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THE IMPACT OF THE LANGUAGE BARRIER
ON THE MANAGEMENT OF MULTINATIONAL COMPANIES

A Case Study and Survey, based exploration
of the impact of the language barrier on the
Strategies, Policies and Systems by which
Multinational Companies manage their Subsidiaries

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Synopsis

The thesis begins with a conceptual model of the way that language diversity affects the strategies, organisation and subsidiary control policies of multinational companies. The model is based solely on the researcher's personal experience of working in a variety of international management roles, but in Chapter 2 a wide-ranging review of related academic literature finds evidence to support the key ideas. The model is developed as a series of propositions which are tested in a comparative case study, refined and then re-tested in a global survey of multinational subsidiaries. The principal findings of the empirical phases of the thesis endorse the main tenets of the model:

- That language difference between parent and subsidiary will impair communication, create mistrust and impede relationship development.
- That subsequently the feelings of uncertainty, suspicion and mistrust will influence the decisions taken by the parent company.
- They will have heightened sensitivity to language issues and will implement policies to manage language differences.
- They will adopt low-risk strategies in host countries where they are concerned about language difference.
- They will use organisational and manpower strategies to minimise the consequences and risks of the communications problems with the subsidiary.
- As a consequence the level of integration and knowledge flow between parent and subsidiary will be curtailed.
- They will adopt styles of control that depend least on their ability to communicate with their subsidiary.

Although there is adequate support for all of the above conclusions, on some key points the evidence of the Case Studies and Survey is contradictory. The thesis, therefore, closes with an agenda for further research that would address these inconsistencies.

Keywords

Multinational, Subsidiary, Language, Strategy, Expatriation, Control

Dedication

This thesis owes so much to so many different individuals. There are my friends and colleagues at Aston Business School, without whose help, guidance and encouragement my research would not have lasted beyond the first year. Then there are a few special individuals who took me under their wing and helped to ensure that my research overcame the numerous problems I encountered along the way.

Notable amongst these were my supervisor Paul Forrester, Nigel Reeves and Rebecca Marschan-Piekkari each of whom has given me advice that has proved invaluable and, of course, Anne-Wil Harzing without whose gift of her book, and later her friendship, I would certainly never have completed the research programme.

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The survey, on which the quantitative analysis rests, was conceived of by Niels Noorderhaven and Anne-Wil Harzing, and conducted by Anne-Wil and her team at the University of Melbourne. I was, however, fully involved in the design of the questionnaire and the coordination of the survey for UK respondents.

The data analysis, described in Chapter 6, uses the SPSS database created by the University of Melbourne, but the analysis, itself, is exclusively my own work.

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Chapter 1. Overview of the Research Project

1.1. Thesis Aims and Contributions

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Chapter 1. Overview of the Research Project

1.1. Thesis Aims and Contribution

The aim of this thesis is to demonstrate that language is a significant variable in International Business, influencing the policies, strategies and practices of multinational companies. It does so by using the body of literature covering sociolinguistics, decision theory, internationalisation and subsidiary management, to develop propositions that are then tested using both comparative case studies and an international survey of multinational subsidiaries.

The library and empirical research undertaken provides strong support for the fundamental propositions advanced:

- The existence of a language barrier between parent and subsidiary will impair relationship development leading to uncertainty, mistrust, a lack of openness and a breakdown of mutual respect.
- The scale of the communications problems encountered will create more awareness of the importance of language and will encourage the adoption of formal language management strategies.
- The uncertainty caused by imperfect communications will lead the parent company to adopt a cautious approach to market entry and subsidiary integration.
- The failure of trust and the difficulty of communication across the language barrier will persuade the parent company to flood the subsidiary with expatriates who will serve as communications channels and as a mechanism of control.
- By the same token, the language barrier will also promote the intensification of overall levels of control and will favour the adoption of those control modes, centralisation and output control, that rely least on effective communications.

However, the true contribution of the research is not to be found in the specifics of the hypotheses tested. Instead it is encapsulated in the simple statement "Language is a variable in International Business". The language barrier can be operationalised, albeit in this thesis in a simplified way, and can be used alongside other dimensions of culture to explore and explain the phenomena encountered in international business research.

Despite the simplicity and banality of this statement, it has never been formally tested before. For that reason this research must be considered a substantial and groundbreaking contribution to the field of International Business research.

1.2. About the Research Field

Ask any international manager and they will have their cache of amusing language stories.

- The British M.D. who wondered why his humorous and motivational speech, which had worked so well in London, bombed when he was forced to work through an interpreter in Russia.
- The American expatriates who felt their Mexican employees were distant, surly and uncommunicative, even though they made every effort to work in the English language.
- The Italian Logistics Manager who found himself inundated with material because his German supplier didn't understand that the supply schedules, written in Italian, were intended to supersede earlier demand, not add to it!
- The strike caused because the Japanese management team started talking in Japanese at a sensitive point in the discussion with Spanish Union Representatives.
- Or the marvellous new computer system, sitting untouched in the Chinese factory because it was only available with an English language user interface.

In fact, some authors such as Ricks (1999) have made a career out of collecting anecdotes in which mistranslations and misunderstandings have caused humour and embarrassment for international businesses. Underpinning the humorous and embarrassing consequences, however, are much more serious and enduring effects that influence the way that international businesses work, and undermine the performance levels achieved. It is these aspects of the Language Barrier that provide the focal point for this Thesis.

For the Language Barrier to be considered a valid topic for doctoral research it has to conform to two requirements:

- It must be a topic that has not been research saturated and that still allows scope for substantive contributions to knowledge.
- It must be a serious and worthwhile topic that offers the potential for meaningful insights into a subject that will have widespread interest.

These two concerns will be addressed from the outset.

Despite the weight of logic that argues that language is the mechanism for communication and that communication must be a significant issue in international business, there is a widely acknowledged dearth of research in the field. Indeed, the

problem of managing international businesses across the so-called language barrier has been variously described as "*The Forgotten Factor*" (Marschan-Piekkari, Welch et al. 1997), "*The Management Orphan*" (Verrept 2000) and "*The Most Neglected Field in Management*" (Reeves and Wright 1996). The review of research literature in Chapter 2 confirms decisively that these adjectives "orphaned", "forgotten" and "neglected" are entirely justified, and demonstrates irrefutably that the topic offers considerable potential for advances in knowledge.

In the same way, a review of the context of the language barrier in business demonstrates beyond question that the field is serious, of widespread interest and increasingly important in understanding how international business will develop in the future:

- International trade in goods and services increased more than 30 times in the 20 years up to 1997 (United Nations 1997), greatly outstripping the much more modest growth in world production. In 1997 international trade had reached a staggering US\$6.3 trillion and much of this will transcend languages. It is surely a serious endeavour to question what effect the language barrier has.
- The world's multinationals have responded to this trend in like measure. In the same 20 year period foreign direct investment has grown from US\$211 billion to more than US\$3.2 trillion. As a consequence more than 800 Multinational Corporations have now surpassed the US\$ 1 billion p.a. threshold of sales, and the largest of them now dwarf the majority of the host nations in which they operate (Czinkota, Ronkainen et al. 2000). Almost without exception, these multinationals will be confronted with the problem of managing a network of subsidiaries across a multiplicity of languages. These statistics strongly justify the research field in terms of the breadth of interest.
- Despite some evidence that the trend has slowed temporarily (Economist 2001), the long-term perception is that the appetite of multinationals for global expansion will continue unabated well into the 21st century (Czinkota and Ronkainen 1997). Clearly the research field is neither sterile nor of historic interest only. It is pertinent to the way international business will be influenced in the future.

In view of the above, there is no scope for ambiguity or equivocation: The subject of the language barrier in business fully merits research and is an arid field allowing almost unlimited scope for the advancement of knowledge. However, there is one more crucial issue to be resolved. There has to be a clear research question, and it is the evolution of that question that provides the focus for the next section.

1.3. Refining the Research Question

The implications of the language barrier for international business can be studied from numerous perspectives. For example the research could focus on:

- The contributory factors that make the language barrier such a problem to manage.
- The methodological issues. How can the language barrier be analysed and measured?
- The impact of the barrier on different types of business relationship e.g. customer/supplier, parent/subsidiary, service provider/user, or on different types of business SME/ Regional Organisation/ Global Multinational.
- An economic perspective would examine the cost implications. What are the direct costs of the language barrier in terms of training, translators and interpreters, expatriates etc? And even more interestingly, what are the indirect costs in terms of underperformance, foiled strategies and lost exports?
- Or the research could study how companies cope with the language barrier. Who uses Corporate Languages, Machine Translation, In-house language departments etc. and how effective are these solutions?

In reviewing this panorama of potential research questions it was clear that there were large areas of overlap and interconnection and that it would be impossible to impose restrictive boundaries that excluded a wider awareness of these issues. And yet at the same time it was clear that a doctoral research programme could not flourish without a far more precise focus.

To an extent, it has been possible to reconcile these two contradictory goals. The research topic itself was refined down to "The Impact of the Language Barrier on the Management of Multinational Companies" and specifically addresses three questions:

- Do multinational companies manage subsidiaries that share the parent company language differently to those that do not?
- Do multinationals domiciled in English-speaking countries manage their subsidiaries differently to those who rely on less "international" languages?
- What group and subsidiary policies and strategies are influenced by the presence of a language barrier?

However, whilst this focus provided the clarity and boundaries necessary to develop a compact research model and a robust methodology, at various stages of the

research it became essential to examine some of the wider issues. These departures from the strict confines of the research topic not only provided a vital context for this research but also afforded the opportunity to establish some credibility within the field through various collaborative publications embracing:

- Linguistic Auditing and Language Check-up methodologies (Reeves and Feely 2001) and (Feely and Reeves 2001).
- The operationalisation of the language barrier (Feely and Harzing 2002)
- The management of the language barrier in Multinational Companies (Feely and Harzing 2002)
- The impact of language on International Market Research (Harzing, Feely et al. 2001)
- How the language barrier operates (Feely 2003)

This wider involvement informed and directed the scope of the literature review discussed in Chapter 2 and provided the platform for converting an initially very simplistic research model into a series of clear-cut propositions that lent themselves to testing by empirical research.

1.4. Development of the Research Model

Prior to beginning the doctoral research programme, the researcher had led a very privileged life as an international manager in a large multinational, working for extended periods in seven countries across four continents and often working in languages other than English. He had worked in a variety of functions ranging from Distribution to Manufacturing, IT to Industrial Strategy, and his career had advanced from Specialist, to Manager, to Executive and finally Director. Most importantly from the perspective of the language barrier at work, those roles had embraced five distinct organisational relationships:

- A domestic manager of a UK-based, and obviously English-speaking, company
- A UK-manager of a foreign owned, and non English-speaking, multinational parent company.
- An inpatriate working for that Non English-speaking parent company in the parent location and in the parent language.
- An international Project Manager coordinating global projects across a multiplicity of languages.
- An expatriate, managing an overseas division of the parent company, and

serving as the “language interface” between the local management and the parent company.

From these diverse perspectives a strongly held view had developed that the language barrier had widespread, profound and costly implications for the way that international businesses managed their subsidiaries. It was the distillation of these perspectives that furnished the ideas for the initial formulation of the research model. The model begins with the researcher’s experience as a domestic manager working for a UK subsidiary of a multinational company based in continental Europe. The UK acquisition was one of the first steps taken by the parent company in globalising its business, and the UK operation with its profitable track record and technological strengths was seen by the parent company management as an asset to be cultivated. Both sides began the relationship positively feeling there should be mutual benefit from the collaboration and there was extensive contact between the management teams of the parent company and the subsidiary. However, from the outset language was a problem.

- Only a couple of the parent company managers had English up to the level necessary to conduct demanding in-depth business analyses
- Most of the discussion was held in English but confusion and misunderstandings were commonplace.
- The approach of the parent managers became more cautious as time went on and they realised that they had failed to develop the level of understanding and control they had hoped to exercise over the subsidiary.
- Occasionally their frustration at being unable to express themselves in their second language boiled over into anger and they adopted the practice of stopping the discussion at key points and holding separate discussions in their own language.
- This did nothing but fuel the “paranoia” of the UK management team who understood nothing of the reason for these abrupt shifts into another language.
- The meetings, which had initially been minuted by the subsidiary managers in English, became characterised by each side producing its own record of agreements and actions (in two different languages) and rarely did the two sets of minutes agree.
- The two management teams polarised, with each suspicious about the motivations and hidden agenda of the other.

- The two sides closed ranks and information was systematically withheld or distorted to avoid giving the “opposition” ammunition that could be fired back.

And so the relationship that had begun promisingly had within 12 months become characterised by suspicion, exclusion and mistrust. The quality of the communications, which initially had only been impaired by language, was now hampered by a far more corrosive and insidious factor: Two management teams that simply didn't like one another.

As illustrated in fig. 1 below, the communications cycle had closed.

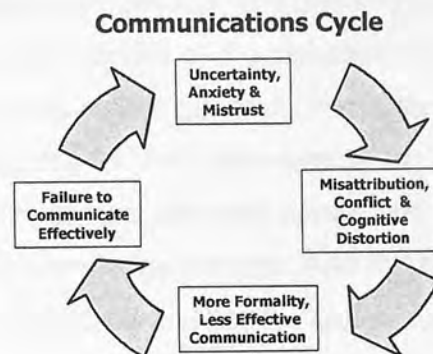


Figure 1 – The Communications Cycle

Two years on, and now fluent in the parent language, the researcher had changed sides and was now on the management team of the parent company. Working alongside new colleagues in their home environment, the researcher saw them manage with a confidence, humour and relaxed style that would have startled and bemused his erstwhile friends on the management team in the UK. This secondment served as a model to others and, over the next 10 years or so a procession of ten UK managers inpatriated to work for the parent company balanced by at least twice that number of expatriate managers sent out to work in the UK subsidiary. One more link in the model had become clear *“To avoid the downward spiral of the parent-subsidiary relationship, companies will employ organisational solutions such as inpatriates and expatriates to ease the burden of communications”*.

After a change of division, the researcher found himself working in another part of the business, one destined for heavy investment and rapid globalisation. Already established in Italy, France and Spain, the new division was targeting more exotic locations for its expansion including Brazil, Mexico, Poland, China, Morocco and India. A common feature of all these host countries is that the language barrier would be a significant constraint on the style of management that would be possible.

With a multicultural executive guiding this expansion, a range of policy initiatives was launched. There was a formal corporate language policy that the parent language would be used for all international meetings, a language training programme wherein all managers were required to develop a second language capability and an IT strategy that demanded all software that was purchased or developed had to be available with multiple language interfaces. These measures brought into clear relief another component of the model *"Companies that have to contend with the challenge of managing in multiple languages will be far more sensitive to languages in their policies"*.

