FOREIGN SUBSIDIARY AND PARENTS' ROLES DURING STRATEGIC INVESTMENT AND DIVESTMENT DECISIONS

Michel Ghertman*
Centre HEC-ISA

Abstract. Empirical research is scarce to answer the concerns of governments, unions and public opinion at large, concerning how multinationals make decisions to restructure their international strategic portfolio or close plants overseas to ensure long-run competitiveness. Based on three in-depth analyses of different types of restructuring decisions, the author concludes that the foreign subsidiaries seem to carry most of the decisionmaking effort for their own plant closures, while for strategic portfolio readjustments during which they change owners, they are not consulted.

INTRODUCTION

Relationships between the parent company and its foreign subsidiaries for investment and divestment decisions have raised academic interest for some time (Aharoni 1966; Behrman 1969). More recently, there was enough literature on foreign and domestic investment and divestment decisions for Boddewyn (1983) to make a review and show the differences and similarities between the above categories of decisions. Others (Duhaime and Grant 1984) have looked at the factors influencing divestment: the strength of the unit divested, its interdependency with other units and the firm financial strength relative to industry averages. A review of the internal and external environment of decisionmaking has been made by Ghertman (1984). The special role of "go-betweens" has been examined by Jamous (1969), Quirici (1975), Sfez (1981) and Ghertman (1981). "Go-betweens" can be outside consultants or lawyers, or insiders such as members of the board or management controllers who understand the language and objectives of both the parent and the subsidiary and help them to communicate more efficiently to complete a decision process.

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* Michel Ghertman is Professor of Strategic Management & International Business at the Centre HEC-ISA, France. His most noteworthy publications include: *An Introduction to the Multinationals* (London: Macmillan, 1985); *Les Multinationales*, collection "Que sais-je?" (Paris: P.U.F., 1983-85); and *La Prise de Decision* (Paris: P.U.F., 1981). He was director of the Institute of Research on Multinationals (IRM-Paris), 1980-83; and is the founding editor of the IRM-Wiley Series on Multinationals.

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But little empirical evidence is available to give academic credit to the existing insights on the respective roles of the parent and the foreign subsidiary in investment and divestment decision processes. We shall make a more focused review of the literature concerning the research questions this paper tries to answer after their elaboration.

Two Contradictory Hypotheses

Two opposite hypotheses can be constructed from the existing literature on divestment. The first is from Boddewyn (1983, p. 31):

> The relatively higher degree of centralization intrinsic to the "true" multinational firm facilitates the making of divestment decisions at corporate headquarters.

He stresses the similarity of his conclusions with the earlier ones of Behrman (1969, p. 73):

> A decision to close down operations is made by the foreign parent; it can hardly be otherwise .... The absence of clear criteria and the significance of the decision force the involvement of top management in the parent company.

We shall call this the *BB* hypothesis.

The second comes from Nees (1978-1979 and 1981) who reported on domestic divestments by three Belgian firms (Nees 1978-79) and eleven U.S. divestment case studies written by Marple (1967) and Hamermesh (1977). Nees (1978-79, p. 86) found that:

> The coordinator is the key actor in the process. He collects information, sets up the divestment team, plans the meetings, allocates the tasks, periodically informs his superiors about the state of the process and seeks approval when necessary.

And later (Nees 1978-79, p. 88):

> This actor is in all cases, *at the level immediately above the divested unit.* In a three-level organization, he is a group president; in a two-level one, he is the chief executive officer.

She concludes that the coordinator is also the initiator and the implementor of the decision (Nees 1978-79, p. 86).

Located below the coordinator in the organization, the head of the divested unit was a participant in the divestment decision process in twelve out of fourteen cases (Nees 1981, p. 125). However, in ten of these twelve cases he is informed by his superiors that his unit is being considered for divestment; he either obeys and gives the relevant information with a wait-and-see attitude, or obstructs the process.

If Nees conclusions were valid for foreign divestments, we could build the following hypotheses, respectively called *N1*, *N2* and *N3*:

- *N1*: In a case of divestiture of a foreign subsidiary, the coordinator of the process is the area or group vice-president at the parent headquarters responsible for the country involved *and* the head of the foreign unit participates in most cases, even though reluctantly.

- *N2*: In a case of a plant closure in a foreign subsidiary, the coordinator is the head of the subsidiary if his manufacturing executive is responsible for one plant only, *and* the latter is a reluctant informer.
- *N3*: In a case of foreign plant closure, the coordinator is the executive in charge of manufacturing if he has several plants to manage with a manager for each *and* the manager of the plant divested is a reluctant informer.

Hypotheses *N1*, *N2* and *N3* can be summarized thus: In all cases the foreign subsidiary is involved in the divestment process; in plant closures it carries the brunt of the decision process.

It is clearly opposed to hypothesis *BB* even though some overlap can be found with *N1*: The parent can make the decision using information from the subsidiary.

However, as Boddewyn (1983, pp. 30-32) pointed out, foreign divestment decisions are considered more readily by the parent than domestic ones; therefore, Nees domestic conclusions might not be valid for foreign purposes.

From the above hypotheses it is clear that there are several types of divestment decisions and possibly several types of parent-subsidiary relationships according to the decision under study. Foreign divestment does not only concern the final closure of a plant (with possible sale of assets) or the sale of the plant to another party but also the sale of an entire subsidiary. In some instances (see section three), foreign subsidiaries are large enough and have their own technology, management and foreign subsidiaries, to be compared to a division of the parent. Clearly the latter case is more strategic than the former two for both the parent and the subsidiary. Foreign plant closures are also strategic for both because they are essential in maintaining the competitive position of the firm (directly for the subsidiary and to a lesser extent for the parent), especially if the foreign subsidiary and the plant to be closed are large in proportion of the total cost of the multinational. Plant closures can have implications in terms of product-markets if the products it manufactures are abandoned. However, the same products can be bought from a subcontractor. Plant closures also can have a negative impact on a whole division or even on the entire multinational firm in one or more countries if a scandal occurs: if the corporate image suffers profits may fall dramatically.

