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Cultural Impact On The Decision Making Process
(A Comparative Study between American and
Japanese Corporations Operating in Malaysia)

By
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MBA PROJECT PAPER

Submitted to the Management Center
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ABSTRACT

The project is based on Dr. James P. Johnson work on “Strategic Decision Making, Procedural Justice, and Team Commitment in International Joint Ventures: A Path Model Assessment of Relationship”. However, it has been modified to examine multiple commitments in the context of strategic decision-making in two different MNCs, namely American and Japanese corporations operating in Malaysia rather than international joint venture.

For the purpose of the project paper, particular attention has been made to the MNC management team’s perceptions of fair decision-making processes. Drawing upon literature from strategy, organizational justice and organizational behavior, the relationships between strategic decision-making, procedural justice, organizational commitment and strategy implementation are modeled and tested with data gathered from 15 American MNC subsidiaries and 15 Japanese MNC subsidiaries in Malaysia.

The validity and reliability of the model proposed by Dr. James P. Johnson are assessed with the aid of the correlation analysis and multiple linear regression analysis method. However, tests concerning the difference between two population means and inferences concerning population variances methods are used to assess the differences between American MNCs and Japanese MNCs in Malaysia.

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(A COMPARATIVE STUDY BETWEEN AMERICAN AND
JAPANESE CORPORATIONS OPERATING IN MALAYSIA)

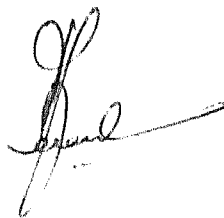
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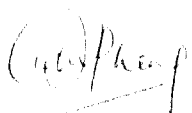
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I hereby declare that this thesis is the result of my own investigations, except where otherwise stated. Other sources are acknowledged by footnotes giving explicit references and a bibliography is appended.

Name : Wong Mee Pheng

Signature : 

Date: August 7, 2002

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I dedicate this project paper to my beloved father, Wong Sin Khun , beloved mother,

Siaw Yap Lin, and my daughter, Cheryl Ring Chia Yi

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This project has been prepared in collaboration with Professor Dr. Haji Mohammad Saeed, Management Center, International Islamic University, Malaysia, and base on Dr. James P. Johnson work on “Strategic Decision Making, Procedural Justice, and Team Commitment in International Joint Ventures: A Path Model Assessment of Relationship” for academic purposes and it does not aim to evaluate effective or ineffective handling of any administrative issue.

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CHAPTER 1: INTRODUCTION

1.1. Study Background

Globalization has become a new trend of doing business this century. National economies are merging into an interdependent global economic system in today's world. The rapidly emerging global economy raises a multitude of issues for businesses both large and small. It creates opportunities for businesses to expend their revenues, drives down costs, and boost profits¹. Globalization has brought diminishing nation borders and the fusing of individual national markets.

While the emerging global economy creates opportunities, it gives rise to challenges and threats that yesterday's business managers did not have to deal with. The growth of globalization has produced a fertile area for international management research that has examined many facets of the motivations, goals, structures, and relationships involved in establishing successful multinational companies (MNCs) in various countries. The management team comprises typically managers from diverse organizational and national cultures. There is an expectation on the part of the parent firms that these managers will focus not only on the goals of the MNC but also on the broader goals of the parent company, resulting in multiple and competing forms of commitment for the MNC managers – to the parent firms, and the management team to which they belong, as well as commitment to implementing the MNC's strategy.

¹ Hill, Charles W.L. (2001). *International business: competing in the global marketplace* (3th Edition). (pp. 2-3). NewYork: Irwin McGraw-Hill

1.2. Objective of the Study

This study examines multiple commitments in the context of strategic decision-making in two different MNCs, namely American and Japanese. Particular attention has been made to the MNC subsidiaries' management team's perceptions of fair decision-making processes that enhance the team's organizational commitment coupled with its commitment in implementing strategic decisions.

