# THE IMPACT OF HOME OFFICE CULTURE ON SUBSIDIARY STRATEGIC PLANNING

by

Chris Christodoulou

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#### ABSTRACT

#### The Impact Of Home Office Culture On Subsidiary Strategic Planning

As part of a major study into the strategic planning practices of large Australian manufacturing companies, an examination was conducted into the strategic planning practices of subsidiaries operating in Australia. In particular comparisons were made of the strategic planning practices of subsidiaries with U.S. and U.K. home offices.

These comparisons highlighted that differences existed between the U.S. and U.K. subsidiaries with respect to home office planning information requirements and the extent of home office influence on the long term direction of the subsidiary. Previous overseas studies have also suggested that U.S. companies differ in their approach to the management of their overseas subsidiaries.

Given that a difference was also apparent between U.S. and U.K. subsidiaries in Australia a number of visits were made to a small number of U.K. and U.S. home offices. The findings from the home office visits were supportive of the viewpoint that the differences observed in planning information requirements and the tighter control on the subsidiary's long term direction were a genuine reflection of cultural differences between U.S. and U.K. multinational companies. 

#### 1. INTRODUCTION

In the past decade two major trends have become evident in the management of business firms. Firstly, multinationals have come to occupy an increasingly important position in the economic, political and social spheres of the contemporary world (Hulbert and Brandt, 1980). Secondly, many large companies **around** the world have adopted some sort of formal strategic planning system (Steiner, 1979).

In Australia over 50% of the largest companies in the manufacturing industry are subsidiaries of multinational companies. Hence an important area of study is the relationship between the Home Office and the corporate planning activities at the subsidiary level. There is also evidence to suggest that the culture of the Home Office country influences this relationship, for example, **Bazzaz (1979)** suggested that the approach to corporate planning by U.S. subsidiaries in the U.K. differed from those of the U.K. companies. Similarly. Hulbert and Brandt (1980) reported that the Home Office management systems for co-ordinating and controlling overseas operations of American subsidiaries differed significantly from those of European companies.

This paper examines the relationship between Home Office and the formal corporate planning practices of Australian subsidiaries, and also makes comparisons of this relationship between U.S. and U.K. subsidiaries.

#### 2. <u>METHOD</u>

The manufacturing companies approached to participate in this study were those whose principal activity was in manufacturing, and who had turnovers exceeding \$100 million in 1979. In total 103 companies across Australia were invited to participate, and 63 companies agreed. Of these 63 companies, 35 companies were subsidiaries.

All the Australian data presented in this paper was collected by personal interviews using a highly structured questionnaire between December 1981 and June 1982. The respondent was either the chief executive officer or the next most senior executive responsible for corporate planning.

Table 1 summarizes the subsidiaries both by their country of origin and whether they had a formal corporate planning system.

FORMAL	NON-SUBSIDIARIES	SUBSID	IARIES	-
CORPORATE PLANNING		U.S.	U.K.	OTHER
NO	7	0	2	1
YES	21	12	10	10
	28	. 12	12	. 11

#### TABLE 1 : CLASSIFICATION OF COMPANIES

This paper specifically explores the relationship between the Home Office and the formal corporate planning practices of the **32** subsidiaries who had formal corporate planning. Comparisions are also included in this paper where differences arose between the U.S. and U.K. subsidiaries.

Finally this paper reports on a limited number of visits to U.K. and U.S. Home Offices. The visits were organized by asking the respondents from 3U.K. subsidiaries and 5 U.S. subsidiaries to arrange meetings with appropriate home office personnel. The purpose of the visits being to gain an appreciation from a Home Office perspective of subsidiary autonomy and to gain a subjective feel for whether *a* cultural difference really exists between U.S. and U.K. subsidiaries.

The U.K. Home Office visits were completed in August 1982, and the U.S. Home Office visits were completed in September and October **1982.** A loosely structured questionnaire was used to guide the discussions.

#### 3. <u>results</u>

When there are no significant differences between U.S. and U.K. subsidiaries the results in this section are presented as a total group. However, when such differences occur comparative results **are** also presented for the U.S. and U.K. subsidiaries.