This paper reports on field research conducted in 1985 on decisionmaking regarding restructuring in multinationals (Ghertman 1986). The concept of restructuring is used here, rather than investment and divestment, to embody them both and show that both types of decisions often occur more or less simultaneously. The first research question deals with the contradictory hypotheses constructed above: Is one correct and the other incorrect or, alternatively, does the use of more recent models on decision-processes (see below) advance knowledge and give us a better understanding of parent and foreign subsidiary relationships in divestment and investment decisions? The second objective of this paper is to build a preliminary typology of decision-processes involving the parent and the subsidiary by types of restructuring decisions.

Because the conceptual tools used by the empirical research are part of the iterative model of the political process, we shall make a brief review of that model (Ghertman 1981, 1984) and give an interpretation of existing empirical results concerning restructuring decision-processes in multinationals before 1986 using the iterative model. We shall than outline the characteristics of the multinationals surveyed and the methodology.

The Iterative Model of Decisionmaking

Most managers of multinational enterprises would currently describe the decisionmaking processes involving their foreign subsidiaries as either "decentralised" or "centralised" (Garnier 1979; Van den Bulcke 1984; and Goehle 1980). This does not provide an exact idea of how the parent and subsidiary share the strategic decisionmaking task (Ghertman 1984, pp. 19-25). The parent company's perception is often different from the subsidiary's. Furthermore, the general impression on either side that most important decision processes are shared (Van den Bulcke 1984) produces a blurry result indeed. The iterative model attempts to clarify the role of each side in such processes.

Since the analyses of Bower (1970) and Allison (1971), the decision process has been viewed as the result of three different subprocesses: the rational, the administrative, and the political (called "impetus" by Bower 1970). Ackerman (1970) added a fourth subprocess: the psychological. The four subprocesses all occur more or less in parallel. The behaviorist models of the decision-process (Simon 1945; Cyert and March 1963; Mintzberg 1976; March and Olsen 1976; Crozier 1977; Nees 1978-79) are composite. They use mainly the phases of the rational subprocess, although with limited rationality and satisfaction rather than with full information and maximizing behavior by the decisionmakers. But they also make use of the psychological and — to a more limited extent — political subprocesses.

The iterative characteristic of decision-processes was first pointed out for the political subprocesses (Ghertman 1981), but it can also be applied to the other three.

The iterative model describes a process taking a fairly long time (between several months and several years) and involving both the parent company and the subsidiary. It has two dimensions, a hierarchical one as given by the organization structure and phases described below.

The three distinct phases are so constructed to embody the relationships between actors of the process:

Initiative: An actor or a team of actors makes a proposal, without committing themselves, to other levels of participants; they are basically feeling out the reactions of their colleagues and superiors, without going any further.

Impetus: One of the actors decides to sponsor a project and stake his reputation for good judgement on getting it accepted, and there exists real commitment on his part; he is doing his best to influence his colleagues and superiors in order to obtain project approval.

Trial: The project is examined by higher echelons of management who may approve it, reject it or call for its further study. The trial phase can be the moment of positive or negative completion of the decision-process.

More often than not, it is the beginning of another series of initiative, impetus and trial phases.

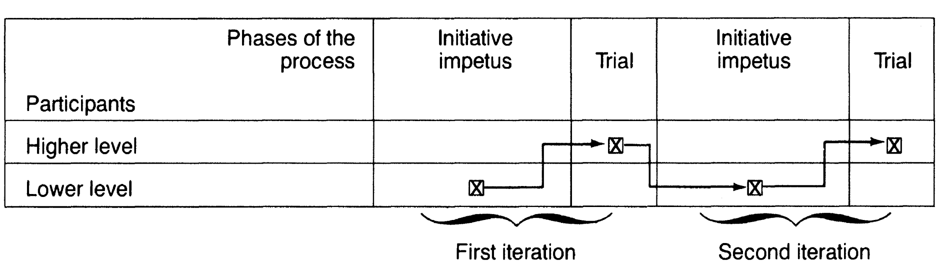
The concept of decision-phase embodies the conduct of an actor who tries to influence the conduct of others even though the latter always keep their freedom of acting as illustrated by the three alternative behaviors of the actor of a trial phase. The actor of impetus can act again or stop the process after a trial phase from above if he feels his project has little or no chance of being approved or if he has other projects.

The trial phases are the ones that give the model its iterative character. An iteration is defined as the succession of the three phases of initiative, impetus and trial, or as a couple of impetus-trial phases.

The direction of the decisionmaking flow is defined as the "direction taken by the sequence of the phases of the process between the levels of participants" (Ghertman 1981, 1984). Thus, if the first initiative phase is carried out by one of the levels below and if the trial phases are carried out by the top levels in the hierarchy, the direction of the decisionmaking flow will be bottom-up and then top-down. In that case, the model is called "standard hierarchic" as illustrated by Figure 1, with two iterations.

If the first phase of initiative is carried out by the higher level (top-down) and the following impetus carried out by the level below with trial from above, the model is called "hierarchic with initiative from the President". A reverse hierarchic model is one in which the decision flow is the reverse of the standard hierarchic model. A competitive hierarchic model uses two competing actors or team of actors (like subsidiaries or divisions) immediately below the President or CEO trying to win a scarce allocation of resources or a decision engendering conflict between them. In a consensual model, the decision-flow does not follow a repetitive pattern. All actors can carry out impetus and trial phases as they please. Therefore the relationships between the actors change as the process develops; they are not stable as in the previous models. The consensual model describes processes taking place in organizations without a clear hierarchy. So does the "garbage can" theory of March and Olsen (1976). The consensual model of the hierarchic process adds a precise picture of the relationships between the decisionmakers. (Figures of each model and more detailed analysis can be found in Ghertman (1981, p. 275-84 and 1984, p. 24-34).)