But there were other strategy changes too. The audacious large-scale acquisitions that had characterised the early stages of the globalisation programme were replaced by modest green-field entries generally in collaboration with a local partner. International managers selected for their communications and coordination skills replaced the earlier intensive contact between parent and subsidiary aimed at maximising technology and knowledge transfer. And the ambitious plans to knit all these subsidiaries into an integrated and flexible global supply network were largely replaced by a "manage your own patch" philosophy. One more link had been added to the model *"Where there is a language difference between a parent company and the host country of its subsidiary a cautious approach to internationalisation will be adopted"*.

The final insight came after the researcher had been promoted to Managing Director of the subsidiary in South Africa. The subsidiary was strategically important, being the sole supplier of essential components to the parent operations in half-a-dozen countries. Language problems, however, were a constant source of difficulty. Only one other of the management team was able to work in the corporate language, and there were barriers also with clients whose preferred languages included Spanish, Portuguese, Polish, Russian and Arabic. In just the same way as previously described, misunderstanding led to friction and friction to mistrust. The response of the parent company and each of our leading customers was to demand information; constant progress reports, analyses, faxes and emails. This reporting went well beyond what would normally be provided to enable effective control from the centre, and embraced many areas of performance that could only be managed at a local level. It generated inappropriate interventions from the parent company and caused resentment at the subsidiary level. As a consequence the quality of communication and relationship between parent and subsidiary took another downward step.

This experience revealed the final link in the language barrier model: “Where informal communications between parent and subsidiary have failed due to the language barrier and where this has led to suspicion and a lack of trust, then the control requirements imposed by the parent company will become increasingly onerous and formal”.

Moulding these latter insights onto the communications cycle illustrated in fig. 1 sees the emergence of a twin vicious circle model illustrated in fig. 2 below:

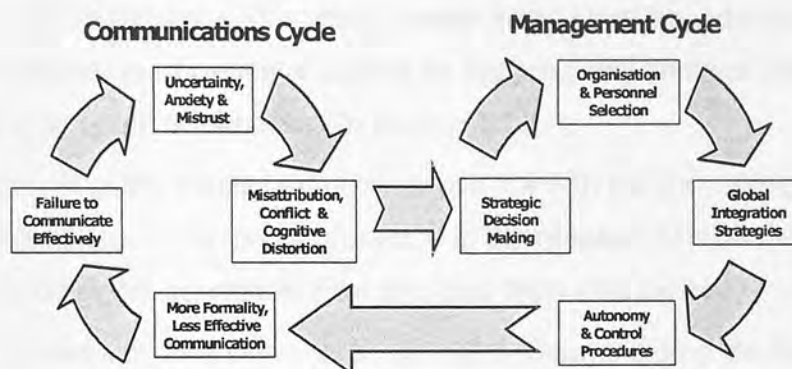


Figure 2 – The Twin Vicious Circle Model

This representation is, of course, merely a schematic. It does little to define precisely the propositions to be tested in the empirical phases of this research. Nevertheless, it serves as a very useful framework for establishing the content and confines of the Literature Review detailed in Chapter 2.

1.5. Overview of the Thesis

For decades the impact of culture has been a very popular theme in International Business research (Joynt and Warner 1996). Often when culture is used to study I.B. phenomena the researchers have relied upon the five Hofstedian Dimensions (Hofstede 1980; Hofstede 1991) as the cultural variables to be measured. This thesis represents a departure from that tradition, focusing as it does on a hitherto unexplored dimension of culture, language. The research uses language difference to explain some of the policies and strategies of multinational companies. It should be stressed that this thesis in no way challenges the relevance or influence of the Hofstedian dimensions. Countless researchers have demonstrated beyond question that factors such as Uncertainty Avoidance, Masculinity, Power Distance and Individuality have a profound effect on the practices and strategies of international businesses. What this thesis does claim, however, is that language is also a significant cultural variable and that measures such as the scale of the language

barrier separating two parties and the internationality of the language of a multinational parent company, can be used to explain some of the policies and strategies they adopt.

Apart from section 2, where an attempt is made to nest language in the wider context of cultural research, this thesis makes little reference to culture, or cultural measures. No apology is offered for this. Every piece of research must have boundaries and there have been numerous studies of cultural influences that have focused exclusively on other dimensions of culture making only passing reference, or often no reference at all, to language. This study merely inverts that boundary definition. However, the possible influence of culture on the empirical findings cannot be wholly ignored and this theme is discussed in section 6.22.

The development of the thesis began in section 1.4 with the formulation of a simplistic twin vicious circle model grounded in the researcher's own experience. The remainder of the thesis examines, develops and tests that model.

Chapter 2 reviews the body of research literature circumscribing the field for this thesis. Particular emphasis is given to:

- The sociolinguistic literature that explains the influence of culture and language and that provides the elements necessary to develop a model of the language barrier in business.
- The body of literature that links trust, conflict and relationships, to decision theory.
- The limited body of literature linking language issues with business and in particular the strategies adopted to manage language.
- The International Business literature examining the influences on the policies and strategies of multinational businesses and the determinants of subsidiary role.
- The specific literature focused on employment and control issues related to multinational subsidiaries.

The literature review provides sturdy support for the linkages advanced by the vicious circle model. Whilst there is a total absence of research confirming that language is a variable influencing international business management, there is a framework of tangential literature suggesting that the existence of such a relationship is highly plausible. Based on the findings of the literature review a series of propositions are formulated, to be tested in the empirical phases of the research.

Chapter 3 develops the philosophical grounding for the research programme. It begins with a review of some of the philosophical issues that have a bearing on the

research, notably:

- The impact of pre-understanding on the objectivity and openness of the researcher.
- The positioning of the researcher's ontology and epistemology against the Burrell and Morgan Social Paradigms matrix.
- The fallibility of data sources and the need for data and methodological triangulation.

It goes on to lay down the principles upon which the research programme will be designed:

- A deductive approach testing propositions evolved from the findings of the literature review.
- A preference for largely positivist methods.
- A commitment to the triangulation of data.
- A multi-method approach.

Chapter 3 concludes by presenting a process, structure and timing model for the conduct of the empirical phases of the research.

Chapter 4 addresses methodology from a more pragmatic perspective. It provides a comprehensive description of the specific methods used in conducting the research. Principal amongst these are the methods used for the 4 key stages of the empirical research:

- The Case Study
- The Analysis of Qualitative Data
- The Survey
- The Analysis of Quantitative Data

Other methods important to the research are also briefly outlined.

Chapter 5 analyses the findings and conclusions emerging from the two Case Studies. It begins by describing the case companies and the research undertaken in each and then proceeds to analyse the findings of the cases against the hypothetical propositions mooted in Section 1.4 and developed more fully in Section 2.11.

The Chapter concludes with a summary of the principal findings that provide robust support for all six of the propositions advanced.

From the evidence presented there can be no question that, where present, the language barrier has:

- Impaired the relationship development.
- Made the company more aware of the need for language management strategies
- Promoted a more cautious approach to internationalisation strategy.
- Blocked or retarded, subsidiary integration into the acquiring group.
- Encouraged the deployment of expatriate managers into the subsidiary.
- Intensified the overall level of parent control and favoured the adoption of control styles not reliant upon communications capability.

The propositions are then reformulated into hypotheses more readily tested by survey.

Chapter 6 analyses the findings and conclusions emerging from the global survey undertaken to test the generalisability of the hypotheses. It begins with a review of the breadth and diversity of the survey responses and then uses statistical analysis to test the propositions of the refined hypothetical framework that were formulated following the case studies.

The results are mixed. Most of the hypotheses related to expatriation and control find strong support, while the wider correlations related to entry method and strategic configuration do not achieve statistical significance. The chapter concludes with a review of why this polarisation of findings occurred and offers a critique of the survey and statistical analysis undertaken.

The final Chapter, 7, reflects on the research undertaken and attempts to marry the findings and conclusions emerging from the Literature Review, the Case Study and the Survey. The chapter goes on to amplify the contribution to knowledge made by the research and its value to business. It concludes by reviewing the potential for further research in the field, proposing in more detail two specific projects that have been specified for post-doctoral research.

The appendices collated in support of the research are attached at the end of the thesis and are listed in the Contents Pages of the thesis.

Chapter 2 Literature Review

2.1 Introduction

The Objectives of the Literature Review

Before defining the purpose and objectives of this literature review it was essential to answer two prior questions.

- What is a literature review?
- What specifically is the purpose and focus of a literature review in a doctoral thesis?

The first of these is relatively easily answered. Fink (1998 p:3) gives a succinct definition "*A literature review is a systematic, explicit, and reproducible method for identifying and interpreting the existing body of recorded work produced by researchers, scholars and practitioners*". She also makes clear that to be credible the review must meet standards of reliability and validity. The keywords of this definition "systematic", "explicit", "reproducible" "valid" and "reliable" will be revisited later in this section in the discussion of Literature Review Methodology.

The second question proves much harder to answer, as there are so many conflicting issues. The review for this thesis began with a very precise but inadequate intent. It was quite simply an exercise to understand as much as possible about the chosen research field. It then became clear, however, that contemporary literature served a more immediate purpose in identifying fellow researchers in the field, and establishing contacts and collaborations that have proved invaluable. Then a methodological angle was added. The existence, or absence, of prior research, the methods used in such research and the theoretical constructs on which it was founded would all have a fundamental impact on the way that this research programme could be pursued. And later still the issue of contribution to knowledge emerged. The literature review had to serve also as the framework for defining and positioning this contribution to knowledge. This research had to be both consistent with, but additive to, the body of knowledge in the specific fields of sociolinguistics, and multinational management of subsidiaries. The only way to ensure this was to be fully conversant with contemporary research.

However, important though they are, these literature review goals ultimately became subservient to the need to position the research field and to refine the research hypotheses. The scope of the field "The Impact of Language on Multinational Management" is potentially enormous. In a programme of doctoral research it threatens to swamp the researcher and to confuse the audience of Supervisor and

Doctoral Examiners. To justify a PhD both risks have to be avoided. The literature review, therefore, attempts to highlight a logical and comprehensible pathway which links the conceptual twin vicious circle model introduced in the first Chapter, through the body of existing research literature and hence to the specific propositions that will be tested in this doctoral project.

Literature Review Methodology

The approach followed is illustrated in the diagram below, fig 3, and was developed progressively as the research unfolded.

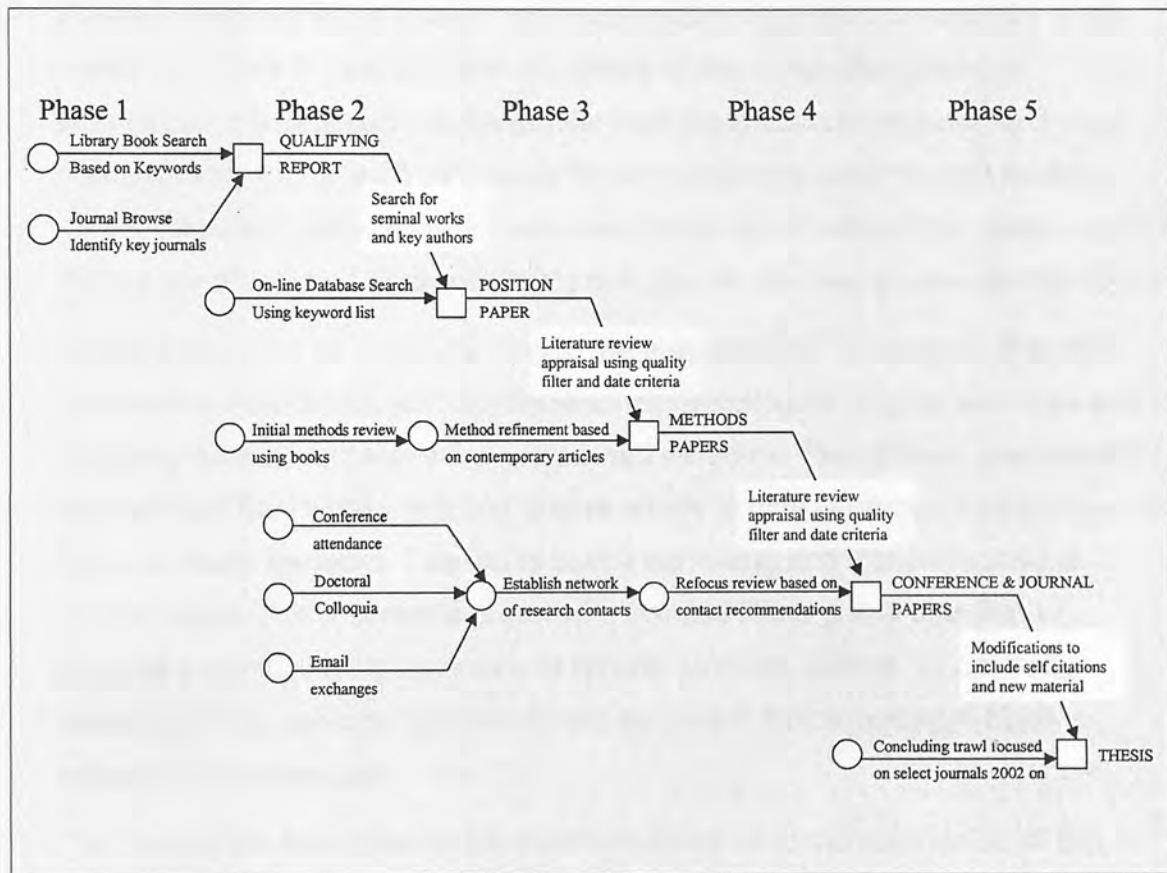


Figure 3 – The Structure of the Literature Review

The review was conducted in five phases each with a different focus and method:

- The primary goal for the first phase was to establish a general understanding of the subject material as a foundation for more specific and focused research at a later date. This phase concentrated largely upon the review of books, using the on-line research facilities offered by LIS, the Aston Library. This was important for two reasons. Firstly, books generally presume less initial knowledge on the part of the reader and so are more immediately comprehensible to the novice researcher. Secondly, books will invariably make reference to the seminal research work within the field. Such references may be taken as read and excluded in contemporary Research Journals.

- Phase 2 of the Literature Review was focused on Journal Articles culled from the last decade and pertaining to the language impact on business. Using databases such as Proquest, BIDS, Emerald and the Web of Science and using a pre-defined table of keywords it was possible to seek out a body of contemporary literature relevant to the research field (there is further discussion of some of the initial findings later in this section). This phase culminated in the production of a discussion paper (Feely and Forrester 2000) positioning this research project relative to the body of existing literature.
- Phase 3 switched focus to methodological issues relating to the conduct of the research. Books figured highly in this phase of the review though more sophisticated issues such as the problems of cross-cultural research and more contemporary topics such as internet surveys were explored through journals. Again, discussion papers were used to formalise the closure of the phase, one for the survey (Feely and Forrester 2001) and one for the case studies (Feely 2001).
- Phase 4 emerged as understanding of the research field developed. Through conference attendance, participation in doctoral colloquia, journal searches and follow-up emails, contacts were established with other researchers interested in the field and they were unstinting in their efforts to offer guidance through the body of extant literature. This led to both a narrowing and a widening of the review scope. Some contacts provided enhanced focus giving direction to seminal articles, leading authors and specific journals. Others, by contrast, opened up the research field introducing tangential topics that were highly relevant to the research.
- The final phase took place in the months leading up to the submission of this thesis and concentrated solely on contemporary articles (within the last 2 years) authored by specific researchers or published in specific journals. The goal of this phase was to update the review with the very latest material and is incorporated into this thesis.

