the country is different from the American model, which has provided the base for contemporary theories of international operations. In contrast to British experience, West German industry was significantly affected at the end of the war in 1945. Reparation payments, and the loss of plant in Eastern Germany meant that industry could not recover its international footing until after 1955. Hederer, Hoffmann, and Kumar (1972) (17) in their recent examination of the growth of German multinational enterprise have described the effect which such circumstances have had upon the volume of German direct investment abroad. German industry began to internationalise its operations in the face of excess capacity at home. This move in the early sixties, led to the initiation of investment to protect and preserve export created markets. As a result since 1960 German direct investments abroad have recorded an incremental growth rate of 21% per annum. By 1970 these investments exceeded incoming investments by \$400 million although total foreign investment within the B.R.D. exceeded investments abroad by \$2.2. billion. From the text we may construct the following comparative

table of total overseas investments for the U.S.A., the U.K., and B.R.D. in 1969.

Country	Total overseas investments : 1969
U.S.A.	\$ 60 billion
U.K.	\$ 15 billion
B.R.D. (West Germany)	\$ 4 billion

Source: Handelskammer Hamburg (ed.), Deutsche Direktinvestitionen im Ausland, Hamburg, 1969.

The authors conclude their examination with the observation that German business is still (as the table above suggests) in the earlier stages of internationalism. The relatively small percentage of foreign personnel (-25% in the majority of instances) demonstrates that German multinationals are still heavily dependent upon the home market in Western Germany. This situation is changing rapidly as overseas participation increases, but the authors note that presently production overseas has overall a minor position in comparison with exports.

Three other factors made West Germany particularly suitable for the specific conditions of comparative analysis in this study. Firstly the country has a strong tradition in the chemical, pharmaceutical and heavy engineering sectors. Comparisons could therefore more easily be generated. Secondly the recent political moves (the Öst-politik policy) have meant that both politically and logistically Western Germany is presently in a position to increase international exchanges with her Eastern European neighbours.

Finally, the heuristic model located Great Britain and West Germany for both profiles in the same clusters. In terms of the demographic and socio-economic profiles, there is some overall similarity between these countries.

The search for funding and sponsorship was successful enough to allow the project to be managed for a four month period in Berlin. (September - December, 1972). The economic constraints still however persisted. The most efficient strategy was to attempt to match the sample developed in England by identifying an approximate German equivalent. From Berlin two direct contacts were made, which would allow the administration of a questionnaire identical to the one used in England by personal interview. Company L is a pharmaceutical company, with extensive world-wide markets. M is a multinational company, which is a conglomerate like D with diversified product groups in world markets. The head office of the engineering (communications) group was centred in Berlin. This was therefore a centre where strategic decisions were made. The

actual product group partially paralleled J in the English part of the sample.

The sample composition now included:

Company	Sector	Nationality
L	Pharmaceuticals	West German
M	Engineering	West German
	Capital Goods	
	Durable consumer Goods	

3.10. Stage V:

At stage V the decision was taken to use the limited time and funds available to extend the international range of the sample by using a postal questionnaire. Since the original questionnaire was designed to be administered by personal interview only, and sufficient funding was not available for extensive travel in Germany, by using this type of approach it would still be possible to examine on a limited basis the decision sequence.

A sample frame of twenty German multinationals was identified, from each of the industrial sectors used in the original sample. (Pharmaceuticals(2); chemicals (10); and engineering (10)). The sources for the frame were provided by Kain (1969) (18) and the Gross Unternehmen Handbuch der Deutschen Aktiengesellschaften (1971) (19).

Seven companies returned their questionnaires in usable form. This gave a response rate of just under 40%. The actual postal questionnaire was designed in a slightly amended form to the original format. In Chapter XII all aspects of this, Phase III of the empirical study, will be examined.

The composition of the sample was now:-

Company	Sector	Nationality
N	Pharmaceuticals	West Germany
O	Chemicals (Increasing pharmaceuticals interests)	West Germany
P	Chemicals. (Large pharmaceuticals interest)	West Germany
Q	Chemicals-Steel	West Germany- Netherlands

Company	Sector	Nationality
R	Engineering (minority chemicals interest)	West Germany
S	Engineering Consumer Durables (photographic)	West Germany-Belgium
T	Engineering Capital Goods Consumer Durable Goods (electrical)	West Germany

3.11. Attention is drawn to companies Q. and S. Company Q. is a West German company which is now 100% owned by a Dutch conglomerate. It approximates therefore the pharmaceutical company C. in the first phase. Company S. is one of the few examples of a European company, where the shareholding is evenly distributed between the German and Belgian groups.

The actual empirical study may therefore be seen to comprise three distinct phases:

Phase I	May 1971 - May 1972	Generation of British based sample. Design of heuristic model. Design and administration of questionnaire.
Phase II	July - December 1972	Generation of German based sample. Administration of questionnaire.
Phase III	September - December 1972	Generation of German based sample for the postal questionnaire. Design and administration of postal questionnaire.

The compositions of the sample:

The tables on the following pages divide the samples used in Phases I, II and III of the project on the basis of:

- | | |
|----------------------|------------|
| a. Nationality | TABLE III. |
| b. Industrial sector | TABLE IV. |

Conclusion

4.1. This chapter has examined the second problem of comparative analysis. This has been done by reference to the decisions which were made by the researcher in order to generate the sample. The composition of the sample needed to allow comparisons to be made on a dual basis:

- (1) on an international basis i.e. between multinationals of different nationality
- (2) on an inter- and intra- sectoral basis i.e. between firms of different nationality in the same sector, and between the different sectors themselves.

This had to be achieved with the two sets of constraints provided by doctoral research (time and cost), and by the limited comparative framework defined by the questionnaire. The use of the "researcher as decision-maker" perspective and the eventual definition of three distinct phases of empirical research, demonstrate how the research objectives have been realised. Attention needs however again to be drawn to the limitations of the applicability of the comparative framework, which this chapter together with Chapter IX, has determined. Firstly, comparisons will only be recorded for a specific range of companies and industrial sectors which comprise the sample. Secondly, the comparisons will themselves be derived on the basis of the limited parameters provided by the questionnaire.

4.2. Given a set of limiting constraints (in the first instance this includes the impossibility of obtaining an "ideal" sample under any circumstances), the sample has attempted to extend the range of generality possible. This has been achieved by the controlled generation of sample members from two industrial sectors, (chemicals and engineering), and a major industrial sub-sector (pharmaceuticals). The composition of the sample in terms of nationality allows for at least one representative from each block within the complex, and one non-member: the American pharmaceutical firm. In this way each of the objectives with regard to the product-market-company complex set down in Chapter IX have been satisfied. However, the total framework is limited since the composition is not uniform for all entities. There is no representative chemical and engineering firm for East Germany. Equally, there are only

TABLE III
HOME COUNTRY OF RESPONDENTS IN PHASES I, II, & III OF THE PROJECT

Company		Nationality	No. of Companies 19.	No. of Nationalities 6.
1	A	BRITISH		
2	B	"		
3	D	"		
4	E	"		
5	F	"		
6	G	"		
7	H	"		
8	J	"		
9	C	AMERICAN		
10	(K)	EAST GERMAN		
11	L	WEST GERMAN		
12	M			
13	N			
14	O			
15	P			
16	R			
17	T			
18	Q	WEST GERMAN-DUTCH		
19	S	WEST GERMAN-BELGIAN		

TABLE IV
INDUSTRIAL SECTOR OF RESPONDENTS IN PHASES I, II & III OF THE PROJECT

	Company	Nationality	Sector	
1	A	British	Pharmaceuticals	
2	B	British	"	
3	C	American	"	
4	D	British	"	
5	L	West German	"	
6	N	West German	"	
7	E	British	Chemicals	(pharmaceutical interest)
8	F	British	"	(" ")
9	G	British	"	(textiles)
10	O	West German	"	(small pharmaceutical interest)
11	P	West German	"	(large pharmaceutical interest)
12	Q	West German-Dutch	"	(chemicals)
13	H	British	Engineering	(telecommunications)
14	M	West German	"	(" ")
15	J	British	"	(ships : office equipment)
16	R	West German	"	(capital goods)
17	S	West German	"	(photographic)
18	T	West German	"	(electrical)
19	(K)	East German	"	(photographic : optical)

limited representatives for all countries in the complex with the exception of Great Britain and West Germany. It is therefore important to state that the comparisons will be limited in their range.

CHAPTER XI

THE IDENTIFICATION AND SELECTION OF EUROPEAN MARKETS :

A COMPARATIVE ANALYSIS

Introduction

1.1. This chapter will present the results of the empirical study. It will do so in two stages:

(1) The presentation of the results by direct reference to those factors which the study has been particularly interested in examining namely:

- the heuristic model.
- the elements of the decision sequence.(i).

(2) The evaluation of these results in terms of the comparisons which the sample and the questionnaire allow on a sectoral and international basis. (ii).

1.2. Section I presents the comparative profile of the companies in Phases I and II of the empirical study. This is based upon respondents contributions to Part I of the questionnaire.

Section II examines their contributions to Part II of the questionnaire.

The explanations of the questionnaire and questionnaire implementation presented in Chapter IX emphasised the importance of the contribution of each contact in the interview sessions. They were encouraged to qualify and add to any statements which they made with respect to each item of the questionnaire. Their contributions are fully annotated in Technical Appendix IV at the end of the study. Both Sections II and III of this chapter will use material from this appendix. The format of the appendix will be discussed in Section II. It has been selected as the method of presentation, since it provides an efficient means to manage such contributions without disrupting the flow of discussion presented in the main text. Section II will seek to determine (with reference to Technical Appendix IV) the realities of market selection as it operates within each company.

(i) These were fully examined in Chapter IX, 1.2.; Factors A & B.

(ii) The limitation of the range of comparisons possible has been discussed in Chapter X, 4.2.

Section I: The Comparative Profile

2.1. The comparative profile will present in composite form the information which has been gathered on the basis of Part I of the questionnaire. It will comprise seven units.

Contents

- Table V A comparative table of the location of producing facilities for each company in the European Complex.
- " VI A comparative table of the location of the marketing facilities for each company in the European Complex.
- " VII A comparative table of the provenance of sales of each company in the European Complex.
- " VIII A comparative table of the proportion of home country to international sales realised by the company (base year 1971).
- " IX A table listing the service facilities (if any) provided by each company.
- " X A comparative table which examines the degree of international control within the company.
- " XI A comparative table listing the type of formal organizational structure in each company.

2.2. Analysing the contents of the comparative profile

Tables V - XI are presented in the text of this section. Each is accompanied by explanatory comments. The tables have been structured to allow sectoral and international comparisons. This has been achieved by placing the sector membership and the country of origin of each company beside its identity in each table. For example Company A is a pharmaceutical company, whose country of origin is Great Britain. The entry reads therefore:

Company	Sector	Origin
A	P	G.B.

The following notation is used in the tables:

P : Pharmaceuticals

C : Chemicals

E : Engineering

G.B. : Great Britain

E.G. : East Germany

W.G. : West Germany

U.S. : U.S.A.

The profile illustrates the nature of each sample member's commitment in Europe. Whilst each company in the sample has satisfied the working definition of a multinational company, the location of operations of each in the European Complex will differ. In addition companies will operate on a global scale outside the Complex. Tables VIII - XI inclusive examine specific aspects of this world-wide commitment. A fuller explanation is given in Technical Appendix IV.

2.3. Table V indicates that the location of manufacturing plant in the European Complex varies from company to company. The term "company" here refers to the whole group. Where, for example, the study has concentrated only in one division (in this instance D and M) for reasons explained in Chapter X, the table applies to the total operations of the group. This condition also operates for Tables II and III.

All British multinationals and the American multinational (C) manufacture in Great Britain. The East German company manufactures exclusively in the D.D.R. The two West German firms manufacture in the B.R.D.

France provides the second most popular manufacturing location for British multinationals (6 instances), followed by the Netherlands (4), West Germany (3), and Belgium (3), Italy (2), and Denmark and Sweden (1). Only the American company has any direct manufacturing plant in Eastern Europe via a special arrangement with a Hungarian firm. D and G have however recently been engaged in constructing technical plant in the COMECON complex. They are not involved in manufacturing operations with these.

Neither of the West German companies have plant in Great Britain. For historical reasons L has plant in Austria, and operates a manufacturing plant in Portugal which is part of the EFTA block. The reasons for this are to benefit from the comparative cost advantages in Portugal, and to have some operating foot-hold in the EFTA complex. Spain (not a member of the complex) and Portugal offer multinational firms considerable manufacturing cost advantages. The need to have a foot-hold in the EEC was also demonstrated by British firms. The popularity of France to some extent indicates this, linked with logistics factors and transportation costs. France is the nearest EEC member to the British Isles.

The extensive plant location of M indicates the size and product range of this company.

2.4. Table VI indicates the location of marketing centres and facilities operated by each company. All the British firms possessed centres in Great Britain; the same condition applied to the two West German multinationals with marketing facilities in their country of origin, Western Germany. The American company, and the East German both had marketing centres in Great Britain. This is important here from the point of view of administering

TABLE V
THE LOCATION OF PRODUCING FACILITIES (FOR EACH COMPANY) IN THE EUROPEAN COMPLEX

Market																								
Company	Sector	Origin	Great Britain	Norway	Sweden	Denmark	Switzerland	Portugal	Austria	France	West Germany	Italy	Netherlands	Belgium	Luxembourg	U.S.S.R.	Czechoslovakia	Poland	Hungary	East Germany	Romania	Bulgaria		
A	P	G.B.	X							X			X	X										
B	P	G.B.	X							X	X	X	X											
C	P	U.S.	X																X ⁽¹⁾					
D	P	G.B.	X								X		X	X ⁽²⁾										
E	C	G.B.	X		X					X	X		X	X										
F	C	G.B.	X							X		X												
G	C	G.B.	X							X														
H	E	G.B.	X							X		X												
J	E	G.B.	X			X						X												
K	E	E.G.							X	X	X	X								X				
L	P	W.G.						X	X		X	X	X	X										
M	E	W.G.		X	X	X	X	X	X		X	X	X	X ⁽³⁾										

Notes to Table V:

(1) Manufacturing in association with a Hungarian company.

(2) and (3) The location of producing facilities applies to the whole group.

G.B. : Great Britain. U.S. : United States of America. E.G. : East Germany. W.G. : West Germany.

P : Pharmaceuticals. C : Chemicals. E : Engineering.

TABLE VI
THE LOCATION OF MARKETING FACILITIES (FOR EACH COMPANY) IN THE EUROPEAN COMPLEX

Market																								
Company	Sector	Origin	Great Britain	Norway	Sweden	Denmark	Switzerland	Portugal	Austria	France	West Germany	Italy	Netherlands	Belgium	Luxembourg	U.S.S.R.	Czechoslovakia	Poland	Hungary	East Germany	Romania	Bulgaria		
A	P	G.B.	X		X				X	X			X											
B	P	G.B.	X						X			X		X										
C	P	U.S.	X																					
D	P	G.B.	X				X		X		X													
E	C	G.B.	X			X		X														(1)		
F	C	G.B.	X		X			X		X														
G	C	G.B.	X						X	X	X													
H	E	G.B.	X						X				X											
J	E	G.B.	X								X													
K	E	E.G.	X ⁽²⁾																			(3)		
L	P	W.G.			X						X													
M	E	W.G.			X				X		X	X	X	X										

Notes to Table VI:

(1) and (3) The location of marketing facilities applies to the whole group.

(2) Special conditions operate.

G.B. : Great Britain. U.S. : United States of America. E.G. : East Germany. W.G. West Germany.
P : Pharmaceuticals. C : Chemicals. E : Engineering.

the questionnaire, and examining the role of the contacts since at these locations information could be obtained. This was discussed earlier in Chapter X, 2.5.

The popularity of Austria is evidence of the fact that much of the negotiations with Eastern Europe are handled from this point. The range of locations is diverse and there is no outstanding general pattern. All British multinationals have at least one centre in the EEC complex, and the inverse condition applies for the West Germans. Co-ordination of marketing policy for the whole of Europe is handled by the American firm (C) in Great Britain at its European centre: co-ordination of marketing policy for the whole of Western Europe is handled by the East German company from its centre in Great Britain.

2.5. Table VII indicates that all companies within the sample are marketing the company's products throughout the Complex. Not all companies were able or indeed prepared to state the exact nature or volume of these transactions. This indicates the strategic nature of much information regarding Eastern Europe. It was for this reason that Eastern Europe was given special consideration in Section III of the questionnaire. The conditions of marketing here are specific, and will be considered as such throughout this chapter.

2.6. Table VIII compares "home" sales (that is sales made by the company in its country of origin) with "international" sales, made outside this market. This table treats one element of the global commitment of the firm since "international sales" refers to sales attained within and outside the European Complex. Every company has satisfied the sales criterion laid down in the questionnaire under Question 5.iii. The most outstanding companies are A, D, F, J, and K. Particular attention is drawn to K which exports two thirds of its production, mostly to Eastern Europe. The significance of this statistic helped justify the reasons for the company's inclusion in the sample.

2.7. Table IX lists the kinds of services provided by each company in its international markets. Great Importance is attached to medical information services by the pharmaceutical companies. (See companies A, B, C, D, and L.)

This is an important part of marketing pharmaceutical products, where the medical practitioner has to be informed about the preparation in order to prescribe it. The engineering/manufacturing firms provided in all instances technical assistance, and in some cases supplies. This is particular to the marketing of technology, where the customer must be advised upon the product, and at a later stage assisted in its maintenance. In addition to pharmaceuticals, Company C is concerned with the manufacture of medical instrumentation. For this reason it provides an instrumentation servicing facility. Companies E and F, because of their range of products in the chemicals area, did not provide such specialist services, although medical information was considered a prime

TABLE VII
THE PROVENANCE OF SALES (FOR EACH COMPANY) IN THE EUROPEAN COMPLEX

Market			Great Britain	Norway	Sweden	Denmark	Switzerland	Portugal	Austria	France	West Germany	Italy	Netherlands	Belgium	Luxembourg	U.S.S.R.	Czechoslovakia	Poland	Hungary	East Germany	Romania	Bulgaria
Company	Sector	Origin	X								X											X
A	P	G.B.	X																			X
B	P	G.B.																				X
C	P	U.S.	X																			X
D	P	G.B.	X																			X
E	C	G.B.	X																			X
F	C	G.B.	X																			X
G	C	G.B.	X																			X
H	E	G.B.	X																			X
J	E	G.B.	X																			X
K	E	E.G.	X																			X
L	P	W.G.	X																			X
M	E	W.G.	X																			X

G.B. : Great Britain. U.S. : United States of America. E.G.:East Germany. W.G. : West Germany.
P : Pharmaceuticals. C : Chemicals. E : Engineering.

TABLE VIIICOMPARISON OF "HOME" COUNTRY WITH INTERNATIONAL SALES REALISED
BY EACH COMPANY.BASE YEAR : 1971 (i)

Company	Sector	Origin	Home Sales %	International Sales %
A	P	G.B.	48	52
B	P	G.B.	70	30
C	P	U.S.	75	26
D	P	G.B.	48	52 (ii)
E	C	G.B.	72	28
F	C	G.B.	48	52
G	C	G.B.	59	41
H	E	G.B.	74	26
J	E	G.B.	46	54
K	E	E.G.	40	60
L	P	W.G.	72	28
M	C	W.G.	68	32 (ii)

(i) "Home" sales means here the percentage volume of total sales realised in the country of origin of the parent company.

"International" sales means here the percentage volume of total sales realised outside the "home" country.

(ii) Applies to the whole company group.

G.B. : Great Britain.

U.S. : United States of America.

E.G. : East Germany.

W.G. : West Germany.

P : Pharmaceuticals. C : Chemicals. E : Engineering.

TABLE IX
THE SERVICE FACILITIES OF EACH COMPANY

Company	Sector	Origin	Service
A	P	G.B.	Medical information services.
B	P	G.B.	Medical information services.
C	P	U.S.	Instrument servicing; medical information services.
D	P	G.B.	Technical and information services. (i)
E	C	G.B.	Information services.
F	C	G.B.	Information services.
G	C	G.B.	Technical assistance.
H	E	G.B.	Technical assistance and supplies.
J	E	G.B.	Technical assistance and servicing.
K	E	E.G.	Technical assistance and servicing.
L	P	W.G.	Medical information services.
M	E	W.G.	Technical assistance and servicing. (i)

(i) Applies to the whole company group.

G.B. : Great Britain.

U.S. : United States of America.

E.G. : East Germany.

W.G. : West Germany.

P : Pharmaceuticals.

C : Chemicals.

E : Engineering.

pre-requisite in the marketing of their minority pharmaceutical interests.

2.8. Table X indicates that control of most of the companies is still predominantly national. Although all companies have a high percentage of overseas personnel, the foreign nationals on the Board of Directors only applies in two instances, A and F.

Company A has extensive interests in North America. The one "foreign" director on the board is an American.

Company F is presently undertaking negotiations with an American company who possess extensive shareholdings in the company. It is likely that they will decide to take up an option of 51% of the company's equity holdings in the near future, which will make the company a jointly owned anglo-american corporation. The three "foreign" nationals on the Board of Directors are American.

2.9. Table XI lists the organizational structure of each company. 8 of the 12 sample members have an organizational structure which best approximates the "product-line" type discussed in Chapter III. These are multinationals A, B, D, F, G, J, L and M. One company, Multinational C, shows indications of developing a sophisticated "mixed" structure which includes a geographic emphasis for operations. Two companies, E and H, have hybrid type structures, where they combine a "product-line" organization (not "product-line" multinational organization) with an international division. One company, K, has a simple multi-division structure. The British unit is one of these divisions under the direct control of the central management in East Germany.

2.10. The implications of the comparative profile:

In concluding Section I we shall present an overview of the contents of Tables V - XI. The comparative profile has brought into focus the nature of European operations of each company within the sample. There are certain general patterns which may be identified and these are discussed below.

Table V indicates that all companies (with the exception of K) satisfied the conditions of multinational operations relative to the European Complex laid down in Section I, Question 8 of the questionnaire. Each company met the minimum requirement of at least two producing facilities within the complex. The most frequently cited location of production is Great Britain. (9 from a possible 12 instances). This is attributed in part to the number of British multinationals in the sample (8 from 12). The significance of the pattern of location was examined in 2.3. The text here indicated the importance of the French locations for British multinationals for logistic and transportation factors.

Table VI indicates that all companies in the sample had marketing

TABLE XTHE DEGREE OF INTERNATIONAL CONTROL

Company	Sector	Origin	Equity	Foreign Nationals on Board of Directors (i)	Foreign Personnel (i)
A	P	G.B.	Predominantly British.	1 of 13	38%
B	P	G.B.	Held in trust.	None.	32%
C	P	U.S.	American.	None.	37%
D	P	G.B.	Predominantly British.	None.	34%
E	C	G.B.	"	None.	28%
F	C	G.B.	Anglo/American.	3 of 13.	30%
G	C	G.B.	Predominantly British.	None.	20%
H	E	G.B.	"	None.	21%
J	E	G.B.	"	None.	17%
K	E	E.G.	Not applicable	None.	N.A.
L	P	W.G.	German.	None.	24%
M	E	W.G.	German.	None.	36%

(i) "Foreign" here means personnel from countries other than the country of origin of the multinational.

G.B. : Great Britain.

U.S. : United States of America.

E.G. : East Germany

W.G. : West Germany.

P : Pharmaceuticals.

C : Chemicals.

E : Engineering.

TABLE XI

THE FORMAL ORGANIZATIONAL STRUCTURE OF EACH COMPANY

Company	Sector	Origin	Type (i)
A	P	G.B.	Product-line multinational organization
B	P	G.B.	Product-line multinational organization
C	P	U.S.	Mixed : product-line with geographic emphasis
D	P	G.B.	Product-line multinational organization
E	C	G.B.	Hybrid : Product-line/international division
F	C	G.B.	Product-line multinational organization
G	C	G.B.	Product-line multinational organization
H	E	G.B.	Hybrid : Product-line/international division
J	E	G.B.	Product-line multinational organization
K	E	E.G.	Multi-division
L	P	W.G.	Product-line multinational organization
M	E	W.G.	Product-line multinational organization

(i) A full analysis of each of these types is given in Chapter III

G.B. : Great Britain

W.G. : West Germany

E.G. : East Germany

U.S. : United States of America

P : Pharmaceuticals

C : Chemicals

E : Engineering

facilities either in Great Britain or Western Germany. This was important for the purposes of administering the questionnaire. As we have stated in Chapters IX and X since the orientation of the study is at a general level, the contacts needed to be informed about marketing decision-making in the strategic area. As the analysis in Chapter III demonstrated the area of competence is likely to be in the marketing and corporate planning divisions of either the head office of the firm, or, its European division. Both C and K (the American and East German companies) fulfilled this condition by having a European Division (or equivalent) in Great Britain.

Table VII indicates that the provenance of all companies' sales was in the European Complex, although they were not marketing directly in each country. They were therefore competent to discuss the importance in terms of European sales for their companies.

Table VIII shows that the percentage of international to domestic sales varies from company to company. All sample members met the 20% criterion set out in Section I, 5 iii. The variations do however indicate that if international sales are considered the major criterion of "multinationalism", companies A, D, F, J and K would be considered to be the most international in the sample. This is interesting since K does not meet the "international/European location of production" criteria in Section I, Questions 1 and 8. Overall the table indicates the importance of the domestic market for 7 of the 12 companies in the sample in terms of percentage of sales. (Multinationals B, C, E, G, H, L and M.). This is reinforced by the contents of Table X. No company in the sample has a percentage of foreign personnel of +40% although four multinationals (A, C, D and M) have a total labour force which is comprised one third or more of foreign nationals. In terms of control for decision-making purposes - equity and foreign nationals on the Board of Directors - most sample members cannot be considered as "international". Only one company, F, has a mixed anglo-american holding and three foreign members (American) on the Board of Directors. This is because of the special circumstances within the company, which include the prospect of a take-over by an American company. Company A has 1 American director indicative of the importance of this market to the company, and the extent of its holdings there. All other sample members are decidedly "national" in terms of control. This will apply to decision-making within the company. This last factor, direct investment and the implications of power to control decision-making, was previously discussed in Chapters I and II.

Table IX shows the importance which each sample member attributes to service facilities. The pharmaceutical companies are concerned with medical information, and the chemical and engineering industries are involved in technical assistance. This is the result of the extensive technology interests of all 12 companies. The contents of this table are reflected equally in Table XI, where no less than 8 of the 12 sample members have "product-line" type multinational organizations. As the analysis in Chapter III

has shown, the "product-line" type is particularly suitable in those companies where there are extensive technological interests. This type of organization allows the company to compensate for limited physical resources and "exploit more efficiently" complex products". (Chapter III, 3.8.). The exceptions to this type C, E, and H, have adopted other structures which reflect their international interests: "product-line" with international division, and "mixed" type. K is the exception, operating presently a simple multi-division structure linked with product-lines. The organization is not internationally structured.

Overall the profile indicates that sample members in general have extensive international sales, production and marketing facilities inside and outside the complex. (The last condition is examined in Technical Appendix IV.). However, in terms of control (and this applies particularly for decision-making purposes) equity holdings and members of the Board of Directors are still predominantly in the hands of nationals of the country of origin of the company.