This study is on the intersection between two major areas within the international strategic management literature, namely; Strategy Formulation and Strategy Implementation; and two major areas within the organizational behavior, namely; Organizational Justice, and Organizational Commitment. Drawing upon theory from strategic management, organizational behavior, and organizational justice, relationships are developed between "strategy formulation, procedural justice and team's organizational commitment", and "procedural justice, team's organizational commitment and strategy implementation".

Since this study centers on the relationships between team's commitment and strategy, a discussion on the commitment literature as it pertains to strategy implementation will be presented first. This is followed by a review of the literature on procedural justice as it relates to international strategic management and relationships are poised between strategy formulation processes and team's commitment. The proposed model by Dr. James P. Johnson on these relationships is then tested and the results are discussed in the light of international management theory and practice. In short, the aim of this study is:

1. To advance into international management literature by examining the contribution of organizational commitment to the effective management of MNC subsidiaries.
2. To contribute to the strategic management literature by highlighting the relationship between MNC subsidiaries' managers' perceptions of procedural justice in strategy formulation and their effective implementation of strategic decisions.

1.3. Study Methodology

Drawing upon literature from strategy, organizational justice and organizational behavior, the relationships between strategic decision-making, procedural justice, organizational commitment and strategy implementation are modeled and tested with data gathered from 15 American MNC subsidiaries and 15 Japanese MNC subsidiaries in Malaysia. The validity and reliability of the model by Dr. James P. Johnson are assessed with the aid of the correlation analysis and multiple linear regression analysis method. However, tests concerning the difference between two population means and inferences concerning population variance methods are used to assess the differences between American MNC subsidiaries and Japanese MNC subsidiaries in Malaysia. The results validate the proposed model by Dr. James P. Johnson and confirm the hypothesized relationships in particular, the strong direct relationship between perceptions of procedural justice in strategic decision-making and the MNC subsidiaries' managers' organizational commitment to the MNC subsidiary, its parent, and the top management team. The implications of the results for managing MNC subsidiaries are discussed.

CHAPTER 2: LITERATURE REVIEW

2.1. *Commitment Theory*

The concept of organizational commitment concerns the degree in which people are involved in their organizations and their interest in remaining within them². The antecedents of commitment are diverse but three major views of commitment emerge from the literature:

1. Continuance (or calculative) commitment,
2. Affective commitment, and
3. Normative commitment

(Allen & Meyer, 1990; Eisenberger, Fasolo, & Davis-LaMastro, 1990; Etzioni, 1961; Gould, 1979; Meyer & Allen, 1984; Mowday, Steers & Porter, 1979; Greenberg & Baron, 2000).

Continuance commitment focuses on why individuals choose to remain in an organization and emphasizes on the economic cost of leaving. Individuals who exhibit strong continuance commitment remain with an organization because they need to and cannot afford to do otherwise.

In contrast, affective commitment focuses on an individual's emotional attachment to an organization, identification with the goals and values of the organization, and desires to remain involved with the organization.

² Greenberg, J., Baron, R.A. (2000). *Behaviour in organizations: understanding and managing the human side of work* (7th Edition). (pp.181). Upper Saddle river, NJ: Prentice-Hall, Inc.

Normative commitment, however, refers to the feeling of obligation within an individual to stay with the organization because of pressure from third parties. They are greatly concerned about what others would think of them for leaving³.

All the three views of commitment are consistent with the Barnard-Simon “exchange model” in which individuals attach themselves to an organization in return for intrinsic or extrinsic payments or rewards from the organization⁴. They are also consistent with Gould's (1979) equity-exchange model of organizational involvement, which is the extension to equity theory based on the Barnard-Simon model.