The approach summarised above is clearly structured but does it satisfy Fink's five criteria? Within reasonable boundaries it does:

- It is systematic in the sense that at each stage the search was built around specific search databases using pre-defined lists of keywords, author names and preferred journals.
- It is explicit in that each phase was concluded with the publication of one or more papers (both internal and external) cementing the literature reviewed during that

phase and using it as the platform for launching the next phase of the research.

- It is reproducible in that all of the reviewed literature including much that is not included in this review is detailed in the literature database archived in Endnote.
- It achieves the goal of reliability by privileging books written by leading well-established authors and articles culled from prestigious refereed journals.
- And it achieves validity by focusing wherever possible on contemporary material specifically filtered for its pertinence to the research questions being explored.

Inevitably there will have been some oversights. Nevertheless, the literature reviewed in sections 2.2 to 2.9 represents a comprehensive and robust foundation on which to develop this thesis.

The Scope of the Literature Review

The twin vicious circle model introduced in Chapter 1 does more than lay down the hypothetical framework to be developed and tested in this research programme. It also stakes out the territory to be covered by the literature review. In fig.4, below, the model has been superimposed with the principal sub-fields that will be explored in the review. Each block corresponds to a section of this chapter beginning with section 2.2 and continuing to section 2.9.

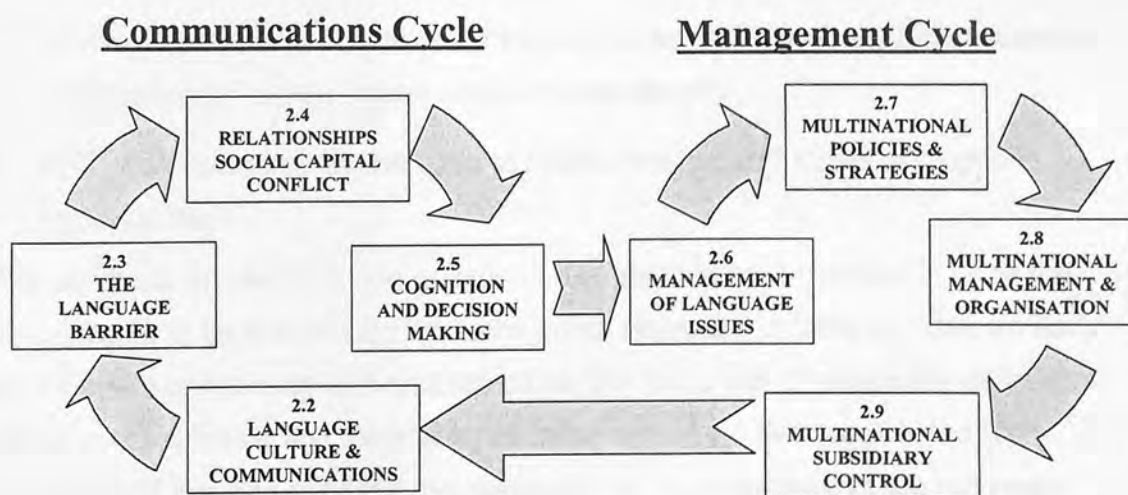


Figure 4 – The Scope of the Literature Review

The review begins by looking at the underpinning issues concerned with language, culture and communications and goes on to look specifically at the literature concerning the way the language barrier works. There is then a section on relationships that explores also conflict and social capital. Section 2.5 introduces the literature relating to decision making before switching to the management cycle of the

model. This begins with material addressing the way that multinationals manage language and continues with sections on multinational strategy and multinational organisation, before concluding with section 2.9 that reviews the literature pertaining to multinational control.

If the conceptual model of the "Impact of Language on Business" is to be vindicated the literature review will have to furnish propositions based on established theory and knowledge that can be carried forward into the empirical research phases of this project.

Initial Findings

As previously intimated, the breadth of the research field is potentially enormous and extensively influenced by the exact framing of the research questions. The shorthand definition "The Impact of Language on Business" generates more questions than it answers. Questions such as:

- What sort of business? Multinational Enterprises or Exporting Companies; Large Corporations or International SMEs; Manufacturing or Service Organisations; Global or Regional organisations?
- And what is the business relationship being impacted? A supplier-client relationship; a parent-subsidary or a joint venture?
- In what areas of the business will the impact be felt? Strategic, Organisational, Management, Technological or Communications?
- And what measures will be used to assess the impact? Costs, disruption, opportunities?

The complete answer to these questions will only emerge in section 2.10 as the propositions to be researched are formulated. However, in order to make an early assessment of the body of extant literature, the focus was provisionally defined as global multinationals and the impact as being any of the five areas listed. This narrowing of the field provided the keywords for the initial trawl of the business literature databases. It was a search that brought into stark relief the arid nature of the research field.

An introductory search at the outset of the review using the Web of Science Database demonstrated that there was an abundant body of published material for many of the research fields to be explored as illustrated by the number of articles listed in the second column of Table 2.1. In the first search the keyword was entered as the single search criterion, and the number of published articles found recorded:

Table 2.1 - SEARCHES CONDUCTED USING THE WEB OF SCIENCE DATABASE – 1990 to 2000				
Keyword used in single criterion search	No. Articles	No. Articles after adding Language as second key	No. Articles after filtering Non Business Topics	% of Articles examining language
Multinational	2862	17	2	0.07
Globalisation	2237	18	4	0.18
Management	100606	1765	31	0.03
Organisation	95720	1137	15	0.02
Technology	2237	18	2	0.09
Communications	16533	264	27	0.16
TOTAL	297,431	4114	81	0.03

The process was then repeated using the original keyword and the word “language” as a secondary criterion. The third column in the table indicates that the number of articles identified with the dual search keywords e.g. “Multinational” and “Language” is reduced by an enormous factor, approximately 98%. Moreover, when these were individually filtered to exclude articles focused on medical studies, computer languages and social issues, the residue was a veritable handful of articles addressing aspects of natural language and international businesses.

Subsequent discussions with experts in Cross-Cultural and Multinational Management have confirmed that whilst there are numerous excellent publications dealing with language and management separately, there is a dearth of research marrying the two fields together. This confirms the adjectives “*forgotten*” (Marschan-Piekkari, Welch et al. 1997), “*orphaned*” (Verrept 2000) and “*neglected*” (Reeves and Wright 1996), encountered in Chapter 1.

One researcher having conducted a thorough review of language in international management literature, concluded that “*the issue of the language barrier, as a nevertheless generally acknowledged obstacle to international intercourse, is given only the briefest of treatments in the broad spectrum of English-language literature on international business and management*”. (Holden 1987)

A repeated search of the Web of Science conducted in the Autumn of 2003 (table 2.2 below) suggests that Holden’s conclusions still ring true.

Table 2.2 - SEARCHES CONDUCTED USING THE WEB OF SCIENCE DATABASE – 1990 to 2003				
Single search key	No. articles	No. articles after adding language as second key	No. articles after filtering non business Topics	% of articles examining language
Multinational	4,388	40	4	0.091
Globalisation	6,002	66	1	0.017
Management	122,349	3,033	15	0.012
Organisation	102,322	1,827	8	0.008
Technology	106,706	1,636	4	0.004
Communications	24,742	415	4	0.016
TOTAL	366,509	7,017	36	0.010

This dearth of prior research in the field clearly has implications for the both the Literature Review and the Research Design. As there is little or no foundation of directly relevant research linking language with management issues, the review will have to be cross-disciplinary in nature and the conclusions will have to skilfully merge knowledge from sociolinguistics and psychology on the one hand, with knowledge related to strategic and international management on the other.

In similar vein the scarcity of earlier publications affords little opportunity for advancing propositions already founded on a strong base of extant knowledge. This implies the need for a two-stage research design (see Chapter 3) with the first phase being dedicated to refining any propositions before they are subjected to more rigorous testing.

2.2 Language Culture and Communications

This section will examine the literature relating to culture, language, communications and the inter-relationships between them. These are, of course, three very rich fields of research and so this review is of necessity a fairly selective treatment of the body of literature available. However, its purpose is to lay down the theoretical and practical foundations of these important concepts that will be used to underpin the more detailed and precise literature examined in later sections.

Culture

Since the pioneering work of Peters and Waterman (1982) into Corporate Culture and Hofstede (1980) examining National Culture, the general field of cultural studies has been energetically researched. One analysis (Bartholomew and Adler 1996) confirmed that two thirds of contemporary organisational behaviour research placed a significant emphasis on the cultural dynamics.

Nevertheless, despite this weight of research it remains to this day difficult to frame a definitive statement explaining what culture actually is. One author suggests "*there are almost as many definitions of culture as there are writers and researchers, in various disciplines, who have written on the subject*". (Tayeb 2003). This opinion is underwritten by a paper summarising 165 different, and in some cases mutually exclusive, definitions of culture, (Kroeber and Kluckhohn 1985).

One of the stumbling blocks in arriving at a consensus definition is a fundamental separation between those who regard culture as something people "are" and others who see culture as something people "have". For the purposes of this review the second perspective will be adopted employing the definition of culture as "*a set of historically evolved learned values and attitudes and meanings shared by the members of a given community that influences their material and non-material way of life*". (Tayeb 1988 p: 42)

One thing that most researchers agree on is that culture is layered with some elements being more superficial and temporary, while others are more intrinsic and immutable. One model (Darlington 1996) illustrated this point by visualising culture as a series of concentric circles. The outer circle embraced the behavioural components of culture and Darlington stressed that these elements such as dress, style, taste etc. could be changed with relative ease. The central circle contained the values and beliefs of the individual and the cultural components in this sphere were relatively intractable and could be changed only with an extended programme of acculturation. More recently still it has become fashionable to represent culture as an iceberg (Chaney and Martin 2000) with a few discernible dimensions of culture above the waterline masking the more intransigent, but less immediately obvious, value and identity dimensions, beneath.

However, regardless of definition or style of representation, the question arises "Where does culture originate?"

Examining the origins of national culture, Tayeb (2003) identifies four principal sources:

- Climate and Geography combine to influence the community in many ways. For example a harsh climate may encourage hostility, sparse resources may engender a spirit of communal sharing or an unpredictable environment may discourage people from taking risks.
- History too plays a part in forming culture. A volatile history of changing national borders and frequent changes of imperial rule is likely to awaken a sense of national pride. A long history of centralised rule may stimulate respect of authority, while a population grown out of an immigrant ancestry is likely to promote beliefs of equality.
- Major culture-building institutions such as family, religion, education, mass media and even multinational enterprises will all affect our cultural make-up in ways too many to mention.
- And major institutions such as the state, the legal and industrial system, the economy and supranational organisations such as the European Union and the World Trade Organisation will also make a significant contribution to a community's culture.

Given the diversity of influences at work it is tempting to think that every individual will be uniquely influenced and will emerge with a personalised culture unique to themselves; and at a certain level that may well be true. Nevertheless enough of those influences are shared by everyone in the population for researchers to believe that culture can be analysed at the level of nation. And several authors have attempted to define dimensions and scales for the measurement of national culture. Of these the principal ones are:

- The Value Orientation Model (Kluckhohn and Strodtbeck 1961) which measured culture in terms of six dimensions: Relationship to Nature: Time Orientation: Human Nature: Activity Orientation: Human Relationships and Space i.e. Social Proximity.
- The Cultural Context Model (Hall 1976) which focuses on the communications patterns within cultures and assesses them against three dimensions: Context i.e. the degree of explicit content necessary to convey meaning: Space i.e. the use of personal space as a vehicle of communication and Time i.e. whether the culture is monochronic, single tasking, against strict deadlines, or polychronic, multitasking with flexible scheduling.
- The Management Style Dimensions (Laurent 1983) which analysed the management style preferences against four dimensions: Organisations as

Political Systems: Organisations as Authority Systems: Organisations as Role Formalisation Systems and Organisations as Hierarchical Relationships Systems.

- The Work Attitudes Dimensions (Schwartz 1999) which examined the influence of cultural values on the perceived meaning of work. His research examined this impact against three dimensions: Work Centrality, Societal Norms and Work Goals.
- The Business Culture Dimensions (Trompenaars 1993) which examined culture against seven dimensions. Five of these related concerned relationships: Universalism versus Particularism: Collectivism versus Individualism: Neutral versus Affective: Specific versus Diffuse and Achievement versus Ascription. To these he added How We Manage Time and How We Relate to Nature.
- The Work-Related Dimensions: (Hofstede 1980) which initially analysed national culture against four dimensions: Individualism: Uncertainty Avoidance: Power Distance and Masculinity. A later publication (Hofstede 1991) added a fifth dimension: Time Orientation.

A more complete summary of these competing systems is provided by Gupta and Panda (2003). However, there can be little debate that it has been the Hofstede Dimensions that have dominated cultural research. One meta-analysis of cultural research (Smith 1996) reported that two of the Hofstede Dimensions (Power Distance and Individualism) had found parallels in all of the large scale cultural surveys conducted during the early 1990s.

So successful have been the Hofstede Dimensions, that they were adopted as the basis for developing a system measuring Cultural Distance between two countries (Kogut and Singh 1988). This system has been widely used over the last decade to explore many aspects of the way cultural differences influence international businesses. And as will be demonstrated in later sections of the review *"Culture can have a powerful impact on management and organisation behaviour"* (Joynt and Warner 1996).

Language

According to the Cambridge on-line dictionary, language is defined as *"a system of communication consisting of sounds, words and grammar"*. There are many as 6,000 such language systems being actively used in the world (Crystal 1997), a much greater number than the total of national cultures. However, with the advent of mass communications there is a process of rationalisation underway and it is thought that up to 50% of these languages will become extinct over the next 40 years.