FIGURE 1
Model of the Standard Hierarchic Process



Existing Empirical Results Interpreted with the Iterative Model

The existing empirical results interpreted with the iterative model relate first to foreign acquisition, and then to divestments.

In eight decisionmaking processes for acquisitions in the United States between 1964 and 1972 by a French multinational enterprise (disguised under the name of Cofracis), the standard hierarchic model was followed throughout: initiative and most of the impetus phases came from the subsidiary, and practically all of the trial phases came from the CEO of the parent company (and on occasion from the manager of the international division and a few executives at headquarters) (Ghertman 1981, pp. 228-29). It is easy to review the results from Ghertman (1981, 1984, 1986), because this was the first study to use the iterative model. It is harder to use the studies of other authors since they lack the detailed chronological data (see methodology below). Therefore, the review below is somewhat tentative.

In decisions by American enterprises whose leadership was of Israeli origin to acquire companies in Israel, the decisionmakers followed the hierarchic model with presidential initiative (Aharoni 1966). The direction of the decisionmaking flow was first top-down, the president taking the initiative of forming an ad hoc working party to study acquisitions in Israel. Subsequently the decisionmaking flow was bottom-up, as the impetus phases came from the ad hoc group and their immediate superiors. Later on the decisionmaking flow was top-down, the trial phases being, as in Cofracis, administered almost entirely by the president of the group.

The main reason for the difference between Ghertman (1981) and Aharoni (1966) is that the French enterprise already had a foreign subsidiary in the U.S. The latter took the initiative of making the acquisitions, which it regarded as part of its responsibilities, whereas the American firms had no subsidiary in Israel. Accordingly the existence of a unit responsible for making acquisitions appears to determine *a priori* what process a multinational uses — whether standard hierarchic or hierarchic with initiative from above.

The results of Gilmour (1973) and Torneden (1974) deal mainly with crisis situations. They conclude that there is a rupture in the system of actors before the divestment process. They found that the head of the foreign subsidiary or of the international division or the CEO of the division in trouble (or even the CEO of the multinational) is first dismissed and replaced. The new executive then proposes divestment, and his superiors easily accept it. The change of actors is made by "an act of authority". The divestment process follows the simple hierarchic process. The "act of authority" itself is the result of a process in which the actors are the superiors of the dismissed CEO. In most cases that executive takes no part in the decisionmaking process leading to his dismissal.

The enterprise's external environment, especially the government and trade unions of the host (i.e., subsidiary's) country had no direct impact on the process, since they were not involved during the process but only afterwards for implementation purposes (Gilmour 1973; Torneden 1974; Ghertman 1981). However, the external environment is likely to have an indirect influence because decisionmakers inside the firm have to be sensitive to external constraints. They often share the same values with their environment. When they do not, they probably do not want to face the risks involved in environmental conflicts. Problems occur when environmental constraints are not perceived properly by the firm's executives.

All the above results do not permit generalization. Furthermore, they all describe pre-1973 behavior. It is possible that patterns have changed since then. Because the number of divestments has increased, multinationals may have learned to disinvest more efficiently. Ruptures in the system of actors may perhaps be less frequent in the mid-1980's than they were in the early 1970's.

Indeed, out of fourteen cases, Nees (1978-79 and 1981) did not mention dismissal of executives. None of her observations deal with purely crisis situations: four are "problem/crisis," one is "crisis/opportunity," two are "problem/opportunity," four "problems," and three "opportunities" (Nees 1978-79, p. 69 and 1981, p. 128). An alternative explanation would be that managers are not as readily fired in Europe as in the United States.

Most divestment processes on which Nees reports can be reinterpreted as standard hierarchic. The main actor of impetus phases, analogous to the "initiator-coordinator-implementor," as we already pointed out earlier, sits one level above the divested unit. The head of the latter takes little or no part in the process, except as a reluctant informer.

Characteristics of the Multinationals Surveyed and Methodology

The use of the iterative model requires thorough empirical research in enterprises so that the various types of models of the iterative process can be tested and, where possible, differentiated in the form of a typology. The top management of the parent company of several multinationals were contacted in September 1984 and asked to co-operate in this study. Eventually three out of fifteen of them kindly agreed to allow the research team to undertake in-depth research on recent restructuring decisions. The research team was composed of the author of the present report and two assistants who were students of business at HEC (Ecole des Hautes Etudes Commerciales). The two students did their third-year traineeship period between January and April 1985 in the offices of the multinationals concerned, collecting data on the decisions being studied. In total, the research used the equivalent of one full-time researcher for one year. The resources employed were important, as the members of the team crossed the Atlantic several times.

One of the three multinationals originated in Canada, another in a European country and the third in the United States. Each of them is one of the leaders in its industry. The first is active in mining and chemicals, the second in consumer goods, and the third in high technology. All three are multinationals whose sales abroad account for more than 25% of their turnover; their foreign subsidiaries vary in number from sixteen for the Canadian multinational to more than fifty for the American and European ones.

The condition required by all three in exchange for permission to examine their files in detail and interview members of their top management at the parent company's and subsidiary's offices was that their identity should be sufficiently disguised to make recognition impossible.