#### 3.1 <u>Reporting Relationship with Home Office</u>

For every subsidiary there was no formal reporting relationship between the local corporate planning group and the home office even though most companies indicated strong informal links existed. The reporting relationship was always through the chief executive officer to home office and many respondents stressed that this was not necessarily an authority relationship especially in the cases where the subsidiary had local equity. An impression was obtained by the interviewer that U.K. subsidiaries are more likely to stress their autonomy than any other group of subsidiaries. The reporting relationship of the chief executive officer is summarized in Table 2. In over 50% of the cases the chief executive officer reports to either a director for the region or a director for international operations.

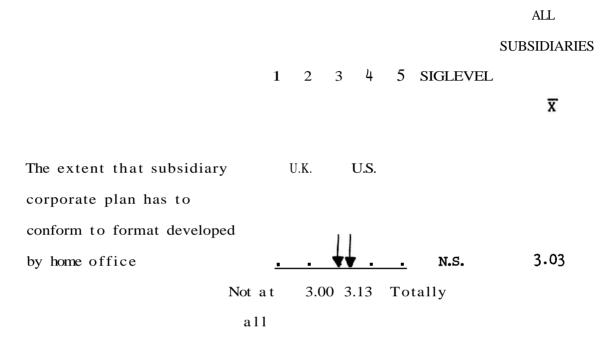
CEO Reports To:	N	ø/ jø
Regional Director	14	43.8
Functional Director	3	9.4
Group Managing Director/President	3	9.4
Home Office Board	2	6.1
Director of International/Operations	3	9.4
Other Home Office Personnel	3	9.4
Consider Autonomous	4	12.5
	32	100

#### TABLE 2 CEO REPORTING RELATIONSHIP

#### 3.2 Format of Corporate Plan

Subsidiary corporate plans have to confirm to a moderate extent with head office formats. No significant difference exists according to country of origin (refer Figure 1).

#### FIGURE 1 FORMAT OF CORPORATE PLAN



#### 3.3 Information Exchange

Figure 2 shows the extent to which home office supply planning information to the subsidiary corporate planning group. The extent to which information is supplied is relatively low for all the areas examined. The data appears to suggest U.S. head offices supply more information, but a two way ANOVA on an array of the variables by country of origin did not show a significant difference exists between the U.S. and the U.K.results.

SUPPLIES I	NFORMATION TO S	UBSIDIARY	CORPORATE PLA	NNING GROUP
Information supplied:	1 2 3	4 5	SIG. LEVEL	ALL SUBSIDIARIES
	0.40 0.40			x
Finance	2.13 2.42	••	N.S.	2.41
	2.63 2.67	7		
Marketing	····)···· // 1.75 / 2.58	<u>.</u>	N.S.	2.55
Production	1.75 / 2.58	, 	<b>N.S.</b> (0.15	) 2.38
Research and	2.25 2.9	92		
Development	· · · · · ·	<u> </u>	N.S.	2.69
	2.11 2.9	92		
Economy	·	• •	N.S.	2.71
Other	2.13	3.33	N.S. (0.)	15) 255
	VER	VERY	N.S. (0.	19) 2.00
		FREQUENT	LY	

# FIGURE 2: <u>PLANNING INFORMATION EXCHANGE - EXTENT HOME OFFICE</u> SUPPLIES INFORMATION TO SUBSIDIARY CORPORATE PLANNING GROUP

---- U.K. Subsidiaries

U.S. Subsidiaries

Figure 3 shows the extent to which the local corporate planning group has to supply planning information to home office. The major areas in which information is supplied are marketing, finance, the economy and production. A significant difference does exist between the U.S. and U.K. subsidiaries. the U.S. subsidiaries apparently having to supply more information to home office.