Section II: Examining the decision sequence: A case-study approach

3.1. The objective of Section II is to examine the decision sequence within each company relative to the research problem - the identification and selection of market opportunities in the European Complex. The examination will use a case-study approach. This is in order to manage the material within a common format. The advantage of this approach is that all the information may be handled in the same manner for all companies. Inter-company comparisons (on an international and sectoral basis) may therefore be clearer to analyse in this chapter.

3.2. The administration of the questionnaire;

Before explaining the case-study format, it is useful at this point to give particular attention to the administration of the questionnaire. This has been discussed at a general level in Chapters IX and X.

The way in which the questionnaire has been administered will have determined much of the quality and type of information which has been gathered. The purpose of the design of the questionnaire was to satisfy research objectives as fully as possible. The attention which was given to the composition of the sample was in order to ensure that the comparisons might be as valid as constraints allowed.

The administration of the questionnaire needed therefore to complete the study's objectives in three areas:

- (1) To determine the role and identity of the contacts.
- (2) To evaluate the heuristic model in terms of each company's approach to the decision problem.

- (3) To investigate the means by which sample members identify and select market opportunities in the Complex.

None of these situations could be completely examined within the questionnaire. The role of the researcher was to supplement its content by managing the administration in such a way that (1) (2) and (3) above might be investigated.

3.3. The solution to the first problem rests in the management of the questionnaire. The contact made in each company needed to be competent in answering the questionnaire. He would either be responsible for the decision, or able to identify the parties who were.

The solution to the second and third problem rests with the actual administration of the questionnaire. The researcher (in the role of interviewer) was required to explain fully the principles of the heuristic model, so that the respondent could relate to his company's own procedures. In this way each firm could evaluate the model in terms of the realities of their own strategic decision sequence.

For these reasons much work was required in order to set up the sample and make the appropriate contacts. These persons had to be informed of progress at each stage of the research in order to maintain the contact over a time period of nine months. (September 1971 - June 1972.).

Contacts in Western Germany were more difficult to arrange although at this stage the heuristic model was complete, and the initial difficulties associated with questionnaire administration had been overcome. Material had to be prepared in German in order to facilitate communications, and to establish the appropriate contact. Several visits had to be made to each multinational to ensure that the problems of questionnaire administration outlined in the preceding paragraphs were being managed adequately. (September - December, 1972.).

3.4. The Case-Study Format:

The case-study format comprises four elements:

- (1) The global operations of the company.
- (2) The product-range of the company.
- (3) The location of the contact within the firm.
- (4) The strategic decision sequence:

Section III : The objectives and constraints of strategic marketing decision-making in the European Complex.

Section IV : Investment Decision Criteria.

Section V : A : The Demographic Profile.

B : The Socio-Economic Profile.

Identifying and selecting European market opportunities:

- The heuristic model.
- The marketing planning process.

The format is intended to complete the survey of information. In Section III of this chapter this information will be synthesised in the form of a typical decision sequence in order to integrate this material.

In the appendix each firm is examined in terms of these four elements. Each element is a significant part of the analysis as we shall demonstrate below.

(1) The global operations of the company attempts to discern the extent of the company's operations on a world-wide basis, and to relate this to its history of development and changing pattern of commitments. By dividing the "Location of Manufacturing Operations" into two categories: "Commonwealth" and "International" - emphasis has been given to the differing patterns of operations amongst sample members. This aspect will be discussed further in this section.

(2) The product range of the company indicates the precise nature of its product interests. Analysis of these reveals the inter-change possible in the chemicals industry. Thus, a pharmaceuticals firm may have a minority interest in chemicals, and the inverse may apply for a chemicals manufacturer. Companies A, B, and L are examples of the first case; E and F the second. This phenomenon was examined more extensively in the preceding chapter. The same conditions tend to apply in engineering. There are overlaps in terms of manufacture amongst several of these companies. Again this was discussed at greater length in Chapter X. (See Chapter X, Section II : The Structure and Composition of the Sample.).

(3) The location of the contact within the company is a statement of the formal role and position of the persons who participated in the study. This element sets into perspective the actual authority of the contact in terms of both the global operations of the multinational, and the strategic marketing decision sequence. For example the contact in the West German engineering company (M) was located in the telecommunications operating division. This division was for certain activities autonomous (in terms of marketing in Europe), for others dependent upon the activities of the other five divisions. Considerable inter-company purchasing took place in the group. Division A sells components to B, which are in turn assembled into semi-manufactures which may be sold to Division C.

In this instance the contact was with the Telecommunications Division not with the group as a whole.

(4) The decision-making sequence applies the material in Part II of the questionnaire. Under a sub-heading "Identifying and selecting European market opportunities" direct reportage of the contacts' opinions of the heuristic model relative to the strategic marketing planning process in the firm has been set down.

The purpose of the appendix therefore is to set out fully the comments and opinions of respondents. The material in itself is a useful and interesting survey of the way in which certain multinationals in Europe perceive and manage the strategic marketing decision sequence. Our objective in Section II will be to arrange this material in such a way that the research findings can be evaluated in terms of their contribution to the research problem.

3.5. A comparative analysis of the procedures used by the multinational companies in the sample to identify and select market opportunities in the European Complex

The analysis will follow the structure set down initially in Chapter V, 3.8. - 3.9. and modified for the purposes of empirical research in Chapter XI, 1.2. We are concerned to analyse two sets of phenomena:

- (1) The heuristic model -- to what extent does it confirm to the realities of market selection in the individual multinational company in the research sample.
- (2) The five elements of the strategic marketing decision sequence:
 1. The way in which the problem is perceived by the multinational company.
 2. The strategic marketing objectives of the multinational company.
 3. The constraints which modify these objectives.
 4. The information needs in the decision sequence.
 5. The factors which affect the way in which these opportunities are evaluated.

We shall also deal here with a third phenomenon; the identity and role of the contacts (within the multinational companies in the sample) in the strategic marketing decision sequence. This will contribute to the analysis of all the elements in the sequence listed above, more particularly in the analysis of the way in which the research problem is perceived by these companies.

3.6. A. Who are the contacts and what role do they play in the decision sequence?

Technical Appendix IV lists the formal roles and responsibilities

of each contact under Note (3). A total of 17 contacts were made. The Table XII overleaf breaks these down into six categories relative to each multinational. This break-down reflects the actual range of the decision problem. The contacts (all of whom were competent to assist in the project) are located in marketing or corporate planning positions with either direct or indirect responsibility for the European market.

The role of each contact is fully described in the Technical Appendix IV. Each perceived his role as being concerned with the profitable marketing of the company's products. This role was complementary to the general objectives of each multinational. (Questionnaire : Section I : Question 3 and 4). It is interesting to note here to what extent this perception of role was a resultant of talking to an "outsider". The researcher was not a member of the company. The contacts may therefore only have been prepared to state their formal role as defined by the organization. The transcript in the appendix supports this. They may also have tended to state corporate policy, rather than personal opinion. At the same time there were occasions in interviews when the contact gave a personal opinion, and clearly indicated it to be so.

Therefore the role which each contact ascribed either to himself or to his group in the decision sequence was the official one.

3.7. In the final analysis all decisions relating to whether a market opportunity should or should not be exploited rested with the highest levels of authority in the company. The role of each of the contacts in the sample was to recognise the opportunities, and make concrete recommendations concerning whether this opportunity or that opportunity should or should not be considered. This applied more particularly to those contacts in Category 6 where the emphasis was a corporate planning one.

The contacts in the other five categories perceived their roles as being rather more in the area of operational decision-making, and co-ordination of marketing services. These factors again indicate the nature of the decision which is being examined here. The strategic marketing decision-area straddles the marketing and corporate planning functions. Not all firms in the sample had distinctive corporate planning functions or departments. In three companies (A, C, and D.) it was the responsibility of the European division to handle strategic marketing decision-making; in companies B, L, and M it was the responsibility of the marketing division itself. It is more useful at this point to examine why these people were the appropriate contacts than to consider the diverse organizational structures. The reason rests with the fact that the function of all contacts was to provide the necessary information and to make such recommendations which allowed:

- a. profitable marketing to be pursued in existing markets.
- b. profitable new market opportunities to be developed.

TABLE XII

THE FORMAL POSITION AND AREA OF RESPONSIBILITY OF EACH CONTACT
IN THE RESEARCH SAMPLE

			COUNTRY OF ORIGIN			
Position	Total No.	Multi-nationals	Great Britain G.B.	West Germany B.R.D.	East Germany D.D.R.	United States of America U.S.
(1) Managing Director	1	K			1	
(2) Director: European Division	3	A; C; D;	2			1
(3) Director: Marketing	3	B; L; M;	1	2		
(4) Manager: Market Research	2	A; D;	2			
(5) Manager: Marketing	4	B; C; E; J;	3			1
(6) Manager: Commeric Economic Studies	4	F; G; H; L;	3	1		

In practical terms these functions complement the decision problem which is the focus of this study.

In summary therefore the examination of the identity and role of the contacts in this problem area will be limited to the official declarations of the contacts themselves. The responsibility for identifying profitable marketing opportunities in all instances rested with the divisions in which they were either responsible for or involved with. The task of deciding which opportunity to exploit rested at the highest levels with the various boards of directors. These decisions were however taken in all instances in conciliation with these contacts, whose recommendations provided the basis for evaluation.

3.8. B. (i) The heuristic model - to what extent does it conform to the realities of market identification and selection?

It is vital, before examining the operational relevance of the heuristic model, to re-evaluate its role in the empirical study. This role is in the first instance essentially innovative. In Part I the arguments presented in Chapter IV examined the decision sequence in terms of the conditions of uncertainty which applied in the decision problem. The central proposition was that if information could be transformed in such a way as to identify similar markets, then the uncertainty relative to the identification and evaluation problem could be lessened. Chapters VII and VIII investigated the feasibility of this proposition.

In the second instance, the role of the model was important to the empirical study since it provided a common base for comparison. Discussion of the problems of comparative analysis in Part III has dealt with the difficulties involved in developing a framework for analysis, and, generating a sample which provides a valid foundation for comparisons. The earlier identification of the "product-market-company" complex in Chapters V and IX placed the role of the model within this comparative framework. In effect it has provided a common ground for comparing certain information factors within the decision sequence particular to each multinational.

3.9. None of the contacts attested to the formal use of either a decision-rule or a cluster or grouping technique as an aid to the identification and selection of market opportunities. In the discussions with the firms themselves four themes emerged.

- (1) The decision problem existed; that is to say it appears to be a very real problem for the individual multinational to identify and select profitable market opportunities in the European Complex.
- (2) The model was of great general interest; but this interest may have to remain at present a theoretical one. The

opportunity cost involved in setting up such a system might be too great in comparison with established procedures in the company.

- (3) The variables included in the model were not always appropriate to the product groups in which the multinational was currently marketing.
- (4) The model did not make provision for the history, traditions and commitments of the firm. (This was particularly emphasised by multinational D.).

The relevance of each theme for the individual company is more fully discussed in the technical appendix. We shall examine each in aggregate here.

(1) The existence of the decision problem:

The existence of the decision problem was affirmed at two levels. Firstly, the contacts perceived part of their role in these companies to be concerned with the identification and selection of new market opportunities which would ensure that corporate profit levels were maintained and increased. This was dealt with in the preceding discussions in 3.6. and 3.7. Secondly, the existence of the decision problem was supported by the frequency of the selection of Section III, 2. ii. and 2. iii. and 4 ii. and 4 iii., and Section IV, 1. The significance of this selection pattern by the contacts will be examined at greater length later under the appropriate sub-sections in this chapter. For present purposes we may state that these are the alternatives which relate to the need to exploit an increasingly larger number of markets in the Complex, and to match the activities of competitors' in this total market area. The fact that contacts were able to discuss the variables which they were using and had used in the past (these will themselves be discussed later) consolidates the importance of the decision problem to the multinational company.

(2) The opportunity/cost of setting up a system based upon the heuristic model

This factor re-introduces the cost of information problems outlined in Part II. In practical terms the economics of information is a very real and significant element in all decision processes. In Part II the selection of variables for the model was itself governed by time, cost and availability. In this study the real costs of developing the model were borne by the researcher, and the research institution.

If the model was taken and incorporated in the decision-making sequence of a company the costs of installation, and management could be astronomical. Respondents who set forward this point (Multinationals D, E and M particularly) were indicating the real costs of information and information systems which were presently in use in their own organizations. As long as the model in the operational as opposed to the theoretical sense remained untested then the risk of the use of any such principle was felt

to be spectacular.

In effect the role of the model was not to present a system of information collection and transformation to replace all others, but to be used in conjunction with the project for the purposes mentioned previously: as an exercise in innovation, and as part of a common framework for analysis.

(3) The variables factor:

The question of which variables a firm would prefer to be included re-introduces the problem of the perception and orientation of decision-making for these purposes. Multinationals A, F, K and M were particularly emphatic about this. The variables included in the model have been concerned with macro-indicators relative to demographic and socio-economic phenomena within the total market area. The rationale for this particular selection has been discussed extensively in Part II. The opinion of these firms was that the product is as important as the market itself. This underscores two factors:

- a. The product-orientation in strategic marketing decision-making has tended to be too greatly masked by the use of macro-variable specific to the markets. This situation was reflected in the frequency selection of variables. Firms in the same sector tended to select the same range of variables. This will be examined more precisely in the next section.
- b. No fewer than 8 firms in the sample had organizational structure of the "product-line" type. (The discussion in Section I).

In effect if the model had included more variables which were considered relevant by each contact the appreciation of the model on a practical as well as a theoretical level may have been increased.

(4) The history/tradition/commitments factor

This factor brings into focus the way in which certain constraints will interact in the decision process. All the firms agreed with the importance of considering their present commitments when evaluating any market opportunity. The provision of service facilities presented in Table IX is one positive attestation of this. It was manifested particularly in the philosophy of Multinational B towards the assistance of medical research. All the pharmaceutical companies had heavy commitments in research and development. This is dealt with in some detail in the appendix. British multinationals had a long standing commitment in "imperial" markets. This is revealed in the pattern of location of manufacturing operations. In physical terms these commitments are changing: the need to move swiftly into and exploit other markets (most vociferously expressed by Multinational E) was given by many contacts as the prime reason for being involved in the

European Complex. Even if the pattern of commitments changed the actual volume of commitments remained.

At the operational level the commitment to a market, to a range of product, or to a group of customers in that market was re-inforced when re-evaluating existing markets or new opportunities. An unprofitable line sometimes remained in production at home or overseas because the firm had to seriously consider its position as an employer or as a foreign guest in certain countries. Because of these economic costs new projects could not always be financed immediately.

3.9. The realities of the decision sequence v. the heuristic model

The material presented in the preceding paragraphs should place this sub-title in perspective. In summarising the findings it is always interesting to state the polarities involved, and then describe the substance of the ground between these which is more pertinent to empirical findings.

The objective of this study is to try to discern what precisely lies behind the decision to choose one market rather than another - or indeed not to decide at all. The fault of the heuristic model rests with its assertion that certain variables are relevant and that when they are transformed in such a way (a decision rule : similarity criterion) they yield relationships and groupings which may be validly and reliably applied by the contacts in their efforts to select a profitable market opportunity. As Technical Appendix IV shows the principle is quite sound. Information is needed to make better decisions; experience does play a part in the process; similarity groupings have been made. These are generally on the axis East and Western Europe/or "the Scans., the Huns., and the Latins". (Multinational G).

Counter-balanced against these generally adequate principles, are others which state that in reality the principle of grouping is concerned rather more with the product than with the market. Efforts tend to be made to examine the company's position in each market in comparison with competitors, or to examine each market in terms of the company's products. Therefore the variables in the model are inappropriate in many cases. In addition to this very strong argument which stresses that orientation is on a "product/competitors" basis rather than a market one, other factors which emphasise the importance of commitments, traditions and history, together with the cost of information, indicate that the two profiles which have been used are not sufficient. In identifying these factors the model has satisfied its investigative role.

In the next sub-section, the objective will be to state more precisely what are the appropriate variables, and under what conditions does the decision sequence operate.

3.10. C. The elements of the actual decision process:

This sub-section will treat sequentially each of the five elements of the decision process listed at the beginning of the section in 3.4. These elements are central to the study; as such much of the material already presented in this chapter will be related (where appropriate) to each element. In this way the full range of empirical findings may be consolidated under the major themes of research.

3.11. (1) The way in which the problem is perceived by the multinational company:

Three issues need to be discussed here:

- i. The way in which each contact perceived his role.
- ii. Official policy and the perception of the decision problem.
- iii. The way in which perception affects formal and informal objectives in the company.

i. In the preceding discussion of the role and identity of contact the subject of formal and informal roles was introduced (3.6.). This situation was also treated in the examination of the problem of questionnaire administration. The researcher (in the role of an interviewer) posed a set of questions concerned with the formal policy and objectives of the company. The responses which resulted stressed formal policy but contained in addition informal or personal opinion. This is the major constraint of such investigation. The respondents have expressed the objectives of the company but at the same time they may themselves have been involved in the support of others.

In this study particular attention was paid to the content of official policy. At the same time it is important to be aware of the influence which individuals' own considerations can bring to bear upon such policies, and equally the fact that official and informal policy for strategic reasons may not be complementary.

The first difficulty encountered in this area was of establishing who made this type of decision in the firm, and what role (if any) did the contacts themselves play in the decision sequence. Official policy indicated that each of the contacts was responsible for identifying profitable markets and ensuring they were exploited on a continuous basis. Their role was also supportive since they were responsible for assisting the total marketing effort in each firm.

However, the final selection decision remained the responsibility of the board in consultation with the functional directors. In making this decision they were governed by the recommendations of each of these contacts. The formal role of each contact is

therefore very limited in the final action, but vital to the entire decision sequence.

ii. In much the same way the three issues listed overleaf concerning problem perception present the same dilemma. All of the contacts influenced the way in which the problem was perceived for operational purposes, but they may have been more guarded in their admissions. The outstanding example here is the question of Eastern Europe. For strategic reasons official policy and objectives may state that the company's involvement here is limited. A marketing manager sensing a large possible market might reserve a proportionally greater part of his division's resources for this area than official policy appears to require. The most precise statement of this situation was made by multinational M. The following discussion of the perception of this problem will therefore refer almost exclusively to the official position of the firm.

iii. The problem of multinational market selection was perceived by all respondents to be vital to the survival of the firm. The reason for such a positive response may have been determined by the fact that all 12 of the 17 contacts were employed in the marketing area. A financial or manpower planning executive may have expressed the problem differently by referring to investment projects or personnel matters as opposed to marketing issues. (See Table XII).

The potential of the European market was affirmed by all contacts. Again the number of contacts directly concerned in this area (9) may have had some effect. This potential was especially marked amongst pharmaceutical companies, where the rate of growth in the total volume of sales in the European Complex is currently the highest in the world. It was also heavily affirmed by British multinationals transferring their interests from "soft-sell" imperial markets to the "hard-sell" European Complex. The West German companies were more inclined in the other direction - to expand their interests outside Europe.

The potential of Eastern Europe, whilst acknowledged by all companies, was not generally recognised to be at present capable of exploitation. The exception here is the pharmaceuticals sector where regardless of nationality (British; West German; American) the perception of potential was backed positively by official policy to give increasing emphasis to this market. The reasons for this are probably endemic in the industry as a whole. The examination of the pharmaceuticals industry in Chapter X explained the "above average profits" in terms of concentration of effort in small sectors where a proportionally greater volume of profit could be realised over a limited time period. As long as the economics of research are high, and the product-life of a preparation limited, it remains in the interests of all such companies to exploit the maximum number of international markets. The need for health care and medication is universal and for these reasons pharmaceutical companies are more likely to receive

a more cordial welcome in Eastern Europe. To this must be added the monopoly or near monopoly conditions (because of specialisation) within which the firm could operate. For most other companies in the sample the role of Eastern Europe in international operations was limited by political complications. Where however the firm was determined to seek out new markets (Multinational F) or to usurp competitors (Multinational D and G) it might reach certain agreements and exploit these markets more systematically.

In general the perception of the problem has shown a marked orientation to the product in the market as opposed to interest in the market itself. This was one of the points discussed in the examination of the heuristic model. Perception is also as much determined by the nature of the industry as the product itself. The pharmaceutical companies were all orientated towards consumer marketing probably as a result of their interests in proprietary medicines. At the same time the trend in the industry to concentrate in one area in order to derive maximum advantage for each preparation in the face of a limited life-cycle attests to a high involvement in expensive research. Concentration in particular product area results in a second - a product orientation towards market selection. This situation was more forcefully stated amongst the engineering firms: particularly J and K and by F where the product base (phosphorous) made the firm exceptionally product/industry orientated in line with the general view towards the marketing of commodity products.

3.12. (2) & (3) The marketing planning objectives of the firm:

Table XIII overleaf presents the objectives and constraints of marketing planning in the European Complex. The table is based upon Section III of the questionnaire. The format divides the multinationals on a sectoral basis; indications of nationality are by the side of each sample. Where the contact has selected an element a cross is made. The frequency of the selection of elements is summed at the base of the table.

The "need for greater markets" in Western Europe was the largest single factor chosen by the firms. (12 out of a possible 12). The projected enlargement of the EEC was important in 4 cases. (C, E, H, and K). Two of these companies are British, one is American and one East German. The material presented in the appendix attests to the commitments of these companies in this direction. C and K (U.S. and East German) have concentrated more particularly in this area because of the potential for companies whose origins are outside the Complex: E and H are British companies undergoing re-organization.

Competitors' actions were most important in the pharmaceutical sector. This confirms much of the previous explanations concerning this industry.

Eastern Europe was not as important in terms of actual planning objectives and constraints. The pattern of responses indicates

TABLE XIII

THE OBJECTIVES OF STRATEGIC MARKETING DECISION-MAKING
THE FREQUENCY OF SELECTION OF THE ELEMENTS IN SECTION III
OF THE QUESTIONNAIRE

Origin		Question 2			Question 4			G.B. : Great Britain U.S. : United States E.G. : East Germany W.G. : West Germany
		(i) EEC FACTOR	(ii) GREATER MARKETS REQUIREMENT	(iii) COMPETITION	(i) COMECON FACTOR	(ii) GREATER MARKETS REQUIREMENT	(iii) COMPETITION	
A	G.B.		X	X		X		PHARMACEUTICALS
B	G.B.		X	X	X	X		
C	U.S.	X	X		X	X		
D	G.B.		X	X	X	X		
L	W.G.		X		X	X		
E	G.B.	X	X			X		CHEMICALS
F	G.B.		X		X			
G	G.B.		X					
H	G.B.	X	X					ENGINEERING
J	G.B.		X			X		
K	E.G.	X	X					
M	W.G.		X	X	X			
$\sum f_x$		4	12	4	6	7	-	
$\sum x$		12	12	12	12	12	12	

this. Again pharmaceuticals were the most active in this sector. The more favourable climate and the demand for markets (combined with the factors listed in the preceding paragraphs) supports this. The interest of F is because of the present economics of the industry (phosphorous).

Multinational J found increasing interest in its product range because of the technological advances which it incorporated were presently unavailable in Eastern Europe. Multinationals L and M as West German companies were much interested by the recent detente between the B.R.D. and COMECON members.

Table XIV brings into perspective the problem of objectives and constraints in terms of investment decision criteria. Division is again on the basis of sectoral membership.

Expansion and growth in the European Complex is the most frequently selected criterion for an investment decision. 10 of the 12 respondents selected this, and all of these ranked the criterion first. Multinational L selected the need to meet competitors in Europe as the most important single criterion. This was ranked 2 by two other pharmaceutical companies (B and C). This re-affirms the general conditions operating in the pharmaceutical sector.

Multinational E selected Criterion 6 as the most important for the firm. The firm's interests in household chemicals, and its present efforts to move into the European market were the reasons for this selection.

Essentially Criteria 6, 7 and 8 deal with the economics of international operations, and the comparative advantages possible via international organization. Six companies have ranked these. (Multinationals C, D, E, H and M.). Multinational E ranked it as the most important.

Decrease and levelling off of demand in countries outside the Complex were cited by two pharmaceutical companies and one chemical (textile) multinational, and one engineering firm. It appears to be relatively more important to the pharmaceuticals. The importance ranking was 2 : 2 : 4 : and 5 respectively.

"Competitors' activities" was most important for L, (Importance ranking 1) and less important for B and C respectively in the pharmaceuticals sector. (Importance ranking 2 : 2). It was also important for J and M in the engineering sector. (Ranking 2 : 3). Tariffs were quite important for some companies, more so in the chemicals sector than elsewhere. (E and G : ranking 3 : 2). Lower production costs in the Complex were only important in three cases (C, E and M); one company from each sector.

In aggregate it is the need for greater markets ($\sum fz = 10$: average importance ranking = 1) matched by the economics of international operations ($\sum fx = 7$: average importance ranking = 2) which are relatively the most important criteria for selecting to invest in

TABLE XIV

INVESTMENT DECISION CRITERIA

THE FREQUENCY OF SELECTION AND THE IMPORTANCE RANKING OF THE
ELEMENTS IN SECTION IV OF THE QUESTIONNAIRE

Criteria selected										Importance ranking								
		1	2	3	4	5	6	7	8		1	2	3	4	5	6	7	8
A	G.B.	X	X							P	1	2						
B	G.B.	X		X	X					P	1		2	3				
C	U.S.	X		X		X	X	X		P	1		2		3	4	4	
D	G.B.	X					X	X	X	P	1					2	2	2
L	W.G.		X	X						P		2	1					
E	G.B.				X	X	X			C				3	2	1		
F	G.B.	X					X	X	X	C	1					2	2	2
G	G.B.	X	X		X		X			C	1	4		2		3		
H	G.B.	X			X		X			E	1			2		2		
J	G.B.	X		X						E	1		2					
K	E.G.	X								E	1							
M	W.G.	X	X	X	X	X	X	X	X	E	1	5	3	8	4	6	7	2
Σfx		10	4	5	5	3	7	4	3									
Σx		12	12	12	12	12	12	12	12									

G.B. : Great Britain
 U.S. : United States of America
 W.G. : West Germany
 E.G. : East Germany

the Complex. There are other general factors which operate (competitors' activities : $\sum fx = 5$ and the tariffs issue $\sum fx = 5$) but the rest are rather more particular to the individual multinational.

3.13. 4. The information needs in the decision process

The analysis of the information needs in the decision sequence will use the material and results of Section V of the questionnaire: the heuristic model and the specification of other variables used in this type of decision problem.

3.14. A: The heuristic model

The tables which follow outline the selection of variables (contained in the heuristic model) made by the respondents.

The tables are constructed on two bases:

- (1) Selection according to industry (to facilitate sectoral comparisons)
- (2) Selection according to nationality (to facilitate international comparisons)

At the base of each column in the matrices is a frequency indication ($\sum fx$) which records the number of times each variable was chosen out of the maximum of 12. ($\sum x$).

Table XV relates the selection of variables to the demographic profile on a sectoral basis. The most dense area in the matrix lies between variables 1 and 4: frequency of selection 12; 11; 10 and 8 respectively. These variables are relatively non-specialist. They had been used by respondents to assess the total size and potential growth of a market on a general basis. The selection of other variables in the profile was more diffuse. Variables 7, 8 and 9 were selected by between 30% and 50% of the total sample. They were considered to be general indicators of industrialisation. (The higher the percentage of population in urban conurbations and the commercial sector, the higher the level of economic development, and the ability to purchase the company's products.)