Viewed from a business perspective it would be fair to say that fewer than 100 of these languages have any significant relevance to most international enterprises:

- Global pharmaceutical companies produce their product labels in up to 120 languages. (Hearn and Button 1994)
- Microsoft plan to market their software, in up to 80 languages. (Haynes 1998)
- IBM and Oracle, more modestly, aim to work in around 30 languages. (Haynes 1998)

One paper (Feely and Harzing 2003) suggests that for typical multinational companies 15 languages represents a more realistic level of diversity to manage. To assist in identifying the importance of individual languages, several researchers have developed scales of language significance:

- The simplest is based purely on numbers of native speakers of the language and predictably shows that Chinese Mandarin is by far the most populous language, (Crystal 1997). However, it is obvious that this simple number count of speakers does not reflect the economic importance of the language.
- An economic language scale was developed, (Navarro 1997) by multiplying the number of speakers by the GDP per capita of the language population. This simple expedient did promote English to the top position in the scale but arguably shifted the pendulum too much to the other extreme with populous languages such as Chinese lagging behind Italian which has less than one tenth of the number of speakers world-wide.
- A more sophisticated scaling system was required and this was developed by the English Company (Graddol 1997) and made operational in the form of the Engco Model. This model uses a series of population, demographic and economic factors to calculate a composite Global Influence Index (a measure Graddol terms "worldliness" but which to many would seem to represent the importance of the language from a business perspective). Already this model is out of date in that it makes no reference to the importance of a language in Internet activity of E-Commerce. However for the moment it is the most complete and current guide available.

Table 2.3 below compares the three systems of classification:

	Crystal	Navarro	Graddol (Engco)
1 st	Chinese	English	English
2 nd	English	Japanese	German
3 rd	Spanish	German	French
4 th	Hindi	Spanish	Japanese
5 th	Arabic	French	Spanish
6 th	Portuguese	Italian	Chinese
7 th	Bengali	Chinese	Arabic
8 th	Russian	Portuguese	Portuguese
9 th	Japanese	Arabic	Malay
10 th	German	Dutch	Russian

Graddol, in particular, stresses that the global influence of a language is a dynamic attribute that is constantly evolving, and predicts that over the coming decades French, German and Russian will lose influence while Arabic, Spanish, Chinese and Urdu will gain considerably in influence moving up to challenge English as the world's language of business.

The considerable strength, sociolinguists use the word vitality, of the leading languages and in particular English, has encouraged many leading businesses to adopt corporate language strategies (Kassis 2001). This issue will be more fully discussed in section 2.6 but for now it is enough to note that this is just one way in which global business is contributing to the cultural and linguistic standardisation across the world.

The relationship of language to culture is a subject of debate in the academic world. The traditional view is that language is merely one of the superficial and visible elements of the "iceberg" along with dress, cuisine and customs. More contemporary researchers, however, see a much more integrated relationship. One (Agar 1994) refused even to recognise a distinction between the two, coining the term "*languaculture*" to refer to the merged concept. Others argue that language is a central component of culture being one of the more intransigent and durable manifestations.

One of the leading European writers in intercultural communication argues that: *“In the universal process of cultural homogenization, the role of language will remain intact as a key cultural differentiator, while other sources of cultural differentiation will progressively disappear.”* (Usunier 1998 p:167). These viewpoints receive support from a surprising source (West and Graham 1998). Their purely statistical research demonstrates a close correlation between three of Hofstede’s Dimensions and a measure of the similarity/ dissimilarity of the national language to English.

This close integration between language and culture is reflected in another, though much less popular, system of measurement that was developed to parallel that of Cultural Distance discussed in the previous subsection. Psychic Distance, as the name suggests, is a measure of the psychological separation of two parties from different cultures. The concept dates back to 1973 and the early work on internationalisation theory, (Vahlne and Wiedersheim-Paul 1973). In its original conception it was defined as *“factors preventing or disturbing the flow of information between potential or actual suppliers and customers”* though this definition was updated and generalised as *“factors preventing firms learning about and understanding a foreign environment”* (Nordstrom and Vahlne 1992). By placing the emphasis on learning, this new interpretation enlarged the focus to embrace not only the customer/ supplier relationship but also other forms of international activity such as subsidiary management and joint ventures. The operation of the concept is easily understood by reference to the illustration Fig.5 below (Hallen and Wiedersheim-Paul 1999).

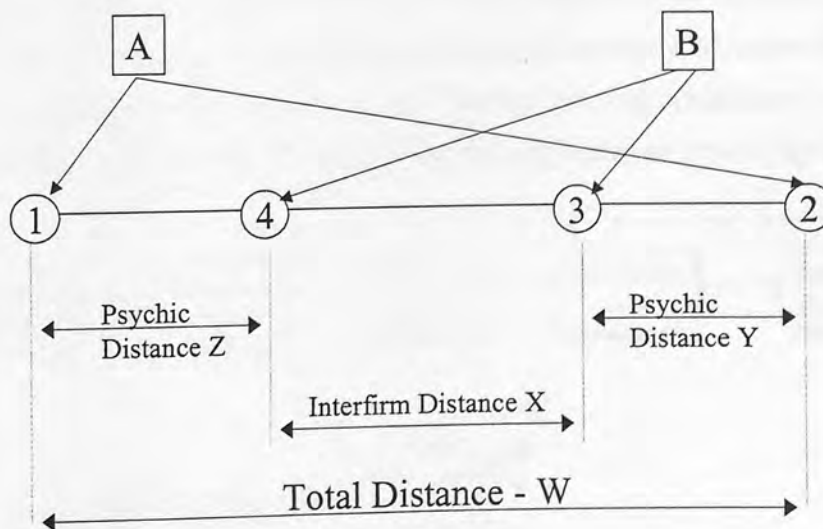


Figure 5 – The Psychic Distance Model

The total “distance” between parties A and B is a spatial representation of the gap of understanding and knowledge that separates them. In order to achieve agreement and collaboration it is necessary to bridge this gap through communication and consensus seeking. In an intercultural relationship, the gap is made up of several components:

- The inter-firm distance (X) which would exist between any two parties even if they shared the same cultural provenance.
- The psychic distance (Y) due to the failings of A's cultural and linguistic perception of B's position.
- The psychic distance (Z) due to the failings of B's cultural and linguistic perception of A's position.

Where cultures are widely differing and languages may not even share a common alphabet, then the sum of Y+Z could easily dwarf the inter-firm distance X. The total Psychic Distance will make it almost impossible for one party to understand the position of the other. The only means of bridging the distance would be a sustained exchange of ideas and that is precluded by the imperfections in their communications capability. The effect therefore, will be to increase uncertainty within the relationship manifesting itself in suspicion, caution, and mistrust.

Communications

It is hard to overstate the importance of communication in business management. Almost 30 years ago Mintzberg (1973) presented empirical evidence showing managers could spend up to 85% of their working day in verbal communications. Since then, communication has emerged as a key component of many other fields of business research and there are numerous theories of communication, one of the earliest and most durable being that of Shannon and Weaver (1947) fig 6.

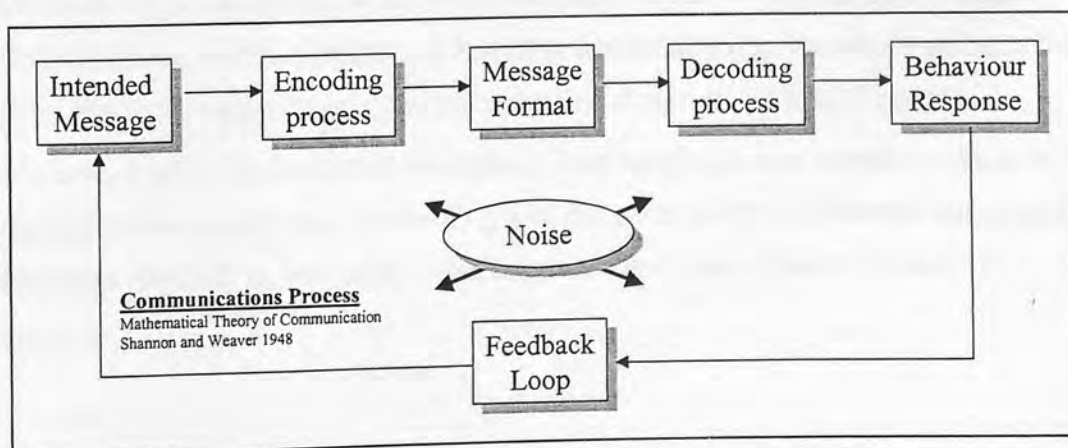


Figure 6 – The Communications Process Model

Their model, though long overtaken by more sophisticated theories, remains important for three reasons:

- It illustrates how communications have to be processed through both an encoding and a decoding stage, and as such, misunderstanding, incomplete meaning, or distortion could occur at either or both stages, particularly with one party in the communication working in their second language.
- It shows that the feedback is consequential upon the interpretation of the decoded message, and hence confirms the observed phenomenon wherein imperfect communications escalate into confrontation, as each party perceives inappropriate responses to their communications input.
- It opens the possibility that the effectiveness of the communications process can be subject to interference by "noise". This noise can be purely external, as in the case of poor surroundings or constant distractions, it can be entirely internal (a theme developed later in the section on cognitive schema) or it can be interactional, as in the state of the relationship between the two communicating parties.

However, this model has been criticised for the way that it subordinates the role of the passive recipient (the listener) to the active communicator (the source). This point formed the basis of a significant development of the Shannon and Weaver model (Berlo 1960) which added the additional component of thought and reasoning into both the pre-communication message formulation and a post-communication message interpretation, phases.

A parallel enhancement of the model (Gerbner 1960) recognised the dynamic, interactional nature of communication and represented it as a circular process in which there are iterative cycles of message formulation, transmission, reception, interpretation and subsequent response formulation. More recently still, Borden (1991) advanced a communications model in which language emerges as both the vehicle of communications and the pivotal point of culture (see fig 7 below).

This representation is significant because it links language and communication with thought processes and decision making and hence to action and behaviour, and it is that linkage which is at the heart of the twin vicious circle model introduced in Chapter 1.

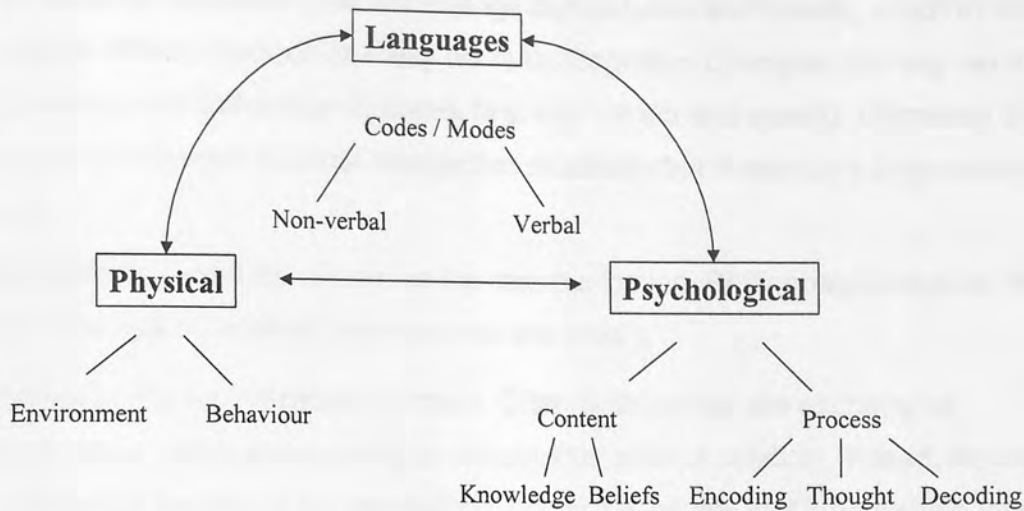


Figure 7 – The Language Model of Communications

One area of communications theory that is particularly relevant to this thesis is that of persuasive communications (Bettinghaus 1987). He defined persuasive communication as *“a conscious attempt by one individual to change the attitudes, beliefs or behaviour of another individual or group of individuals through the transmission of some message”*.

Bettinghaus envisioned this concept as a hierarchy, illustrated in fig 8 below

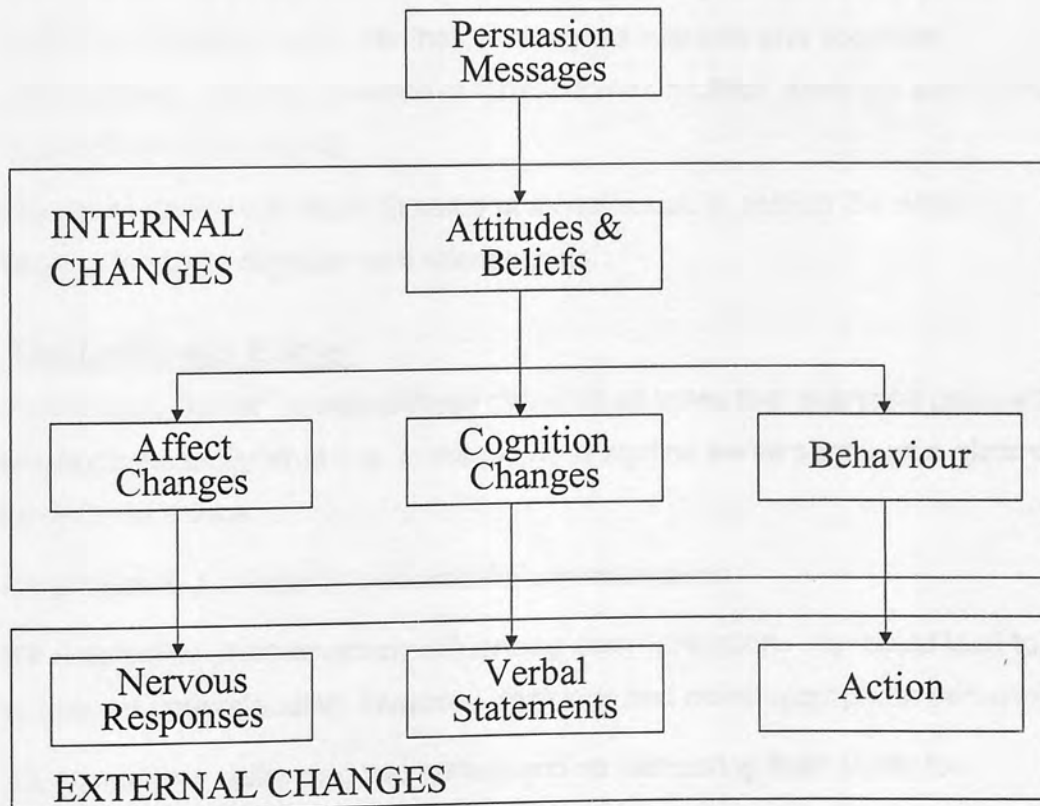


Figure 8 – The Model of Persuasive Communications

The persuasive message must first change our attitudes and beliefs, which in turn then trigger Affect Changes (the way we feel), Cognition Changes (the way we think and perceive) and Behaviour Changes (the way we act and speak). Ultimately these three internal changes become manifested externally but it may be a time-consuming process.