FIGURE 3: PLANNING INFORMATION ESCHANGE - EXTENT SUBSIDIARY CORPORATE PLANNING GROUP SUPPLIES INFORMATION TO HOME OFFICE							- 0	
<u>CORPORATE</u>	PLANN	ING G	ROUP	SUPPL	TES 1	NFORMATT	ON TO HOME OFF	ICE
Information Supplied:	1	2	3	4	5	SIG L <b>EVEL</b>	ALL SUBSIDIARIES	VAR. NO.
							x	
		3	.43	4.0	0		••	
Finance	<u>.</u>	•	•		<u>.</u>	N.S.	3.61	1
		3.	00 /	′ <b>\</b> 4	•33			
Marketing	•	•	_;	)		0.05	3.53	2
	2.3	8	1	3.5	0			
Production	•	<u>(</u>	•	/.	•	0.10	2.90	3
Research and	2.	13		3.00				
Development	• <b></b>	<del>:</del> {	-{-	<u> </u>		N.S.(C	.15)2.52	4
		3.0	io.		4.3	3		
Economy	•	· · ·	$\rightarrow$	$\rightarrow$		0.05	3.36	5
	1.38	1	2.0	18				
Other	·	1.	/	•	<u> </u>	N.S.	1.90	6
N	EVER			VERY	F.KF(	QUENTLY		

\_\_\_\_ U.K. Subsidiary

\_\_\_\_ U.S. Subsidiary

ARRAY RESULTS:		SOURCI	8	S	IG. LI	EVEL	
		MODEL		an Annate Ken	0.000		
		SUBTYI (UK/US			0.000	01	
		VARIA	-		0.000	01	
VARIABLE	:	2	1	5	3	4	6
MEANS 9US/UK)	:	3.80	3.76	3.76	3.05	2.65	1.80
DUNCAN		AAAA	AAAAA	AAAAA	AAAAA		
GROUPING					BI	BBBBB	С

#### 3.4 Home Office Understanding

Respondents were asked to what extent home office understood their organization's particular problems and requirements and whether they took a flexible approach to managing the subsidiary (Refer Figure 4). Overall a high level of understanding and a fairly flexible approach were indicated. Even though not statistically significant it is interesting to note that the U.K. responses were suggestive of a more flexible approach. This would appear consistent with the U.K. home offices requiring less information from their subsidiaries.

#### FIGURE 4 HOME OFFICE UNDERSTANDING

		1	2	3	4	5	SIG. LEVEL	ALL SUBSIDIARIES
Top Management in He Office understand th								x
organizations partic problems and requirements	NOT AI	ALL	•	3.7	7 3 8	33 <u></u> 	N. S.	3.81
Top Management in Home Office takes a flexible approach to management of this subsidiary	VERY	INFL	3.4 EXIBL	1	  4.00  . VE	D RY FLI	N.S. EXIBLE	3.91

U.K. Subsidiaries

The subsidiaries consider they have a great deal of freedom with respect to day to day operations, but their freedom is not as great with respect to longer term aspects. Overall it appears that U.K. subsidiaries believe they have more freedom than do U.S. subsidiaries (Refer Figure 5).

### FIGURE 5: <u>SUBSIDIARY AUTONOMY</u>

						SIG.	AI	Т	VAR.
	1	2	3	4	5	LEVEL	SUBSII	DIARIES	NO.
Subsidiary's Degree of Freedom with Respect to:									
Decisions involving major resource commitments		2-75		3.56	<u>.</u>	N.S. (	0.15)	3.21	1
Decisions involving day to day operations	<u>.</u>	•	4.	66	4.77	N.S.	2	4.79	2
Changes in planning procedures		3.5	58	[.]	4.22	N.S.		3.80	3
Determining the organizations's mission	•	. 3.	.41	/3.5 / ·		N.S.		3.42	4
Determining the organization's product/ market scope		3.1	.7.]	3.33		N.S.	,	3.39	5
Determining the organization's R & D strategy VERY I		.20 LE	/	3.44 VEF		0.01 <b>EAT</b>	:	3.13	6
U.K. Subsidia	ary								
——— U.S. Subsidia	ary								

ARRAY RESULTS :	sa	RŒ		SIG.	LEVEL		
	MODEL			0.00			
	SUE	STYPE (	US/UK)	0.01			
	VAF	RIABLES	}	0.0001			
VARIABLE	2	3	4	5	1	6	
MEAN	4.71	3.86	3.48	3.24	3.09	2.79	
duncan GROUPING	Α	BBBBBBBBBBBBBBBBBBBBBBBBBBBBBBBBBBBBBB					