The variables relative to the agricultural population (5 and 6) and the predominant religious group variable (10) were selected by those firms with specific interests in certain sectors. These were multinationals F, G, and K (phosphates, minor engineering interests in the total group and agricultural instrumentation respectively) and Multinational L (hormonal contraceptives). The last company was aware of the different attitudes towards their product in Catholic and non-Catholic countries.

Table XVI exhibits the selection for the demographic profile on

TABLE XVI

SELECTION OF DEMOGRAPHIC VARIABLES : NATIONAL BASIS

Variable											
Company	1	2	3	4	5	6	7	8	9	10	
A	X	X	X	X			X	X	X		B R I T I S H
B	X	X	X								
D	X	X	X	X				X	X		
E	X	X	X	X			X				
F	X	X	X	X	X	X					
G	X		X	X	X			X			
H	X	X	X								
J	X	X	X	X				X	X		
f	8	7	8	6	2	1	2	4	3		
C	X	X	X	X			X	X	X		U.S.
f	1	1	1	1			1	1	1		
K	X	X	X	X	X	X	X				E.G.
f	1	1	1	1	1	1	1				
L	X	X								X	W.G.
M	X	X					X	X			
f	2	2					1	1		1	
$\sum fx$	12	11	10	8	3	2	5	6	4	1	
$\sum x$	12	12	12	12	12	12	12	12	12	12	

U.S. : United States of America

E.G. : East Germany

W.G. : West Germany

the basis of nationality. The pattern remains relatively stable. Variables 1 - 4 are of general relevance to all the firms in the sample regardless of their nationality.

Table XVII examines the selection of variables in the socio-economic profile on a sectoral basis. The pattern of selection is less dissimilar within sectors, and more diffused between sectors. In effect it demonstrates how certain variables are more pertinent in some industries rather than in others.

The most important variables for the pharmaceuticals sector were those relating to health. (Variables 9 - 12 inclusive.). The chemicals sector has selected variables 4 to 8 inclusive which relate to the situation in the economic environment. The engineering sector exhibits the greatest spread; the selection includes variables relative to the general economic environment, health, and transportation systems. The link between each of these selections is their relevance to the product groups of each multinational. Therefore, pharmaceutical companies are interested in the type of variables represented in 9 to 12. Chemicals are concerned with basic industries and economic development. The variety of product interests within the engineering sector embraces each of these (for example medical instrumentation) and at the same time will be concerned with those final products in which the industry has established interests. (Motor vehicles; transportation and communication systems.). Within these general patterns individual firms have made particular selection. In these instances they have considered their own product range, and selected variables outside the general pattern of their industry. Examples here are Multinational B's interest in the agricultural sector (5) and the contact's opinion that annual rates of growth were important in the marketing of pharmaceuticals. Multinational F had important related interests in the automobile industry despite the fact that it was a chemical company. The basis of all these selections are fully annotated in the appendix.

Variables 16 and 17 (newspapers : radio receivers) were not selected by any respondent. Variables 18 and 19 were selected only by M. This group has particular interests in the telecommunications sector.

Table XVIIa relates the selection to the nationality of each company. The pattern remains stable: there are no outstanding deviations because of nationality which are shown here.

3.15. B : The specification of other variables

Table XVIIIb overleaf lists the additional variables supplied by each respondent to Section 5, Question 2. The content of this table indicates more precisely the way in which companies do identify and select market opportunities. Certain variables are in general use (regardless of sectoral membership) for assessing the potential of a market. No less than 8 of the twelve firms

TABLE XVII
SELECTION OF SOCIO-ECONOMIC VARIABLES: SECTORAL BASIS

[illegible]

TABLE XVlla

SELECTION OF SOCIO-ECONOMIC VARIABLES : NATIONAL BASIS

Variable																									
Company	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	
(B												X													
R				X						X	X	X													
D					X				X	X	X	X													
E				X		X			X										X						
F				X		X		X												X					
I				X		X																			
S				X		X			X		X														
H				X		X		X																	
J				X		X		X					X	X	X					X	X	X			
C (U.S.)						X	X	X	X	X	X	X									X	X	X		
K (E.G.)	X	X	X	X	X	X			X	X	X	X	X							X					
L								X			X	X													
M (W.G.)			X		X	X						X	X						X			X	X	X	
	1	2	2	7	5	8	4	5	8		8	9	5	2	2	-	-	-	1	3	3	3	2	2	
	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12	

U.S. : United States of America

E.G. : East Germany

W.G. : West Germany

TABLE XVIIIb

ADDITIONAL VARIABLES

Multi-national	
<div data-bbox="234 574 264 618">A</div> <div data-bbox="234 650 264 694">B</div> <div data-bbox="234 749 264 792">C</div> <div data-bbox="234 847 264 891">D</div> <div data-bbox="234 923 264 967">L</div> <div data-bbox="301 672 330 923" style="writing-mode: vertical-rl; transform: rotate(180deg);">PHARMACEUTICALS</div>	<p>Market size; number of prescriptions generated.</p> <p>Performance of competitors; prescribing habits of doctors.</p> <p>Market size; prescribing habits of physicians; survey of health services.</p> <p>Market size; prescription habits of physicians.</p> <p>Medical thinking; health services; competitors' activities; market size.</p>
<div data-bbox="234 1076 264 1120">E</div> <div data-bbox="234 1174 264 1218">F</div> <div data-bbox="234 1273 264 1316">G</div> <div data-bbox="301 1142 330 1295" style="writing-mode: vertical-rl; transform: rotate(180deg);">CHEMICALS</div>	<p>Retail outlets in each market; market size; distribution patterns.</p> <p>General state of phosphorous industry; competitors' performance and activities.</p> <p>Market size; demand for each product in the market.</p>
<div data-bbox="234 1404 264 1447">H</div> <div data-bbox="234 1502 264 1546">J</div> <div data-bbox="234 1579 264 1622">K</div> <div data-bbox="234 1666 264 1710">M</div> <div data-bbox="301 1480 330 1666" style="writing-mode: vertical-rl; transform: rotate(180deg);">ENGINEERING</div>	<p>Distribution system in the market; political factors. in the market.</p> <p>Market size; number of fishing and commercial craft.</p> <p>Industrialisation indicators; medical factors within each market.</p> <p>Market share (actual/projected); competitors' activities; users of data processing equipment.</p>

(A : C : D : L : E : G : J and M) listed market size as one of the variables used in assessing the potential market for a company's product. This may be related to the uniformity and high frequency choice with regard to variables 1 - 4 in the demographic profile. These were general population size and growth indications.

Four of the respondents listed competitors' activities (the second most frequently specified variable) as being an important variable. (B : L : F : M.).

Two firms (E and H) were concerned with the distribution/retail systems in each market. The remaining variables are particular to each firm; these will be analysed here on a sectoral basis.

(i) The pharmaceuticals sector (P):

There is a remarkable uniformity between the choice of variables supplied by companies in this sector. In addition to market size (which was given by all members with the exception of B) all respondents were concerned with current medical thinking (explicitly expressed by L) together with the prescribing habits of doctors and the way in which the health schemes in each market were allowed to operate. In pharmaceutical marketing these are the links in realising and maintaining profits. The "prescribing habits of doctors" - the way in which they may prescribe medication within the various health schemes, and the ways in which they have on an ex post facto basis - determine the potential of a market. The difficulties in making assessments of this nature lie with the "black box" situation on the actual moment of prescribing. These findings complement earlier discussions of the pharmaceuticals industry, Chapter X, 3.4.

(ii) The chemicals sector (C):

Variables supplied in the chemicals sector are more diverse. This is due in part to the variance in product range between group members. Multinational E with interests in proprietary brands, and household chemicals stressed the importance of the distribution system. Multinational F with a heavy financial commitment in a single commodity (phosphorous) was more concerned with the state of that industry and competitors activities. Multinational G with a large range of textile and yarn based product lines manufactured and marketed through 80 subsidiaries (using various brand names) needed to know the likely performance of each in any new markets.

(iii) The engineering sector (E):

The engineering sector exhibits the same kinds of disparities. Multinational H's heavy interests in the armaments industry is reflected in the concern for political factors in each market. In the same way J has to relate a product-line concerned with the

manufacture of navigational radar equipment to the size of commercial fleets and small boat sales. Multinational K's interest in precision instrumentation (particularly in the medical sector) will relate its evaluation of market potential to industrialisation factors. The contact in Multinational M was in the telecommunications division. The demands of the produce line had been related in the past to a specific variable: the users of data processing equipment.

Conclusion

4.1. The significance of the research findings:

We shall present here an "interim" analysis of the research findings. This will act as a prelude to the final chapter of this study (The Conclusion) which will present a "realistic" model of the decision sequence.

At this point it is necessary to integrate the findings of Phases I and II of the empirical study. In this chapter three facets of the comparative study have been analysed. These were:

- (A) The identity and role of the contact.
- (B) The heuristic model
- (C) The elements of the strategic marketing decision sequence.

The outstanding feature to emerge from the study is that of similarity rather than differences between multinationals in the same sector in their approach to the decision problem. Nationality is an important factor, but it does not take precedence over the location of the company in a particular industrial sector, and the marketing by the company of a particular product range. We may examine the validity of this proposition by reference to the four areas which have affected its formulation.

4.2. I: The character and commitment of the companies in the sample

All companies in the sample were of the same kind in terms of character and commitment: they were multinationals. Additionally, as Sections I and II of the questionnaire sought to establish, they were multinationals with a commitment in the European Complex. The working definition of the multinational firm used as the key criterion to differentiate the "multinational" from the "non-multinational", the evaluation of international opportunities by the Board of Directors before strategic decisions were made. All sample members satisfied this condition. Their commitment to international operations, meant that they were actively involved in international markets to the extent that the long-term survival

and profitability of the firm was seen to depend ultimately upon this. The composition of the sample directed by the demands of the working definition (integrated in Part I of the questionnaire) meant that the companies' own international commitments and their perception of the importance of such commitments, led to markedly similar groups of sample members in these respects.

This similarity extended to the equity distribution, and international composition of the personnel of each company. No sample member was "multinational" in terms of these.

4.3. II: The identity and role of the contacts in the multinational companies:

The theoretical analysis of strategic marketing decision-making (Chapter IV, Schema V) demonstrated the way in which the problem area tended to straddle the corporate planning function and the marketing function of the firm. This proposition was re-inforced in the examination of the identity and role of the contacts in the investigation. The "generality" objective discussed in Chapter IX, 2.3. directed the investigation towards those contacts competent to discuss and evaluate the strategic marketing decision area in the individual company. Table XII in Section II of this chapter, demonstrates the range of these contacts. The overall concentration in the marketing and planning areas has meant that the orientation exhibits a pre-disposition towards these. The interest in identifying and selecting European markets is directly endemic to the formal roles and responsibilities of no less than 13 of the 17 contacts. Therefore, the interest of all the contacts in the problem area is supplemented by the specialist expertise and direct involvement in marketing and planning of over two thirds of the contacts. The nationalities of the companies where these were present were mixed.

4.4. III: The industrial composition of the sample:

The sample was sub-divided into two manufacturing sectors: chemicals and engineering. Pharmaceuticals presented an important subsection of the chemicals industry. The analysis of the frequency selection of the variables for both profiles reveals a stable separation on the basis on industry and product in preference to nationality. Tables XV - XVIII inclusive demonstrate this. Multinationals manufacturing and marketing similar product-groups, have tended not only to select similar variables in the profiles, but as Table XIX shows, to specify similar variables or indicators for the identification and selection of market opportunities in the Complex. We have consolidated this proposition in the separate analyses of each sector in 3.15.

4.5. IV: The importance of nationality

Despite these findings national identity remains an important

element in the decision-sequence. The emphasis given in 3.8. (4) : "The history, tradition, commitments factor" indicates the changing pattern of commitments and the way in which existing commitments have affected the decision sequence. Multinationals of British origin have a long-standing commitment and history of operations in commonwealth markets. Technical Appendix IV demonstrates this. The movement towards "hard-sell" non-imperial markets, to maintain profitability and meet competition, has meant a change in gear for British multinationals. This has not been matched by the non-British companies in the sample. The West German companies experienced a different set of constraints in Europe. This had been effected by political problems with COMECON and connected with the aftermath of the post-1945 period. Their difficulties have been to extend outside the (western) European Complex into world markets. The American company showed a great degree of concern with the disposition of governments within the Complex towards American investment.

However the "nationality" factor, with its awareness of the attitudes of European governments towards foreign investment, was matched with "industry-product" determinant discussed in 4.4. Where a company had confidence in the market demand for its products, its perception of political difficulties was markedly less. For this reason the pharmaceuticals sector, backed by technological superiority, and the prospect of "quasi-monopoly" operations in international markets, was actively undertaking extensive commitments in COMECON. Additionally, the competition within this sector was impelling these companies to enter this market area. The same conditions did not apply with such force to companies in the other sectors. The responses to Sections III and IV of the questionnaire support this observation.

4.6. The general conclusions presented here will be compared with the results of the postal questionnaire in the following chapter. They will be incorporated in the "descriptive" model of the strategic marketing decision sequence at the completion of the study.

CHAPTER XII

THE OBJECTIVES OF STRATEGIC MARKETING DECISION-MAKING

IN THE EUROPEAN COMPLEX : QUESTIONNAIRE II

Introduction:

1.1. This chapter will be concerned with the presentation and analysis of the results of the postal questionnaire, which was implemented during Phase III of the empirical investigation.

1.2. The chapter will deal with each of the major aspects of the survey; rationale, content, implementation, analysis, and comparison.

Section I will examine the reasons for using this particular method of research. Three sets of constraints necessitated this choice. At the initial stage the general "constraints of doctoral research" were important. At the implementation stage, constraints operated which affected the contents of the questionnaire and the identification of the sample frame.

Section II will complement the contents of Chapter XI. The returns will be examined in two stages:

- (1) The presentation of a comparative profile of respondents. This is intended to give a better idea of the European commitments of these multinational companies.
- (2) The comparative analysis of the strategic marketing objectives of the respondents in the European Complex. The material for the analysis will incorporate Sections III and IV of the original questionnaire, and the revised Section V which was designed specifically for Questionnaire II.

The results of the postal questionnaire will provide a further stage in the development of a "realistic model" of the decision sequence.

Section I: The design and implementation of Questionnaire II

2.1. This section will treat the problem of design and implementation in four stages:

1. The reasons for using a postal questionnaire.
2. The contents of Questionnaire II.
3. The composition of the sample frame, and the final composition of the sample of respondents.
4. The implementation of the questionnaire.

2.2. 1. The reasons for using a postal questionnaire:

The decision to use a postal questionnaire was made for two reasons. Firstly, it was considered necessary to extend the base of the sample to include more European (as opposed to British) multinationals. Secondly, this had to be achieved within the financial and time constraints of doctoral research. This second condition has been fully discussed in Chapter X, 2.5. The postal questionnaire was therefore a compromise solution. The information which could be generated by these means would be limited in comparison with the personal interview method used in Phases I and II. Response would be determined by the effectiveness of the content of the questionnaire, and the willingness of companies in the sample frame to co-operate. These factors are discussed separately below.

2.3. 2. The contents of Questionnaire II:

The objective of Questionnaire II was to determine the strategic marketing objectives and the constraints which affected multinationals in the European Complex. In addition the respondents' contributions needed not only to be comparable with each other, but comparable in some measure to the results of research in Phases I and II of the investigation. It was decided to approach this problem from two directions: to modify the original questionnaire (Questionnaire I) for postal use, and to attempt to match the composition of the original sample (Multinationals A - L inclusive) with a similar sample frame.

2.4. The objectives and constraints of questionnaire design:

Questionnaire I was not considered suitable for postal use. Its format demanded an exchange of information between the researcher and the contact. This was particularly important in Section V, where the heuristic model formed an integral part of the contents of the section. It was decided therefore not to include the heuristic model, but to develop some means to examine the "similarity criterion" relative to marketing operations. The questionnaire needed to present a simple format and be of some interest to the respondent. This increased the likelihood of respondents completing and returning the questionnaire.

2.5. The first objective of questionnaire design was to ensure that each respondent satisfied the working definition of the multinational firm being applied in this study. Sections I and II of Questionnaire I could be modified for this purpose. (The original questionnaire is located in Technical Appendix III.) It was decided to include all nine questions in Section I, and to place by the side of each two boxes identified as "Yes" and "No". The respondent was required to tick the "Yes" box to those questions where it was considered that the company satisfied the demands of the question. For example Question I asks:

1. Does the company manufacture in at least two countries in the world? Yes ☐ No ☐

Certain parts of the nine questions were not included since these complicated the format. 2. b. (the specification of manufacturing and service facilities abroad) was removed together with 5. (i) and 5. (ii): the international control of the company in terms of shareholders' equity and management personnel. In addition Question 6 presented the seven organizational structures examined in Chapter III. The respondent was required to indicate which of these best approximated the company. The "please specify" requirements of Questions 8 and 9 were also removed. Section II could be applied without modification.

2.6. The second objective of questionnaire design was to examine the strategic decision area. Section III, which dealt with the objectives of strategic marketing decision-making, could also be treated in the same way as Sections I and II. The respondent was asked to indicate which reasons (if any) were considered relevant. Additional specifications by respondents in Questions 2 and 4 were removed in order to make the format as simple as possible. Question 5 was deleted since it was not amenable to this kind of questionnaire.

2.7. Section IV involved originally the ranking of financial investment criteria. It was decided not to use this method, which might be too complex, but to present a simple ranking in terms of:

Very important	Important	Of little importance	Not important
☐	☐	☐	☐

The respondent was required to indicate the level of importance which the company attached to each criterion. In this way a simple ranking could be achieved.

2.8. In Questionnaire I, Section V had been concerned with two issues; the heuristic model and the "similarity criterion". This section depended upon the presentation of the heuristic model. This was too complex to be used in a postal survey. It was decided therefore to design a set of questions which might examine the "similarity" proposition in terms of marketing operations in the European Complex.

The first exercise was to ask respondents to classify the twenty countries in the European Complex into those classes or groups which they considered for their own marketing purposes presented similar marketing conditions. They were then requested to specify the reasons for these classes. This question sought to establish how, if at all, companies would group the members of the Complex, and what

criteria did they use to do so. This is an example of grouping in terms of some criterion which parallels the "Euclidean Distance" measure of numerical distance used in the heuristic model. There was no pre-grouping of these countries. They were simply set down in alphabetical order.

The second exercise was to answer with "Yes" or "No" six questions concerning the use of similar strategies in these markets. These questions in Questionnaire II, Section V are presented overleaf. The full text of the questionnaire is presented in Technical Appendix III. The questions are concerned with the tactical or operational issues. They seek to investigate whether the use of similar marketing strategies by these companies are in use within the Complex, and do they consider that using a successful strategy in one market increases the likelihood of successful marketing in another. Question 2. is concerned with the existence of similar marketing strategies in two or more of those countries. Questions 3. - 5. seek to determine whether the existence of a successful marketing strategy in any of these countries, when applied to others is feasible to transfer (Question 3.), brings economic benefits (Question 4.) and increases the likelihood of the application of a successful strategy in a new market (Question 5.). The rationale of these questions is to establish not only that it is being done in multinational companies, but that companies have realised benefits from this kind of standardisation.

Question 6 seeks to draw together the exercise in Question I with the issue of similar marketing strategies in different markets. The question asks if any of those groups of markets presented in Question 1 were subject to similar marketing strategies. In this way the question attempts to relate the "similar marketing conditions" issue with that of the application of similar marketing strategies. It was this fundamental which had determined the development of the heuristic model.

2.9. The limitations of the postal questionnaire:

The format of the postal questionnaire is evidence of its limitations. Much valuable information in Phases I and II of the study was derived from the personal interviews. As the preceding sub-sections have indicated the reactions of respondents will be limited to the demands of each question. In this instance the use of "Yes" and "No". However, our objective was to examine here the objectives of market strategy in these multinationals (Sections III and IV) and to re-examine the validity of the "similarity criterion" in terms of operational marketing strategies.

2.10. 3. The composition of the sample frame, and the final composition of the sample of respondents:

Twenty companies comprised the sample frame. These fell into two major manufacturing sections used in Phases I and II. These were chemicals and engineering with pharmaceuticals being represented in

the chemicals sector. The composition of the sample was divided equally between the two sectors : 10/10. The final number of useable questionnaire returned was seven. Ten companies returned their questionnaires; two failed to be included because they did not meet the requirements of "multinationalism" as presented in Sections I and II of Questionnaire II; one company failed to complete all sections in the questionnaire. The composition of the sample of respondents is reproduced overleaf. The generation of the original sample frame was derived using Kain (1969) (i) and the Handbuch der deutschen Aktiengesellschaften. (1971/72) (ii). This activity has been previously discussed in Chapter X, 3.10.

2.11. 4. The implementation of the questionnaire:

Each questionnaire was accompanied by a letter of explanation. All material had to be translated in German. The letter explained the purposes of the questionnaire, and urged the company to complete and return it as soon as possible. Companies were also invited to contact the researcher where problems or difficulties arose. Each questionnaire was addressed to the managing director of the company. In the letter of explanation the researcher advised that the questionnaire was of interest to those persons concerned with the corporate planning and marketing functions of the company. The questionnaire should be directed here since this was the likely area of competence in the company. This had been established in the earlier phases of investigation. (iii). The example of Questionnaire II in Technical Appendix III shows that on the first page, respondents are required to give their name, their position in the company and the address of the company. In this way a more complete picture of the responsibilities of the respondents could be formed.

Section II: Comparing respondents' contributions in the postal questionnaire:

3.1. (1) The Comparative Profile

The comparative profile will comprise four tables:

Table XIX: The location of production facilities of each company in the European Complex.

- (i) Kain, W. Who is who in the German Chemical Industry?
Who is who in the German Pharmaceutical Industry?
Copyright, W. Kain. Baden-Baden, 1969.
- (ii) Verlag Hoppenstedt Handbuch der deutschen Aktiengesellschaften.
& Co. 1971/72. Darmstadt, Verlag Hoppenstedt, & Co.
- (iii) See Chapter XI, Table XII: The formal position and area of responsibility of each contact in the research sample.

Final Sample Composition : Phase III of the empirical investigation

Company	Sector	Nationality
N	Pharmaceuticals.	West Germany
O	Chemicals (increasing pharmaceutical interests).	West Germany
P	Chemicals (large pharmaceutical interests).	West Germany
Q	Chemicals and Steel.	West Germany
R	Engineering (minority chemicals interest).	West Germany
S	Engineering. Consumer Durables (Photography).	West Germany- Belgium
T	Engineering. Capital Goods. Consumer Durables (Electrical).	West Germany

TABLE XIX
THE LOCATION OF PRODUCTION FACILITIES OF EACH COMPANY IN THE EUROPEAN COMPLEX (PHASE III)

Company	Origin	Sector	Great Britain	Norway	Sweden	Denmark	Switzerland	Portugal	Austria	France	West Germany	Italy	Netherlands	Belgium	Luxembourg	U.S.S.R.	Czechoslovakia	Poland	Hungary	East Germany	Romania	Bulgaria
N	W.G.	P								X	X	X										
O	W.G.	C	X		X	X		X	X	X	X	X	X									
P	W.G.	C							X	X	X			X								
Q	W.G.	C								X	X		X	X								
R	W.G.	E							X		X											
S	W.G./ BEL.	E								X	X			X								
T	W.G.	E							X		X	X										

P : Pharmaceuticals
C : Chemicals
E : Engineering

W.G. : West Germany
BEL. : Belgium

TABLE XX
THE LOCATION OF MARKETING FACILITIES OF EACH COMPANY IN THE EUROPEAN COMPLEX (PHASE III)

Company	Origin	Sector	Great Britain	Norway	Sweden	Denmark	Switzerland	Portugal	Austria	France	West Germany	Italy	Netherlands	Belgium	Luxembourg	U.S.S.R.	Czechoslovakia	Poland	Hungary	East Germany	Romania	Bulgaria
N	W.G.	P		X					X	X	X											
O	W.G.	C							X		X	X	X	X								
P	W.G.	C	X		X					X	X	X	X									
Q	W.G.	C	X				X		X	X	X			X								
R	W.G.	E			X		X				X		X									
S	W.G./ BEL.	E	X				X	X	X	X	X	X	X	X	X							
T	W.G.	E	X			X		X		X	X	X	X	X	X	X						

P : Pharmaceuticals
C : Chemicals
E : Engineering

W.G. : West Germany
BEL. : Belgium

TABLE XXI

THE FORMAL POSITION OF EACH RESPONDENT WITHIN EACH COMPANY IN THE
SAMPLE (PHASE III)

Company	No. of Respon- dents	Position
N	1	Marketing Director.
O	3	Marketing Director, Director, East European Operations, Technical Director.
P	1	Marketing Director.
Q	1	Director, Market Research.
R	1	Director, Corporate Planning.
S	1	Director, Market Research.
T	1	Marketing Director.
7	9	

Positions	No.	Companies
Marketing Directors	4	N, O, P, T
Market Research Directors	2	Q, S
Corporate Planning Director	1	R
Director, East European Operations	1	O
Technical Director	1	O
	9	7

TABLE XXII

THE FORMAL ORGANIZATIONAL STRUCTURE OF EACH COMPANY (PHASE III)

Company	Sector	Type
N	P	"Product-line" multinational.
O	C	"Mixed" multinational with "product-line" emphasis.
P	C	"Product-line" multinational.
Q	C	"Mixed" multinational with "product-line" emphasis.
R	E	"Product-line" multinational.
S	E	"Geographic" multinational.
T	E	"Product-line" multinational.

Type	No.	Identity
"Product-line"	4	N, P, R, T.
"Mixed"	2	O, Q.
"International Division"	1	S.
	7	

P : Pharmaceuticals
 C : Chemicals
 E : Engineering

Table XX: The location of marketing facilities of each company in the European Complex.

Table XXI: The formal position of each respondent within each company in the sample.

Table XXII: The formal organizational structure of each company in the sample.

3.2. Analysis: The Comparative Profile

The comparative profile indicates the range of commitment which these seven multinationals have in the European Complex. Table XIX indicates a pattern of location of production facilities which resembles Table V in Chapter XI: the location of producing facilities for each company in the European Complex - Phases I and II of the empirical study. Production locations tend to be concentrated in Western Germany, France, Belgium and the Netherlands. All multinationals have production facilities in their country of origin: West Germany. This condition applied to the British multinationals in Phases I and II. In terms of relative frequency of locations France is the most popular (5 from a possible 7) followed by Austria (4 from a possible 7), Belgium and the Netherlands (3 each from a possible 7). France is suitable for German multinationals in much the same way as it is for British multinationals: the size of the total market, logistics factors, and transportation costs. The popularity of Austria is often for historic reasons. This traditional liaison was attested by multinationals L and M in the earlier phases. Overall the table shows the relative unimportance of location in the EFTA complex in comparison with the EEC. COMECON was the location of no production facilities.

Table XX indicates that commitments in terms of marketing facilities is more extensive. All multinationals produced and marketed in Western Germany. This was important from the point of view of competence in answering the questionnaire. We have discussed this previously with respect to Table VI in Chapter XI. Marketing facilities in EFTA are more numerous, but again there are no such facilities in COMECON.