In describing the exercise of persuasive communication, Bettinghaus identifies three issues which will be of later importance to this thesis:

- Persuasion is an interactive process. Often both parties are exchanging persuasive messages seeking an acceptable, shared solution. Indeed, for the persuasion to reach a successful conclusion it is crucial that both parties must have contributed to the exchange.
- Persuasion is heavily dependent upon the predisposition of the parties. The same persuasive message delivered by two different parties will have different levels of success. This is because the level of success will be influenced by situational factors such as the level of trust, credibility and confidence and the previous history of exchanges between the two parties. These are the same issues that will be developed further in the subsections dealing with trust and cognition.
- In the context of a formal organisation, the communications process becomes compounded by a number of other variables, notably formal authority, the influence of groups each with their own vested interests and cognitive perspectives, and the existence of formal communication channels approximating to the chain of command.

The literature review will return to some of these issues in section 2.4 when addressing the topic of power and relationships.

2.3 The Language Barrier

The "Language Barrier" is one of those overworked terms that everyone uses without understanding exactly what it is. In the previous section we've seen just a glimpse of its possible meanings:

- It's a noise factor impeding successful communication.
- It's a defective pivot adversely influencing communications that could lead to enhanced understanding, improved decisions and more appropriate behaviours.
- It's a separator distancing two parties and so hampering their ability to understand the other's viewpoint.

It is certainly all of these things and more, but any attempt to frame a definition has to

be preceded by clarifying the nature and relationship of the two parties involved in the communication. In this thesis the two parties are clearly a parent company and one of its overseas subsidiaries, and this is important because it introduces extenuating considerations to the way the language barrier works:

- Often, and especially in relationships born out of acquisitions, the language competence of the second language users is at neither extreme of the language barrier. Typically, the second language users will have some proficiency, but not enough to be totally relaxed and effective in the communication.
- Generally, the communications are not interpersonal in nature, but more typically are encounters between language groups: a parent company management team and the corresponding management team of the subsidiary. As we will see below, this too adds to the problems of effective communication.
- Frequently, the lines of communication are distorted by the presence of expatriate personnel in the subsidiary organization, who intervene in the communication process to bypass the formal reporting chain.
- Increasingly, as non-English speaking companies adopt English as their corporate language, the relationships are imbalanced when it is the parent company management rather than the subsidiary management that is compelled to work in its second language.
- Finally, the parent subsidiary relationship, like any other business situation, contains a degree of tension and divergent goals. The parent wishes to exercise control and direction while the subsidiary seeks autonomy and an escape from central control.

Each of these factors contributes to the difficulty of achieving and sustaining effective communications, and a productive, collaborative relationship. In other words, each of these factors exacerbates the language barrier

The Language Barrier Model

In any dialogue or relationship the severity of the language barrier depends upon the level of language skills of the participants in the encounter, most importantly the proficiency of the person or group working in its second language. One author (Feely 2003) has advanced a simple pyramid model to explain the concept (see fig 9 below).

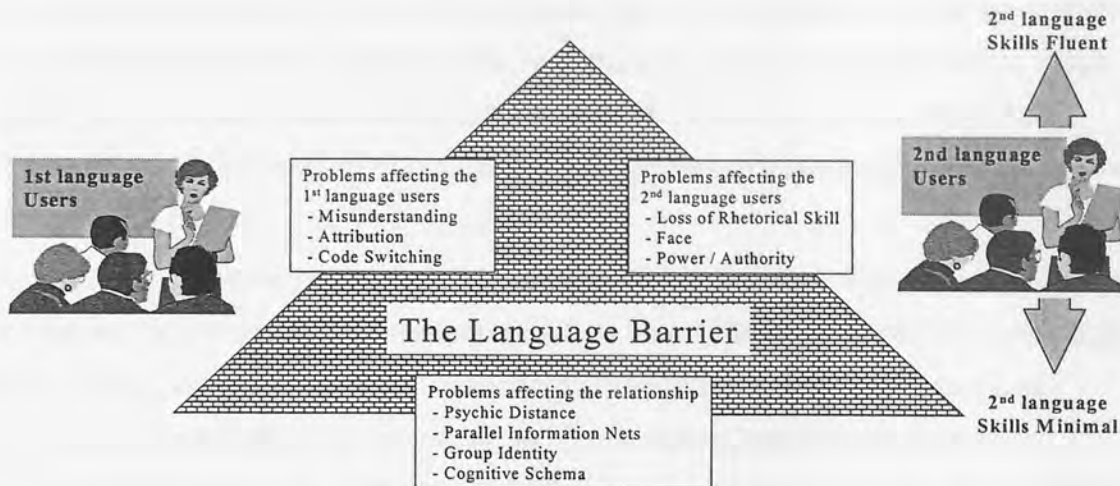


Figure 9 – The Components of the Language Barrier

At the base of the pyramid, where language skills of the second language users are very low, communication is practically impossible and the barrier is so dense as to be impenetrable. At its summit, where the second language users have “near-native” speaker capabilities, the barrier is narrow and easily surmounted.

Both the first language users and the second language users encounter specific problems while other difficulties relate more to the relationship than to either party in particular. In the subsections below, these effects are individually explained with reference to the literature:

Misunderstanding

The most obvious component of the language barrier is the increased risk of miscommunication or misunderstanding. In general terms these risks are accentuated by a number of factors affecting intercultural communication (Barna 2000).

- Anxiety: typically as a consequence of ambiguity, or lack of confidence.
- Complacency: where one assumes similarity rather than being sensitive to difference.
- Ethnocentrism: where one judges negatively aspects of another culture by the standards of one’s own culture.
- Stereotyping, where the judgements made about individuals (positive or negative) are based upon their perceived group membership.

These factors impair the receptiveness of one party to the communications received from another and greatly accentuate the potential for message distortion leading to divergence and recriminations.

The causes and types of non-native-speaker miscommunication are well developed in a model based on the Sapir-Whorfe Hypothesis (Gass and Varonis 1991). Their model demonstrates how, in a climate such as that described above, imperfect expression or interpretation of a phrase will lead to misunderstanding and divergence between the parties.

In considering miscommunication it is important to understand that the problems are not limited to low proficiency second language users. Other research (Takahashi and Beebe 1987) explains that such misunderstandings are not limited to language learners, but contrarily may become even more damaging with relatively-fluent, second language, users. They introduce the term pragmatic transfer to illustrate how proficient speakers often apply some of their first language competence to communications in their second language, resulting in a confusing hybrid of correct second language vocabulary and pronunciation with inappropriate first language structure.

Loss of rhetorical skills

Another obvious and debilitating problem for second language users is the loss of what are known as rhetorical skills. Competent second language users may be capable of clear communication, but robbed of the interpersonal skills of humour, symbolism, sensitivity, negotiation, persuasion, motivation and even coercion, they will not be able to manage in the way they would wish. One authority on power and leadership (Allen 1979) insists that such skills are essential tools of effective management, and that managers denied them will fail to express themselves persuasively, will be perceived as lacking leadership qualities and will consequently lose the respect and liking of the people they engage with.

Moreover, this is not just a problem of perception on the part of the first language users. The cycle then closes with the response of the second language speakers. Self-perception theory (Bem 1972) predicts that speakers having to communicate in a second language in which they were not totally fluent would feel themselves to appear less friendly, less intelligent and less self-confident. As a defence mechanism they would then make negative assessments of their language-skilled interlocutors. Experimental studies of this theory have shown subjects lacking fluency to prefer the careful to the casual style of speech leading to an atmosphere of formality and unfriendliness (Hornby 1977). This theory was also tested in a business survey of Japanese Expatriate Employees working in the US (Sugawara 1993). Over 60% felt nervous when speaking English with American co-workers and blamed language as the principal source of problems with their American colleagues.

Face

The concept of "face" is much used when discussing Japanese culture, but in fact it applies to all nationalities (Ting-Toomey 1988). Nobody, least of all international managers of senior status, want to be considered stupid, ill informed or slow on the uptake. Therefore, managers will often maintain a knowing façade, even when they have lost track of a discussion. In a cross-lingual meeting where a manager is working in his second language, the risk of losing track is high and the need to maintain face becomes an overriding priority. As a consequence, such managers can find themselves signing up to agreements they've barely comprehended, and committing to objectives they've not had an adequate chance to explore.

Subsequently, they may distance themselves from the agreements, alleging there had been no such discussion, or renege on their commitments, denying that the implications had been explained. In a developing HQ-subsiidiary relationship, such behaviour can be interpreted as inconsistent, mercurial and even devious. It undermines credibility and trust, and the second language user in particular gains an unmerited reputation of being fickle, unreliable and deceitful.

Group Identity

A human group is defined as a collection of individuals who have significantly interdependent relationships with each other: Who perceive themselves as a group reliably distinguishing members from non members: Whose group identity is recognised by non-members: Who, as a group acting alone or in concert, have significant interdependent relationships with other groups and whose roles in the group are a function of expectations from themselves, from the other group members and from non-members (Alderfer 1977).

In a later work he goes on to posit a theoretical basis for the effectiveness of inter-group relations (Alderfer 1986). He identifies the key influences on the relationship as:

- Group Boundaries i.e. the nature and strength of the boundaries separating them.
- Power differences that exist between the groups.
- Affective patterns, notably the tendency to associate positive feelings with own group and to project negative feelings towards the out-group.
- Cognitive formation, which can influence and distort perceptions about the inter-group relations.
- Leadership behaviour, which if employed in an integrative style can help to ease inter-group differences.

Parallel research (Brett and Rognes 1986) puts more emphasis on the power relations between the groups. They argue that inter-group relations hold a great deal of potential for conflict as the groups are likely to be highly interdependent, relying on the differentiated skills, abilities, knowledge and influence of one another to achieve their organisational goals. This assertion can be traced back to two theoretical foundations. The first, Realistic Conflict Theory (Sherif 1966) argues that real, material differences of interest will lead to inter-group conflict. The other, Social Identity Theory (Tajfel et al. 1971) recognises that individuals associate themselves with the values and ideologies of a group, and that consequently they behave in a discriminatory manner favourable to their own group and unfavourable to the out-group.

Both of these theories have relevance to the inter-group communications between a parent company and its subsidiary. There will inevitably be a conflict of interest: The subsidiary focused on local issues, the parent preoccupied with the bigger picture: The subsidiary seeking autonomy, the parent demanding control. However, of more interest to this thesis is the social identity influence. The dominant theory here comes from sociolinguistics (Gallois, Franklyn-Stokes et al. 1988). Their theory specifically alludes to competitive, hostile situations such as would be experienced in a parent-subsidary relationship and posits the following list of tenets:

- Language will emerge as the single most important issue in demarcating groups and defining group composition.
- Where language is a separating factor, individual participants will "see" the encounter in inter-group terms. As such they will not attune to either the group or personal characteristics of the out-group members.
- The behaviour of the out group members will be interpreted in terms of their perceived group interests and viewed negatively. Apparently constructive, accommodating communication will be attributed to the impact of "external pressures" and apparently negative, destructive communication will be attributed as indicative of the out-groups "real" posture.
- Where a speaker wishes to achieve or maintain status, they will not attempt to adjust to the perceived communications characteristics of the other group. If the speaker is using his first language, they may elect to speak quickly or to use idioms, increasing the discomfort of the out-group participants working in their second language.

So as an example in an Anglo-French, inter-group encounter, a young, female French-speaking accountant is more likely to identify with other French speakers regardless of age, profession or gender than with a young, female English-speaking accountant.

Once the group boundaries have been defined, social identity theory (Tajfel 1982) predicts that individuals will take on and defend the values, interests and ideologies of that group, against the "opposition". This implies that a language difference will exacerbate the normal tensions involved in the parent subsidiary relationship, and will contribute to the polarization of their respective goals. What's worse, the tensions once created will not be amenable to conventional conflict management strategies such as negotiation or arbitration both of which rely on effective inter-group communications (Hartley 1996). Instead it is likely that the parent will adopt measures designed to minimise inter-group contact such as total avoidance, communication formalisation and bureaucracy.

Attribution

Having activated the group identities, "attribution" then takes a leading role in further distorting the communications process (Gallois, Giles et al. 1995). Those involved may attribute negative intentions to the words and acts of out-group members. Constructive efforts made by the other group will be dismissed as the result of situational obligations, rather than being due to positive intentions on their behalf. Attribution will affect both groups involved in the communication, but will be felt more keenly by the second language users for whom uncertainty and suspicion, due to imperfect understanding of the discussion, will add further stress to the relationship. The degree of uncertainty will be inversely correlated with language competence and will increase the tendency to over-estimate the importance of group membership on behaviour (Gudykunst 1988).

A second aspect of attribution that emerges when dealing with foreign language speakers is the tendency on the part of a native speaker to "attribute" language competence (Gudykunst and Ting-Toomey 1988). If the non-native speaker appears relatively fluent, then the first language speaker will project his own ideas, attitudes and feelings on to that person and will tend to overestimate their linguistic fluency. The first language speaker thinks that the other person is culturally more akin to them than in fact they really are. This can initially accelerate the coming together process, but later will cause problems when second language users respond in a way that is inconsistent with the mind picture that the first language user had created of how they should react. With regard to HQ-subsidiary relationships, it is likely that

attribution of “linguistic and cultural similarity” might provide a honeymoon period for the relationship, but the resultant delusion and confusion generated when the “similarity myth” is exploded, will result in a sense of mistrust and even dislike between the two parties.

The polarisation effects of attribution may in part be countered by accommodation whereby the very act of communicating in a second language causes the individual to converge towards the cultural perspective associated with native speakers of that language. However, recent research (Harzing, Feely et al. 2001) has shown this effect only in individual, not inter-group communications, and only amongst genuinely bilingual speakers.

Code switching

A phenomenon that often bemuses and disconcerts first language users in a group context is termed code switching (Scotton and Ury 1977). This is where the second language users, generally at key moments in a meeting, huddle together and revert to talking between themselves in their native language. It is easy to understand the need. The second language users, aware that their comprehension may be less than perfect, simply want to compare notes and to realign themselves before moving on to the critical discussion issues. However, to the out-members, who probably don't speak the other group's language, such a switching of codes “just when it was getting interesting” smacks of conspiracy and double-dealing.

Sensitively managed, there is no reason why code switching should impair the relationship between an HQ and its subsidiaries. If meeting pauses were called, if the reasons for the pause were explained, then problems could be avoided. However, particularly where it is the HQ management who instigate the code switch, it tends to occur spontaneously and without explanation, leading to feelings of exclusion and suspicion that can easily boil over into hostility.

Power/authority distortion

Sociolinguists (Grosjean 1982) and (Scotton 1983) suggest that, in a meeting between two parties with different first languages, the choice of language for the meeting will depend upon situational factors. The specific factors that will determine the choice in the case of a parent subsidiary meeting are not precisely defined but are likely to include:

- Situational Norm: It would be normal to adopt either the language of the group hosting the meeting or the language of the parent company.