#### 3.6 <u>Difficulties Arising Due to Home Office Corporate Planning</u> <u>Requirements</u>

There does not appear to be any significant difference (by country of origin) in the type of difficulties which arise due to home office corporate planning requirements. Table 3 summarizes the difficulties identified. the most common difficulties being problems with home office timetable requirements and corporate planning formats that were considered too rigid. It is however interesting to note that 70% of the U.K. companies indicated no significant difficulties due to home office corporate planning requirements, whereas the overall figure was only 40% of the respondents.

#### TABLE 3: MAJOR DIFFICULTIES DUE TO HOME OFFICE REQUIREMENTS

Difficulties/Problems Encountered Due to		
Home Office Corporate Planning Requirements	N	郑 of Subsidiaries
No significant problems	13	40.6
Timetabling difficulties	9	28.1
Format requirements too rigid	5	15.6
Distance	1	3.1
Loss of creativity/mechanistic	1	3.1
Insufficient specification of requirements	1	3.1
Integration difficulties with worldwide	1	3.1
plans		
Differences in assumptions	3	9.4
Time consuming <b>process/excessive</b> demands	4	12.5
No feedback	1	3.1
Other	2	6.3

# 3.7 Perceived Benefits Home Office Receive from Subsidiary Corporate Plans

Table 4 summarizes the major benefits the respondents believed the home office obtained from the subsidiary corporate plans. Overall the major benefits appear to be in developing the company direction and in the overall resource allocation process.

#### TABLE 4: HOME OFFICE BENEFITS

Benefits Received from Subsidiary Corporate Plan	N	% of Subsidiaries
Assess/monitor company performance	3	9.4
Justify future support for subsidiary	3	9.4
Developing/understanding subsidiary and group	9	28.1
direction		
Overall corporate resource allocation	7	21.9
Understand local markets	4	6.3
Understand local operations	2	6.3
Integrated financial picture	2	6.3
Enables a total plan	2	6.3
Assessment of overall strengths $\&$ weaknesses	2	6.3
Identifies unique opportunities	2	6.3
Exchange of ideas	2	6.3
Feeling of security	1	3.1
Identifies contingencies/risks	1	3.1
Alerts to dangerous financial situations	1	3.1
Benefits from local methodology	1	3.1
Compatible development of their interest	1	3.1
Unable to identify	4	12.5

#### 3.8 Benefits Received From Home Office Planning Involvement

Table 5 summarizes the benefits to the local corporate planning group from the planning involvement of the home office. The major benefits appear to be the critical review of local plans and the access to planning knowledge and skills. It is of interest to note that only 10% of U.K. subsidiaries identified critical review of local plans as a benefit, whereas 50% of the U.S. subsidiaries did so. Nearly 20% of the subsidiaries claimed that they did not receive any substantial benefits from home office planning involvement due to a lack of feedback to the local corporate planning group.

#### TABLE 5: CORPORATE PLANNING GROUP BENEFITS

Benefits Corporate Planning Group Receive from	N	% of
Home Office <b>Planning</b> Involvement		Subsidiaries
Planning knowledge <b>source/planning</b> skills	8	25.0
Access to high calibre planning specialists	4	12.5
Insights into planning approaches	1	3.1
Access to <b>scenarios/undertake</b> scenario analysis	4	12.5
Competitor analysis	1	3.1
Advice of opportunities	3	9.4
Critical evaluation/different perspective of	10	31.3
plans		
Direction on expectations	1	3.1
Defined process/format for planning	3	9.4
Sells future projects	3	9.4
Commitment from home office to local objectives	1	3.1
Development of total group assumptions	1	3.1
Negligible due to lack of feedback	6	18.8
Unable to identify	2	6.3

#### 3.9 Effects on Subsidiary Corporate Planning

The respondents identified a wide number of ways by which the subsidiary's corporate planning **approaches** were affected by being a subsidiary (refer table 6). 25% of the subsidiaries did not feel their corporate planning approaches were affected, the rest indicating a wide range of influences from developing a planning culture, access to resources and information, and restrictions particularly on **product/market** scope and diversification.