Table XXI indicates the formal position of each respondent in the companies. Three persons responded for Multinational O. The questionnaire was also accompanied by notes, and additional explanations. The categories break down broadly into marketing and market research managers (6 instances), one corporate planning director, a director of East European operations, and technical director. This range broadly complements the formal responsibilities of respondents in Phase I and II.

Table XXII presents the formal organizational structures of each company. Again the most numerous structure is the "product-line" type. (4 of the 7 structures.) Two multinationals, O and Q felt that they best approximated the "mixed" type with "product-line" emphasis. Both companies were in the chemicals sector. One company, S,

TABLE XXIII

THE OBJECTIVES OF STRATEGIC MARKETING DECISION-MAKING: PHASE III

The frequency of selection of the elements of Section III of the
Questionnaire II.

		Question 2			Question 4			
Origin		EEC Factor	Greater Markets Require- ments	Competi- tion	COMECON Factor	Greater Markets Require- ment	Competi- tion	
N	W.G.		X		X	X		P
O	W.G.	X	X	X	X	X	X	
P	W.G.		X			X		C
Q	W.G.	X	X	X	X	X		
R	W.G.		X		X	X		
S	W.G./ BEL.			X	X	X		E
T	W.G.				X		X	
Σfx		2	5	3	6	6	2	
Σx		7	7	7	7	7	7	

W.G. : West Germany

BEL. : Belgium

P : Pharmaceuticals

C : Chemicals

E : Engineering

TABLE XXIV
INVESTMENT DECISION CRITERIA

The ranking of the elements in Section IV of the questionnaire.

Company	Origin	Sector	1	2	3	4	5	6	7	8
N	W.G.	P	2	3	4	3	2	3	3	3
O	W.G.	C	2	3	3	3	4	3	3	3
P	W.G.	C	1	2	3	4	3	3	4	3
Q	W.G.	C	2	4	3	2	1	2	3	3
R	W.G.	E	2	1	2	2	3	2	2	2
S	W.G./ BEL.	E	1	3	3	4	2	2	2	3
T	W.G.	E	3	1	3	2	4	2	2	2
Aggregate Total			13	17	21	20	20	17	20	19

Very Important

1

Important

2

Of Little Importance

3

Not Important

4

W.G. : West Germany

BEL. : Belgium

considered its structure was more like the "geographic" type than any of the others. The number of "product-line" or affiliated "product-line" type multinationals may be linked with the composition of the sample. All the companies in the sample have strong technological interests. A "product-line" multinational structure is particularly relevant to multinationals manufacturing and marketing complex technical products. (Chapter III, 3.9.).

3.3. (2) Comparative analysis: The strategic marketing objectives of respondents

(i) Table XXIII: The objectives of strategic marketing decision-making:

Table XXIII presented overleaf shows the pattern and frequency of responses to Section III of Questionnaire II: Questions 2 and 4. The outstanding aspect of these results is the importance attached to COMECON by all sample members. The need for greater markets for the companies' products was the most outstanding reason for considering markets either in Eastern or Western Europe. The frequencies at the base of the table indicate this. However, sample members were also interested in the marketing opportunities presented by COMECON. Several companies included comments in their responses to this question. Multinational O stated that they were aware of an increasingly cordial environment here. This was also reflected in similar comments by R and S. Examination of Question 3. of Section III "Had the company expanded its operations in Eastern Europe in the last three years?" revealed that no less than five of the seven companies had done so. (N; O; P; R; and T.). This was in sharp contrast to most of the answers given by companies outside the pharmaceuticals sector in Phases I and II of the investigation. The table also reveals that competition and the enlargement of the EEC were relatively less important than either the need for greater markets, or the increasingly favourable environment in the COMECON complex.

(ii) Table XXIV: Investment Decision Criteria:

Table XXIV indicates a much more varied pattern of responses on the part of companies. When the responses are aggregated in accordance with the code at the base of the table, Criterion I is overall the most important criterion. (It scored less in aggregate than the others.). The pattern of selection criteria in terms of overall importance is as follows:

<u>Overall importance</u>	<u>Criterion</u>	<u>Identity</u>
1	1	The rapid growth in foreign demand for the company's products in the markets in the European Complex.

<u>Overall importance</u>	<u>Criterion</u>	<u>Identity</u>
2	2 & 6	Decrease of demand in existing markets. Re-export to other markets in the Complex.
3	8	Re-export to world markets.
4	4, 5 & 7	Protection from tariffs. Lower production costs. Re-export to total European market.
5	3	The need to meet competition.

The table above indicates the importance of demand for the companies' products in the Complex. This is reflected in the preference ordering of criteria 1, 2, and 6. The tariff issue, and production costs are of less importance. The pattern differs to some extent from the one which emerged from Questionnaire I. Table XIV in Chapter XI has the same extent of variations in responses between sample members. The most outstanding similarity is the importance of Criterion I. The remaining criteria (in both instances) have tended to order according to their relative importance to the individual multinational.

(iii) Section V

The contents of Table XXV indicate a range of interpretations of "similar marketing conditions" particular to the individual respondent. The range has certain common elements. The most outstanding factor is the classification of all countries in the COMECON complex into a single category. Companies P and T termed this classification as "centrally planned economies". This perception of Eastern Europe complements the comments of multinationals A - M. Countries in this complex seemed to be perceived as presenting such different conditions for marketing operations, that a common classification amongst all sample respondents emerged. This brings into focus the "perception" issue and the way it may bias the identification and selection of market opportunities. The objective of the heuristic model was to attempt in some measure to compensate for this.

The classifications for Western Europe are more diverse. Multinational N (pharmaceuticals) differentiated between Western Europe and the Scandanavia market. Multinational P (chemicals) differentiated in terms of marketing conditions between the domestic (West Germany) and the markets in Eastern and Western Europe. This classification was paralleled by multinational T (engineering) where two classifications relative to Western Europe were presented: countries with similar market conditions to West Germany and countries with relatively similar market conditions to one another. Multinational R (engineering) submitted the five marketing areas used by Head Offices. These incorporate a classification on a broadly similar basis in

TABLE XXV
COMPANY GROUPINGS OF COUNTRIES (i) IN THE EUROPEAN COMPLEX

Company	Origin	Sector	Great Britain	Norway	Sweden	Denmark	Switzerland	Portugal	Austria	France	West Germany	Italy	Netherlands	Belgium	Luxembourg	U.S.S.R.	Czechoslovakia	Poland	Hungary	East Germany	Romania	Bulgaria
N	W.G.	P	I	II	II	II	I	I	I	I	I	I	I	I	I	III	III	III	III	III	III	III
O	W.G.	C	I	I	I	I	I	I	I	I	I	I	I	I	I	II	II	II	II	II	II	II
P	W.G.	C	II	II	II	II	II	II	II	II	II	I	II	II	II	III	III	III	III	III	III	III
Q	W.G.	C	I	II	II	II	II	II	II	I	II	I	I	II	I	III	III	III	III	III	III	III
R	W.G.	E	I	II	II	II	II	III	I	I	I	I	IV	I	I	III	III	III	III	III	III	III
S	W.G./ BEL.	E	I	I	I	I	I	I	I	I	I	I	I	I	I	I	II	II	II	II	II	II
T	W.G.	E	I	I	I	I	II	I	II	II	I	II	II	II	II	III	III	III	III	III	III	III

Continued
Overleaf

(i) The countries were listed in Section V in alphabetical order (in German).
No prior grouping was made between countries.

W.G. : West Germany P : Pharmaceuticals E : Engineering
BEL. : Belgium C : Chemicals

TABLE XXV (Continued)

Company	Identity of Grouping
N	I Western Europe excluding Scandinavia. II Scandinavia. III Eastern Europe.
O	I Western Europe. II Eastern Europe.
P	I Domestic Market. II Western Europe. III Eastern Europe (Centrally planned economies).
Q	I) II) Markets considered most similar to each other in terms of market demand for the III) company's products.
R	I) II) Division of countries in terms of marketing areas used by Head Office. These areas III) incorporate a classification on a broadly similar basis in terms of marketing conditions. IV) V)
S	I Western Europe. II Eastern Europe.
T	I Countries with similar market conditions to West Germany. II Countries with relatively similar market conditions to one another. III Centrally planned economies.

terms of marketing conditions.

Section V, Questions 2-6:

All multinational companies in the sample answered "Yes" to questions 2-6. These questions were concerned with the operation of similar marketing strategies in the Complex. This supports two propositions:

- (i) Multinationals have used similar marketing strategies in at least two countries in the Complex. These have enabled economies to be realised, and increased the likelihood of successful operations in new markets.
- (ii) Similar marketing strategies have been used with countries in the groupings presented in the exercise to Question I.

The responses in this section indicate that the perception of similar marketing conditions in the European Complex tends to divide along an East-West axes. In the Western block more sophisticated classifications have emerged. Multinational T has approached in the most comprehensive manner by attempting to locate markets similar to its own domestic market. The use of similar marketing strategies within these groups indicates the relevance of the basic principles of the heuristic model.

Conclusion

Comparing the results of Phases I, II, and III

4.1. The results of Phases I, II and III are not really fully comparable. The management of Phases I and II was much more intensive. The investigation attempted to discern how multinational companies identified and selected market opportunities. The personal interview allowed direct contact with the companies, and an invaluable exchange of information concerning the procedures used. In Phase III the investigation has been a restricted and partial one. It has been limited to the consideration of the objectives of strategic marketing decision-making in the European Complex. No investigation of the information systems, commitments and history of the individual firm was made. Section V attempted to relate the basic principles of the heuristic model, to the company's perception of similar marketing conditions within the Complex. The approach was exploratory, and the significance of the groupings in terms of the "similarity criterion" must still, at this stage, be tentative.

4.2. In spite of these circumstances, we may still make a limited range of comparisons. The "need for greater markets" was the most frequently selected objective in terms of identifying and selecting market opportunities in the Complex. This was matched by the demand in this market area for the company's products. This tended to be the most important element in considering investment in Europe.

The outstanding difference between the samples is the more marked interest shown by West German multinationals in COMECON. This interest was matched by the two West German multinationals who co-operated in Phase III. This is particularly interesting. The circumstances of "Öst-politik" has had some effect upon the way in which Eastern European market opportunities are being perceived by West German multinational companies. Only the pharmaceutical companies in the first sample perceived the opportunities offered here as positive. This introduces a third factor into the sequence: positive and encouraging political manoeuvres will affect the direction of perception of marketing opportunities. This condition tends to present a counter-balancing factor in relation to the similarities observed between multinationals of differing nationalities in the same sector in their approaches to identifying and selecting market opportunities in Europe.

- 4.3. Our objective in the Conclusion will be to integrate these results in order to build-up a "typical" decision sequence.

CONCLUSION

A Descriptive Model of the Strategic Marketing Decision Sequence

In this, the conclusion, we shall attempt to draw together the material presented in this study in order to build a descriptive model of the strategic marketing decision sequence. The term "descriptive" is used here in the sense of developing a general model which, describes the major elements of this sequence which, have been identified in this study. The model will incorporate these elements in aggregate - that is it will seek to describe a "typical" sequence.

The Elements of the Study

The development of the model is dependent initially upon three elements: the research problem; the composition of the sample; and the formal positions and responsibilities of the contacts in the multinational companies in that sample. We need to examine the implications of each of these in terms of the "typical" decision sequence.

(i) The "Typical" Decision Sequence and the Research Problem

Part I of the study developed the analytical framework within which the research problem - the identification and selection of market opportunities in the European Complex - has been examined. This comprised three components: the multinational firm, the activity of identifying and selecting market opportunities, and the European Complex.

(a) The Multinational Firm

The working definition of the multinational firm presented in Chapter II has synthesised the major arguments of the first two chapters. Extra-territorial expansion gives the investing party (the firm) the right to control the decision-making of the foreign based subsidiary. The multinational firm must also satisfy several other conditions. Its commitment to international operations needs to be such that it perceives long-term survival and profitability to be dependent upon international operations. In addition strategic decision-making should consider co-equally domestic and international opportunities.

(b) The Activity

The strategic decision area concerns the firms relationship with its environment. The multinational firm, will, by definition,

operate in an international environment. In addition, it will perceive its own long-term profitable survival to be dependent upon this environment. In this situation, it may respond in two ways. Firstly, it can develop, as Chapter III has shown, an organization appropriate to its international interests. Secondly, it can use this organization to facilitate its strategic decision-making.

The identification and selection of international market opportunities is a part of the strategic decision area in the multinational firm. The research problem may therefore be seen as a decision problem. Because it involves decision-making on the part of an organization, a complex set of interrelationships interact in the process. These were identified in Chapter IV in terms of the structure of the strategic decision sequence in the multinational firm. (Schema VI).

(c) The European Complex

The examination of decision, theory and organizational decision-making in the multinational firm yielded the major research propositions. The research problem might be usefully investigated by applying it to an actual problem area, where because of particular circumstances, strategic marketing decisions were seen to be of great importance to multinational companies. The European Complex is an example of this. It comprised on December 31st, 1972 a market area, wherein three sets of conditions were present: three trade blocks; the prospect of enlargement of one of these; an increasing détente between Eastern and Western Europe. Such factors were considered to present not 'unfavourable' circumstances for extra-territorial expansion. (Chapter V, 3.7.).

The general research proposition directed the research problem towards the particular consideration of the European Complex. Using certain principles of decision theory, the proposition stated that if a multinational were able to programme part of the sequence of identifying and selecting market opportunities in the European Complex, uncertainty in decision-making conditions might be reduced. Programming needed to incorporate a decision rule - the similarity criterion. The research design proposed to treat this proposition from two perspectives. The heuristic model has applied to decision rule on a theoretical basis. It describes how multinationals may identify and select markets in the European Complex in accordance with realising their individual "micro comparative advantage". The realistic model is concerned with describing how they do so. The "typical" decision sequence will therefore be concerned with the way in which the multinational companies in the sample have managed the strategic decision problem.

(ii) The "Typical" Decision Sequence and the Composition of the Sample

The sample is comprised of companies which have satisfied the

conditions set down in the working definition of the multinational firm. These companies possess overall certain common elements relative to the multinational firm. They have, in addition to their international commitments, a minimum involvement in the European Complex. Each sample member owns producing facilities in at least two locations within the Complex. The sample has been structured so that comparisons may be made on a sectoral and international basis. Therefore, as the case studies in Technical Appendix IV have demonstrated, multinationals in the pharmaceutical sector of different nationality, exhibit some communality in their management of the decision problem. The reverse situation also applies. There are other factors which are common to multinationals of the same nationality drawn from different industrial sectors. The "typical" decision sequence will need to indicate this.

(iii) The "Typical" Decision Sequence and the Formal Position of the Contacts

The comparative profiles in Chapters XI and XIII indicate that the majority of contacts in the multinational companies were involved in marketing, market research, or corporate planning. These were the persons competent to participate on behalf of their companies in the study. This competence is matched by the "approach" factor mentioned in (ii) above. The way in which these persons perceived the research problem, and indeed their role in the strategic decision sequence, will have influenced their responses to the questionnaire. Quite simply "marketing-men" are more likely to be interested in products and markets, and less likely to be concerned with manpower planning and financial management. These all play a part in the strategic decision area. It is possible that the general patterns of responses observed in this study are specific to persons concerned with marketing and marketing planning. The "typical" decision sequence is based upon the contributions of these contacts. It needs therefore to make some explicit reference to the part which perception of role plays in the decision sequence. In the same way perception of role will have affected the reaction of these contacts to this research problem, and their eventual contributions.

The Formulation of the Descriptive Model

The formulation of the descriptive model will depend upon the way each of the preceding three elements (the research problem; the composition of the sample; the formal positions and responsibilities of the contacts in the multinational companies within the sample) have been managed in the empirical study. The research study may be seen to be analogous to a decision sequence. Therefore the researcher will have been required to select a course or courses of action which have ultimately shaped the management of the study. Our aim at each stage of the investigation was to select those courses of action which would allow an interesting and valid study to be completed. Several different sets of constraints affected the sequence. Constraints of time and finance determined

the research design and management of the sample. These were matched by constraints which may be considered as being structural to the research area. The diverse interests of multinational companies has meant that the composition of the sample (even without constraints of time and cost) would need to be selective. In the same way the research content was of interest to marketing and corporate planning managers. These were the persons competent to contribute to the study. Their positions, and the way in which they perceive their formal roles in the companies, are more particular to a marketing perspective, and less concerned with a total corporate view. The "typical" sequence is therefore seen to be concerned more specifically with the strategic market decision area relative to the corporate planning activity in the multinational firm. The model's limited generality is also affected by the composition of the sample. It has been formulated on the basis of an empirical investigation using a sample which comprised multinational companies in three industrial (manufacturing) sectors, and predominantly two countries of origin - Great Britain and Western Germany.

The "Typical" Strategic Marketing Decision Sequence

The analysis of the "typical" strategic marketing decision sequence will begin by identifying the objectives of the multinational firm. This will provide the foundations of the model. At the second stage the analysis will examine these objectives in terms of the strategic marketing decision sequence. At the third (and final) stage the model will describe the management of the sequence in terms of the factors which affect the way in which those multinational companies in the sample identify and select market opportunities in the European Complex. The discussion will integrate the theoretical and empirical material presented in Parts I, II, and III of the study.

Stage I: The Objectives of the Multinational Firm

The identification of the objectives of the multinational firm is guided by the definitions of the objectives and goals of overseas investment presented in Chapter I, 4.2.(i). The definition which has been used in this study complements the major themes presented in Chapters III and IV. We have argued that the objectives of the multinational firm are formally expressed in the corporate planning objectives of the enterprise. The formal objectives of Babcock and Wilcox Ltd. supported the proposition that the fundamental objective of the multinational firm is that of profitable survival in the long-term. (ii). The use of the term "profitable survival" indicates the character of the organization. A business enterprise needs to

(i) Objectives are defined as the "purposes or missions of the decision-makers". Goals are defined as "those specific measures or values which the decision-maker(s) wish to realise".

(ii) Chapter III, 2.7.

realise adequate levels of profitability in order to survive.(iii). The commitment of the multinational firm is demonstrated in the way in which it will seek to realise this fundamental objective via operations on an international scale. The working definition of the multinational firm combines the character/commitment factor with that of strategic decision-making. This was implemented formally in Part I of Questionnaires I and II for the purposes of determining whether sample respondents were multinational companies in the sense defined in Chapter II of the study.

Stage II: The Strategic Marketing Decision Area

The function of the strategic marketing decision area is seen as the realisation of the required level of profitability by selecting those market opportunities which are likely to attain this. (iv). The strategic marketing decision area is therefore complementary to both the objectives of the firm, and the responsibilities of the corporate planning function. This relationship was set out in diagrammatic form in Schema V, Chapter III.

The Objectives of the Strategic Marketing Decision Sequence in the European Complex

The consideration of the strategic marketing decision area in this study has been limited to the activity of identifying and selecting market opportunities in the European Complex. A limiting condition has been built into the scope of the research study. The realistic model must be seen to apply only to this total market area, and the particular marketing conditions which are present within the Complex. Analysis of the frequency of selection of the elements in Sections III and IV of Questionnaires I and II (v) shows that the need for greater markets for the company's products in the Complex was the most common marketing objective amongst sample respondents. This was matched by the high overall relative importance of the direct investment criteria concerned with the growth in demand for company products in the European Complex. These two conditions make the Complex attractive to the multinational company. A similar reaction among competitors will mean that their activities are also important in the formulation of market objectives. Certain markets may have to be selected in order to match rival operations. The expansionist objective - to exploit the potential of the Complex, with its large relatively high income markets in the West, and its underdeveloped markets in the East - is countered by the

(iii) The term "profitability" is used in the study since it reconciles the economic and non-economic objectives of the firm: Chapter III, 2.6.

(iv) Direct investment and financial investment criteria were discussed in Chapter II, 2.4.

(v) Chapter XI: Tables XIII and XIV
Chapter XII: Tables XXIII and XXIV.

"defensive" objective, to meet competition, and to protect existing interests.

Stage III: Managing the Strategic Marketing Decision Area

At Stage III the realistic model is concerned to describe how multinationals manage the strategic marketing decision area. Investigation has revealed that programming the decision problem (along the lines suggested by the heuristic model) does not formally exist. The heuristic model quantified certain key variables in the marketing environment for the purpose of controlling the structural deficiencies in the decision sequence. (vi). In practice, whilst market conditions are important, the way in which the multinational perceives the potential of these affects the management of the decision area. In effect, the realistic model needs to modify the processes of the heuristic model, and identify those factors which affect this perception.

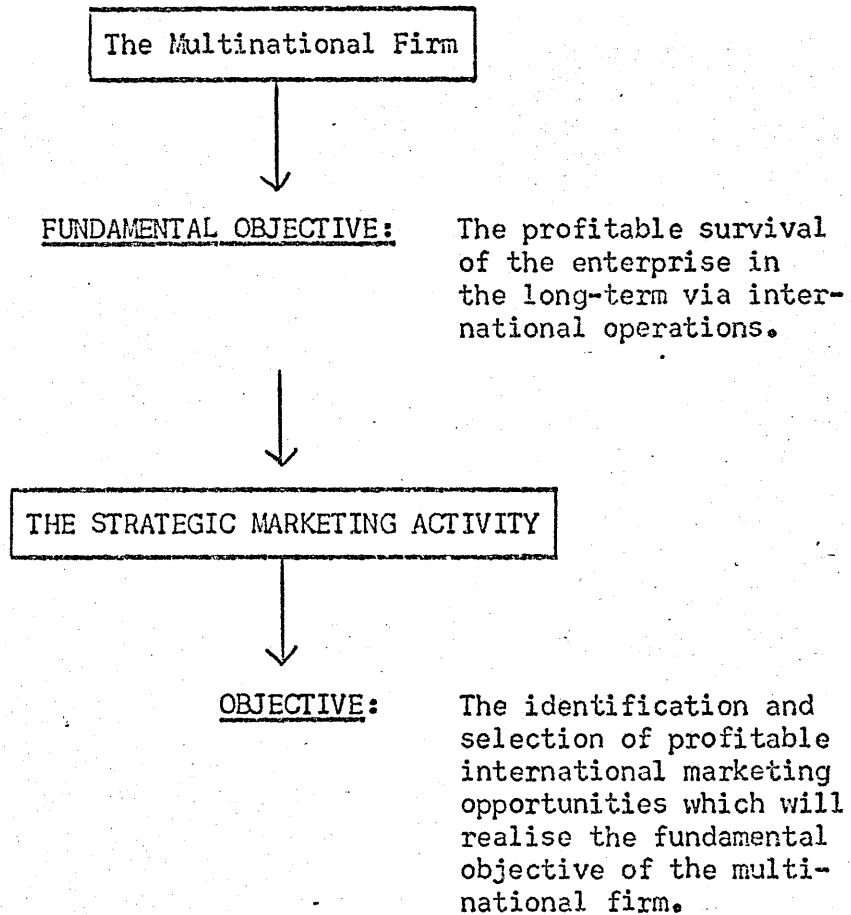
The Perception of Marketing Opportunities in the European Complex

In the model (presented overleaf) perception of opportunities is seen to be the central factor in the sequence. Four components have been identified which influence this perception:

- (1) The industry of which the multinational company is a member.
- (2) The product(s) which the multinational company markets.
- (3) The tradition, commitment and history of the multinational company.
- (4) The political environment.

(1) The Industry

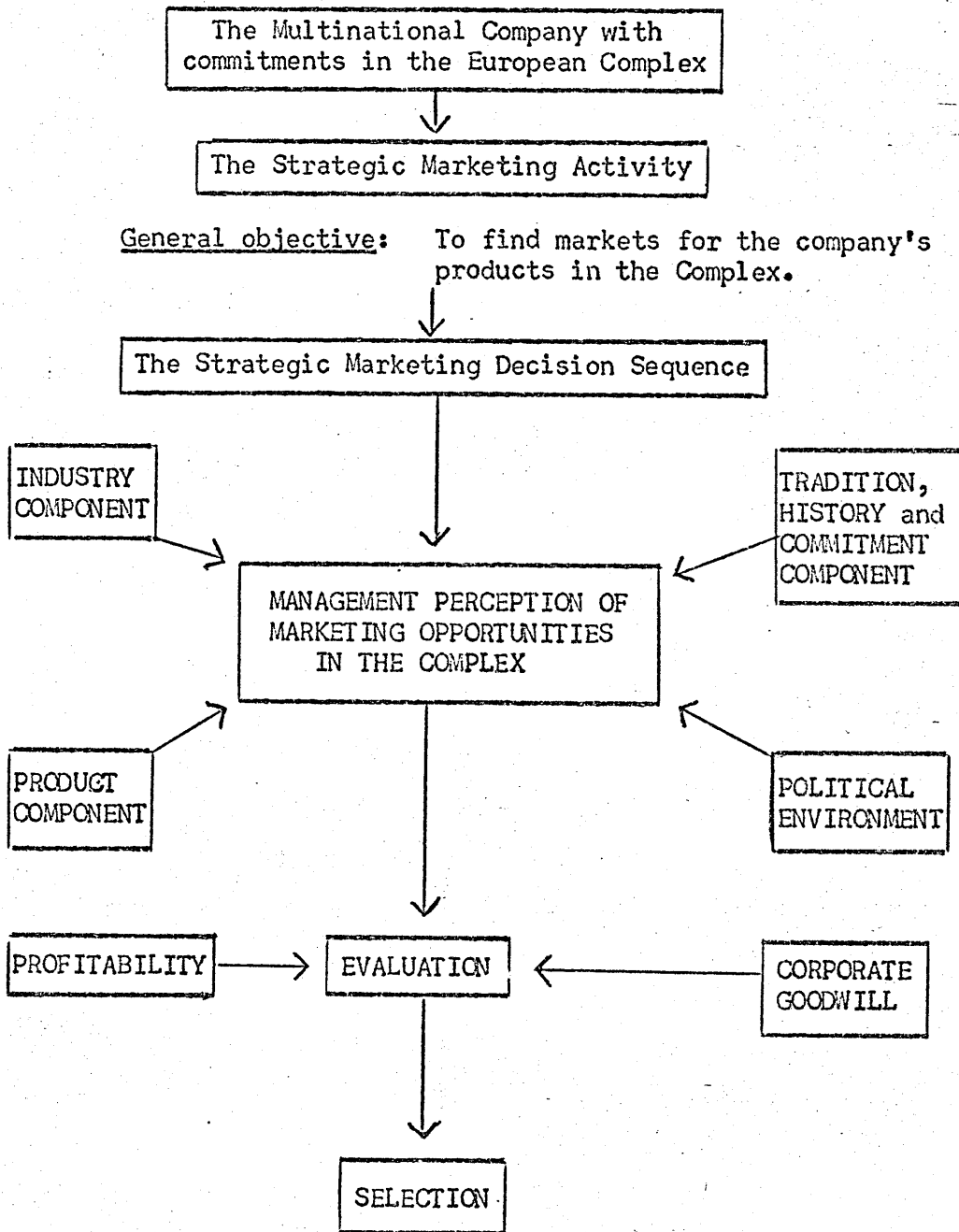
The importance of sectoral membership was highlighted in the heuristic model. The common patterns observed in the selection of variables (more particularly in the pharmaceuticals sector) emphasised the way in which the companies tended to refer in their strategic marketing decision-making to the total industry in which they were involved. Where the industry was particularly successful overall in terms of "above normal" profits perception of opportunities in the Complex was more comprehensive. The multinationals considered all the markets in the Complex. This set of circumstances applied again more particularly to the pharmaceuticals sector, but there were other companies which exhibited the same kind of confidence. Sectoral membership works both ways. Competition within the industry also tended to direct perception of opportunities. The need to match and out-class rivals extended certain multinationals perception

The Descriptive ModelThe "Typical" Strategic Marketing Decision Sequence:The Fundamentals of the Model

The Descriptive Model

The "Typical" Strategic Marketing Decision Sequence:

The Management of the Sequence



of new market areas.