Commitment theory implies that high level of organizational commitment will result in greater efforts by an individual to achieve organizational goals. All types of commitments have been investigated at the organizational level, focusing on individuals' commitment to the organization as a whole. Studies of organizational commitment have found the strongest correlation to be between affective commitment and organizational outcomes, such as in-role job performance, attendance, and organizational citizenship behavior⁵. Since we are concerned in this study with the relationship between organizational commitment and organizational outcomes, we focus on affective commitment and adopt Mowday et al.'s (1979) definition of organizational commitment as a belief in and acceptance of organizational goals and values, a willingness to exert effort towards organizational goals, and a strong desire to maintain organizational membership.

³ Greenberg, J., Baron, R.A. (2000). *Behaviour in organizations: understanding and managing the human side of work* (7th Edition). (pp.183). Upper Saddle river, NJ: Prentice-Hall, Inc.

⁴ March, J. G., & Simon, H. A. 1958. *Organizations*. New York: John Wiley and Sons, Inc.

⁵ Meyer, J. P., & Allen, N. J. 1997. *Commitment in the workplace. Theory, research and application*. Thousand Oaks, CA: Sage Publications.

2.2. Multiple Commitments

Studies have found that individuals can and do hold varying levels of commitment to varying entities. For example, people exhibit different levels of organizational commitment within and across organizational boundaries, such as, to an employer, to a union, or to a professional body (Fukami & Larson, 1984; Gordon & Ladd, 1990; Tuma & Grimes, 1981). The commitment of employees to organizations is primarily a social action driven by affective, moral and altruistic motivations, rather than by overtly calculative considerations⁶. However, in the context of teams, the commitment includes the behavioral manifestations of employees.

In an international context, Gregersen and Black (1992) identified four categories of commitment amongst expatriate managers. These are based fundamentally on whether their commitment is primarily focused at the foreign affiliate, to the parent company, to both equally, or to neither of them.

In MNCs, there are two potential contenders for the organizational commitment of MNCs' managers, namely the MNC subsidiaries itself and the parent company. The strength of an individual's commitment to each of these organizations is likely to vary, since commitment is a reflection of an individual's identification with an organization⁷. Social identity theory (Ashforth & Mael, 1989; Deaux, 1996; Dutton, Dukerich, & Harquail, 1994; Kogut & Zander, 1996) suggests that the strength of the bonds that individuals form with various organizations and groups

⁶ Peccei, R and Rosenthal, P (1997), "The Antecedents of Employee Commitment to Customer Service: Evidence from a UK Service Context," *The International Journal of Human Resource Management*, 8, 66-86.

⁷ Kelman, H. C. 1958. Compliance, identification, and internalization: Three processes of attitude change. *Journal of Conflict Resolution*, 2: 51-60.

depends on how closely they identify themselves with that organization or group. With organizational identification comes a greater sense of loyalty and commitment to the organization (Kogut & Zander, 1996; Mowday, et al. 1979). Thus, an MNC subsidiary's manager who has never worked for a foreign parent company and has little day-to-day contact with it is likely to exhibit a lower level of organizational commitment to the parent company than a colleague who has been seconded to the MNC subsidiary from the foreign parent company, whose career is tied to it and has regular interactions with colleagues from the foreign parent company.

2.3. Team's Commitment

So far, the discussion and the literature review has centered on organizational commitment at the individual level of analysis. Indeed, organizational commitment is usually viewed as an "individual-level variable"⁸. However, several studies have examined the relationship between organizational commitment at the group level and organizational performance by aggregating individuals' scores on organizational commitment measures. Ostroff (1992) demonstrated convergence in the within-group scores, thus validating the aggregation of individual scores into a meaningful measure of the group's organizational commitment.