#### 3.10 Visits to Home Office

The comparisons made between the **U.K.** and U.S. subsidiaries in this study appear to suggest a difference exists in home office requirements. The overall impression is that the **U.S.** companies develop much more specific requirements with respect to planning information and exercise tighter control on the long term direction of the subsidiary.

It is of interest to note that such observations have also been made previously. Bazzaz in his U.K. study had 6 U.S. subsidiaries in his sample. and he commented that he believed a cultural difference existed in the approach to corporate planning between the U.K. companies in his study and the U.S. subsidiaries. This comment was based on the more detailed information requirements of the U.S. companies but this aspect was not pursued further (Bazzaz 1979 p. 136).

Hulbert and Brandt in a study of subsidiaries operating in Brazil commented **as** follows:-

# - 15 -TABLE 6: AFFECT ON CORPORATE PLANNING APPROACH

Correcte Dispring Armoch Affected by heing	N	% of
Corporate Planning Approach Affected by being	N	1. <sup>2</sup> 2. 3
a Subsidiary Because:		Subsidiaries
Planning tends to be imposed	2	6.3
Acceptance of planning encouraged/planning	4	12.5
culture developed	9. 11	ж
Organized approach to planning process	3	9.4
Provides planning resources	1	3.1
Started planning earlier	1	3.1
Critical management environment	4	12.5
Difficulty in obtaining expenditure approval	1.	3.1
Access to technology	4	12.5
Access to final resources	4	12.5
Access to products on worldwide basis	1	3.1
Valuable information source	5	15.6
Access to product ideas/ideas	2	6.3
Access to people resources	1	3.1
Cushioned from market place for limited	1	3.1
period of time		
Restricted diversification	4	12.5
Constrained <b>product/market</b> scope	5	15.6
Exports limited	1	3.1
Government regulations on takeover	1	3.1
Home Office conservatism	1	3.1
Less flexible due to less autonomy	3	9.4
Negative in standing on your own feet	1	3.1
Knowledge of what other group members are doing	1	3.1
Synergistic benefits between group members	1	3.1
Helps <b>take</b> advantage of opportunities outside Aust.	2	6.3
Has no affect	8	25.0

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#### 3.10 Visits to Home Office (Cont'd)

"Thus in contrast to the Europeans, most American companies have developed a well-defined management system for co-ordinating and controlling their overseas operations. The problems with this system are its frequent rigidity and complexity. Some American companies run the risk of virtually drowning themselves in the morass of procedures and reports required even for routine decisions." (Hulbert, Brandt 1980 p. 146).

Given that a cultural difference also appears to be apparent between U.S. and U.K. subsidiaries in Australia it was decided to incorporate a small number of visits to U.K. (3) and U.S. (5) home offices. Given the limited number of home offices visited it is only possible to develop general subjective impressions, and these impressions are described below.

#### 3.10.1 Autonomy of Australian Subsidiary

It was clear that Australian subsidiaries had a far higher degree of freedom with respect to organization structure and operating practices than they had in determining the organization's strategy, product/market scope and geographic scope. These impressions are consistent with the results on subsidiary autonomy presented in figure 5. It was also felt that U.K. companies operated on broad frameworks for subsidiary corporate planning, whereas the U.S. companies had more specific requirements even though some degree of freedom existed in the techniques selected.

#### 3.10.2 Information Exchange

The U.S. companies appeared to have more systems of information exchange operating. Some of the mechanisms identified were corporate plans, operating plans, periodic sales reporting, financial reports, Board minutes, Directors on Australian Boards, co-ordination groups, interchange between staff groups and Board presentations.

#### 3.10.3 Control Systems

The major control system appeared to be financially based around budgetary systems and appropriation requests.

#### 3.10.4 Level of Formality

Generally the level of formality between the subsidiary and home office with respect to corporate planning processes and content was considered appropriate, however it was often noted that the balance depended very heavily on the personalities involved and the goodwill between them.