(2) The Product

The product, and the likely demand for the product in new markets, also influenced the perception of opportunities. To some extent the "product component" may be seen as a sub-set to the industry component. All multinationals in the sample were attempting to develop their products to the extent that differentiation assured market demand. This was particularly spectacular in the pharmaceuticals and precision engineering sectors, but was reflected throughout the sample. Extensive research and development resources were being used by all companies to create and maintain competitive advantage. The product, and consideration of issues linked with the product, seem to be basic to the perception of marketing opportunities. The specification of variables revealed that market size and likely consumer demand for the product are prime considerations. (vii). The heuristic model has dealt with only one half of the issue - conditions within the markets. The other half relates in part to the way in which the company perceives these conditions to be relevant to its products.

(3) The Tradition, Commitment and History of the Multinational

The tradition, commitment and history of the multinational may impose a psychological "set" upon the perception of market opportunities. This may well be inter-connected with the political environment present in the European Complex. The markedly different patterns of development of the British and West German multinationals in terms of international commitments is itself the resultant of "imperial" traditions, and the intervention of two world wars. The British multinationals are increasingly concentrating their efforts in Western Europe as opposed to Commonwealth markets, whilst the West Germans are attempting to expand their international interests outside Europe. These were restricted between 1945 and 1961.

Super-imposed upon this general trend, are circumstances relative to this component which apply to the individual multinational. Existing commitments may force a multinational to honour agreements, or exploit markets where operating profits are lower than could be earned elsewhere. These are responsibilities which the multinational may need to respect in order to protect the future interests of the whole group.

(4) The Political Environment

The political environment is in part connected with the nationality of the multinational, and in part with Component (3). The outstanding finding in this area was the more favourable perception

of the marketing potential in the COMECON complex among West German multinationals. This was supported by findings in Phase III of the investigation. Perception of marketing opportunities are likely to be more intensive in regions where conditions of exchange and operations are improving. At the time this study was carried out in Western Germany (September - December, 1972) important negotiations were being finalised between the Bundesrepublik and COMECON members. These were to improve exchanges between the parties involved. In addition, West Germany occupies a central location within the Complex, and interests can easily be concentrated increasingly in Eastern Europe. However, favourable political conditions are not always the pre-requisite for perceiving new marketing opportunities. The pharmaceuticals sector provides the example of an industrial sector, where technological advancement, and the activities of competitors, have meant that difficult marketing areas in Eastern Europe needed to be considered for reasons of profitability.

The Perception Factor, and the Identification and Selection of Market Opportunities

The descriptive model proposes that the management of the decision sequence is dependent upon the way in which the multinational firm perceives opportunities to be present in the European Complex. This perception is itself dependent upon the four major components which have been discussed above. The way in which a multinational perceives an opportunity, and whether it perceives the opportunity at all, determines whether it will be considered for selection. The companies in Phases I and II of the investigation assessed an opportunity on the basis of its profitability. They considered this to be the prima facie condition for selecting one market for exploitation in preference to another. There were exceptions to condition; selection could not always be as directed as this. The case studies in Technical Appendix IV cite instances where profitability measures did not apply. In order to maintain the long-term profitable survival of the corporate group investments may have had to be made to ensure corporate goodwill. Evaluation and selection are therefore tied to those circumstances which fashion the way in which the company perceives market opportunities.

The Heuristic v. the Descriptive Model

From these proposals it would seem that the heuristic model is redundant. It offers an incomplete method of identifying market opportunities. It is concerned only with the conditions within the markets, and not with the factors which affect the way in which the multinational is likely to perceive such conditions, relative to its individual operations. This is the fundamental issue which needs to be reconciled here.

The Heuristic Model

The purpose of the heuristic model was to develop some means whereby the structural deficiencies present in the strategic decision

sequence might be controlled. If the multinational was limited in the time and resources which were available for the activity, then by programming elements within the sequence "appropriate" opportunities could be generated. The heuristic model presented a quantitative approach to the problem. It showed it was possible to quantify certain conditions within the environment, and to transform these for decision purposes. "Appropriate" opportunities were those which were similar to each other in terms of the variables which were included in the two profiles. Similarity was measured by Euclidean distance. Because the model did not consider the circumstances within which the individual multinational approaches the decision problem, its proposed solution was a partial one. The heuristic model was founded upon the "phase theorem": the multinational was involved in identifying, evaluating and selecting market opportunities in a series of conscious stages. Empirical investigation shows that this proposition needs to be modified.

The Descriptive Model

The realities of selecting market opportunities do not revolve exclusively around the consideration of markets. This was identified by allowing the multinationals who co-operated in the study, to compare their own approaches with that of the heuristic model. Identifying opportunities depended upon whether they were perceived and how they were perceived. This condition also affected the company's evaluation of the opportunity. Although there were in several companies sophisticated information systems, there was nothing that approximated the model. There was however evidence that markets which were similar to one another in terms of marketing conditions had been exploited by using similar marketing strategies. This was also investigated in Phase III of the empirical study. Because the heuristic model has not considered all the circumstances within the sequence, this does not negate its value. The salient question here is whether the perception factor is amenable to quantitative treatment in the same way that market conditions are. At this point in time the answer is probably "no". The question should be rephrased. We should ask "Is it really appropriate to attempt to quantify data that is subjective?". There is a case for systemised elements within the sequence along the lines suggested by marketing systematics and the heuristic model, but there are other elements which are not presently suitable for mathematical treatment.

This study has investigated the strategic marketing decision sequence relative to a number of multinational companies with commitments and operations in the European Complex. The findings are therefore limited in their generality, since the research design (more particularly Questionnaires I and II) have considered circumstances particular to the Complex. The results of the study argue that theoretical approaches which consider markets and market conditions are insufficient. By examining the other side of the

sequence - the realities of selecting market opportunities - the implementation of the sequence is seen to be dependent upon the way in which the individual multinational perceives such opportunities. Perception is the resultant of the interaction of four components; the industrial sector in which the company operates, the products which it manufactures and markets, the tradition, commitment, and history of the enterprise, and the political environment. The descriptive model demonstrates how little is known about the actual mechanics of the sequence. This is the area in which future research should be concentrated. One proposal might be to follow a strategic marketing decision sequence through all the stages from conception to implementation. A single case would comprise a study in itself. The investigation would need the time and resources to identify the parts played by the principle actors in the sequence, to identify the decision-makers, and to describe the processes whereby the selection of a particular market opportunity was selected. This study was concentrated upon identifying the general parameters in the problem, and demonstrating that the rationale of certain theoretical approaches whilst sound, are incomplete. There are circumstances particular to each company which interact in the sequence, and ultimately determine which opportunities are selected.

TECHNICAL APPENDIX IContents:

- Sources of Statistical Information.
- Data array Demographic Profile.
- Data array Socio-Economic Profile.
- Note on Euclidean Distance.
- Note on Mode Analysis.

SOURCES OF STATISTICAL INFORMATIONDEMOGRAPHIC PROFILE

<u>Variable</u>	<u>Source</u>
A1. Total Population	UNESCO Statistical Yearbook 1969 pp 19-20
A2. Population Density	UNESCO Statistical Yearbook 1969 pp 19-20
A3. Annual % Increase in population	UNESCO Statistical Yearbook 1969 pp 62-63
A4. Percentage of total population of working age (15-64)	Computed from: U.N. Yearbook of Labor Statistics, Geneva, 1970---pp 16-53 1971---pp 33-47
A5. Agricultural population as per- centage of total population	Section III 1970---pp 409-458 1971---pp 409-456
A6. Agricultural population as per- centage of total working population	Section III 1970---pp 409-548 1971---pp 409-456
A7. Percentage of population employed in commerical services	Computed from U.N. Yearbook of Labor Statistics 1970/71 Section III 1970---pp 409-458 1971---pp 409-456
A8. Percentage of total population in urban conglomerations of + 100,000 persons	U.N. Demographic Yearbook 1969, pp 202-208
A9. Population of Primate City as a percentage of the total popu- lation of the 4 largest	Europa Yearbook 1969-70) 1970-71) Vol. I Relevant National Sections
A10. Predominant Religious Group	The Statesman's Yearbook 1969-70 1970-71 Relevant Sections

SOURCES OF STATISTICAL INFORMATIONSOCIO-ECONOMIC PROFILE

<u>Variable</u>	<u>Source</u>
B1. Electrical Power Production K/W per capita	UN Statistical Yearbook 1969 pp 337-345
B2. Energy Consumption Kilo per capita	UN Statistical Yearbook 1969 pp 324-327
B3. Steel: Apparent Consumption Expressed in Terms of Crude Steel Kilo per capita	UN Statistical Yearbook 1969 pp 491-493
B4. G.N.P. per capita at factor cost	World Bank Atlas 1970 World Bank for Reconstruction and Development, Washington pp 5
B5. Average Annual Rates of Growth of Agriculture	UN Statistical Yearbook 1969 1970 pp 553-5/556, pp 593-5/596
B6. Average Annual Rates of Growth of Industrial Activities Including Manufacturing Industries	UN Statistical Yearbook 1969 1970 pp 553-5/556, pp 593-5/596
B7. Total Value of Exports f.o.b. US \$	UN Statistical Yearbook 1969 pp 370-1
B8. Total Value of Imports c.i.f. US \$	UN Statistical Yearbook 1969 pp 370-1
B9. Average Life Expectancy from Year of Birth	UN Demographic Yearbook 1969 pp 650-4
B10. Infant Mortality Rate	UN Demographic Yearbook 1969 pp 578-9
B11. Inhabitants per Physician	UN Compendium of Social Statistics 1966, pp 211-12 + Statistical Health & Hospital Data: Robert S. First Inc. Jan 1971
B12. Inhabitants per Hospital Bed	UN Compendium of Social Statistics 1966, pp 211-12 + Statistical Health & Hospital Data: Robert S. First Inc. Jan 1971
B13. Primary School Enrolment	UNESCO Yearbook 1969, pp 230-7
B14. Secondary School Enrolment	UNESCO Yearbook 1969, pp 252-5

<u>Variable</u>	<u>Source</u>
B15. Education at Tertiary Level: Graduates per 100,000 Population	UNESCO Yearbook 1969 pp 268-72
B16. Newspaper Circulation: Estimated Daily Circulation per 100,000 population	UNESCO Yearbook 1969 pp 583-8
B17. Radio Receivers per 1000 Population	UNESCO Yearbook 1969, pp 626-634
B18. Telephones per 1,000 Population	UNESCO Yearbook 1969, pp 464-7
B19. Television Receivers per 1,000 Population	UNESCO Yearbook 1969, pp 640-6
B20. Motor Vehicles per 1,000 Population - Passenger	UN Statistical Yearbook 1969 pp 393-5
B21. Motor Vehicles per 1,000 Population - Commercial	UN Statistical Yearbook 1969 pp 393-5
B22. Road Density K/ms per 100 sq K/m	Europa Yearbook 1970/71 Statesman's Yearbook 1970/71
B23. Railway Density K/ms per 100 sq K-m	Europa Yearbook, Statesman's Yearbook op cit
B24. Rail Freight Utilization net ton/Kms	UN Statistical Yearbook 1969 pp 387-9

PROFILE A

COUNTRY	VARIABLE	A	55.283	227	0.6	45.0	0.7	1.6	47.3	53	43.0	2000
Great Britain	A											
Norway	B		3.819	12	0.8	49.0	10.1	19.5	35.2	58	31.7	3000
Sweden	C		7.912	18	0.8	41.0	5.0	11.9	31.2	48	37.6	2000
Denmark	D		4.870	113	0.8	48.0	5.5	14.8	37.0	72	36.9	2000
Portugal	E		9.505	103	0.9	39.5	16.0	42.3	12.1	65	22.6	1000
Switzerland	F		6.147	149	1.3	38.0	4.0	11.9	33.6	45	32.8	3000
Austria	G		7.349	88	0.5	32.7	0.8	22.8	31.0	73	29.3	1000
France	H		49.920	91	0.9	40.4	6.0	15.1	58.0	59	40.5	1000
W. Germany	I		58.015	234	0.9	45.1	4.0	9.5	37.0	60	36.3	3000
Italy	J		52.750	175	0.8	35.9	7.5	20.8	40.0	40	30.2	1000
Netherlands	K		12.743	379	1.3	35.6	2.7	10.7(1)	42.5	36	39.7	3000
Belgium	L		9.619	315	0.7	38.1	1.9	4.9	32.0	41	41.9	1000
Luxembourg	M		.336	130	0.7	38.6	4.7	11.1	23.0	23	36.9	1000
U.S.S.R.	N		237.808	11	1.1	35.2	9.9	10.9(2)	34.2	56	4.7	3000
Bulgaria	O		8.370	75	0.7	30.1	3.3	11.0	22.0	51	6.2	3000
Romania	P		719.721	83	0.9	23.8	2.3	14.5(3)	18.4	72	13.4	3000
D.D.R.	Q		16.002	148	-0.1	45.3	6.0	17.2	23.0	44	8.8	2000
Poland	R		32.207	103	1.0	29.1	2.2	7.8	23.3	41	10.6	1000
Czechoslovakia	S		14.362	112	0.3	47.1	8.9	17.7	15.0	55	21.6	1000
Hungary	T		10.255	110	0.3	48.3	14.4	29.7	25.0	80	18.5	1000
								(1)1969 (2)1969 (3)1969				

PROFILE B

Country		1	2	3	4	5
Great Britain	A	223.302	5004	422	1790	2.6
Norway	B	60.123	4259	371	2000	0.4
Sweden	C	56.237	5360	623	2620	0.1 ⁽²⁾
Denmark	D	12.097	4690	339	2070	1.3
Portugal	E	6.215	541	61	460	1.3
Switzerland	F	30.552	3012	357	2490	1.0
Austria	G	25.714	2854	306	1320	0.7 ⁽³⁾
France	H	117.925	3282	359	2130	2.1
W. Germany	I	198.913	4484	579	1970	2.0
Italy	J	104.011	2215	325	1230	3.6
Netherlands	K	33.619	4012	347	1620	1.5
Belgium	L	26.460	5236	350	1810	1.7
Luxemburg	M	274	2000	59	2170	1.4
U.S.S.R.	N	638.661	4059	428	1110	2.5
Bulgaria	O	15.451	3322	251	770	1.7
Romania	P	27.828	2386	212	780	2.1
D.D.R.	Q	63.231	5387	437	1430	1.0 ⁽⁴⁾
Poland	R	55.520	3826	323	880	2.4
Czechoslovakia	S	41.387	5776	590	1240	0.1
Hungary	T	13.155	2816	307	980	0.4
						(1) 1960-1969
						(2) 1960-1969
						(3) 1960-1967
						(4) 1960-1969

PROFILE B (Contd.)

Country	6	7	8	9	10	11	12
A	2.5	18.409	14.838	72.0	18.5	990	105
B	5.6	2.706	1.938	73.5	13.7	714	144
C	6.5	5.126	4.939	74.5	12.9 ⁽¹⁾	770	61
D	5.8 ⁽¹⁾	3.237	2.640	72.5	17.4 ⁽²⁾	717	104
E	8.9	1.178	761	63.5	61.1	1190	172
F	6.0	4.513	3.966	71.5	16.1	646	88
G	4.4	2.496	1.989	70.0	25.5	531	92
H	6.2	13.927	12.672	71.5	20.4	770	150
I	4.8	20.150	24.842	71.0	22.8	580	90
J	6.9	10.286	10.183	70.5	32.3	566	99
K	3.0	9.292	8.341	73.5	13.6	858	188
L	2.6	7.130	7.104	70.5	22.9 ⁽³⁾	644	216
M	2.5	1.203	1.060	64.0	16.7	1000	90
N	9.2	9.410	10.634	70.0	26.4	510 ⁽²⁾	110 ⁽¹⁾
O	11.1	1.782	1.615	70.5	28.3	610	140
P	13.1	1.609	1.469	67.5	59.5	786	130
Q	5.1 ⁽²⁾	3.101	3.453	71.5	20.4	600	90 ⁽²⁾
R	8.4	2.853	2.858	70.0	33.4	830	136 ⁽³⁾
S	4.2	3.077	3.005	70.0	15.8 ⁽⁴⁾	550	100
T	7.6	1.803	1.790	68.5	35.8	660 ⁽²⁾	130
	(1)1960- 1969				(1)1967	(1)1963	(1)1963
	(2)1960- 1969				(2)1963	(2)1963	(2)1963
					(3)1967		(3)1963
					(4)1967		

PROFILE B (Contd.)

Country	13	14	15	16	17	18	19
A	111	58	140 ⁽¹⁾	463	318	200	280
B	94	78	55 ⁽²⁾	384	302	115	193
C	98	99	152 ⁽³⁾	518	370	480	296
D	97	68	128 ⁽⁴⁾	356 ⁽¹⁾	321	250	248
E	84 ⁽¹⁾	28	32 ⁽⁵⁾	71 ⁽²⁾	146	67	33
F	102	57	62	361 ⁽³⁾	285	436	164
G	106	73	77 ⁽⁶⁾	225 ⁽⁴⁾	282	108	154
H	134 ⁽²⁾	62	110 ⁽⁷⁾	251 ⁽⁵⁾	312	153	185
I	127	65	215 ⁽⁸⁾	328	465	195	249
J	107	52	71 ⁽⁹⁾	95 ⁽⁶⁾	208	145	158
K	103	62	204 ⁽¹⁰⁾	307	249	220	209
L	111	75 ⁽²⁾	76 ⁽¹¹⁾	260 ⁽⁷⁾	333	189	197
M	81	57	40	445	416	267	155
N	105	67	206 ⁽¹²⁾	305	360	30	96 ⁽¹⁾
O	103	61	140 ⁽¹³⁾	195	268	43	77
P	103	41	114 ⁽¹⁴⁾	158	154	28	57
Q	106	60	108 ⁽¹⁵⁾	445	348	118	244
R	105	61	101 ⁽¹⁶⁾	199	174	51	105
S	97	36	145 ⁽¹⁷⁾	283	276	110	199
T	103	32	110 ⁽¹⁸⁾	205	245	66	136
	(1)1966	(1)1965	(1)1966	(1)1967			(1)1967
	(2)1967	(2)1965	(2)1967	(2)1967			
			(3)1967	(3)1962			
			(4)1966	(4)1962			
			(5)1966	(5)1967			
			(6)1965	(6)1967			
			(7)1966	(7)1960			
			(8)1967				
			(9)1964				
			(10)1965				
			(11)1965				
			(12 - 18)				
			1966				

PROFILE B (Contd.)

Country	20	21	22	23	24
A	195	31	16	0.21	24.026
B	162	36	16	0.10	2.499
C	205	19	6	0.15	14.793
D	195	52	20	0.05	1.453 ⁽¹⁾
E	42 ⁽¹⁾	7 ⁽¹⁾	32	0.03	976
F	173	17	43	0.04	6.113
G	143	46	11	0.08	8.178
H	230	53	14	0.07	63.036
I	193	15	39	0.05	58.713
J	154	15	13	0.03	17.208
K	150	22	141	0.02	3.274
L	190	35	34	0.04	6.675
M	250	35	109	0.05	640
N	10	15	0.2	0.05	2.227.480
O	8	12	29	0.07	12.198
P	7	2	3.5	0.05	40.705
Q	57	22	42	0.09	44.589
R	11	7	41	0.08	32.636
S	41	11	57	0.09	56. 71
T	2	6	6.4	0.08	17.557
	(1)1967	(1)1967			(1)1967

NOTES ON EUCLIDEAN DISTANCE

Euclidean distance is a similarity measure which may be applied to determine the distance between N objects in an MN multi-dimensional space. This can be illustrated here using a simple geometric model.

If we select two markets:

Great Britain (A)
and France (B)

and decide to assess their similarity in terms of two variables:

Total Population (X)

Average Annual Income per capita (Y)

we are able to plot the position of each object within a pair of conventional rectangular co-ordinates where:

the X axis represents Total Population

the Y axis represents Annual Income per capita

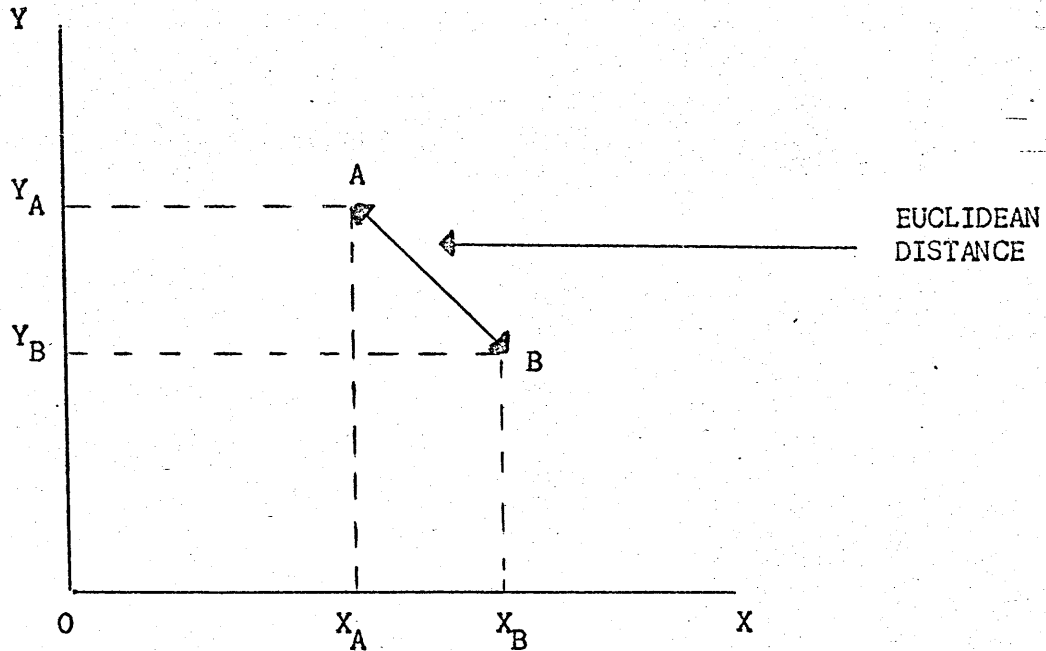
We should standardise our raw data to eliminate obvious bias towards any one variable due to its magnitude.

Our data matrix will read:-

MARKET		TOTAL POPULATION	AVERAGE ANNUAL INCOME per capita
Great Britain	A	X_A	Y_A
France	B	X_B	Y_B

The position of each point on the plane will be determined by the intersection of the straight line drawn from the appropriate value

on the co-ordinate axis. The Euclidean distance between (A) and (B) relates to the dissimilarity between these markets in terms of the variables X and Y. The greater the distance between the markets the greater the dissimilarity between them.



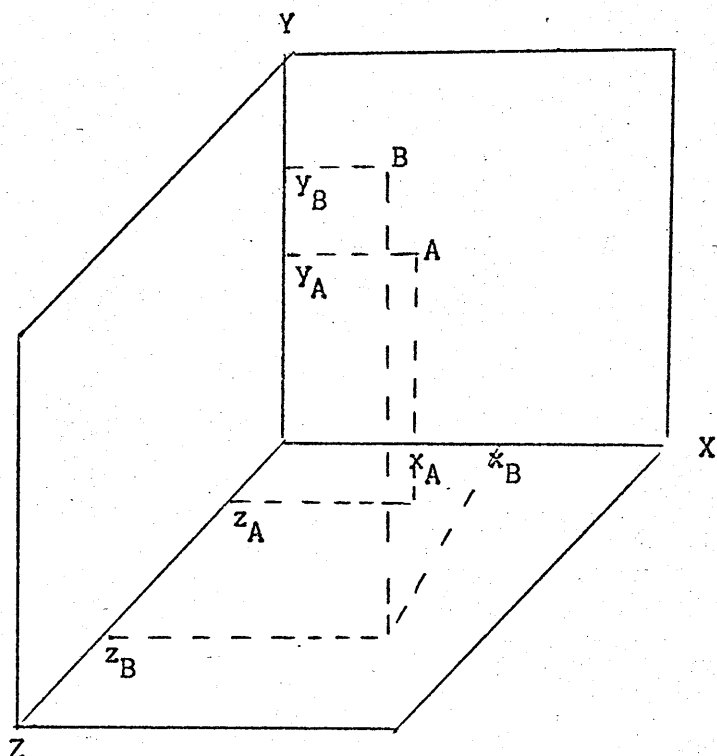
The Euclidean distance between (A) and (B) may be calculated by the formula:

$$d^2 (A) (B) = (x_A - x_B)^2 + (y_A - y_B)^2$$

If we add a third co-ordinate representing Average Annual Household Expenditure per capita:

Market		Total Population	Average Annual Income per capita	Average Annual Household Expenditure
Great Britain	A	x_A	y_A	z_A
France	B	x_B	y_B	z_B

The resultant geometric model is:-



So that the Euclidean distance may be calculated for A and B on each of the three dimensions

$$d^2(A) (B) = (x_A - x_B)^2 + (y_A - y_B)^2 + (z_A - z_B)^2$$

and for the two markets in terms of n-dimensions:

$$\Delta (A) (B) = \left[\sum_{i=1}^n (x_{iA} - x_{iB})^2 \right]^{\frac{1}{2}}$$

where $\Delta (A) (B)$ is the distance between the markets A and B and x_{iA} is the value the object has for one dimension i .

It is not possible for the human mind to visualise anything beyond a three dimensional geometric model. However mathematically it is possible to calculate Euclidean distances for N objects in terms of M variables within an MN multi-dimensional plane or hyperspace. Therefore we can determine the similarity distance of an object relative to all other objects in a sample (n - 1). By use of the similarity coefficient, a clustering technique will group objects in accordance with the particular method. The method employed in this study is model analysis.

NOTE ON MODE ANALYSIS

Mode Analysis is a technique for clustering which allows "natural" classes to be derived using a numerical classification method. It incorporates the "nearest-neighbour" principle developed by Sneath. Sneath's method requires the use of a threshold "r". All points within the plane which are located from one another at a distance less than "r" are linked by a lattice connection, so that every point must be connected to at least ONE other. A technical problem arises when "noise" data located within the plane become connected to these "mode" clusters (Saddle Points). Forgey therefore proposed that a density limit "K" should be added so that when a sphere of "r" radius is drawn about each separate point if the number of points which lie within this area is at least "K" then the point is termed as "dense" and clustered using Sneath's single linkage principle with the "r" radius factor as the determinant. If the number of points within the sphere is less than K then the point is "non-dense" and is removed.

Wishart has refined this technique by developing what he terms as "Hierarchical" Mode Analysis. Forgey's method is weak because the user must decide for himself the relevant values of "r" and "K" and because "non-dense" points are neglected. "K" is therefore fixed and "r" allowed to vary, so that where a point exceeds "r" it is allowed to initiate a new cluster nucleus. (Previous "nearest-neighbour" techniques disregarded non-dense points, and they are therefore excluded from the final clusters.) At the termination of the analysis all points have been classified within a single cluster.