The restructuring decisions considered are markedly different. Those by the Canadian firm (ICC) comprised the sale of a controlling interest in a United States subsidiary, takeover of all the latter's activities in Canada, and the purchase from another multinational of one of its subsidiaries, an oil company, in Canada. The second set of decisions relates to the closure of a small plant in France by the European multinational (ICP), and the third to a large investment in a plant in France belonging to the American multinational (HTC), jointly with the closure of a smaller plant. The cases considered thus cover widely different restructuring decisions, namely:

- reorganization of the business portfolio on an international scale (ICC): these decisions were most strategic for the parent, but not made in a crisis situation, though a strategic problem existed. They are part of the "problem/opportunity" category of Nees (1978-79).
- restructuring of production facilities, either by plant closure (ICP) or concomitant closure and opening of production units (HTC): plant closures were not strategic decisions for the parent and, although the divested plants lowered the subsidiaries profits, they were not strategic because they did not put them in the red. They belong to the "problem" category of Nees (1978-79). They could have become a strategic issue, in terms of competitive position, if they kept dragging down the profit level, relative to competition. In that case they would belong to the "crisis" category of Nees. The investment decision of HTC was strategic in terms of new product technology.

Data collection was by interview of all participants in the decisionmaking process and by reading all the enterprise's internal documents (reports, letters, telex messages, minutes of meetings and records of telephone conversations, and various notes). All these data were transcribed onto individual chronological cards for each interaction between two or more participants, and the cards were then filed in chronological order. When there was a difference of content for one and the same interaction, the written source was given priority. Each interaction or group of interactions was then examined to decide to what phase (*initiative, impetus or trial*) it belonged. The sequence of phases thus determined was then assembled and simplified in the form of a model reproducing one of the iterative processes previously reviewed. (This methodology is examined in more detail in Ghertman 1981 and 1984.)

THE EMPIRICAL INVESTIGATIONS

ICC: The Restructuring of the Business Portfolio on an International Scale by a Canadian Multinational

As a result of the strategic orientations decided in February 1972 by the board of directors (who regarded petrochemicals and oil and gas as promising sectors for investment), in July 1973 ICC (International Company of Canada) bought 30.4% of the shares of an American chemical enterprise disguised under the name of USCO. ICC had control of USCO, since no other shareholder held more than 2% of its stock. USCO's top management appealed unsuccessfully to the American courts to reverse the takeover by ICC. In 1973, 60% of USCO's assets and twothirds of its profits were in Canada, in a petrochemicals complex universally regarded as the world leader in productivity and profitability. Between 1973 and 1979 USCO's sales in the United States in oil and gas increased faster than its sales of chemicals in Canada. In 1975 and 1976 ICC and USCO discussed the possibility of separating the United States and Canadian activities into two distinct subsidiaries, but it was discarded because of legal and tax difficulties.

In 1975, ICC acquired a small oil field in Canada. As results were good, ICC wanted a larger share of crude oil production. This improved its productivity and made it one of the leaders in Canada. In November 1976, ICC raised its USCO holding from 30.4% to 30.65%.

In 1979, the ICC board of directors made a strategic review of its petrochemicals involvement. It decided to retain its controlling interest in USCO because selling off USCO's United States activities and simultaneously buying up all its activities in Canada remained too complicated. However, this restructuring operation took place in 1981 at the same time as the purchase from a European enterprise, EURCO, of its oil fields in Canada. (The day-to-day interactions of the executive of ICC concerning the above two processes is reported in detail in Ghertman 1986, pp. 16-21, including iterative models for each process.)

Analysis of the ICC chemicals and oil division's strategic planning (1979) and international restructuring processes (1981) led to the following ten conclusions:

1. The restructuring decisionmaking process itself did not start until February 21, 1981, and was over in the comparatively short time of four months (by June 25th). It took place in the strategic context worked out by ICC's top management team and approved by its board of directors when the petrochemicals business was reviewed in 1979. Numerous attempts to approach partners interested in restructuring their own portfolio of activities in a way complementing ICC's led to nothing for the next two years, for lack of a suitable partner.

2. The external environment, especially the economic policy of the home governments of both multinationals, was determinant. Without the National Energy Program (NEP) discriminating against non-Canadian oil firms (announced in October 1980 by the Trudeau government), or the change in the French government's policy encouraging French multinationals to invest abroad, the restructuring of ICC's international portfolio in 1981 might still be unfinished. EURCO (a disguise for the French partner of ICC) might have kept its oil fields in Canada and not have invested heavily in the United States.

3. The foreign subsidiary of ICC, disguised as USCO, took no part in the decisionmaking process directed at making it change its controlling shareholders. In February 1981, when it submitted its plan and budget to ICC's top management and board of directors, it was not informed of the decisionmaking process already underway. The main reason for keeping it secret from the subsidiary was that on the North American stock markets, if information leaks out from the few actors involved in the negotiations between the buyer and potential seller, the price of the subsidiary's shares is likely to change rapidly. If the price increases, potential buyers will be discouraged. In other cases, any information that the seller is considering divestment before it is officially announced and fully explained to financial circles may cause its stock market price to fall.

4. The CEO of ICC was capable of taking charge of an initiative and impetus phase concerning the content of strategic decisions, on the eve of the board of director's meeting scheduled to approve the project before its signature. He was nevertheless the principal author of the trial phases (Ghertman 1986, p. 20 and 23).

5. The greater part of the impetus phases was the work of the vice-president of the businesses concerned and the vice-president of the legal department. These impetus phases followed negotiations with the partner. The CEO was informed of the gist of the negotiations and gave his agreement to their being continued.

6. The board of directors was only an actor of trial phases. It was contacted at quite a late stage in the process but acted twice. The first time was on May 21, 1981, when it was sounded on general principles (which were in accordance with the orientations it had approved two years previously) and gave the green light. The second time was when it gave its approval before the signature of the contract. Some members of the board of directors voted against it because of a potential conflict of interest (they were either in the same industry or on the board of the subsidiary being sold), or, in the case of one member, because he would have preferred to see the head of the foreign subsidiary participate in the decisionmaking process leading to its divestiture.