There is support from group potency research for an alternative approach to investigating commitment at the group or team level in which group commitment is seen as distinct construct, not simply an aggregation of individual commitment scores. This is especially important in the case of MNCs subsidiaries, where we would expect the individual commitment of the MNC subsidiary's manager towards the MNC

⁸ Meyer, J. P., & Allen, N. J. 1997. *Commitment in the workplace. Theory, research and application*. Thousand Oaks, CA: Sage Publications.

subsidiary and its parent company to vary widely, depending on individual backgrounds and the degree of identification with each of the organization. Group potency research distinguishes between self-efficacy, which is an individual's belief about his/her own capacity to perform a task, and group potency, the collective belief by a group that it can be⁹. The MNC subsidiary's management team functions as an identifiable group, so we would expect that the MNC subsidiary's manager to have a collective perception about the team's commitment to the MNC subsidiary and its parent company. This is not to argue that each member of the team believes that all team members have the same individual level of commitment – this is clearly not the case since, as stated above, individual levels of commitment will vary. Further, individuals can be identified with a group or organization without being a highly cohesive unit¹⁰. Rather, following the group potency research, we believe that the MNC subsidiary's management team as a whole has a shared perception in the team's commitment.

2.4. Team's Commitment to Implementing MNC Subsidiary's Strategy

Commitment has also been studied at the sub-organizational level of analysis, focusing on commitment to a group or a strategy. One of the consequences of commitment that is of interest to strategic management researchers is the impact of employee organizational commitment on organizational outcomes (Mowday, et al., 1979; Steers, 1977; O'Reilly & Chatman, 1986). Several studies (e.g., Guth & MacMillan, 1986) have examined the strategic decision-making process and the effect

⁹ Guzzo, R. A., & Shea, G. P. 1990. Group Performance and intergroup relations in organizations. In M. D. Dunnette & L. M. Hough (Eds), *Handbook of Industrial and Organizational Psychology*, 2nd ed. (pp. 269-313). Palo Alto, CA: Consulting Psychologists Press.

¹⁰ Mael, F.A. & Ashforth, B.E. 1995. Loyal from day one: Biodata, organizational identification, and turnover among newcomers. *Personnel Psychology*, 48:309-33.

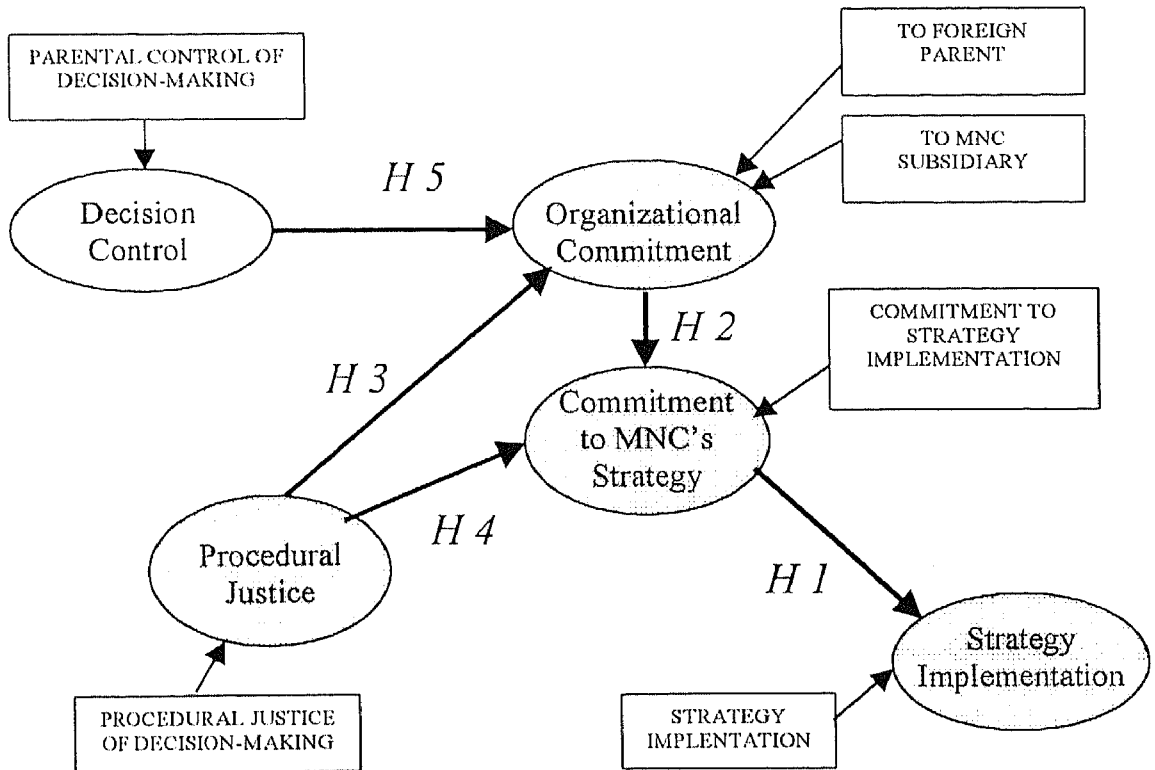
of managers' participation in decision-making on their acceptance of and commitment to strategic decisions. MNC subsidiary's managers play a key role in executing the MNC's strategy, and can obstruct, delay, or reduce the quality in implementing the strategy if they perceive that the mode of implementation is in some way against their self-interest¹¹. Hence, securing their commitment to implementing the MNC's strategy is crucial.