- Socio-cultural Status: It would be appropriate to adopt the language with the greatest "ethno-linguistic vitality". This approximates to the most international, or economically influential, language.
- In-group Preference: Clearly this depends on the composition of the meeting. If one group dominated in numbers and or status this would emerge as the in-group but at a balanced meeting, this factor will cancel itself out.
- Interpersonal Accommodation: It would be predictable that whichever group was more competent in the other's language would accommodate.
- Corporate Policy: If the company had previously established rules governing the use of languages in meetings, this should be the decisive factor.

Applying this to an example of a non English-speaking parent company and an English-speaking subsidiary, English will be the language employed, unless there are other, quite exceptional situational factors. This introduces a distortion into the power-authority balance. The parent company, having accommodated in this way, find that they have relinquished some of the control over the relationship. They may retain formal authority, but the power in the relationship will be exercised by those who are working in their preferred language, and for whom communications fluency becomes a tool of influence (Kim 2001). For the HQ-subsidary relationship the consequences are corrosive. The parent company management team will feel frustrated and resentful, resulting in affective conflict and disputes between them and the subsidiary management.

Parallel information networks

Grapevine communications, which Marschan-Piekkari terms "Parallel Information Networks" (Marschan-Piekkari, Welch et al. 1997), exist in every business and are sometimes considered advantageous. However, in cross-lingual relationships their impact can be quite damaging. In the context of HQ-subsidary relationships, consider the possible communications flow between a hypothetical UK-based parent company and its French subsidiary. The UK finance manager is fluent in French, the French marketing manager equally fluent in English, but in general the two management teams, including the two Managing Directors, are uncomfortable in the other's language. Inevitably the communications will polarize, with the French management channelling their ideas, information and requests through the finance function in the UK, and the UK managers likewise preferring to communicate through the French marketing manager. The consequences are highly detrimental to team cohesion. The two functional managers develop as information gatekeepers, filtering,

delaying and distorting the communications flow to their own advantage, while the others, particularly the two managing directors, feel that the chain of command has been undermined. The consequential uncertainty, suspicion, mistrust and friction serve to impose limitations on the quality, openness and stability of the HQ-subsidary relationship.

Section Conclusions

Building on the previous section's review of language culture and communications, this section has explored the sociolinguistic literature describing the contributory elements of the language barrier. In the context of a inter-group communications between a parent company and its subsidiaries, the first part of the model evolved in Chapter 1 and illustrated in fig. 10 below, has been endorsed by the theoretical literature and published. (Feely and Harzing 2004).

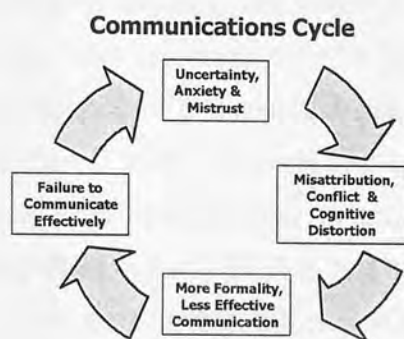


Figure 10 – The Communications Cycle

They explain the cycle in these terms: *Linguistic attribution* at the outset deludes the parent and subsidiary to imagining that they are more similar and enjoy a higher level of understanding than is really the case. Subsequently, communications failures caused by *loss of rhetorical skills* and *face* lead to uncertainty, anxiety and a general under valuation of the out group's capabilities. Attitudes harden, and inter-group relationships suffer as *group identities* polarize and motives and actions are incorrectly and negatively *attributed*. The risk of affective conflict intensifies as factors such as *code switching*, *power-authority distortions* and *parallel information networks* compound the sense of suspicion and friction. All of these negative influences then become cemented in the *cognitive schema* of those involved (a topic that will be returned to in section 2.5) reinforcing stereotypes and fuelling group identities and attribution. The combined impact of the anxiety, the polarization, the suspicion and the negative stereotypes is to increase the sense of separation between the parent company and its subsidiary and communications between the two become more strained, guarded and formal as time goes on.

2.4 – Relationships, Trust, Power, Conflict and Social Capital

The thrust of the previous section is that the language barrier impairs relationships, destroys trust and introduces conflict. The literature related to these concepts and to social capital, another related field of research, provides the focus for this section of the review.

Trust

Of all the areas of relationship management, trust has been the subject of most research, not only in business but also in sociology and psychology. As a concept it has been variously defined and sub-divided, but one of the simplest and most helpful definitions is provided by McAllister (1995). He defines trust as *“the extent to which a person is confident in and willing to act on the basis of the words, actions and decisions of another”*. McAllister then goes on to draw a distinction between cognitive trust based on evidence of trustworthiness, and affective trust founded in emotional bonding. A fuller explanation of this taxonomy is to be found in Lewis and Wiegart (1985) however, far more important for this research are the issues concern the antecedents and consequences of trust. An excellent summary of past sociological research (Mayer, Davis et al. 1995) identifies the antecedents in terms of personnel characteristics such as competence, benevolence and integrity. However, broadening this focus into the business field, it is more useful to consider the two types of trust separately.

- For cognitive trust, McKnight, Cummings et al (1998) advance a sophisticated model of initial trust creation. Based on a combination of theoretical and empirical research they posit that initial trust would depend upon a number of factors including the predisposition to trust, the sense of situational normality, the assurance level of structural safeguards, and the strength and polarity (negative / positive) of cultural stereotyping. They also underline the importance of controls in building trust, a point which was developed further in the business context with a Trust / Control model of strategic alliances. (Das and Teng 1998) They emphasise that the fewer antecedents, the more fragile the trust relationship developed.
- Parallel research (McAllister 1995) looking at the antecedents of affective trust identified two principal influences, the frequency of contact and the demonstration of altruism termed Organisation Citizen Behaviour (Organ 1988).

Examining specific cases of Japanese US Cooperative Alliances Johnson et al (1996) proved that spanning both types of trust there is a virtuous circle effect

wherein trust begets trust i.e. when one party demonstrates trust there is a probability that it will be reciprocated.

There is also a predictable causality linking reliability of past performance with the level of trust developed. This has been particularly explored in the field of customer supplier relationships (Doney and Cannon 1997). However, their two principal conclusions qualify the importance of past performance as the basis of trust:

- Accumulated experience of reliable performance manifested in trust is only to be considered an "order qualifier not an order winner". It is the current composition of the marketing mix (price, product quality and delivery capability) that actually makes the sale.
- Relationships built purely on cognitive considerations such as past performance are fragile and easily demolished.

Their findings are endorsed, from the interpersonal perspective (McAllister 1995). His research comparing affect-based and cognitive-based trust confirms that past performance has little or no influence on cognitive trust levels and that overall it may well be that affective trust based on emotional and behavioural bonds is the better predictor of future performance.

Other researchers have reversed the causal relationship between performance and trust (Elangovan and Shapiro 1998). Their research indicates that a negative assessment of the relationship will influence the trustee's motivation to betray, for example by reneging on earlier promises or commitments. In their model, trust betrayal is portrayed as a calculative process in which the trustee evaluates the benefits of betrayal and balances these against the level of satisfaction with the relationship, his inherent sense of principles and the probability and severity of any penalties that betrayal may bring.

Shifting the focus to the consequences of trust in business collaborations, there is an extensive body of research suggesting that trust is a key factor in influencing many aspects of relationship development.

- It encourages strategic integration (Johnson, Cullen et al. 1996).
- It reduces the perception of risk and so encourages innovation and entrepreneurship (Nooteboom, Berger et al. 1997).
- It reduces the need for and costs of control systems (Beccerra and Gupta 1999).
- It facilitates information transfer (Jones and George 1998).

Despite these very considerable benefits derived from trust there is as yet no clear

correlation between the level of trust in a business relationship and its impact on performance (Saxton 1998). His research suggests that trust, or to be more precise its antecedents, serves only to predict short-term relationship satisfaction not long-term relationship success.

Conflict

Whereas trust is one of the principal factors aiding relationship development, conflict is equally critical as a potential destroyer of those relationships. And in business relationships conflict can be a very substantial issue. One piece of research (Thomas and Schmidt 1976) found that managers reported spending 20% of their time dealing with conflict. However, important though it is, organisational psychologists are far from unanimous in their treatment of the nature and sources of conflict.

One early study (Kahn and Boulding 1964) saw a symbiotic relationship between power and conflict "*The exercise of power begets conflict and ...the more prevalent conflict in an organisation, the more keenly the need for power will be felt*". Another (Blome 1983) preferred a wider statement of the roots of conflict identifying prestige, formal organisation structure, leadership style, prejudice, mistrust, and cultural differences, as potential flashpoints. Nevertheless both views clearly imply that conflict is a negative condition that is unhealthy for the organisation suffering it.

Later researchers however, (Jehn 1994), (Amason 1996) have introduced a distinction between cognitive (functional) conflict and affective (dysfunctional) conflict. It is generally argued that cognitive conflict, which is task orientated, can have a positive impact on the organisation, exposing weakness and opening up new perspectives. Such conflict offers potential for what Covey (1989) terms "win-win" solutions in which participative interaction between the conflicting parties facilitates a re-focusing upon a super-ordinate goal shared by all.

Affective conflict on the other hand, which is emotional and focussed on personal incompatibilities and disputes, is considered dysfunctional and harmful to the organisation, offering only win-lose (authoritarian) or lose-lose (compromise) outcomes.

However, whilst the distinction between cognitive and affective conflict adds to our understanding of the phenomenon, later empirical researchers find that in culturally diverse management teams both types of conflict share common antecedents (Hambrick, Cho et al. 1996). That is, the very circumstances likely to stimulate positive cognitive conflict will also trigger its undesirable sibling. To avoid this double-edged effect, managers must adopt styles and processes that encourage cognitive conflict yet discourage affective conflict. (Amason and Sapienza 1997)

In discussing such conflict management styles two streams of theory are pertinent to this, the taxonomy of conflict management styles (Rahim 1986) and the Competence Model of Conflict (Papa and Canary 1995).

Rahim's work on conflict styles of US managers identified 5 specific styles derived from two dimensions, concern for self (production orientated) and concern for others (people-orientated). The five styles emerging from different combinations of these two dimensions are:

- Integrating (high concern on both dimensions)
- Dominating (high concern for self and low concern for others)
- Obliging (low concern for self and high concern for others)
- Avoiding (low concern on both dimensions)
- Compromising (moderate concern on both dimensions)

Rahim's model analyses the behaviours and solutions adopted by those involved in conflict. Such approaches include searching out mutually satisfactory solutions (integrating), imposition using authority or influence (dominating), conceding the argument (obliging), evasion of disagreeable situations (avoiding) and proposing a middle-ground solution (compromising).

The Competence Model by contrast focuses on the importance of communication in the management of conflict. It classifies competent communication in 2 dimensions:

- Effectiveness: Measures the level of success in achieving the objectives and goals of the organisational member.
- Appropriateness: Subdivides into Relational Appropriateness (communication which is pro-social, constructive, polite and tactful) and Situational Appropriateness (communication which is stylish, confident and responsive to the situation and to feedback).

Papa and Canary hypothesised, and this was later tested empirically (Gross and Guerrero 2000), that individuals using different conflict management styles would be perceived as achieving different levels of effectiveness and appropriateness and thus competence. Using the Rahim classifications they posited the matrix relationships illustrated below (fig. 11)

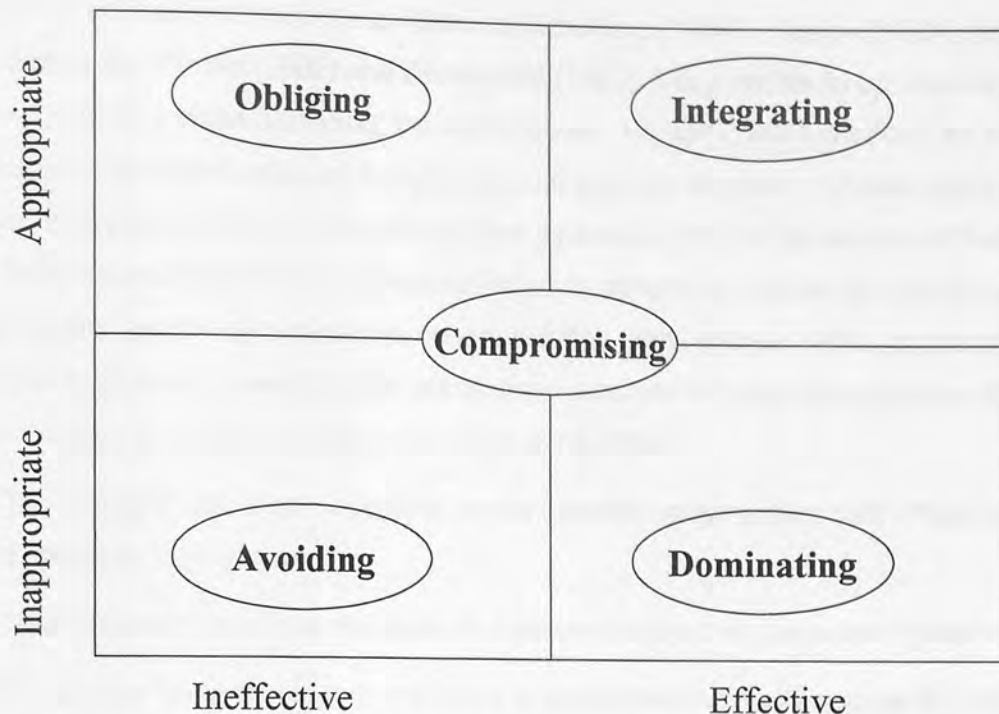


Figure 11 – The Appropriateness / Effectiveness Matrix of Conflict Management

Individuals managing conflict with domination were perceived to be effective, though arguably only in the short term as their style was deemed to be inappropriate. Conflict avoidance was seen as wholly inappropriate and ineffective allowing conflict issues to stew unattended. Obliging management was evaluated as appropriate, stressing as it does harmony and concession, but clearly failing terms of achieving personal goals and hence managers adopting this style are seen as ineffective. Only the integrating style emerged as both effective and appropriate achieving the “optimal response to conflict” whereby an individual meets the expectations of the other parties whilst still achieving his or her desired objectives.

Power

The subject of power and the exercise of power has not been a fertile area of management research. It has been described as unfashionable and was tainted by association with unappealing concepts such as politics, oppression and harassment. One researcher (Kantner 1979) acknowledged that power was critical for effective management, but went on to describe power as “*America’s last dirty word*”. It is not surprising therefore, that, in recent decades, the subject of power has been largely subsumed into the wider and more socially acceptable topic of Leadership.

Despite its unfashionable status, a few noted authors on power have maintained a steady stream of theoretical and occasional empirical studies focused on developing our understanding of what power means and how it is used.