7. There were apparently no "go-betweens" (Jamous 1969; Quirici 1975; Sfez 1981; Ghertman 1981) from outside the firm such as consultants, business lawyers, members of the board consulted before the meeting, or nonmanagerial experts. Only the CEO of ICC, by virtue of his special relationship with his chairman of the board, appears to have translated (or "recoded") the action proposed by his team and, on occasion, by himself, in terms customary to the board members.

8. The rupture of the system of actors, i.e., the dismissal of operations executives, had no impact on the decisionmaking process; the death of the CEO of the U.S. subsidiary and of several members of his top management in a plane accident, and the appointment of their successors, did not change the power relationship between parent and subsidiary. Indeed the parent company did not inform the subsidiary of what was in the offing, for the reason given in conclusion 3 here. There appeared to be no risk that the new CEO would be more firmly opposed to a takeover bid than his predecessor, since both men held similar opinions on that issue.

9. ICC's strategic planning process in 1979 followed the "standard hierarchic" iterative model. The direction of the decisionmaking flow was upward, from the vice-president of the division to the CEO in 1981 and to the board of directors. The restructuring decision process in 1981 followed the iterative "hierarchic process with presidential initiative". It was in part consensual, since the CEO had no hesitation in exchanging his usual role of actor in the trial phases for that of actor in the initiative phase, or even the impetus phase. The decisionmaking flow was therefore downward when the CEO convinced his management of a new idea, even though the process was well underway. Thereafter, the decisionmaking flow followed that of the standard hierarchic process, bottom-up and then top-down, apart from the consensual exception mentioned above.

10. The results of the restructuring process were never formally integrated into strategic planning. The plan for petrochemicals approved during the 1979 process had a five-year time span and appeared to rule out any such occurrence as unrealistic.

Hypothesis *BB* is accurate for the above process: the parent made the decision alone. Hypothesis *N1* is partly correct inasmuch as the coordinator of the process (the VP in charge of oil and petrochemicals) sits one level above the divested unit, but it is partly incorrect because the head of the unit was *not* informed before completion of the decision process ending in its divestiture.

ICP: The Closure of a Medium-size Plant in a Foreign Subsidiary by a European Multinational

ICP's French subsidiary is one of its largest foreign ventures, several times larger in sales or personnel than the parent's operations in its home country. The plant considered for divestiture (in Rennes) had 220 workers out of a total work force of several thousands in France. The following six conclusions are drawn from Ghertman (1986, pp. 25-41).

1. The decision in principle to close the Rennes plant followed the "standard hierarchic" iterative model. The manufacturing vice-president of AMPA (one of ICP's product divisions) was responsible for two plants, each having its own manager. He took the initiative by proposing a restructuring project including closure of the older and less productive plant following a very big fall in its capacity utilisation rate. The market had collapsed a few months earlier. The CEO of ICP France and, subsequently, the parent in Rotterdam agreed. The decisionmaking flow was therefore first of all bottom-up and then top-down.

2. The change of manufacturing vice-president of the AMPA plants led to a reexamination of the results of the previous process. The new manufacturing vice-president, who was the previous manager of the plant to be divested, did not go along with the decision to close the plant proposed by his predecessor and approved by his management. Thus, there is a distinct possibility of discontinuity in the result of decisions if a change takes place in the system of actors. It illustrates the freedom of action of the operational managers vis-à-vis their immediate superiors when the former start a new assignment. A new decisionmaking process began. It followed the simple hierarchic model with a bottom-up decisionmaking flow, when the new manufacturing vice-president proposed a partial closure of the plant under scrutiny.

3. The CEO of ICP France did not intervene directly in an impetus phase to win his new manufacturing vice-president over to a decision he had already approved. The CEO asked him for further information on the proposal for partial closure of the plant, and at the same time called upon his control vice-president to prepare a study. He therefore used the "competitive hierarchic" iterative model described above. After reading the study of the control vice-president recommending total closure of the Rennes plant, AMPA's manufacturing vice-president reversed his proposal to one of total closure.

It was therefore by using a competitive hierarchic process introducing a new actor, in the course of a standard hierarchic process, that the CEO of ICP France was able to persuade the manufacturing vice-president of one of his divisions to re-adopt the conclusion he already accepted at the end of the previous process.

4. The parent company intervened only at a very late stage, when it approved the plant closure. No European area or group team for the rationalization or improvement of productivity was involved. The system for evaluating and motivating managers contained nothing, either formally or informally, to measure their performance in order to improve the productivity and profitability of the plants for which they were responsible. The parent company wanted the subsidiary to take its time, regarding social peace and the public image of its consumer goods (which might suffer from a social dispute covered by the mass media) as more important than short-term profitability. Serious damage to the public image would affect all ICP products, not only those made by AMPA. The result was that decisionmakers in the subsidiaries, being well aware of the parent's concern, were extremely sympathetic to social constraints.

5. The decision to close the plant and its confirmation by a new process ending at the end of 1980 was not mentioned in the 1981-1986 strategic plans of ICP France and AMPA, and was included only in the next (1982-1987) planning cycle. The 1981-1986 strategic plan was not remodelled in consequence of the decision to close the plant taken at the end of 1980.

6. The process of negotiating the sale of the Rennes plant to a third party highlights the primary importance of the local economic and political environment in finding an economic and social solution for the plant. The mayor of the city played an essential part. The seller of the plant did not attach much importance to its price, since he agreed when the buyer divided his initial proposal by three. Indeed, ICP was considering the dismantling of the plant in Rennes. The regional environment of the plant — i.e., the town hall, *Conseil Général* (County Council) and local trade unions, and its national environment, the ministries and the firm's trade unions — were not consulted at the time of the closure decision process. But they played an essential part in subsequent attempts to mitigate its negative results on employment. They — not ICP — found a French buyer for the plant.

Hypothesis *N3* is accurate: the coordinator of the decisionmaking process sat one level above the divested unit *and* he informed his subordinate. On the other hand, hypothesis *BB* is inaccurate.