Since some of the work was experimental, the empirical trials using Mode Analysis which had determined the reliable values for K relative to sample size provided another advantage for selecting the routine. Additionally I think it is useful to summarise below the routine which was actually used:-

SUB ROUTINE	
I	Input of all variables and the specification of a partial mask for Routine A : Variable 10.
II	Standardisation of all variables (zero mean/unit standard deviation).
III	Principal Components Analysis.
IV	Computation of Euclidean distance coefficient for <div data-bbox="762 1913 987 1989" style="margin-left: 150px;"> i numeric data ii binary data </div>

V

From K-linkage list "highest similarity coefficient") the determination of the order in which points become dense by the sequential selection of similarity coefficients in the order of their magnitude from the lists. The first cycle initiates the initial cluster. A sample point is termed as "dense" if the similarity coefficient threshold "d" reaches a level at which at least K other points are similar to this point at the threshold "d".

TECHNICAL APPENDIX IIContents:

- The Operation Parameters of "Clustan".
- Inter-correlation matrix : Profile A.
- Inter-correlation matrix : Profile B.
- Planar representation : Profile A.
- Mode dendogram : Profile A.
- Planar representation : Profile B.
- Mode dendogram : Profile B.

THE OPERATION PARAMETERS OF "CLUSTAN"

"Clustan" employs hierarchical mode analysis. A full review of this is contained in Technical Appendix I. The "Clustan" routine may be broken down into seven stages or sub-routines. These correspond to the description given by Frank and Green in Chapter VIII, 2.3.

Sub-routine	Description of Activity
-------------	-------------------------

1. Input of all variables.
Input is enacted in two sets of data :

Set A : demographic profile
Set B : socio-economic profile

The reasons for investigating two separate profiles were because each had a specific relevance to marketing, and to avoid too arbitrary selection of data.

Variable A 10 is an ordered multistate variable. Each object is characterised by one of these states. These are transformed into a numeric value thus:

Ordered Multistate	Numeric
1	1.0
2	2.0
3	3.0

2. The numeric standard score for each variable is calculated. This diminishes bias towards any one variable due to its magnitude.
3. The calculation of a produce-moment correlation matrix between variables.
4. The performance of a principal components analysis.
This option is only available for sample sizes < 35 .
Principle components analysis may be broken down into the following activities:
 - a. The calculation of the product-moment correlation matrix between variables.
 - b. The calculation of eigenvectors (factor loadings) from the product-moment correlation.
 - c. The calculation of factor scores (component factor weightings to each sample)
(eigenvector) x (standard scores)

- d. The calculation of a coefficients matrix using the factor scores. This is the calculation of the Euclidean distance between samples.

Formula for numeric data: $\frac{1}{M} \sum (x_1 - y_1)^2$

- e. The compilation of the K-linkage list which indicates the 5 nearest samples to each sample in turn. This is derived directly from the coefficients matrix which comprises the Euclidian distance between each sample and the other 19 in the European Complex.

5. Cluster analysis.

From the K - linkage list (Euclidean distances giving the 5 highest similarity coefficients to each object) the determination of the order in which the points become dense is achieved by the sequential selection of similarity coefficients in their order of magnitude from the lists. The first cycle initiates the cluster. A sample is termed as "dense" if the coefficient threshold "d" reaches a similarity level at which k other points are similar to this point. The distance threshold "d" is the average of the two largest similarity coefficients in the sample. (See: Frank and Green : Stage 3). It is necessary for the reader to imagine here that all the objects in the sample represent points in an MN multi-dimensional space. The position of each has been plotted by the calculation of the Euclidean distance between each. If a sphere of radius "d" is then drawn around each point, where there is at least one other point (where k = 1) within that sphere, the point may be termed as dense. Empirical trials have determined the value of k:

Number of samples	KL	Minfus *
1	1	1
2	2	2
3	3	3

* Minfus : minimum cluster size criterion for the output of groupings.

Each new dense point

- initiates a cluster
- joins a cluster
- fuses two or more clusters.

It is easiest to visualise this part of the routine by imagining each point in the MN dimensional space

as surrounded by a sphere of radius "d". Where there exists another point within this area the point is termed as dense. The two most similar points initiate the first cluster, and "k" remains constant as "d" increases. The first cycle will initiate a cluster, and the last cycle causes the entire population to be fused into one cluster.

6. The output of clusters is terminated as Perc. = 0.8
This is the enclosure ratio and is defined as:

$$\text{enc.} = \frac{1}{N} \times (\text{the number of samples classified at the nuclei level})$$

This corresponds to a cut-off point. (Frank and Green 4b.).

A high enclosure ratio indicates a stable separation of the population.

7. Stages 6 and 7 of Frank and Green's routine indicate the possibilities for achieving stable separations of the population. "Clustan" achieves this by increasing "k". Re-examining the values of "k" in Stage 5 above, if the analyst wishes to achieve this, "k" may be increased to 2 KL and 3KL respectively until the enclosure ratio of 0.8 is satisfied.

For example if 4 clusters are derived at enc. 0.6 : (KL=1) the analyst can increase KL to 2 or 3 until the enc. reaches 0.8. Different cluster groupings will emerge, and the most stable separation will be achieved at this level. The results presented in Chapter VIII are for KL = 1. This was selected because the sample size was small being less than 30.

SUMMARY OF INPUT PARAMETERS AND DEFAULT OPTIONS

- | | |
|---------------|--|
| 1. MINC = 1 | This is the minimum number of Clusters which are of interest. (1) |
| 2. PERC = 0.8 | The minimum enclosure ratio to terminate the analysis provided that the number of clusters is not greater than MINC. |
| 3. LINK = 2K | (Average linkage criterion used) i. e. similarity threshold is chosen from the average of the 2K highest similarities. |
| 4. KL = 1 | Density Threshold.
i.e. the number of points which must be contained in the spherical neighbourhood of radius "d" which surrounds a data point when it becomes dense. |

INTER-CORRELATION MATRIXA : DEMOGRAPHIC PROFILE

	VARIABLE CORRELATION									
	1	2	3	4	5	6	7	8	9	10
1	1.00									
2	-0.23	1.00								
3	0.26	0.78	1.00							
4	-0.12	-0.16	-0.38	1.00						
5	0.14	-0.42	-0.13	0.43	1.00					
6	-0.22	-0.33	-0.14	0.29	0.62	1.00				
7	0.27	0.19	0.26	0.12	-0.35	-0.25	1.00			
8	0.30	-0.35	-0.23	0.16	0.33	0.57	0.66	1.00		
9	-0.32	0.17	0.19	0.37	-0.27	-0.55	0.59	-0.18	1.00	
10	0.24	0.16	0.43	-0.12	-0.19	-0.26	0.75	0.32	-0.14	1.00

Significant correlations : greater than 0.8.

No observations.

INTER-CORRELATION MATRIXB : SOCIO-ECONOMIC PROFILEVARIABLES 1 - 12

	VARIABLE CORRELATION											
	1	2	3	4	5	6	7	8	9	10	11	12
1	1.00											
2	0.14	1.00										
3	0.17	0.16	1.00									
4	0.15	0.67	0.12	1.00								
5	0.54	0.40	0.67	0.38	1.00							
6	0.21	0.11	0.14	0.63	0.30	1.00						
7	0.20	0.79	0.20	0.50	0.28	0.66	1.00					
8	0.12	0.75	0.21	0.53	0.32	0.10	0.74	1.00				
9	0.14	0.19	0.20	0.16	0.57	0.18	0.21	0.12	1.00			
10	0.32	0.26	0.42	0.22	0.31	0.19	0.18	0.16	0.27	1.00		
11	0.19	0.15	0.25	0.10	0.37	0.12	0.16	0.11	0.16	0.28	1.00	
12	0.18	0.93	0.23	0.69	0.34	0.11	0.74	0.65	0.17	0.22	0.69	1.00

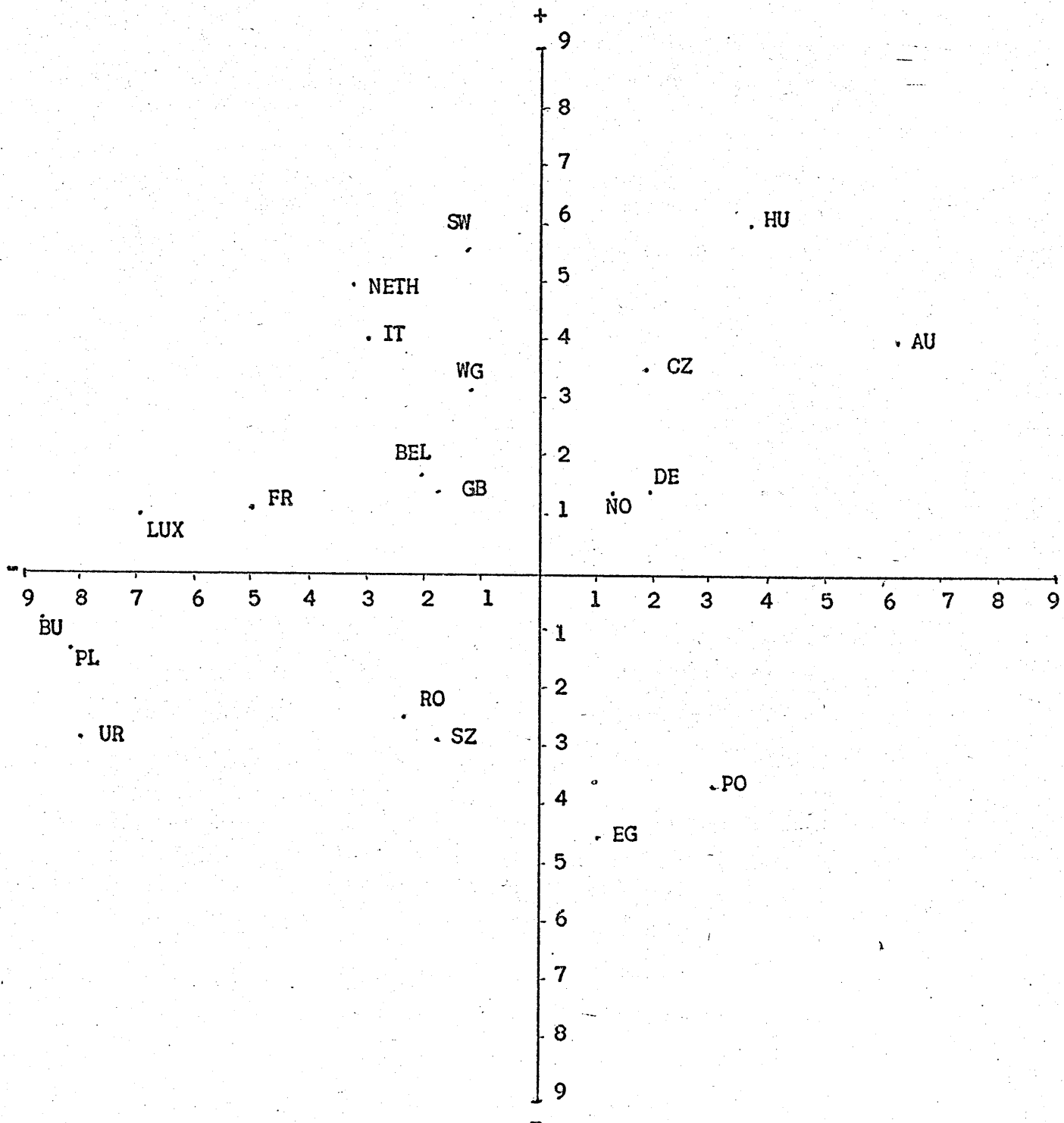
INTER-CORRELATION MATRIX
B : SOCIO-ECONOMIC PROFILE (contd.)
VARIABLES 13 - 24

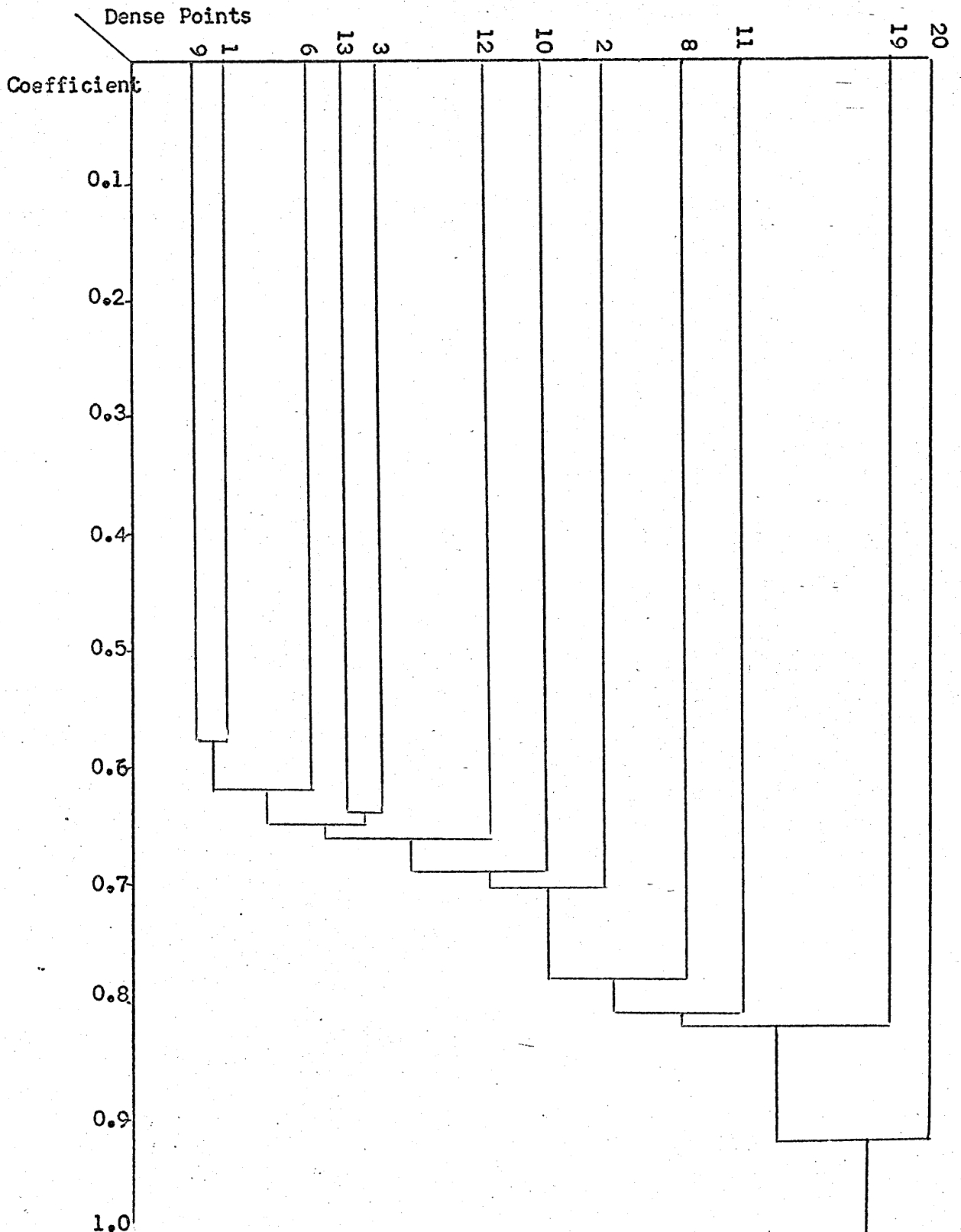
VARIABLE CORRELATION		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24
13	0.28	0.24	0.34	0.16	0.30	0.13	0.16	0.20	0.32	0.34	0.20	0.19	1.00												
14	0.37	0.33	0.42	0.31	0.51	0.32	0.30	0.25	0.26	0.34	0.36	0.34	0.51	1.00											
15	0.31	0.17	0.31	0.14	0.19	0.12	0.10	0.13	0.27	0.19	0.17	0.15	0.27	0.22	1.00										
16	0.44	0.31	0.49	0.27	0.79	0.22	0.20	0.23	0.41	0.22	0.32	0.28	0.37	0.30	0.60	1.00									
17	0.13	0.79	0.12	0.51	0.38	0.77	0.71	0.11	0.14	0.24	0.12	0.69	0.18	0.27	0.12	0.25	1.00								
18	0.25	0.16	0.30	0.14	0.15	0.12	0.11	0.13	0.26	0.16	0.15	0.14	0.24	0.25	0.27	0.61	0.11	1.00							
19	0.20	0.15	0.19	0.11	0.38	0.12	0.11	0.17	0.18	0.27	0.12	0.14	0.25	0.31	0.14	0.27	0.40	0.13	1.00						
20	0.28	0.17	0.31	0.15	0.14	0.11	0.89	0.15	0.26	0.20	0.21	0.16	0.25	0.28	0.52	0.76	0.10	0.58	0.79	1.00					

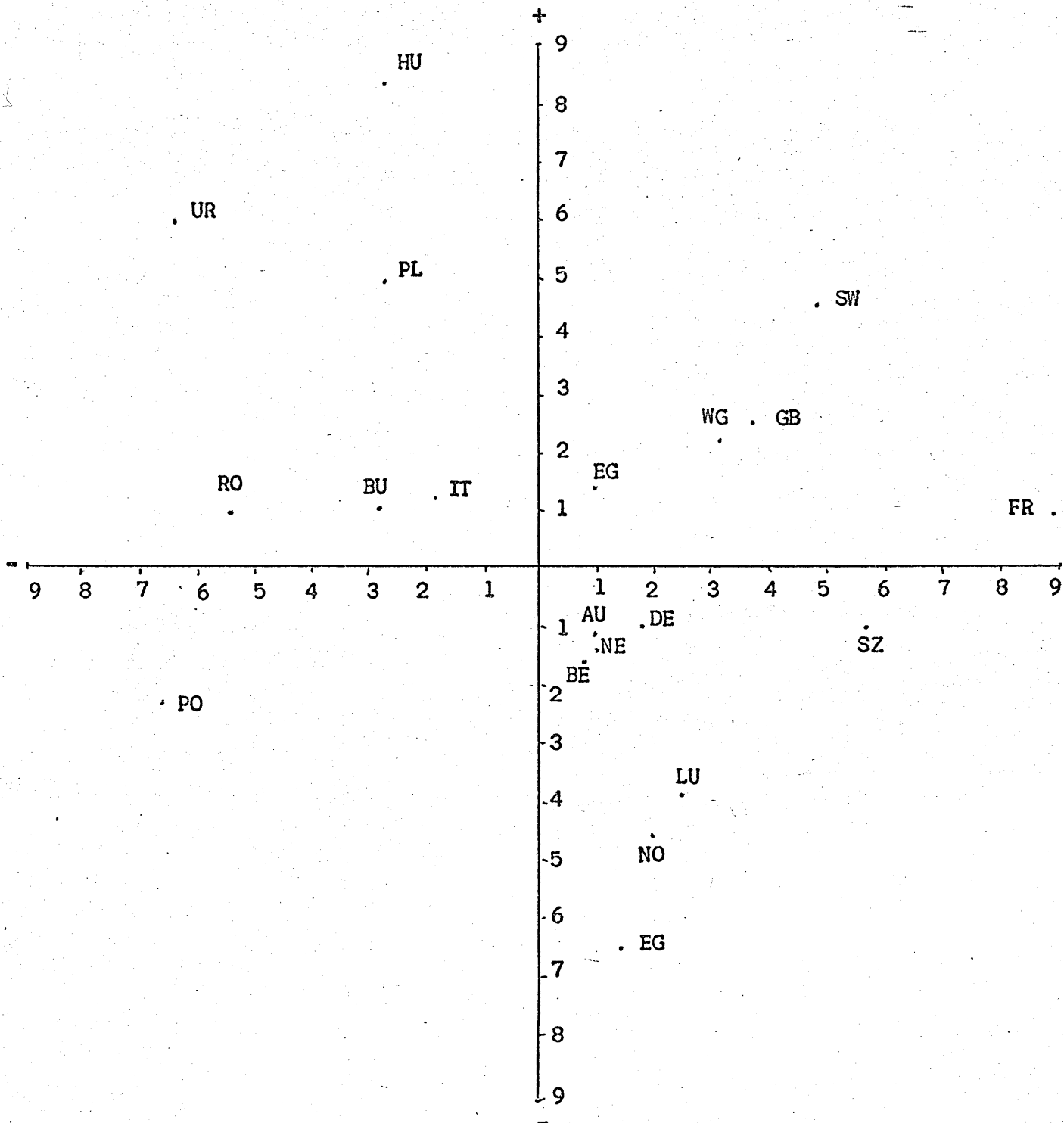
Significant correlations : greater than 0.8.

- 2 : 12 Energy consumption/kilop.c. : Inhabitants per hospital bed.
- 5 : 16 Annual rates of growth of agriculture : Newspapers circulation.
- 7 : 20 Total value of imports/passenger cars.

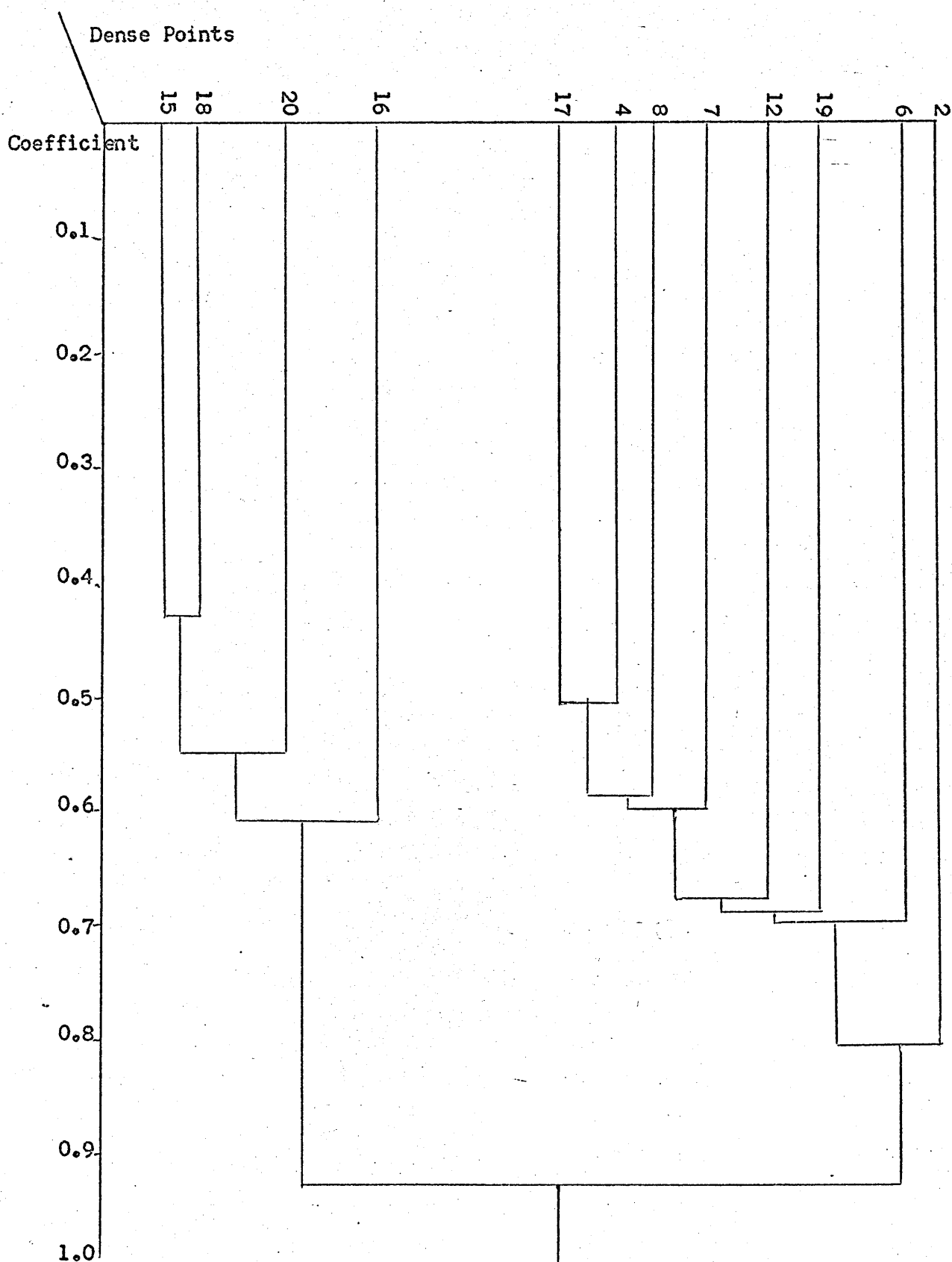
No high positive and negative values observed in eigenvector and factor score tables. Therefore no implicit weightings in the profile towards any variable in the array.

PLANAR REPRESENTATION : PROFILE A

MODE DENDOGRAM : PROFILE A

PLANAR REPRESENTATION : PROFILE B

MODE DENDOGRAM : PROFILE B



TECHNICAL APPENDIX IIIContents:

Questionnaire I

Questionnaire II

QUESTIONNAIRE I

Section I:

1. Does the company manufacture in at least two countries in the world outside the European Complex? **
2. a. Does the company provide a service (i.e. an activity distinct from manufacturing) in at least two countries outside the European Complex?

b. Please specify the countries in which these manufacturing and service facilities are located.

Please specify the types of service.
3. Does the company consider its long-term survival to be dependent upon manufacturing and the provision of a service taking place on an international basis?
4. Does the company consider its long term profitability to be dependent upon international operations?
5. Is the company internationally controlled in terms of:

- i. shareholders' equity?
- ii. Top management personnel at the level of the Board of Directors?

Please specify the percentage for (i)

Please specify the number of directors of different nationality to the "home" country of the company.

- iii. Are at least 20% of the total volume of company sales realised in international markets.
6. Does the company have a separate international division responsible for international operations?

Which one of the 7 structures which will be presented to you do you consider best approximates the formal organization of the company?

(The seven organizational structures discussed in Chapter III were presented to each contact at this point.)

** The "European Complex" comprises the twenty countries listed in Section II of the questionnaire (presented overleaf which were members of the three European trade blocks on December, 31st, 1972.

7. Does the company's top management (Board of Directors) consider international alternatives before strategic decisions are made?

A "strategic decision" is one which concerns the company and the environment in which it operates or intends to operate. The decision area will therefore be concerned with projects and issues which require the investment of capital and non-capital resources in the exploitation of new market areas on a worldwide basis.

8. Does the company manufacture/provide a service in at least two countries in the European Complex?

Please specify.

9. Does the company have overall control of producing facilities in at least two countries in the European Complex?

Please specify.

Section II:

The purpose of the table below is to obtain a complete picture of your company's operations in the European Complex. Fill in only those columns where the company has a producing and marketing facility. "Producing facility" here means the manufacturing location of company products. "Marketing facility" means a centre responsible for the sales, promotion, and distribution of the product-lines.

For example if the company is manufacturing Product A in Belgium and Product B in Italy tick Column I for each country. If the company has also a marketing facility here tick Column II.