3.10.5 <u>Major Difficulties With Australian Subsidiary Corporate Planning</u> Communication problems because of distance and lack of knowledge of Australian scene were frequent remarks. The other problem that both a large U.K. and U.S. company identified was the difficulty of undertaking corporate planning at the Australian level whilst also simultaneously undertaking worldwide SEU type planning.

# 3.10.5 (Continued)

This latter problem could be expected to become a very critical problem for many multinationals, if as anticipated they move towards SEU planning on a worldwide basis. Clearly the home office would be seeking the benefits of integration between subsidiary SBUs in a particular area of business. However, this would create problems for the subsidiary which would be concerned at how to achieve integration between its SBUs operating in a defined geographic area. Some suggestions were made on the need to move towards some sort of matrix structure for worldwide planning, but this could readily be envisaged as evolving into a complex bureaucratic nightmare.

#### 3.10.6 Benefits from Corporate Planning

The benefits the home office obtains from the subsidiary's corporate planning, and the benefits the subsidiary obtains from the home office corporate group were very similar to those previously identified by the Australian respondents (refer table 4 and table 5).

#### 3.10.7 Changes in Corporate Planning Approach

The following list summarizes the main changes foreseen in how the home office and the subsidiary will approach corporate planning over the next five years:-

Increase emphasis on key issues	(1)
More effective resource allocation approach	(2)
Greater simplicity	(3)
Move to matrix planning	(1)

3.10.7 Changes in Corporate Planning Approach (Continued) Better integration between corporate and (1) operating plans Develop broader scenarios, and shorten (1)planning horizon (1)More rapid information transmittal Total integration of planning on SBU basis (2)Substantial Investment in terms of people (1)and training (2)Shift to worldwide thinking

> Overall the general impression obtained from the Home Office visits was that the differences observed in planning information requirements and tighter control on the subsidiary's long term direction were a genuine reflection of cultural differences between **U.S.** and U.K. multinational companies.

#### 4 <u>SUMMARY</u>

A useful way of summarizing the main findings is to profile the relationship between the home office and the corporate **planning** activities at the subsidiary level.

No formal links were identified between the local corporate planning group and the home office, the main reporting relationship being through the chief executive officer of the subsidiary to the home office. In over 50% of the cases the chief executive officer reported to either a director of the region or a director for international operations. The subsidiary corporate plans do have to conform to a moderate extent with home office formats. With respect to information exchange, the subsidiaries generally have to supply more planning information to the home office than they receive from the home office and this is particularly the case for U.S. subsidiaries.

With respect to subsidiary autonomy, the subsidiaries have greater freedom **concerning** their day to day operations than with their long term direction. The U.S. subsidiaries usually have less autonomy than the U.K. subsidiaries.

The most common difficulty which arises due to home office corporate planning requirements is timetabling difficulties. The major benefit to the home office is developing the company direction and in the overall resource allocation process. The major benefit to the subsidiary from the planning involvement of the home office is the critical review of local plans and the access to planning knowledge and skills.

The visits to the U.S. and U.K. home offices reinforced the overall impression that the U.S. companies develop much more specific requirements with respect to subsidiary planning information and exercise a tighter control on the long term direction of the subsidiary.

#### 5 DISCUSSION

A major difficulty that can be anticipated to occur for many multinational companies is how to undertake worldwide strategic business unit (SBU) type planning whilst simultaneously undertaking corporate planning at the Australian level. Clearly the home office is seeking the benefits of integration between subsidiary SBUs in a particular area of business, whereas the subsidiary would be concerned on how to achieve integration between its SBUs operating in a defined geographic area. Given these needs, which in some cases could be quite conflicting, it is possible to envisage home offices requiring more planning information and exercising tighter control on the long term direction of their subsidiaries. In such a case, it is possible to postulate that U.K. companies are likely to feel a need to move more towards their American counterparts with respect to planning information requirements and subsidiary autonomy. This may create serious conflicts for the senior management of U.K. companies between their desire to maintain a substantial degree of autonomy for their subsidiaries and their desire for greater control over the subsidiaries to permit worldwide SBU management.

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