HTC: Major Investment in a New Plant Together with Closure of a Smaller Plant in a Foreign Subsidiary

Between autumn 1978 and January 1984, HTC (parent and subsidiary together) made decisions concerning the restructuring of the subsidiary's plants in France. The first was the strategic decision to invest $50 million in a new plant. HTC (the parent) makes plants investments of such a large magnitude only every five years. Financing is done locally but the subsidiary is not allowed to make such a decision on its own. Concurrently it decided to close an old plant carrying out assembly and packaging operations with 120 people, about 10% of the subsidiary's workforce. A decisionmaking process to choose the industrial site of the new plant and to allocate financial resources for the $50 million investment also occurred during that period. All these processes are interconnected (see Ghertman 1986, pp. 43-57).

The analysis of each decisionmaking process is made below. Aggregated, they form the decision process to restructure HTC plants in France.

The Decision to Invest in a New Plant

This process followed the "standard hierarchic model with initiative from the President," although in that case, the level above the subsidiary was not the CEO of the multinational but the vice-president of the international division. The decisionmaking flow was successively top-down, bottom-up and top-down.

The initiative phase from the international vice-president occurred because he had direct access to the "area of uncertainty" (Crozier and Friedberg 1977) of the R&D department: information on new products. He suggested that the plant be located in France. The investment decision on the new plant and the decision to launch a new product were combined into one, since the technological determinant was of primary importance. The technological advance gained over competitors amounted to several years. It gave HTC full confidence in the success of the new telecommunications system. The head of the French subsidiary was happy to be a potential host for the new plant as it gave him the opportunity to negotiate an increase on all the prices of its products with the French government, still enforcing price controls at the time.

Nearly all the impetus phases came from HTC's French subsidiary's CEO and director of development. Contrary to the international vice-president who made a suggestion (initiative), the executives of the subsidiary put their reputation at stake in trying to convince the parent ("impetus," Bower 1970). International management at the parent triggered an impetus phase only very late in the process to convince the CEO. He triggered an impetus phase directed at his board only when he thought the time was ripe. The trial phases were triggered successively by the executive in charge of the European area, the international vice-president at headquarters, the CEO of the parent and his board of directors.

The process took place very quickly. There were only five iterations. Few people were into the secret: two at the subsidiary and three at the parent before the CEO of the parent and his board approved of the decision. The finance and tax staff at the parent took no part in the decision process concerning this investment. They would have been against it from the very start for tax reasons as previous plants were built in tax havens. The CEO of the parent did not inform them. When they felt that something was going on, they showed their disapproval. By that time most of the actors in the decisionmaking process had already committed themselves to the investment in France.

The "go-betweens" — i.e., the actors able to understand and recode the point of view and language of one side (the subsidiary) and naturally communicate them to the other party (the parent) — were all executives of HTC. They had a very specific profile. One was the executive in charge of the European zone, at the parent (an American of French origin); the other was his assistant (a manager of HTC France on foreign assignment in New York). There existed a temporary French-inclined coalition at the parent.

The board of directors' meeting was important, for the directors came from outside HTC and would not necessarily endorse the proposals from HTC executives. Two directors in particular, who were CEOs of very large American multinationals with large French subsidiaries, were far from optimistic about being able to work freely in the French administrative context. They approved the project during the last trial phase of the decision process. This project was never a part of the strategic plan of the parent nor of the subsidiaries before the decision was made. It was integrated in the plan of the following year.

The Decisionmaking Process Leading to the Choice of a Site for the New Plant

This process was strictly internal to the French subsidiary. It had delegated authority to make this kind of decision. Although not a strategic decision, it had to be concluded before the formal appropriation request could be made. This decisionmaking process followed the standard hierarchic one with initiative from the CEO of the French subsidiary.

The result of this process had some connection with the process for the closure of the small plant in Strasbourg. It was, indeed, believed that to find a site nearby could be a partial answer to the social problem caused by the closure, but this consideration was not decisive. HTC had always had a preference for eastern France. It finally set up its new plant within fifty miles of Strasbourg.

The Decisionmaking Process for Financial Allocation to the New Plant

This process followed the simple hierarchic model with impetus coming from the subsidiary and the trial phase from the parent.

The Decisionmaking Process to Close the Plant

The initiative phase came four years in a row from the financial control staff of the parent during the annual presentations of the budgets and plans of the foreign subsidiaries. They were not impetus phases since staff, as opposed to operations executives, can only ask questions and express opinions. These had apparently little influence on strategic decisions or on decisions to promote the subsidiaries' managers. There were never any initiative or impetus phases from the parent's executives in charge of operations — CEO, international vice-president or CEO of the French subsidiary. So long as they did not trigger an impetus phase directed at the director of production of the French subsidiary, he could "drag his feet". And so he did, during four years. There was no decision process as such because the actors were not connected hierarchically and also because an iterative model is defined as a succession of initiative-impetus and trial phases. In this case there was no actor of impetus phases, only actors of initiative.

The change in the system of actors was decisive. The new French director of production felt that it was probably not in his interest to start his job by keeping on ice a file that could irritate some of the parent's staff and executives. He started a simple hierarchic process. Initiative and impetus phases came from him, the trial phases from his CEO, and the ensuing impetus phase from both, aimed at the CEO of the parent. He approved of the project during one trial phase. The board of directors of the parent took no part in this process.

As in the case of ICP, hypothesis *N3* is accurate and hypothesis *BB* is inaccurate.

The negotiations with the local administrative, political and social environment were essential to the above processes. Concerning the investment in the new plant, HTC's CEO, followed by his board of directors, did not approve the investment project until the French government gave its agreement on the price increase.

Similarly the process for the financial allocation of resources to the new plant could not be completed until the new French government (formed after the elections of 1981) had confirmed the agreement signed by its predecessor.