Country	Code	Producing Facilities I	Marketing Facilities II
1. Great Britain	GB		
2. Norway	NO		
3. Sweden	SW		
4. Denmark	DE		
5. Switzerland	SZ		
6. Portugal	PO		
7. Austria	AU		
8. France	FR		
9. W. Germany	WG		
10. Italy	IT		
11. Netherlands	NE		
12. Belgium	BE		
13. Luxemburg	LU		
14. U.S.S.R.	UR		
15. Czechoslovakia	CZ		
16. Poland	PL		
17. Hungary	HU		
18. E. Germany	EG		
19. Romania	RO		
20. Bulgaria	BU		

Section III

1. Have you expanded your operations in Western Europe in the last three years?
2. Which of the following, if any, reasons have you used when considering new opportunities in the Western European market?

- i) The projected enlargement of the EEC
- ii) The need for greater markets for your product(s)
- iii) Because your competitors have done so

Others?

3. Have you expanded your operations in Eastern Europe in the last three years?
4. Which of the following, if any, reasons have you used when considering new opportunities in the Eastern European market?

- i) The development of a more favourable climate for business between:
 - a) Your firm and individual Eastern European foreign trade enterprises
 - b) Your firm and individual Eastern European firms
- ii) The need for greater markets for your product(s)
- iii) Because your competitors have done so

Others?

5. Has the company made a financial investment in Eastern or Western Europe (the European Complex) in the last 10 years, of which it was known prior to investment, that the accepted level of return applied to investment decisions by the company could not be realised?

Please specify.

Section IV

N.B. Please remember the European Complex here refers only to those 20 countries in the EEC/EFTA/Comecon blocks on 31st December, 1972.

Which of the following statements concerning Direct Investment Decision Criteria do you consider important when identifying and screening potential markets located in the European Complex?

Would you please rank those you consider important in their order of importance. The statement you consider most important should be ranked 1, the next most important 2, and so on. Those you do not consider important should be left without a ranking.

IMPORTANT
RANK

1. The rapid growth in foreign demand for the company's products in those 20 countries.
2. A levelling off or decrease for the company's products in existing markets (these may be located in Europe or anywhere in the world).
3. The need to meet competition from competitors in Europe.
4. In order to derive protection from tariffs or other foreign duties in the European market.
5. The lower production costs of the European market.
6. The possibility to re-export goods manufactured in these 20 European countries to any other market(s) in the EEC/EFTA/Comecon complex.
7. The possibility to re-export goods manufactured in these 20 European countries to any other European market(s) OUTSIDE the EEC/EFTA/Comecon complex.
8. The possibility to re-export goods manufactured in these 20 European countries to markets located anywhere in the world.

N.B. Please remember EUROPE here refers only to those countries in the European Complex.

SECTION V

1. Which of the following variables do you use when examining potential European markets for your product?

Specify your product group here.

Demographic ProfileVariable

- A1. Total Population
- A2. Population Density
- A3. Annual % Increase
in population
- A4. Percentage of
total population
of working age (15-64)
- A5. Agricultural population
as percentage of total
population
- A6. Agricultural population
as percentage of total
working population
- A7. Percentage of population
employed in commercial
services
- A8. Percentage of total
population in urban
conglomerations of
+ 100,000 persons
- A9. Population of primate
city as a percentage of
the total population
of the 4 largest
- A10. Predominant religious
group

Socio-Economic ProfileVariable

- B1. Electric power production
K/W per capita
- B2. Energy consumption kilo
per capita
- B3. Steel: Apparent consumption
expressed in terms of crude
steel kilo per capita
- B4. G.N.P. per capita at
factor cost
- B5. Average annual rates of
growth of agriculture
- B6. Average annual rates of
growth of industrial
activities including manu-
facturing industries
- B7. Total value of exports
f.o.b. US 3
- B8. Total value of imports
c.i.f. US 3.
- B9. Average life expectancy
from year of birth
- B10. Infant mortality rate
- B11. Inhabitants per physician
- B12. Inhabitants per hospital
bed
- B13. Primary school enrolment
- B14. Secondary school enrolment

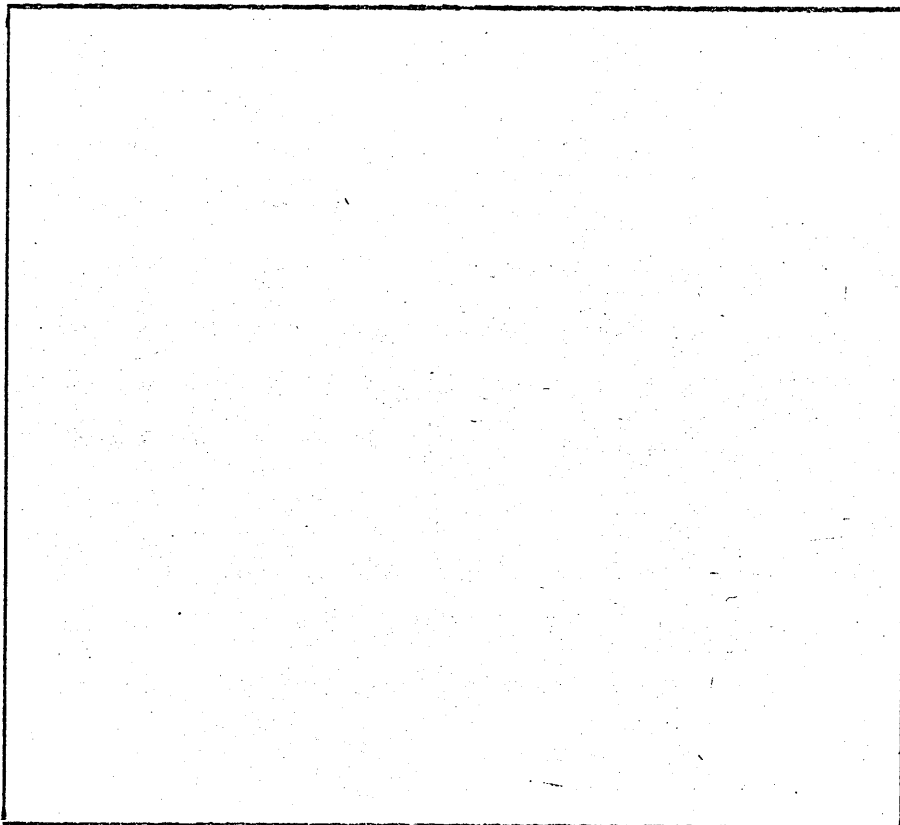
- B.15 Education at tertiary level:
Graduates per 100,000
population
 - B16. Newspaper circulation:
Estimated daily circulation
per 100,000
 - B17. Radio receivers per 1,000
population
 - B18. Telephones per 1,000
population
 - B19. Television receivers per
1,000 population
 - B20. Motor vehicles per 1,000
population - passenger cars
 - B21. Motor vehicles per 1,000
population - commercial cars
 - B22. Road density K/ms per
100 sq K/m
 - B23. Railway density K/ms per
100 sq K/m
 - B24. Rail freight utilization
net ton/Kms
2. If you do not already use any of these variables, would you specify here what others you use or have used?
 3. Do you attempt to identify countries or market segments similar to each other as a basis for selecting market opportunities in the European Complex. (The heuristic model.)

Comments:

QUESTIONNAIRE II

Please give below:

- (1) Your name
- (2) Your position in the company
- (3) The name and address of the company

A large, empty rectangular box with a black border, intended for the respondent to provide their answers to the questionnaire questions listed above.

Section I

1. Does the company manufacture in at least two countries in the world outside the European Complex? **

Yes

☐

No

☐

2. Does the company provide a service (i.e. an activity distinct from manufacturing in at least two countries outside the European Complex?

Yes

☐

No

☐

3. Does the company consider its long-term survival to be dependent upon manufacturing and the provision of a service taking place on an international basis?

Yes

☐

No

☐

4. Does the company consider its long-term profitability to be dependent upon international operations?

Yes

☐

No

☐

5. Are at least 20% of the total volume of company sales realised in international markets?

Yes

☐

No

☐

6. Which one of the organizational structures which are presented overleaf best approximates the formal organization of the company.

** The European Complex comprises the twenty countries listed in Sections II and IV of the questionnaire.

Indicate the appropriate structure thus



Structure	
I	
II	
III	
IV	
V	
VI	
VII	

7. Does the company's top management (Board of Directors) consider international alternatives before strategic decisions are made?

A "strategic decision" is one which concerns the company and the environment in which it operates or intends to operate. The decision area will therefore be concerned with projects and issues which require the investment of capital and non-capital resources in the exploitation of new market areas on a world-wide basis.

Yes

☐

No

☐

8. Does the company manufacture/provide a service in at least two countries in the European Complex?

Yes

☐

No

☐

9. Does the company have overall control of producing facilities in at least two countries in the European Complex?

Yes

☐

No

☐

Section II

The purpose of the table below is to obtain a complete picture of your company's operations in the European Complex. Fill in only those columns where the company has a producing and marketing facility. "Producing facility" here means the manufacturing location of company products. "Marketing facility" means a centre responsible for the sales, promotion, and distribution of the product-lines.

For example if the company is manufacturing Product A in Belgium and Product B in Italy tick Column I for each country. If the company has also a marketing facility here, tick Column II.

Country	Code	Producing Facilities I	Marketing Facilities II
1. GREAT BRITAIN	GB		
2. NORWAY	NO		
3. SWEDEN	SW		
4. DENMARK	DE		
5. SWITZERLAND	SZ		
6. PORTUGAL	PO		
7. AUSTRIA	AU		
8. FRANCE	FR		
9. W. GERMANY	WG		
10. ITALY	IT		
11. NETHERLANDS	NE		
12. BELGIUM	BE		
13. LUXEMBURG	LU		
14. U.S.S.R.	UR		
15. CZECHOSLOVAKIA	CZ		
16. POLAND	PL		
17. HUNGARY	HU		
18. E. GERMANY	EG		
19. ROMANIA	RO		
20. BULGARIA	BU		

Section III

1. Have you expanded your operations in Western Europe in the last three years?

Yes

☐

No

☐

2. Which of the following, if any, reasons have you used when considering new opportunities in the Western European market?

- i) The projected enlargement of the EEC

Yes

☐

No

☐

- ii) The need for greater markets for your product(s)

Yes

☐

No

☐

- iii) Because your competitors have done so

Yes

☐

No

☐

3. Have you expanded your operations in Eastern Europe in the last three years?

Yes

☐

No

☐

4. Which of the following, if any, reasons have you used when considering new opportunities in the Eastern European market?

- i) The development of a more favourable climate for business between:

- a) Your firm and individual Eastern European foreign trade enterprises

Yes

☐

No

☐

b) Your firm and individual Eastern European firms

Yes

☐

No

☐

ii) The need for greater markets for your product(s)

Yes

☐

No

☐

iii) Because your competitors have done so

Yes

☐

No

☐

Section IV

N.B. Please remember the European Complex here refers only to those 20 countries in the EEC/EFTA/Comecon blocks on 31st December, 1972.

Which of the following statements concerning Direct Investment Decision Criteria do you consider important when identifying and screening potential markets located in the European Complex?

Please tick ☒ that statement which best reflects the importance which your company attaches to each statement.

Very important Important Of little importance Not important

☐☐☐☐

1. The rapid growth in foreign demand for the company's products in these 20 countries.
2. A levelling off or decrease for the company's products in existing markets (these may be located in Europe or anywhere in the world).
3. The need to meet competition from competitors in Europe.
4. In order to derive protection from tariffs or other foreign duties in the European market.
5. The lower production costs of the European market.
6. The possibility to re-export goods manufactured in these 20 European countries to any other market(s) in the EEC/EFTA/Comecon complex.
7. The possibility to re-export goods manufactured in these 20 European countries to any other European market(s) OUTSIDE the EEC/EFTA/Comecon complex.
8. The possibility to re-export goods manufactured in these 20 European countries to markets located anywhere in the world.

N.B. Please remember EUROPE here refers only to those countries in the European Complex.

Section V

1. Please classify the following 20 countries in the European Complex (listed in alphabetical order) into those classes or groups which you consider for your own marketing purposes to present similar marketing conditions. Use the right-hand side of this page to present your classifications.

Country	Classification
Austria	
Belgium	
Bulgaria	
Czechoslovakia	
Denmark	
East Germany	
France	
Great Britain	
Hungary	
Italy	
Luxemburg	
Netherlands	
Norway	
Poland	
Portugal	
Romania	
Sweden	
Switzerland	
U.S.S.R.	
West Germany	

Please specify below the criteria you have used in identifying similar marketing conditions in these classifications.

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Please tick ☒ the statements below which apply to your company's operation of marketing strategy in the European Complex.

2. Are you using similar marketing strategies in at least 2 countries in the European Complex?

Yes

☐

No

☐

3. Where a marketing strategy has been successful in one of the countries in the European Complex, have you used a similar strategy in another country in the Complex?

Yes

☐

No

☐

4. Has the application of similar marketing strategies in two or more countries in the Complex realised financial economics?

Yes

☐

No

☐

5. In your opinion is there a greater likelihood of successful marketing operations when a proven marketing strategy is applied in a new market?

Yes

☐

No

☐

6. Would you consult your classifications in Section V, Question I.

Does your company use similar marketing strategies in those markets which you consider to possess similar marketing conditions?

Yes

☐

No

☐

TECHNICAL APPENDIX IVContents:

The Multinational Companies which co-operated in Phases I and II
of the empirical investigation. Companies A - M.

Multinational A : Nationality - British

(1) The Global Operations of the Company

Type: Product-line multinational organization

Operations:

The company is organized on a world-wide basis into four divisions: European/American/Pharmaceutical/Product Divisions.

The existence of a European and American division indicates the importance of each of these to the company. They are responsible for the marketing of products on the continent of Europe and in the Americas. They liaise directly with these markets and the two remaining divisions.

Location of Manufacturing Operations:

Commonwealth: Canada, India, Malaysia, Singapore, Australasia

International: North and South America, Pakistan.

Commitments:

The organization of the company reflects its commitments to traditional commonwealth markets. However, the existence of a European and American division signifies the importance of each of these market areas to the profitability of the company. Europe accounts for + 15% of the company's total sales. Increasing effort is directed here.

(2) Product Range

Multi-product range in the following areas:

Ethical and proprietary medicines.

Beverages, Foodstuffs and Toiletries.

Veterinary products and foodstuffs.

Area of specialisation in pharmaceuticals: antibiotics.

(3) Location of Contact in the Firm

Director of the European Division.

Manager of Market Research: European Division.

This is the division responsible for marketing products in the European Complex. The director made all final decisions in conjunction

with the Board. Decisions relating to product launch and new market opportunities were based on the information given by the market research department. Continuous collection and evaluation of data was in operation here. The decision-maker was therefore the director, in conjunction with advisers on the Board. Research for planning purposes was effected by the research department.

(4) The Strategic Decision Sequence:

Section III - The objectives and constraints of strategic marketing decision-making in the European Complex.

- The company had undertaken considerable expansion in Western Europe in the last three years. The enlargement of the EEC was not considered important since "the company was already operating there". The main objective was both the need for greater markets and the actions of competitors. This indicates the competitiveness of pharmaceuticals.
- Expansion in Eastern Europe had been much slower because of the "unfavourable" climate. Neither contact was willing to indicate the volume of operations here. This is indicative of the strategic nature of the planning the company is presently undertaking in this area.
- A product had to make a profit within a reasonable time otherwise it was withdrawn.

Section IV - Investment Decision Criteria.

Criteria selected: 1 and 2

Rank: 1 2

The company had registered some decrease of demand for some of its products particularly in the American market. Europe presently offers the fastest growing potential market for pharmaceuticals in the world, followed by Japan. However the contact recognised that there was a need to create demand as well as to satisfy it in these markets.

Section V:

A. Profile A: Demographic variables. 1/7

Variables 2/3/4/8 and 9 were also important although the company was interested rather more in the number of older people in the population, the total population in urban conglomerations on an individual country basis.

B. Profile B: Socio-economic variables 9-12 inclusive.

Most of the other variables were not considered to be specifically applicable to pharmaceutical marketing.

Variables used in addition to these by the firm:

- The market size.
- The number of prescriptions generated in that market.

Identifying and selecting European market opportunities

A. The heuristic model

The company did not tend to identify similar markets and then determine their market planning procedures on this basis. There was a demand for pharmaceuticals which was almost universal. In terms of proprietary as opposed to ethical medicines many of the products had established international brand names.

The European division did however manage a complex system of information collection and evaluation. There was a continuous flow of information for operational decision purposes.

At the strategic level, the division was interested in the economic development of each national market, and the demographic structure. This determined the kind of drugs which would be required, and the ability of the market to purchase these.

If the company did require such a model it would tend to concentrate more exclusively upon health and welfare statistics. Comparisons between markets were however taking place on a continuous basis. Clustering markets in terms of the principles of the model was effected by examining the position of the company in relation to each market.

B. The marketing planning process

The company is heavily product-orientated - this applies to both ethical and proprietary pharmaceuticals. The development of a successful product is followed by a systematic launch on a one off basis in each national market. Linked with this orientation is one of profitability. Each product is expected to realise profits in a pre-specified time period. Market planning is therefore directed to finding markets in which such products can realise sufficient levels of profits. Undoubtedly the company's existing strength in these markets, and its ability to develop suitable products, has meant that identification and selection as such is based upon the extensive use of existing information particularly in association with the variables named in Section V, and the additional variables.

Multinational B : Nationality - British

(1) The Global Operations of the Company

Type: Product-line multinational organization

Operations:

The company comprises three affiliated divisions (formerly three companies) and its operations are divided into two separate divisions, pharmaceutical preparations for further processing and pharmaceutical products. The divisions operate on a world-wide basis.

Location of Manufacturing Operations

Commonwealth: Canada, Australasia, East Africa, Malaysia, India,

International: Europe, North and South America, Israel, South Africa, Pakistan.

Commitments:

The organization of the company reflects traditional exploitation in commonwealth markets. The South American market is however of particular importance. In Europe extensive use has been made of plant in Spain in order to acquire cost advantages here. The company has concentrated continuing efforts in the fields of medical research and welfare. The organization is itself managed by a group of trustees, and all distributed profits are applied to medical research.

(2) Product Range

The company manufactures medical, veterinary and pharmaceutical products, and has limited interests in pharmaceutical engineering.

Area of specialisation pharmaceuticals: insulins, anti-toxics and anti-bacterials.

(3) Location of Contact in the Firm

Director of Marketing.

Senior Manager: Marketing Group.

The marketing group co-ordinates all marketing activities for the company. There exist specific sub-sections concerned with the European Complex. The group provides guidance for all marketing operations. Data and information are collected and analysed here.

(4) The Strategic Decision-Sequence:

Section III - The objectives and constraints of strategic marketing decision-making in the European Complex.

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- The company has undertaken considerable expansion in Europe. The enlargement of the EEC was not considered important, although the need for greater markets and the actions of competitors in this area was important. The contacts considered that the potential for expansion here "must be tapped".

- The Eastern European markets had not expanded so far, but the potential here had increased interest in this area. The company was prepared to invest effort here because of the need for greater markets for the company's products. There had been some relaxation of trading conditions in this area, and this had made these markets more attractive.

- Profitability was essential. New launches had to be financed from existing profits. The company sometimes had to maintain existing commitments in Western Europe, and was prepared to accept some losses in establishing openings in Eastern Europe.

Section IV - Investment Decision Criteria

Criteria selected: 1, 3 and 4

Rank: 1 2 3

The European market was the fastest growing market for pharmaceuticals in the world. As such the competition from competitors had to be met, and the company was sufficiently cost-conscious to consider the tariff-barrier issue as important.

Section V

A. Profile A: Demographic variables.

Variables 1 - 3 inclusive

Statistics concerning agriculture were particularly relevant to the company's interests in this area.

B. Profile B: Socio-economic variables.

Variables 4-5 and 9-12 inclusive.

These were considered to be specifically relevant to pharmaceutical marketing.

Variables used in addition to these by the firm:

- Performance of competitors.
- Prescribing habits of doctors.
- Medical environment.
- Distributions systems.

Identifying and selecting European market opportunities:

A. The heuristic model

The contacts felt that the heuristic model represented an academic approach to the problems of identification and selection. In some ways it mirrored their own processes. Each country was a market, and participation was important - "we must be there". However, similarity measures, or decision rules did not operate in this way.

At the operational level the company had an extensive data bank, and were interested in the performance of their products in each market.

At the strategic level they needed to locate and exploit profitable markets in a highly competitive environment. The need for medicines was also international; the prescription habits of doctors remained the most difficult problem to analyse.

B. The marketing planning process

The planning approach of the company was to meet competition in all areas. This was the orientation of the company. The company was not product-orientated in the way some others were. It recognised that in addition to a commercial role, a pharmaceutical company also had obligations to medical welfare.

In looking for profitable opportunities, the company was hindered by the actual research and development programme linked with pharmaceutical marketing. It was impossible to forecast at what point in time a new product could be developed. This commitment to an on-going research programme was the second major problem of marketing pharmaceuticals - the first being the prescribing habits of physicians.

Multinational C : Nationality - American

(1) The Global Operations of the Company

Type: Mixed: Product-line with geographic emphasis

Operations:

The company is organized on a world-wide basis with an emphasis upon geographic organization rather than direct product-line operations. The marketing division in the U.S. liaises directly with its European counterpart.

Location of Manufacturing Operations

Commonwealth: Canada, Great Britain, Australasia

International: Argentina, France, Israel, Japan, Peru, Phillipines, Mexico, Spain, South Africa.

Commitments:

The pattern of operations indicates an orientation different from British multinationals. More emphasis has been given to the location of plant in Central and South America, and the Phillipines. Lately increasing emphasis has been placed on the growing potential market areas in Europe and Japan.

(2) Product Range

Proprietary medicines, ethical medicines, and organic chemicals either for sale to other manufacturers, or for use in the company's own preparation of pharmaceutical products.

Pharmaceutical speciality: diagnostic products.

(3) Location of Contact in the Firm

Director of the European Division

Systems Marketing Manager Europe

Final decisions rested with the vice president of marketing in the parent company in the U.S.A. The director of the European division was concerned to implement and co-ordinate marketing planning and operations in the European Complex. All proposals had to be cleared by the parent.

(4) The Strategic Decision Sequence

Section III - The objectives and constraints of strategic marketing decision-making in the European Complex.

- The firm had considerably expanded its operations in the immediate period.

- The projected enlargement of the EEC and the need to ensure growth had facilitated this expansion. Competitors actions were not considered as important as these. The company recognised that pharmaceutical marketing was by its very nature competitive, but as an American company its first concern was to establish its position in Western Europe.

- Eastern Europe presented a fantastic market potential, which the company was attempting to realise; expansion in this area had recently been quite large. The more favourable climate had enabled a direct manufacturing agreement to be concluded with Hungary. Activities of competitors were again not important here. The need to operate in these markets was of greater concern. In general the potential of the market was counter-balanced by the need to manage significantly different political systems.

- The company's overall aggressive strategy towards marketing meant that profitability was the essence of operations. Commitments in some market areas had meant that in the past some non-profitable agreements had had to be maintained. Italy was one example.

Section IV - Investment Decision Criteria

Criteria selected: 1, 3, 5, 6 and 7.

Rank: 1 2 3 4 4

The potential of the European market had lead to an increase in the volume of competition here. The company had used Spain extensively as a manufacturing locale because of the lower production costs here. In the same way some of the competitive manufacturing costs in Europe had allowed the profitable re-export of products to markets elsewhere in the world.

Section V

A. Profile A: Demographic variables

Variables 1-4 inclusive and 7-9 inclusive.

The birth rate was particularly important to the company's product range. The structure of the population had particular significance in the area of industrial medicine.

B. Profile B: Socio-economic variables.

Variables 6/7-13 inclusive: 22-24 inclusive.

The rate of growth of a country's industrial activities was considered important in assessing its economic viability.

An American company in Europe needed to be concerned by the value of each country's exports and imports. This concerned balance of payments factors, and might reflect upon the acceptability of that company in the country.

Variables 9-11 inclusive were important since they reflected the trends in medicine, and the needs of the population for specific preparations.

Variables 11-13 inclusive were valuable to the company because they related to its own investments in school and student health schemes.

Variables 22-24 were important for distribution purposes.

Variables used in addition to these by the firm:

- Market size
- Survey of health services in each market
- Prescription habits used by physicians.

Identifying and Selecting European Market Opportunities

A: The heuristic model

The company had developed over the last ten years a sophisticated reporting service handled by representatives in the field. This had been computerised, and was designed to deal with some 4,000 different price structures which presently existed in the company's markets.

The European division managed this. In general, although many of the variables in the model applied to the company's operations and had been used, the basic principles of the model itself were not found in formal operation in the company.

B: The marketing planning process

The company was concerned with product profitability. As such marketing planning followed the pattern in the industry. Research and development was needed to yield products which could be marketed profitably. Marketing planning needed to systematise as much information as possible on each market to identify where the product could be sold and the ways in which it could be marketed.

Multinational D: Nationality - British(1) The Global Operations of the Company

Type: Product-line multinational organization

Operations:

The company is organized into four major product divisions. These are organized on a world-wide basis. The basis of manufacture is chemicals; the divisions reflect the major product areas of the chemicals industry. (Chemicals, synthetic resins, prints, pharmaceuticals.)

Location of Manufacturing Operations:

Commonwealth: Australasia, Canada, India, Malaysia, and Kenya.

International: Argentine, Europe, South Africa, U.S.A., Pakistan.

Commitments:

The company has extensive commitments in traditional commonwealth markets. More recently emphasis has been concentrated on the North American market. This has been in the area of chemicals, and chemical plant.

The pharmaceutical division is the most recently integrated unit within the company. It presently accounts for the largest share of the group's research and development budget.

(2) Product Range

Process chemicals, paints and reagents, synthetic products, and pharmaceuticals. Pharmaceutical speciality: biological preparations.

(3) Location of Contact in the Firm:

Pharmaceuticals: Director - the European Division.

Assistant: Market Research - the European Division.

Both the manager and the assistant were responsible for marketing planning in the European Complex. The company's comparatively recent entrance into pharmaceutical marketing meant that a great deal of effort was being reserved for the examination and location of market opportunities. The responsibility of the division was to find such opportunities.

(4) The Strategic Decision Sequence

Section III - The objectives and constraints of strategic marketing decision-making in the European Complex.

- The company had considerably expanded operations in Western Europe in the last three years for the purposes of greater markets and to meet competitors' challenges. The enlargement of the EEC was not an important factor, since the pharmaceutical division had operated here for at least 10 years.

- The Eastern European market presented an opportunity for expansion in terms of the greater number of markets there for the company's products. Direct negotiation with Yugoslav and Hungarian firms had recently been possible, and this had increased the relative attractiveness of these markets.

- The profitability issue had often been operative. In general a new product did not need to make a profit within the first year of launch; often markets needed to be initially exploited on a non-profit basis in order to establish a foot-hold. This applied presently more particularly in Eastern Europe.

Section IV - Investment Decision Criteria

Criteria selected: 1, 6, 7 and 8.

Rank: 1 2 2 2

Criterion 1 was paramount presently in Europe. This was the most rapidly growing market for pharmaceuticals.

Criterion 6, 7 and 8 were ranked equally. The contact gave the reasons for this by stating that they presented the possibility of using up capacity in terms of current investments.