From the work of such experts as Kahn and Boulding (1964), Kaplan (1964), and, more recently, Pfeffer (1992) and Drummond (1993) it is possible to synthesise some general conclusions about the use of power. Kaplan (1964) provided an early definition and classification of the typology and sources of power. He described power in organisations as *"the ability of one person or group of persons to influence the behaviour of others"*. This simple definition is remarkably similar to that discussed in an earlier section on persuasive communication (Bettinghaus 1984), suggesting that the exercise of power and the art of persuasion are virtually synonymous. Kaplan then went on to define the dimensions of this influence.

- The "Weight" describes a scale of power intensity ranging from mild influence through to total control.
- The "Domain" describes the spread of persons subject to the power influence.
- Finally the "Scope" refers to the range of personal behaviours susceptible to the wielding of such power (typically in an organisation people's work lives are open to influence by organisational power but their social lives would not be).

Kaplan also articulated the principal bases of power identifying coercion, reward, personal relationships, legitimacy (which includes formal authority) and expertness. However, whilst acknowledging that each of these are attributes of the "Power Wielder", Kaplan recognised that in general power must rest on the consent of those over whom they exercise power (the Power Targets). He termed this paradoxical relationship between power wielder and power target, the *"Coercion of Consent"*.

An empirical test of Kaplan's bases of power in a business environment (Drummond 1993) demonstrated that all of the bases of power were of medium or high importance. Thus a manager in order to wield power successfully will need to mix and match the style of power they exercise depending upon situational factors.

This point is further developed (Pfeffer 1992) in a 7-point sequence model for the effective exercise of power. The first stage "decision making" depends largely on the conventional concept of authority but the remaining stages evolve the means to achieve "Coercion by Consent". These stages involve an examination of the interdependencies and identification of the other influential power wielders, an analysis of their likely perspectives and an evaluation of their sources and levels of power. Finally, a self-examination of one's own bases of power and their relative strengths precedes a selection of the most appropriate strategies and tactics for exercising power, given the situation confronted.

In making this selection of the most appropriate strategies and tactics, Pfeffer urges consideration of the following:

- Power is used more frequently under conditions of moderate interdependence. He argues that with little or no interdependence the exercise of influence is wholly ineffective and conversely with total interdependence people will share a common goal and so the exercise of power is superfluous. It is in the middle ground where interdependence co-exists with independence that it is necessary to develop power and influence others in order to accomplish our goals.
- It becomes more important to develop power and influence when the people with whom you are interdependent have a distinctly different point of view. By implication, therefore, interdependence will be more in evidence at higher levels in the organisation where tasks are less likely to be either simple or self-contained, and objectives are more likely to be in conflict.
- The exercise of power in a cross-cultural context is much more difficult to evaluate. There are two reasons. It is often difficult to assess the weight of power. Criteria used to assess power in Anglo-American companies such as organisational status, rank and reputation cannot be readily applied to other cultures. Also the response of the power targets to different types of influence such as coercion, enticement or reward may not be the same.
- Successful exercise of power often depends on the personal characteristics of the wielder. He cites an earlier work (Allen 1979) which analysed the traits of effective managers as summarised in the table 2.4 below.

Personal Characteristic	Percentage mentioning
Articulate	29.9
Sensitive	29.9
Socially Adept	19.5
Competent	17.2
Popular	17.2
Extroverted	16.1
Self-confident	16.1
Aggressive	16.1
Ambitious	16.1

These findings, focused as they are on positive, interpersonal skills, seem to logically endorse earlier research (French and Horwitz 1964) which suggested that :

- Influence is much more effective when the power wielder was liked by the power targets (Allen's personal traits are all positive)
- Power targets are more receptive to stimuli from wielders who are perceived as having the qualities to make things happen and
- People respond more positively when the power wielder has been open and articulate in explaining the "strength of their desire".

Further research (Pfeffer, Salancik et al. 1977) links the weight of power to organisational uncertainty, stressing that the influence of a sub-unit or individual on a decision is a function of:

- The kind of uncertainty faced by an organisation.
- The particular characteristic or capability that enables the reduction of organisational uncertainty.
- The degree to which a particular sub-unit or individual possesses that characteristic.

Finally, and most pertinently for this thesis, writers on power are unanimous in emphasising effective communication as an essential ingredient of wielding power.

This review can do no better than to quote verbatim some of these opinions:

- *"The effectiveness of a leader lies in his ability to make activity meaningful to those in his role set ...to give a sense of understanding to what they are doing, and especially to articulate it so they can communicate about the meaning of their behaviour. This dual capacity to make sense of things and to put them into language meaningful to large numbers of people gives the person who has it enormous leverage". (Pondy 1978)*
- *"Sharing a language with other persons provides the subtlest and most powerful of all tools for controlling the behaviour of those persons to one's advantage"(Morris 1949).*
- *"Around and beneath the technical considerations there are another set of meanings, involving the interplay of communication and power. Insofar as knowledge is power, communication systems are power systems". (Barber 1966)*
- *"It is primarily through negotiation and persuasion that the decisions that carry forward the work of the organisation, are made" (Bucher 1970)*

- *"Politics and the wielding of power are, after all, activities which involve argumentation, presentation and debate". (Pfeffer 1981)*
- And finally emphasising the need for skilful articulate communication *"Language is a communications medium for turning a power base into influence". (Kim 2001)*

Clearly in the context of a parent subsidiary relationship, power will be a key factor in forming the relationship, and as has been resoundingly demonstrated, communication and language will have a significant bearing upon the way it is exercised.

Relationships

The concept of Relationship management is most commonly associated with the field of marketing. However, the underlying principles of how to develop, maintain and enhance a relationship, apply equally well to other interactions within a global company (Greenlagh 2001). It is appropriate, therefore, to examine some of the most relevant literature in this field.

Greenlagh suggests that to be successful in the increasingly global and diverse marketplace, managers must be capable of creating and maintaining complex relationships both within the company and external to it. He asserts *"being effective as a manager requires you to be good at managing business relationships"* and goes on to explain that this leads to a sense of commonwealth (sharing a common interest and fate) and consensus among organisational stakeholders.

However, despite the obvious importance of the field and the existence of numerous books and articles, particularly in the marketing area, there does not appear to be a clear, simple definition of what relationship management actually is. At its simplest level it has been portrayed as a simple input-output system (Stone and Woodcock 1995). The inputs include professional analysis and planning, frequent contact, clear communication, liking and reliability in the achievement of promises. The outputs are trust, loyalty, commitment to the relationship and mutual understanding leading to alignment of objectives and values. This representation, of course, fails to convey the inherent complexity and ambiguity of the reality in which each factor operates simultaneously as both an input and an output. As earlier subsections have shown, trust is no more a consequence of clear communication than it is a prerequisite for it. Reliability in respecting commitments is no more a precursor to shared objectives and values than it is a consequence of it. Nevertheless, the components of the relationship model proposed by Stone and Woodcock remain valid and these are illustrated in fig 12 and discussed individually below.

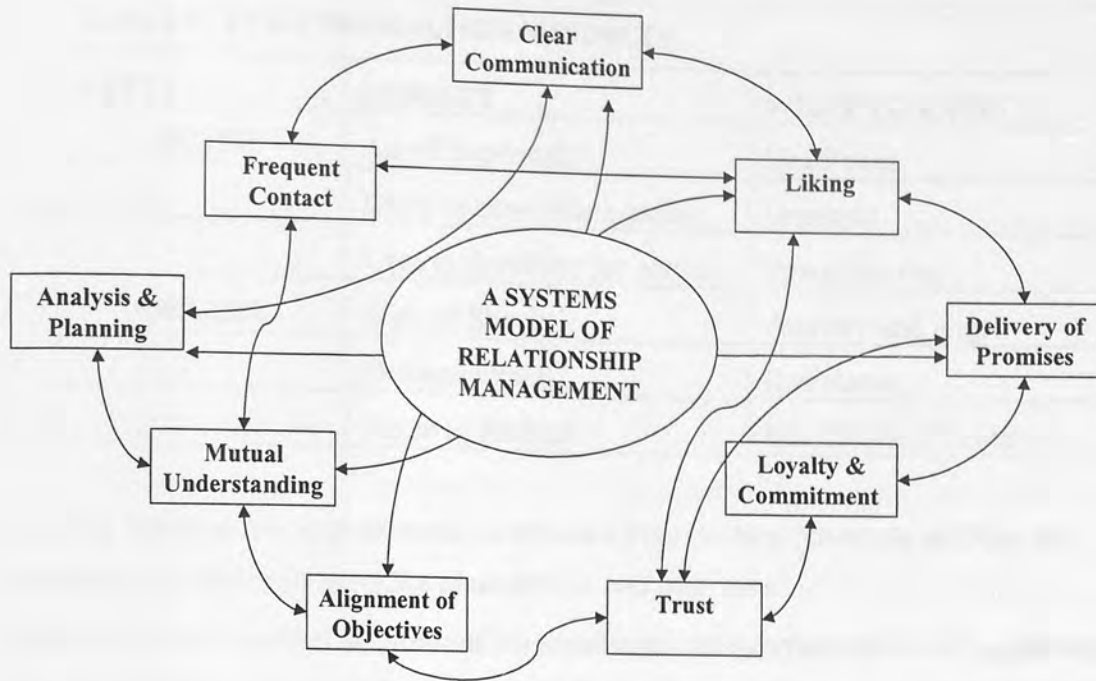


Figure 12 – A Systems Model of Relationship Management

In the context of international relationships some writers place the emphasis on Analysis and Planning (Marks and Mirvis 2001). They contend that three out of four mergers and acquisitions fail to achieve their financial and strategic objectives and they explain that this is due in large part to the inadequacy of pre-combination preparations.

They highlight the need to define explicitly the end state of the planned acquisition and stress the risks where there is no clear end configuration defined and where visions are not aligned up front. They reinforce the point stating *“Executives who hope to combine their companies are well advised to consider and share their hopes, expectations and biases for how the post-combination organisation will be structured”*.

A fundamental cornerstone of their argument is that psychological mindsets can dominate the critical months of transition planning and implementation and they provide a table (2.5) of typical mindsets for buyers (the acquiring company) and for sellers (the company being acquired):

Table 2.5 – PRE-COMBINATION MINDSETS		
PARTY	MINDSET	WHAT TO EXPECT
BUYER	Air of Superiority	Headiness
	Drive to consolidate gains	Urgency
	Urge to dominate the action	Power moves
SELLER	State of Shock	Anxiety and anger
	Defence retreat	Resistance
	Sense of fatalism	Hostility and defeatism

Likening the takeover to a romantic attachment they declare *“carefully defining the end state of a deal can bring the pleasantries and promises”*.

Other writers by contrast accentuate the importance of communication to relationship development (Duncan and Moriarty 1998). They assert that *“communication is the human activity that links people together and creates relationships”* and offer a communications-based model for managing relationships. In this model the key elements are:

- The product of the communications process is information. Information is the tie that binds the relationship, facilitating decision-making by reducing uncertainty and helping the process of organisational and inter-organisational integration. This integrative view of information corresponds closely to the concept of an “information linkage system” (Menon and Varadarajan 1992).
- Relationships are not built on the foundation of formalised, one-way communication. Impersonal communications must be supplemented by personal customised communication and this must be interactive. They insist that communication has to be a two-way process in which feedback plays a central role.
- This exchange concept is not passive. Interactivity is only possible if there are channels for communication and feedback to turn one-way communication into two-way. Their communications model emphasises the need for an integration perspective in which communications are managed so as to be coherent and harmonious.
- Finally, the model stresses the diversity of forms a message can take accentuating the importance of signs and signals (subtle indirect references that influence actions or interpretations).

Although the communications model addresses the subject of channels and underlines the need for interpersonal contact, it doesn't explicitly address the question of whether such contact has to be face-to-face or whether it could be by telephone. Sociolinguists (Gudykunst and Ting-Toomey 1988) however, are very clear on this issue. Telephone, and by extension videoconference, contact is a poor substitute for face-to-face meetings, shifting the nature of the interaction from interpersonal to formalised.

Regarding the need for frequent interpersonal contact, there seems to be some inconsistency in the literature. In the field of marketing, some writers stress the need to minimise time involved in contact so as to respect the value of the relationship partner's time (Stone and Woodcock 1995). However, later research in an international context (Birkinshaw 2001) demonstrated that time spent building the relationship is effective in developing multinational customers. Birkinshaw's research examined the impact of both the frequency of contact and the scope of contact (i.e. the number of organisational levels at which there is interaction) and both were seen to be positively correlated with three measures of relationship success:

- The efficiency and effectiveness of the relationship.
- The level of partnership enjoyed through the relationship.
- The satisfaction of overall relationship goals.

These findings underpin earlier trust-focused research (McAllister 1995) that found that frequency of interaction was also positively correlated with the level of trust in the relationship. The overall conclusion, therefore, is that the frequency and scope of contacts, whilst not substituting for other, more tangible, components of the relationship, will, nevertheless, have a bearing on the achievement of a successful collaboration.

Likeability too is considered a key component of relationship building and refers to the subjective assessment of one party concerning the friendliness, co-operation and pleasantness of the other party. Psychological research (Rotter 1980) contends that there is a strong correlation between a person's likeability and the extent to which that person is trusted. This has been tested in buyer-seller relationships (Swan and Nolan 1985) and (Hawes, Mast et al. 1989) and this research supports the view that buyers are more confident about sales persons that they like, and that consequentially they attributed positive trust-earning motives to their words and deeds. Although there has been no corresponding international research, there is no reason to expect that likeability would be any less important in those relationships.

Likeability has also been linked to two other relationship components (Johnson and Johnson 1972). They assert "A person who consistently delivers his promises will avoid conflict and by extension will be endowed with qualities of likeability". And "A relationship partner who adapts his product, service or strategy towards the needs of his relationship partner will be deemed to have grown in similarity and this will be reflected in increased likeability".

Commitment to the relationship is also considered a significant factor in its success. In this context "commitment" has been subdivided: (Meyer and Allen 1991)

- Continuance-type commitment is a passive sense of comfort deriving from extended interaction
- Affective-type commitment is a more active style of commitment resulting from emotional attachment and identification with the relationship goals.

Both types are carried through into business literature with some researchers emphasising relationship continuity (Heide and John 1990), while others put the accent on active commitment development (Achrol 1991). There is, however, consensus that commitment growth demands both a broadening and deepening of the relationship. It broadens through the creation of extended joint value created, and it deepens through the building of personal relationships and the intensification of psychological contracts. This growth is crucial for the longevity of the relationship because as commitment strengthens, the attractiveness of alternative options diminishes creating the impression of loyalty.

Commitment is clearly a consequence of earlier successful collaborations. However, it has been demonstrated that the same antecedent also has a positive effect on relationship trust (Gulati 1995). This poses the question whether there is in reality a meaningful distinction between commitment and trust.