The closure of the small plant was not vital to the competitiveness of its French subsidiary, nor to its strategy. But a social scandal concerning layoffs could destroy the results of tricky negotiations on prices. The local economic and social environment was not contacted during the decisionmaking process for the closure of the plant. It was nevertheless very important, since the mayor played a considerable part in finding a local industrialist who was prepared to buy the plant.

CONCLUSIONS

This paper described various iterative processes, each for a different kind of decision. In the Canadian multinational (ICC) the decision was to restructure an international portfolio. In the European multinational (ICP) the plant closure concerned only the French subsidiary. In the American multinational (HTC) the investment in a new plant in France was to manufacture new telecommunications systems for the whole world except the United States, and the closure of the old plant concerned only the French subsidiary.

All these processes were performed at leisure. The parent and its subsidiaries were not pressured by time. Even if all those involved in the decisions were of the opinion that they would have been better if taken earlier, as in Torneden (1974), the decisions were all regarded as successful ones. However, this study has not examined any decisionmaking process for the hasty liquidation of a subsidiary after unsuccessful attempts to restore its fortunes.

None of the hypotheses was accurate in describing all three decision situations reported by the empirical research: Hypothesis *BB* was accurate to describe the decision process to restructure the international portfolio of ICC while hypothesis *N1* was only partially valid: the coordinator, or actor of most of the impetus phases, sat one level above the divested unit *but* he did not inform them before the divestment process was completed. Hypothesis *N3* was accurate to describe the decision process to close plants in foreign subsidiaries in the cases of ICP and HTC while hypothesis *BB* was not.

The iterative framework was found to be conceptually more useful than the concepts used to build the initial hypotheses. By changing the direction of the decisionmaking flow, it offers a variety of models to describe several different processes. In comparison, hypothesis *BB* leads to an "either-or" answer insufficient to grasp the variety of restructuring decisions. Hypotheses *N1* to *N3* are not valid for all situations. The iterative model also pinpoints clearly the respective roles of the subsidiary and the parent through their repetitive use of the two main phases of the process: impetus or trial.

The three processes described above basically followed the standard hierarchic model, with some use of the competitive hierarchic model (ICP) and consensual model (ICC). Part of the rule elaborated by Nees (1978-79) that the coordinator, or actor of impetus phases, sits one level above the divested unit held true in all three cases. But the other part of her rule was not valid in the ICC case. The level below (i.e., the foreign subsidiary to be divested) was not informed of the ongoing process.

With the conclusions from the processes analysed in this report and the others reviewed in the introduction, it is possible to construct a typology of the types of processes by type of strategic decision. Figure 2 shows this preliminary typology.

Let us now see whether the above typology built from a limited number of cases can be generalized and to what extent.

1) The literature reviewed has not uncovered a single case in which the executives of a subsidiary took part in the decisionmaking process leading to a change in ownership when a complementary restructuring of the business portfolios of two

FIGURE 2
Typology of the Decisionmaking Process Analysed by Type of Strategic Decision

Type of decision	Type of process
Restructuring of the business portfolio (ICC) (Ghertman 1986)	Actors only within the parent's top management. Subsidiary excluded from the process. Process is standard hierarchic. Some initiative and impetus phases from the CEO.
Closure of plant (ICP) (Ghertman 1986) or divisions (Nees 1978-79)	Actors almost entirely from the subsidiary. Parent intervenes late in the process to give approval. Process is standard hierarchic. Possible use of competitive hierarchic process by the CEO of the subsidiary when a previous orientation is revised after a change of manager.
Restructuring	
Plant closure (HTC) (Ghertman 1986)	Actors come almost entirely from the subsidiary. Process is standard hierarchic for the closure of the plant, necessitating impetus phase from the subsidiary; but the subsidiary can delay the process under pressure from the parent's staff until the operational executives from the parent press for divestment.
Investment (Aharoni 1966) (Ghertman 1986)	Actors come from the parent and the subsidiary. Process is standard hierarchic with initiative from the international vice-president (IVP) for investment in the new plant. The IVP controls the "relation with Research and Development" area of uncertainty to which the subsidiary has no access. Process is strictly standard hierarchic in Ghertman (1981).
Closure of a subsidiary or a division in a situation of crisis (Gilmour 1973; Torneden 1974; and conclusion 3 of this article)	Actors of process leading to the dismissal of the previous CEO of the foreign subsidiary always located one level above the dismissed executive. Process can be standard hierarchic or with initiative from higher levels of the hierarchy. Dismissal of the CEO of the local subsidiary brings a rupture in the system of actors. Also starts a new process with impetus from the new executive in charge of the subsidiary. Easy acceptance of the closure by the parent (standard hierarchic model).

separate multinationals was underway. The present study adds a further piece of evidence. This conclusion is probably generally applicable to this type of process.

The reason for this generalization is that, in the United States and Canadian business environments, the stock markets determine the behavior of executives from listed companies much more than in Europe. The slightest leakage of information about an ongoing restructuring deal may affect the price of shares of the buyer, the seller, and the subsidiary to be sold in whole or in part. This change in price may lead to a breakdown in the negotiations. In particular, the top managers of a subsidiary — whose shares are distributed amongst a public of small shareholders, but controlled by another firm holding more than 33% of its shares from which they are unwilling to part — have every reason to organize leaks so as to raise the price of a bid. Furthermore, anyone informed about the negotiations can buy a few shares of the subsidiary and go to the courts to oppose the takeover bid. This opposition can jeopardise the transaction and in any case greatly delay its implementation. That the buyer and seller should keep the secret is therefore likely to be a rule of good management.