Section V

A. Profile A: Demographic variables 1/2/3/4/8 and 9

Population variables were general indicators of sales and the potential markets for the products.

The percentage of the population of working age had particular significance for those pharmaceutical preparations which the company produced for coronary conditions.

Equally variables relating to urban populations had a special significance for the company's interest in preparations for bronchial disease.

B. Profile B: Socio-economic variables. 9-12 inclusive.

These variables had in the past been broken down in order to determine the general levels of health and welfare in each market.

Variables used in addition to these by the firm:

- Market size
- Prescription habits of physicians.

Identifying and selecting European market opportunities

A. The heuristic model

Both contacts felt that the principles of the heuristic model did not really represent the techniques and procedures used by their company. It did not consider the history, tradition and commitment of the firm, which were important to their operations. The cost and effort of developing this type of model could not really be justified as long as these factors were not considered.

There were however certain macro patterns of similarity within European markets. There was an "anglo-saxon and middle-European tradition" which was reflected in the demand for particular drugs, and the way in which the separate health services worked.

B. The marketing planning process

In general marketing planning as such by the need for basic research in the pharmaceuticals area. The invention of compounds could rarely be systematised. This was the in-built deficiency which accompanied marketing pharmaceuticals.

Marketing planning had to follow the research effort and exploit the competitive advantage provided by concentration in one area of pharmaceuticals. Basic research showed the need for drugs in these markets, and the business of marketing planning had to be to exploit this opportunity, and to market the drug using the resources available in such a way that profits were realised.

Multinational E : Nationality - British(1) The Global Operations of the Company

Type: Hybrid product-line multinational organization/international division.

Operations:

The company is divided into five major product divisions which are operated on a world-wide basis. During the time that the interviews took place it was finalising the organization into this structure. For this reason the organizational structure presented a hybrid structure with an international division and the emergence of the following divisions: prepared foods, wines and soft drinks: household cleaners: toiletries: pharmaceuticals: and industrial chemical products.

Location of manufacturing operations:

Commonwealth: India, East and West Africa, Australasia

International: North America, Brazil, Argentina, Europe, Pakistan

Commitments:

The organization of the company reflects traditional commonwealth commitments. In the last four years the transition has been made towards a more concrete base: "out of soft-sell into hard-sell markets". This has been reflected in the move towards re-organization.

(2) Product Range

Proprietary and ethical medicines

Beverages, foodstuffs and toiletries.

Industrial chemical products.

(Note the similarity of the product range with multinational A.)

(3) Location of Contact in the Firm

Market Planning Manager : Europe.

This contact was a new post in the firm, which had been created to manage the firm's expansion into Europe. The company was actively seeking to re-organize and rationalise its interests, in preparation for British entry into the EEC. The contact was responsible directly to the Board of Directors for all marketing planning operations.

(4) The Strategic Decision Sequence:

Section III - The objectives and constraints of strategic marketing decision-making in the European Complex.

- The company had considerably expanded its operations in Western Europe in the immediate time period (three years). The main reasons for this were both the projected enlargement of the EEC and the need for greater markets. Competitors activities did not play a significant role here.
- Eastern Europe at present did not offer a significant market for the company. There had been no great expansion in this area, and although the company had realised a small volume of sales in this market there was no large-scale planning effort projected for the COMECON complex in the next five years.
- In the last three years the company had had to make some unprofitable investments in the EEC/EFTA complex to finance expansion there. This was to gain a foot-hold in these markets.

Section IV - Investment Decision Criteria.

Criteria selected: 4, 5 and 6

Rank: 3 2 1

The products which the company manufactured could benefit from the lower production costs in the European market. This combined with the tariff issue (which was particularly relevant to certain of the company's products) had combined in the past to make the costs/tariffs issue significant enough for direct investment purposes. The most important criterion was however the possibility to re-export goods in the complex. This complemented the companies rationalisation programme and its interests in semi-processed products for finishing at other locations in the company network.

Section V:

A. Profile A: Demographic variables. 1-4 inclusive and 7.

These reflect the company's interest in the structure of the population as it relates to the demand for finished products in this particular product range. Certain beverages and toiletries apply more to older or younger groups in the population.

B. Profile B: Socio-economic variables. 4-6 and 9-12 inclusive.

The selection of these variables indicates the company's interests in the agricultural and industrial markets. Industrial growth was again quoted as important in terms of a market's economic viability. Variables 9-12 reflected the firm's interests in ethical medicines.

Variables used in addition to these by the firm:

- retail outlets in each market
- market size
- distribution pattern.

These indicate the need for statistics which cover the distribution networks in each market which are important in terms of the company's interests in household goods and foodstuffs.

Identifying and selecting European market opportunities

A. The heuristic model

The interviews were held at a critical point in time for the company. Rationalisation and the changing emphasis in company operations, meant that the contact envisaged the exploitation of new markets with the development of new international brand images. At present the information used was provided from secondary and the use of syndicated consumer audits. The information bank as such needed to be built up.

The principles of the model appeared interesting but there presently existed no precedent for this type of approach in the company.

B. The marketing planning process

The company had established a series of international brand images for certain consumer and household goods in traditional commonwealth markets. These had been developed over the last fifty years. Many of these product lines were now out-dated, and the immediate planning concern of the company was to develop new products and brand names, appropriate to the European market. This appeared the only feasible strategy to enable the company to maintain profitability.

Multinational F : Nationality - British(1) The Global Operations of the Company

Type: Product-line multinational organization

Operations:

The company is organized into seven divisions; the largest interest is in the area of industrial chemicals. The basic product used in their manufacture is phosphorous. In the last eight years the company has orientated its operations in order to concentrate efforts in the area of manufacture of phosphorous based compounds. The basic range includes phosphoric acid and inorganic phosphates. These have uses in detergents, food additives and pharmaceuticals.

The concentration in a single area - including the production of phosphorous in North America - has meant an interest in extractive as well as manufacturing plant. The real potential of the initial investment has not been realised. Subsequent financial difficulties have lead to growing American participation, and the possibility of a joint ownership agreement.

Location of Manufacturing Operations:

Commonwealth: Australasia, India, Canada, Ghana, Nigeria

International: Eire, South Africa, U.S.A.

(2) Product Range

Industrial chemicals (phosphorous base)

Essential oils and flavours/natural fruit juices.

Perfumary and pharmaceuticals.

(3) Location of Contact in the Firm

The manager of Commercial Studies.

The manager was responsible for the marketing and corporate planning recommendations. Final decisions rested with the Board, and increasingly with the advent of American participation, decisions were made in conjunction with the American directors on the Board. These were representatives of the American concern which was interested in purchasing a 51% participation.

(4) The Strategic Decision Sequence

Section III - The objectives and constraints of strategic marketing decision-making in the European Complex.

- The increase in the volume of operations in Western Europe was not considerable in the last three years. The need for greater markets initiated the search for opportunities. In general there was little activity from competitors; this may be explained in the nature of the raw material which the company has processed. The world market for phosphorous has been active at a low level generally during this time, particularly so in Western Europe. This has tended not to encourage a high volume of activity on the part of manufacturers in this market.

- On the other hand the Eastern European market has been more active, and there have been much greater opportunities for selling semi-finished and processed products here. Individual contacts between firms in Czechoslovakia and Poland have been explored. In general the concentration of effort here has been initiated by the need to off-set sluggish conditions in world markets.

Section IV - Investment Decision Criteria

Criteria selected: 1, 6, 7 and 8

Rank: 1 2 2 2

The selection and rankings reflect the company's general orientation to create demand where possible. There has not been a rapid growth in demand as such, but the company has attempted to push exploitation in Europe. Criteria 6, 7 and 8 reflect the economies of scale possible from central processing using a small number of manufacturing units in this particular industry.

Section V -

A. Profile A: Demographic variables.

Variables 1-6 inclusive were all of peripheral interest. Variables 5 and 6 were of particular interest to the company because of its product range in fertilisers.

B. Profile B: Socio-economic variables.

Variables: 4-8 inclusive.

Variables: 20-21.

The selection of variables indicates the company's pronounced interests in heavy industrial manufacturing (where phosphorous and phosphorous based products are extensively used) and in the agricultural sector (phosphates and fertilisers). The other variables were considered to be more relevant for consumer products.

Variables used in addition to these by the firm:

- the general state of the phosphorous industry.
- competitors activities in the market.

Identifying and selecting European market opportunities

A. The heuristic model

The principle of the model which takes into account national markets does not apply directly to the operations of this particular multinational. The firm perceives itself to be in a product industry where the purpose is to serve the different markets. The importance of the company's investment in the phosphorous based industries has meant that this above all other considerations governs its activities.

B. The marketing planning process

The basis of the planning process is effected by two considerations:

- what are our competitors doing?
- what are they going to do?

The marketing of commodity chemicals requires that the industry is the primary factor in all planning activities and the process must therefore consider this above all other matters. Planning must consider the capital investment which is involved in extracting and transporting the product, and seek to find those markets which may present favourable opportunities for marketing. Therefore the extent to which planning may proceed on the lines of consumer marketing is limited.

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Multinational G : Nationality - British

(1) The Global Operations of the Company

Type: Product-line multinational organization.

Operations:

The company's interests in textiles and synthetic fibres has lead to a tri-partite division of interests: the manufacture of yarns, fibres and materials; the manufacture and make-up of finished products; and the marketing of these. It has therefore attempted to integrate the manufacturing and marketing functions on a global basis at the same time as allowing some measure of autonomy to those subsidiaries who presently market and manufacture branded goods. This balance is maintained on an international basis, allowing some autonomy to units overseas in their operational activities.

Location of Manufacturing Operations:

Commonwealth: Australasia, Canada

International: U.S.A., South Africa, Europe.

Commitments:

The organization of the company reflects much less commitments to traditional commonwealth markets than other British multinationals. The location of plant in North America, and the exploitation of the considerable U.S. market was well established before 1939. This has meant that the international orientation of the company has been in existence for some time. In recent years there has been an increasing volume of effort in the European market, but there has been no cut-back in other longer established markets.

(2) Product Range

Textiles and man-made fibres, woodpulp, manufacturing of plastic products and paints.

(3) Location of Contact in the Firm:

The Director: Economic and Commercial Studies.

The contact was responsible for feasibility studies for investment projects, and for examining the performance of the company in existing markets.

(4) The Strategic Decision Sequence

Section III: The objectives and constraints of strategic marketing decision-making in the European Complex.

- The company had expanded its operations in Western Europe for reasons of obtaining greater markets. The enlargement of the EEC and competitors actions were not considered important.
- Eastern Europe had attracted an increasing volume of sales, but its positions in terms of total operations remained relatively unimportant. The main contacts with Eastern Europe had been in two areas:

1. The construction of plant in the COMECON complex. "If we do not do so some-one else will."
2. As an out-let market for excess production.

The second point had often been considered elsewhere as the traditional means of contact with Eastern Europe. In this company's experience in terms of their product range, the conditions continued to apply. The increasing entente between East and West had facilitated contact, but the conditions above were thought to be applicable for some time in the future.

- The profitability issue had applied in Western Europe in the past to certain minority interests which the group was prepared to support initially on a non-profit basis.

Section IV: Investment Decision Criteria

Criteria selected: 1, 2, 4, and 6.

Rank: 1 4 2 3

Growth was the most important consideration. Tariff problems had had to be overcome, and applied particularly to the companies products. Plant in the EEC had been used to re-export manufactured goods in this complex. There were often lags in markets and these could be overcome on a short-term basis by utilising the whole resources of the group, and taking measures to use over-capacity of the kind suggested in Section III.

Section V:

A. Profile A: Demographic variables.

Variables 1/3-5 inclusive / variable 8.

Variables 3 and 4 were important to assess the growth in the market.

B. Profile B: Socio-economic variables

Variables 4 and 6.

Variables 7 and 8 were important peripheral variables since they could establish a country's attitude to foreign firms. (The balance of payments issue.)

Variables used in addition to these by the firm:

- The size of the market.
- The demand for each product in the market.

Identifying and selecting European market opportunitiesA. The heuristic model

The macro-variables in the model were of interest on a general basis in any examination of the economic environment. However, the basic principles as such did not apply directly to the firm. A clustering on an intuitive basis had taken place by dividing the market "into Scans, Huns, and Latins". This tended to operate in terms of discerning each market's likely appreciation of the product.

B. The marketing planning process

The planning process tended to centre upon the product. The way in which the firm was able to organise its operations in order to satisfy its clients' demands for the product was a function of its interests. Consumer marketing was affected by subsidiaries who had used the established brand-name to exploit markets.

Multinational H: Nationality - British(1) The Global Operations of the Company

Type: Hybrid international division/product-line multinational organization.

Operations:

The company is organized on the basis of four product divisions, an international division, and a division responsible for handling the affairs of overseas subsidiaries. The holding company comprises 50 subsidiaries. There is a growing interest to integrate these on a product-line world-wide basis.

Location of Manufacturing Operations:

Commonwealth: Australasia, Canada, India.

International: U.S.A., Algeria, South Africa, Europe, Pakistan.

Commitments:

The recent re-organization of the company has re-orientated its manufacturing interests from a majority interest in nautical engineering and construction, towards more diversified product-lines. This includes increasing involvement in printing machinery and office commitment. International commitments have also been re-orientated away from commonwealth markets towards Europe. However the predominance of the English speaking market remains.

(2) Product Range:

Shipbuilding, general engineering, and office equipment.

(3) The Location of Contact in the Firm:

The senior manager: corporate planning.

The corporate planning function in the company has been increasingly pre-eminent since the company's decision to diversify six years ago. This had meant a commitment to corporate planning which required the build-up of the limited interests in office equipment. The department reported directly to the Board of Directors.

(4) The Strategic Decision Sequence

Section III - the objectives and constraints of strategic marketing decision-making in the European Complex.

- The company's expansion in Western Europe had not been considerable in this time period, but it had been facilitated by the enlargement of the EEC and the need for greater markets for the company's products.

Competitors' activities were not usually important.

- Operations in Eastern Europe had been limited to the use of "buy-back" arrangements here. This had been used to assist product sales.

Trade with Eastern Europe had used the services of individual contacts in Eastern Europe. The resultant contracts were usually dependent upon the individual's own efforts.

- The company had re-invested extensively in its new product interests in Great Britain and Western Europe in the last ten years. This was to ensure the long-term profitability and survival of the company.

Section IV - Investment Decision Criteria

Criteria selected: 1, 4 and 6.

Rank: 1 2 2

Growth was the most important single criterion. The tariff issue had been important in certain issues, and re-export in the complex had applied particularly to the office equipment sector.

Section V:

A. Profile A: Demographic variables.

Variables: 1/2/3.

These are applicable to the growth in the market for the company's products.

B. Profile B; Socio-economic variables.

Variables: 4/6/9-12 inclusive.

4 and 6 are relevant to market growth.

9-12 reflect the company's interests in medical engineering.

Variables used in addition to these by the firm

- Distribution systems in the markets.
- Political factors in the market.

Identifying and selecting market opportunities in the European Complex.

A. The heuristic model:

The techniques implicit in the heuristic model were considered applicable: the variables for the most part were not of direct use. The

contact would have preferred to have evaluated different variables relevant to different products. This would make the technique immediately acceptable.

B. The marketing planning process:

The planning process rested upon "the opportunity to develop a product". This product orientation was itself linked with the product; its rate of growth in each market; the volume of sales generated over a period of time.

The actual planning processes had had to consider particularly political factors in the decision process. The nature of the product range (50% armaments) had meant that this had to be the most highly considered factor in over half of the company's operations. It also extended and needed to be indirectly considered as long as the corporate image rested at least in part in the armaments sector.

Multinational J : Nationality - British

(1) The Global Operations of the Company

Type: Product-line multinational organization.

Operations:

The company's growth is particularly significant. Operations have been particularly concentrated in the North American market where the demand for the company's products is linked with high income consumer and technical markets. The parent group comprises 80 subsidiaries.

Location of Manufacturing Operations:

Commonwealth: Canada, Australasia, Malaysia.

International: U.S.A., Europe.

Commitments:

The organization of the company's operations indicates the predominance given to the North American market.

(2) Product Range:

Television, radio and navigational communications.

The range is divided into two groups: consumer and capital goods. The consumer range comprises the manufacture and marketing of records, tapes, television and audio equipment. The capital goods range comprises navigational radar and electronic equipment and the provision of navigational services.

(3) Location of Contact in the Firm:

The Marketing Planning Manager : Navigation equipment.

The contact in the group was in the capital goods (engineering and telecommunications) group. The contact was responsible to the group for all marketing planning and market research activities.

(4) The Strategic Decision Sequence:

Section III - The objectives and constraints of strategic marketing decision-making in the European Complex.

- The company's expansion in Europe had been necessitated by the need for greater markets for the product group above all other considerations.
- Considerable expansion had been realised in Eastern Europe

particularly in East Germany. It remained however an extremely difficult area to exploit, although some direct contacts had been recently made with Eastern European firms and groups. The area would be exploited as long as the company was actively engaged in locating greater markets.

- Some non-profit schemes had been financed in line with research and development. Little inter-company finance of the type the question implied had been undertaken in either area.

Section IV - Investment Decision Criteria

Criteria selected: 1 and 3

Rank: 1 2

There was a need to meet new competition. It should however be noted that the group tended to look beyond Europe in terms of investment projects and potential.

Section V

A. Profile A: Demographic variables

Variables selected: 1-4 and 8-9 inclusive.

B. Profile B: Socio-economic variables.

Variables selected: 4/6-8 inclusive.
13-15 inclusive.
20-23 inclusive.

This selection reflects the company's interest in the structure of the population, and economic growth and viability in terms of a market's potential ability to purchase technical products.

Variables used in addition to these by the firm

- Number of fishing and commercial craft.
- Size of market.

Identifying and selecting European market opportunities

A. The heuristic model

The heuristic model was of interest to the contact. There were certain possible applications which could be considered. However the variables provided were not of specific interest to the company. The company's involvement in marketing marine electronics meant that the basis variables concerned the growth in fishing fleets, and merchant fleets, and at a second stage pleasure craft. A profile would therefore be concerned with these.

At a further stage the price of the product would also have to be incorporated. This was a factor more important in the European rather than the American market.

B. The marketing planning process

The company's product range in the capital goods group was facing the prospect of some recession in the industry. There was therefore a need to diversify, and concentrate upon the acquisition of new companies and their products on a random basis. The planning orientation was more towards the product and its associated technology, than to the market itself.

Multinational (K) : Nationality - East German(1) The Global Operations of the Company

Type: Multi-division

Operations:

The company is organised on a multi-division basis at the head office in East Germany. This location is responsible for all fundamental decisions. The company has recently established a company in Great Britain to handle liaison with Western markets. The method of operation is via export to this company and then re-export. The position of the company is quite unique in terms of representing COMECON interests on a multinational basis.

Location of Manufacturing Operations:

Commonwealth: Great Britain

International: East Germany

Commitments:

The company has heavy commitments in Eastern Europe; the largest single customer is the U.S.S.R. The recent move into Western Europe via Great Britain is indicative of its unique position, the strength of its product range, and the potential it perceives in Western markets.

(2) Product Range:

Multi-product range with a concentration in the optical field. This includes photographic equipment, precision optical equipment, astronomic equipment, and sunglasses.

Number of product groups: 51/Total number of items: 4,500.

(3) Location of Contact in the Firm

Managing Director: British company.

The major product and strategic decisions were made at the head office. The director was responsible for marketing and sales operations in the Western European market. The area of decision-making related to marketing planning decisions in this area within the management of the parent.

(4) The Strategic Decision Sequence

Section III: The objectives and constraints of strategic marketing decision-making in the European Complex.

- The company had considerably expanded its operations in Western Europe by +25% in the last three years. The major reason was the projected enlargement of the EEC. The other factors were not seen to apply.
- The Eastern European market had also expanded. The conditions enumerated in this section were not seen to apply. The major customer in the COMECON was the U.S.S.R.
- The profit conditions were "not applicable".

Section IV: Investment Decision Criteria

Criterion selected : 1

Rank: 1

This was the reason for establishing the British company.

Section V

A. Profile A: Demographic variables.

Variables: 1-7 inclusive.

These were considered important in terms of market structure, and the potential demand for certain product groups (for example agricultural instrumentation).

B. Profile B: Socio-economic variables.

Variables: a. 1-6 inclusive.
b. 9-12 inclusive.
c. 13-15 inclusive.
d. 20-21 inclusive.

Group a: were considered important technological indicators.

Group b: were relevant for medical instrumentation.

Group c:) were connected with industrialisation.
Group d:)

Variables used in addition to these by the firm:

- Industrialisation indicators
- Medical factors within each market.

Identifying and selecting European market opportunities

A. The heuristic model

The model was of great interest to the contact. It proposed certain

principles which appeared quite feasible but which until the present had not been incorporated. Many of the variables were not generally applicable. The product range applied particularly to industrial markets, and measures of industrialisation were therefore more pertinent in this instance.

B. The marketing planning process

The planning process was product orientated. The basis for expansion and profitability rested with the company's ability to develop and manufacture high precision instruments for a variety of industrial and medical purposes. To this was added an interest indirectly in the consumer markets via lenses, photographic equipment and sunglasses. The philosophy of the company embodied the belief that as long as their expertise in product development and manufacture in these areas could not be equalled the markets would follow. Marketing planning was secondary to technological development, and product manufacture.

Multinational L : Nationality - West German(1) The Global Operations of the Company

Type: Product-line multinational organization.

Operations:

The company is organized on a world-wide basis into four major product divisions and two divisions concerned with the development and manufacture of pharmaceutical products. The company is one of the largest West German pharmaceutical companies. Since 1945 concentration has been directed to Western European and American markets.

Location of Manufacturing Operations:

Commonwealth: Canada

International: West Germany, Europe, U.S.A.

Commitments:

The organization shows the markedly European orientation of the company. There is presently growing direct contact with Eastern Europe. Much of this has to do with the political position of Western Germany. It is envisaged that the new steps in the detente presently being made may lead to an increasing participation in these markets.

(2) Product Range:

Pharmaceuticals: 66% ethical : 34% proprietary.

Protective agents, plastics, chemicals for the electro-plating industry; a small range of industrial chemicals.

Pharmaceutical specialisation: hormonal contraceptives.

(3) Location of Contact in the Firm:

Director: Marketing.

Assistant Director: European Planning.

Both contacts were responsible for marketing and marketing planning in the European Complex. All decisions relating to these functions were the final responsibility of these men; final approval was according by the Board of Directors.

(4) The Strategic Decision Sequence:

Section III: The objectives and constraints of strategic marketing decision-making in the European Complex.

- The company had considerably expanded its Western European operations for the purpose of increasing its markets: competitors' activities were a minor consideration.
- Negotiations with Eastern Europe had been given increasing impetus by the recent entente. Interest was high both because of market potential, and competitors' own activities.
- Profitability was important. Research and development presently accounts for 9-12% of turnover.

Section IV - Investment Decision Criteria

Criteria selected: 2, 3

Rank: 2 1

There had been some recent decreases in certain markets. This was because of the competitive nature of pharmaceuticals (Notes: Criterion 3/Rank 1.)

Section V

A. Profile A: Demographic variables.

Variables: 1,2 and 10.

Population, and population density indicated market size. The predominant religious group was important because of the firm's interests in hormonal products.

B. Profile B: Socio-economic variables.

Variables: 8-13 inclusive.

Variables 8 and 9 were good indicators of the attitude a government might have towards a foreign company.

Variables 10-13 were important as health indicators.

Variables used in addition to these by the firm:

- Medical thinking
- Health schemes and services.
- Competitors activities.
- Market size.

Identifying and selecting market opportunities in Europe

A: The heuristic model

The principles of the model had interesting applications. The

method of clustering has not been used directly by the firm. Certain markets were grouped together on an intuitive rather than a formal basis. Many of the variables were not of direct use to the firm. However, the firm was presently using a set of indicators for its own purposes in order to assess market prospects.

B: Marketing planning

Marketing planning followed the need to exploit new markets. The firms supremacy in certain product fields, and the certainty of these markets allowed the decision-makers to be assured of continued demand. However, competitors' activities had to be met both by new marketing efforts, and through a continuous research programme to perfect current preparations, and develop new products.

Multinational M : Nationality - West German(1) The Global Operations of the Company

Type: Product-line multinational organization.

Operations:

The company operates six major product divisions on a world-wide basis. This includes 39 foreign subsidiaries. These are respectively medical engineering, components, data systems, power engineering, electrical installations and telecommunications. As one of the largest electrical engineering firms it has attempted to expand its interests in consumer products particularly in overseas markets.

Location of Manufacturing Operations:

Commonwealth: Australasia.

International: Europe, South America (Brazil, Argentina) South Africa.

(2) Product Range:

Electronic components, data processing transmission, power generation, general electrical equipment, medical instrumentation, telecommunications equipment, domestic appliances.

(3) Location of Contact in the Firm

The Marketing Director - the Telecommunications Division.

The organization of the company into six autonomous operating divisions made it more useful to concentrate upon locating one division which was prepared to assist in the project.

The Director handled the marketing planning and research of the division. He was in turn responsible to the divisional heads. Final policy decisions for the operating division were co-ordinated here.

(4) The Strategic Decision Sequence

Section III: The objectives and constraints of strategic marketing decision-making in the European Complex.

- Expansion in Western Europe was in order to realise greater markets and to match competitors' activities.
- The increasingly favourable climate in Eastern Europe had made the market more attractive in political terms. The realities of marketing here were such that at present it was uneconomic on a large scale.

- The requirements of technology had meant some unprofitable investment in Western Europe. Some measure of exploitation in Eastern Europe had been made on a non-profit basis.

Section IV Investment Decision Criteria

Criteria selected: 1, 2, 3, 4, 5, 6, 7, 8.

Rank: 1 5 3 8 4 6 7 2

The contact was able to select and rank all criteria. This is indicative of the organization and objectives of the group. Rationalization has been achieved and considerable movement of semi finished goods on an inter-group basis takes place. Criterion 1 was paramount in importance.

Section V

A. Profile A: Demographic variables

Variables: 1, 2, 7 and 8.

Population density and structure was of particular importance in the telecommunications field: particularly variable 7.

B. Profile B: Socio-economic variables

Variables: 2, 3, 5, 7, 12, 13, 18 and 19.

22-24 inclusive.

These variables were selected on the basis of the whole group.

2, 3, 5 and 7: were important to the energy group.

12 and 13: to medical engineering.

19: to the telecommunication group.

22-24: were general measures of industrialisation.

Variables used in addition to these by the firm
(in this instance the division)

- Market share - actual
 - projected.
- Competitors' activities.
- Users of data processing equipment.

Identifying and selecting European market opportunities

A. The heuristic model:

The principles of the model were themselves interesting. They were not in formal use in the company or in the division. In general the policy had been to treat each market on its merits, and to examine whether other products existing elsewhere could not be launched in this area. The market share of the group in comparison with its competitors had always been the decisive factor, rather than the issue of similarity.

B. The marketing planning process

The marketing planning process generally followed a set of procedures whereby uncertainty often rested in terms of the activities of competitors. This factor was related directly to the planning process. By determining the market share for the product(s) (projected or actual) decisions could be made to determine the feasibility of the market in terms of product range. The marketing operation was really secondary to the technological factor. The existence of the product gave impetus to marketing rather than the reverse.

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