The central role of managers in executing strategy suggests that organizational commitment, as defined by Mowday et al. (1979, 1982), does not appear to have a direct impact on organizational performance. However, it is rather the indirect impact performance through the commitment of the managers and his/her course of action as set out in the organization's strategy¹². Following the reasoning in the earlier section in investigating the commitment at the team level, we believe that the MNC subsidiary's management team as a whole has a shared perception of the team's commitment in implementing the MNC's strategy. Thus, the first relationship in the proposed model (see Figure 1.) concerns the MNC subsidiary's team's commitment in implementing strategic decision making. This is coupled with the effectiveness in executing the MNC subsidiary's decision.

¹¹ Guth, W. D., & MacMillan I. C. 1986. Strategy implementation versus middle management self-interest. *Strategic Management Journal*, 7: 313-327.

¹² Woolridge, S.W., & Floyd, B. 1990. The strategy process, middle management involvement, and organizational performance. *Strategic Management Journal*, 11: 231-241.

Figure 1. Latent Variable and their Indicators



Hypothesis 1: There is a strong direct, positive relationship between the MNC subsidiary's management team's commitment to implementing the MNC subsidiary's strategy and the effective implementation of the MNC subsidiary's strategy.

In turn, it is expected that the team's commitment to achieving organizational goals through the implementation of the MNC subsidiary's strategy will be influenced by its organizational commitment to both the MNC subsidiary and its parent company. Furthermore, the willingness of MNC subsidiary's managers to "go extra mile" in making the MNC subsidiary successful, would be reflected in their commitment to the respective organizations. Thus:

Hypothesis 2: There is a strong direct, positive relationship between the MNC subsidiary's management team's organizational commitment and its commitment to implementing the MNC subsidiary's strategy.

2.5. Procedural Justice, Team's Commitment, and Decision Control

Procedural justice is the process of effective and accurate record keeping that focuses on the fairness of the practices used in making human resource decisions. Whether the company operates with a human resource department or not, a system must be in place with procedural safeguards. The system must be followed religiously, to ensure that everyone is treated equally, maintaining the fairness of that system. As long as all employees receive the same "punishment" for similar wrongdoings, the system will be viewed as free from bias¹³.

People focus on procedural fairness because they use information about the fairness of group procedures to understand both the status of the group and their status within the group. These status judgments are important to people because they shape their self-definitions and feelings of self worth. By understanding the motivations that underline willingness to cooperate, people will value group membership, and what groups mean to individuals¹⁴.

In this study, the procedural justice theory concerns with the effects of decision-making processes on those who are subjected to decision outcomes. Two related models of procedural justice explain how perceptions of fair decision-making processes

¹³ Kefgen, K & Blum-Rothman, D. 1997. *Record Keeping Through Procedural Justice Decreases Employee Related Lawsuits.*