As portfolio adjustments are the most common type of restructuring in the United States and Canada (Davidson and McFetridge 1984), the conclusion can be posited with caution that the subsidiary takes no part in most decisionmaking processes for restructuring enterprises of United States or Canadian origin. Although it has never been confirmed by a statistically valid sample, the literature contains no examples to the contrary. Furthermore, the conclusion that the decisionmakers' behavior is largely a function of constraints of United States and Canadian stock markets has solid support in theory, especially with Herbert Simon (1945) and the behaviorist literature.

For the same reasons, the above conclusion is likely to be valid for restructuring decisions made in the United States by multinationals of European or Japanese origin. It is probably not valid for European firms in their traditional areas of influence (Europe, Africa, Asia, Latin America, and the Middle East), where stock markets play a smaller role, though that difference is rapidly narrowing.

The above recommendation in favor of secrecy opposes that of Nees (1978-79) advocating a participation of the head of the divested unit. However, the cases she referred to did not consider the role of the stock market. Her recommendation is likely to be sound for most other decisions.

2) In both cases of plant closure or plant restructuring, the subsidiary carried the brunt of the decisionmaking effort and the parent approved but did not either initiate or hasten the process. Two reasons exist to lay the ground for generalization. First, no group can be competitive unless it maintains good industrial relations for their short-term and long-term impact on productivity. Second, when a firm selling a large number of consumer or industrial goods has a scandal on its hands, the image of the whole multinational suffers. Sales of all its products fall, and gains in productivity resulting from restructuring may be more than offset by losses in sales. The examples examined in this paper are probably fairly representative of such decisions. Probably more plant closures have gone by unnoticed than is generally believed; they are perhaps the submerged part of the iceberg. The others, the tip of the iceberg, are probably those that caused a scandal because parent

companies took drastic decisions hastily without consulting the subsidiary. They are more visible but are probably not typical of the decisionmaking behavior of multinational enterprises.

Divestment decisions involving very large numbers of employees as in the steel and automobile industries, also get special attention from the mass media. They are of strategic importance to the competitiveness of the firms taking them; only rarely, however, do they relate to divestment in foreign subsidiaries, and where they do (as in the sale of Chrysler's European subsidiaries), it is not known whether the parent company consulted the subsidiaries before deciding to sell them (Casson 1986).

3) Unfortunately it was not possible in the course of this research to examine a "crisis" restructuring decision process occurring after the failure of repeated attempts to get the subsidiary "out of the red". The CEO of a French multinational told the researchers of a recent example of this kind, but the manager responsible for the subsidiary had been transferred to head office and downgraded. He was so touchy about the case that the CEO declined to reopen the subject. The "trouble-shooter" sent out from headquarters to replace the former manager and to find a solution proposed divestment. The group approved his proposal and withdrew from that foreign market. The process is similar to that mentioned by Gilmour (1973) and confirmed by Torneden (1974).

4) The decision process leading to the closure of the plant in France follows the same iterative model (standard hierarchic) for the European multinational (ICP) as for the American-based multinational (HTC), while the Canadian firm (ICC) did not consult its subsidiary before selling it. It can be inferred that it is not the multinational's Canadian, American or European origin that determines its decisionmaking behavior, but rather the type of strategic decision concerned. For strategic portfolio restructuring, secrecy must be maintained whereas it is not necessary for plant closure. The determinants of such differences of behavior have been explained above.

From these conclusions, it is possible to build the hypothesis that the major determinant of the type of decision process is likely to be the type of decision underway. Van den Bulcke (1984) came to similar conclusions using the "centralization-decentralization" approach. For him most investment decisions were shared between the parent and the subsidiary, while most functional decisions were decentralized to the subsidiary.

This hypothesis raises questions about the differences of approach to divestment between U.S. and European multinationals reported by Boddewyn (1979). He points out that these differences may taper off once economic conditions turn from expansion to slow and irregular growth, the very environment of the eighties. It is also possible that such differences of decision behavior, also stressed by Franko (1976), may be a function of the maturity of the multinationals concerned. ICP (European) and HTC (U.S.) have been multinationals for more than fifty years, whereas ICC (Canadian) started only in the early seventies.

5) Change or rupture in the system of actors usually affects the decisionmaking process. Thus in the case of ICP, the new manager of AMPA's plants disputed the orientations approved only a short time previously by the CEO of his subsidiary,

who used a competitive hierarchic process to get his manager back on the track. In HTC, the French subsidiary's production manager managed to "drag his feet" for four years in spite of prodding from the parent company's staff, who were admittedly not his direct operational superiors. The new manager almost immediately proposed to close the plant. These changes of actors show the room for manoeuvre enjoyed by individual actors, who can in the same situation pursue a strategy different from their predecessor's, at least for a time.

6) The environment produces major influences on the process for several reasons. First, the actors in the enterprises are sensitive to social constraints, at least when these are acute enough to raise a scandal that could tarnish the multinational's image and in turn damage their own careers within the group. Second, the actors need to negotiate certain agreements with their administrative, political and social environment in the host country. When they bid for public markets or for exemptions or adaptations of current regulations, as did HTC, the completion of negotiations is necessary before the firm completes its own decision process. Third, a change of policy by the governments of the host country and home country may change the position of a multinational as a seller or a buyer in a given country (as with EURCO and other oil companies in Canada) and its ability to make large investments abroad (as with EURCO in the United States). However, the members of the environment do not take any direct part in the firm's internal decision processes. They take no part in the iterative processes examined.

In all the cases reported the decisions made were not mentioned in the strategic plan before being made. This confirms the conclusion that the strategic decisionmaking process can be independent of strategic planning (Ghertman 1981). The actors are not necessarily identical, the time is different and the issues at stake are not of the same kind.

The conclusions made with HTC and ICP that they informed their environment once the divestment process was completed confirms results from Torneden (1974) and Nees (1978-79). Uninational enterprises probably behave in exactly the same way. Once divestment is decided upon, however, the local environment is extremely active in trying to find an alternative to closure, generally a takeover by another industrialist of the site and some of its employees.

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