One final factor is that of adaptation. In order to align two businesses with different backgrounds, policies and cultures, there must be adaptation by one or both of the parties (Hallen, Johanson et al. 1991). This adaptive process is governed by two theoretical foundations: Social Exchange Theory and the Resource Dependence Model. In Social Exchange Theory (Blau 1964), (Emerson 1962) two mechanisms can be used to explain adaptations: Trust and Power. Parties can demonstrate their trustworthiness by committing to the relationship and one important way they can show commitment is by adapting towards the needs of the other. Equally adaptive behaviour will also be strongly influenced by the power balance in the relationship with the weaker party adapting to the expectations of the stronger.

Later work (Pfeffer and Salancik 1978) evolved this concept into a Resource Dependence Model which posits that firms in a business relationship will adapt to one another to the degree that they are dependent on each other's resources. An empirical study to examine these theoretical propositions (Hallen, Johanson et al. 1991) concluded that unilateral adaptations are more reflective of power imbalance and that reciprocal adaptation is more typical of social exchange based on trust development.

From the foregoing, we've seen that relationship development is aided by trust, regular contact, likeability, adaptability and forward planning, and can be hampered by conflict, ineffective communications and abuse of power. However, over and above a sense of comfort, does the quality of a relationship really matter? Researchers now believe that it does, because of an emergent property of effective relationships termed social capital, and this is the theme for the concluding subsection.

Social Capital

The concept of social capital, was evolved in the field of sociology (Jacobs 1965) and referred to the added value generated by strong family and community relationships and the consequential benefits for cooperation and collective action. Since then the term has been generalised and applied in many other fields including:

- The performance of businesses (Baker 1990)
- The competitiveness of geographic regions (Putnam 1993; Putnam 1995)
- And the economic success of countries (Fukuyama 1995)

Predictably each of these disparate research fields has emerged with a different definition of the term social capital. Some, including Baker (1990), have placed the emphasis on the composition and structure of the relationship. Others, like Putnam (1995), have instead emphasised the emergent properties of the relationship in terms of the enhanced potential it offers such as access to resources, influence and knowledge. A recent, and business-focused paper (Nahapiet and Ghoshal 1998) defines social capital as *"the sum of the actual and potential resources embedded within, available through and derived from the network of relationships possessed by an individual or social unit"*. If that social unit is a parent multinational and the relationship referred to is with a subsidiary company then the three dimensions of social capital embraced within the definition distil down to:

- The actual and potential resources (skills, knowledge, finances, technology etc) possessed within the two operating units.

- The additional potential resources that can be tapped through the networks of the two operating units.
- The added value resources that can only be accessed by the two operating units acting in harmony.

The specific thrust of the Nahapiet and Ghoshal paper is that in companies competitive advantage accrues from the particular capabilities of the organisation for creating and sharing knowledge. This proposition has obvious parallels with the view of the MNC as an inter-organisational network (Ghoshal and Bartlett 1988), the competitiveness of which is based on successful sharing and transfer of resources (Hedlund 1986), (Bartlett and Ghoshal 1986) and (Zander and Kogut 1995).

Nahapiet and Ghoshal advance a model linking social capital with intellectual capital (knowledge transfer and creation). In this model, social capital is subdivided into three:

- Structural: Essentially the impersonal components of the network relationship.
- Relational: The interpersonal aspects of the relationships
- Cognitive: Those components aiding shared understanding e.g. language, culture and experience.

And the ability of the relationship to transfer or generate intellectual capital is seen to be governed by four factors:

- Opportunities must exist to facilitate the exchanging or combining of knowledge. In the context of parent / subsidiary relationships this would imply frequent contact, personnel exchanges and international project teams.
- The parties involved in the relationship must believe that the interaction and exchange will be worthwhile and that it will generate benefits even though the exact nature of those benefits may be unknown.
- Additionally the parties must be motivated to participate. Notwithstanding the awareness of ultimate benefit to the organisation, the separate parties must feel that they individually will benefit from committing to the interaction.
- There must be an adequate level of combination capability. The communications ability and absorptive capacity of the two parties must be sufficient to facilitate the exchange of knowledge and to stimulate the creation of new social capital.

The complexities of the model (Nahapiet and Ghoshal 1998) are too numerous to explore in this review but it is important for this thesis to reflect on the three elements of their theory that relate to language:

- Language is crucial to the opportunity factor as it is the vehicle of communication. It is the means by which people discuss, and exchange information, ask questions and conduct business. To the extent that people share a common language, this facilitates their ability to gain access to people and their information. To the extent that their language is different, this keeps people apart and restricts their access.
- Language is equally crucial to the perceived value of the exchange and the consequential motivation of the parties. As has been demonstrated in section 2.3 language difference would filter meaning, increase uncertainty and undermine trust. A shared language, therefore, may be a pre-requisite for ensuring a shared belief in the value and benefits of the relationship.
- And language is absolutely fundamental to the combination capability of the two parties. Without very high and industry-specific levels of fluency in a shared language the parties would have neither the communications proficiency nor the absorptive capacity to share or create social capital.

This emphasis on the importance of language has been strongly supported by recent empirical research (Barner-Rasmussen 2003). His analysis of Finnish and Chinese subsidiaries of multinational companies gave strong support for two hypotheses related to social capital in parent / subsidiary relationships:

- The greater the inter-unit language fluency, the higher will be the degree of shared vision.
- The greater the inter-unit language fluency, the higher will be the degree of perceived trustworthiness.

These two themes will be explored further in the case studies (Chapter 5).

Section Conclusions

In this section the focus has switched from the language barrier and its impact on inter-group relationships to the relationship itself. Key influences on the relationship such as trust, conflict and the exercise of power have been explored and a model of relationship management has been introduced. This has led on to a review of the social capital benefits and the discussion of a model linking social and intellectual capital (Nahapiet and Ghoshal 1998).

This model with its emphasis on the importance of a shared language to the relationship does much to underpin the propositions at the heart of this research thesis. However, a major point of departure emerges in their conclusions where the authors state "*wherever institutions operate in contexts characterised by enduring relationships, with relatively high levels of interdependence, interaction and closure, we would expect to see these institutions emerge with relatively dense configurations of social capital*". Implicit in this statement is the assumption that over time the barriers to the creation of social capital such as mistrust, conflicting interests and language difference will be overcome.

It is, of course, the foundation of this thesis that this assumption is false.

2.5. Decision Making

The review to date has been firmly focused on the communications cycle of the twin vicious circle model. The extant literature has demonstrated in the context of a business relationship such as that between a parent company and its subsidiary:

- How the language barrier can impair communications
- How imperfect communications and related language barrier elements can lead to suspicion, mistrust and conflict
- How these consequences can damage the relationship resulting in a loss of benefit to both sides.

However, before these processes can impact on the operational side of the model someone needs to do something: To modify a strategy, to change an organisation structure or to impose a new control, for example. The first step in initiating such changes is to decide what needs to be done and decision-making is the subject of this section. However, as a precursor to that, the review will examine the literature related to cognition, which according to many writers is the foundation on which decisions are built.

Cognition & Dissonance

Cognition has been the subject of numerous definitions, one of the simpler being that used by Festinger (1962) "*any knowledge, opinion or belief, about the environment, about oneself or about one's behaviour*". The repository for these elements of cognition (knowledge, opinions and beliefs) has been termed a schema, and these too have been variously described by different researchers e.g:

- Group Encoding: a cognitive frame which influences and filters later decision making. (Corner, Kinicki et al. 1994)

- Predisposition: A group cognition that acts as a predictor of behaviour. (Azjen and Fishbein 1980)
- Shared perspectives (Marcu and Zajonc 1985), which control inferences. (Fiske and Taylor 1991).
- Culture. (Louis and Sutton 1984).

According to the axioms of Festinger's Theory, when one's schema encounters a dissonant cognitive input such as a new fact inconsistent with accumulated knowledge or a person behaving differently to past expectations, a response will be triggered. Such responses can be of four types. The most obvious option is merely to update the schema with the new cognition, but most psychological literature agrees with Festinger that schemas are highly resistant to change. The second option, and the one often adopted as a short-term salve, is to re-interpret the dissonant input so as to make it consistent with the schema. A third and more active response is to seek new inputs that will either confirm or repudiate the dissonant element, although given the discriminatory nature of cognition it is far more likely that the seeker will find inputs re-affirming the original schema and so devaluing and discounting the original dissonance. In other words *"Dissonance-reducing cognition is sought: Dissonance-increasing cognition is avoided"* (Festinger 1962). The fourth, and in organisational terms the most damaging response, is to act in such a way as to minimise the dissonance. This could mean avoiding contact with groups who present a threat of dissonance and collaborating only with those that are consonant with one's schema. This discussion of cognition is important because of the influence that cognition has on two other areas of research, Communication and Decision-making. In the context of communication, the Schema Theory postulated by Taylor and Crocker (1981) subdivided the functionality of a schema into 7 sub-functions (fig 13 below).

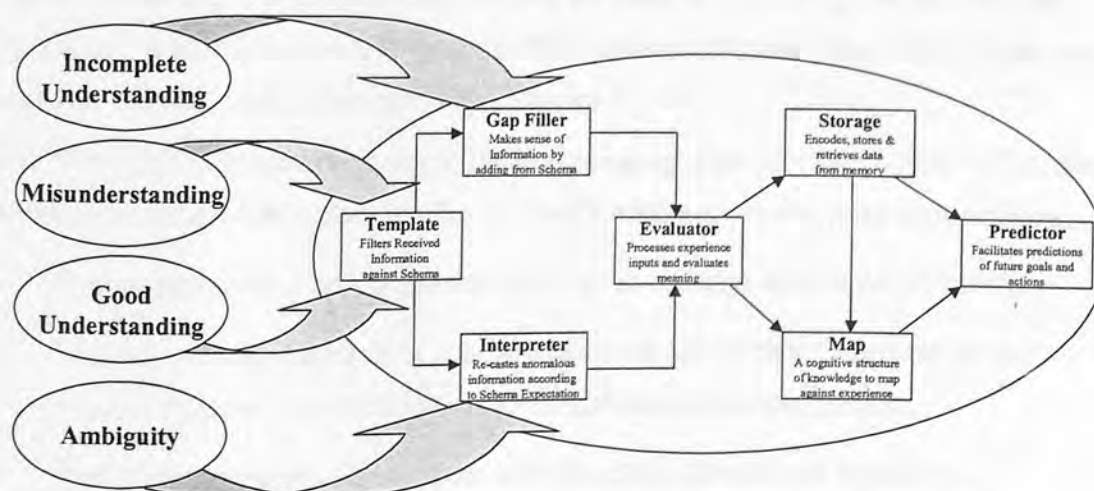


Figure 13 – The Seven Functions of the Cognitive Schema

These schema, constructed from stereotypes and previous experience, but influenced also by anxiety and uncertainty, influence greatly the communications process itself. The schema will:

- Take ambiguous, incomprehensible and incomplete information received and will re-process it so as to add meaning consistent with the prior perceptions of the schema.
- Filter out clear communications, which are deemed to be inconsistent with the schema, and recast them so as to be consonant.
- Selectively seize on those communications that seem to endorse the pre-cognition and will use these to reinforce the schema.
- Remain resistant to change even in the event of sustained input that is consistent and clear and at odds with cognitive expectations.

In short, where two parties are separated by very different schema then they will find effective communication difficult. One party will feel they have expressed themselves clearly only to find that the message has been filtered, recast and absorbed in a very different way. The only way to avoid the downstream problems of divergence and conflict is firstly to be very aware of the problem and to take exceptional means to communicate clearly. And secondly to install feedback loops to ensure that misunderstandings and misinterpretations are detected and resolved before they become a source of friction and mistrust. The topic of cognitive schema and decision-making will be returned to after a discussion of decision theory itself.

Decision Theory

In these days of operational research, simulation models, executive information systems and decision support systems, it is tempting to think that all organisational decision making is impartial, informed and focused on achieving the two rational goals of the highest expected value for the business (Schoemaker 1982) balanced against the riskiness of the outcome (Shapira 1995).

Early models of business strategic decision making such as Child (Child 1973), are indeed based on this vision. Implicit in Child's model are some bold assumptions:

- That organisations can understand and even manage their environments.
- That key strategic decisions can be evaluated and decisions arrived at in a rational manner free of considerations such as power and politics.
- That such decisions will be taken with the clear objective of improving organisational efficiency.

- That efficient feedback loops can be put in place to enable the effectiveness of the decisions to be evaluated.

Few writers these days would agree with these assumptions or with Child's ideal-world model. As will be shown later in this section, some would accept that this model might apply to relatively trivial business decisions but for the big strategic decisions the rational approach is regarded with scepticism:

- Lundberg (1961) observes "*Investment calculations are made for small, marginal investments but not for large, strategic ones*".
- Brusson (2002) observes "*It can be argued that the apparent irrationalities are largest in major decisions*"

The reason for this injection of irrationality into what appears to be a wholly logical process is essentially twofold. Firstly, decisions are made by human beings with all of the limitations and biases that they introduce (Mintzberg 1973), (Stewart 1983), and secondly, the environment of all but the simplest decisions is too complex to manage in a purely rational way. This has caused some experts to even question the value of studying decision making as an academic topic, arguing that it gets in the way of understanding organisational processes. (Mintzberg and Walters 1990), while others (Greenley 1991) question whether strategic decision-making truly aids business efficiency.

However, for this thesis the topic of the environment, decision theory models and the role of cognition remain very pertinent and will be developed below. The first issue to be addressed is the context within which business decisions are taken.

Shapira (2002) identified 5 factors that distinguish organisational decision-making from other types of decision process:

- **Ambiguity:** Ambiguity is pervasive in all aspects of organisational decisions: not only information about the environment, the options and the probable outcomes but also about the preferences of the players involved in the process and the consequences of previous decisions taken.
- **Longitudinal Context:** Organisational decisions are rarely, if ever, "one-offs" but are invariably part of an ongoing business development process where one decision has to be seen in the context of previous decisions and assessed as a precedent for future decisions.

- Incentives: Incentives and the corollary of punishments, play a major part in shaping decisions. Decision makers will be influenced not only by business interests but also by the desire to maximise incentives or to avoid punishments.
- Repetition: Some types of organisational decision will have recurrent themes allowing organisations to develop rules. This may add decision quality but if the rules are poorly analysed then it becomes a recipe for repeated decision errors.
- Conflict: Organisational decisions are often group undertakings with multiple players pursuing different and often mutually exclusive agendas. Conflict will ensue and decisions will often be based on power rather than rationality.

To this list Mason and Mitroff (1981) added two other contextual issues:

- Organised Complexity: Organisational decisions are so intertwined that the solution to one problem becomes the source of another.
- Implementation: In strategic decision-making many of the most important issues concern the anticipated response of the groups that will be involved in its implementation (the stakeholders). These are arguably the most difficult assumptions to get right.

Given this highly challenging context there has been a persistent demand to understand how organisational decisions are actually taken and this has led to the formulation of numerous models (Salaman 2002) These models are summarised in diamond grid shown in fig 14 (below)

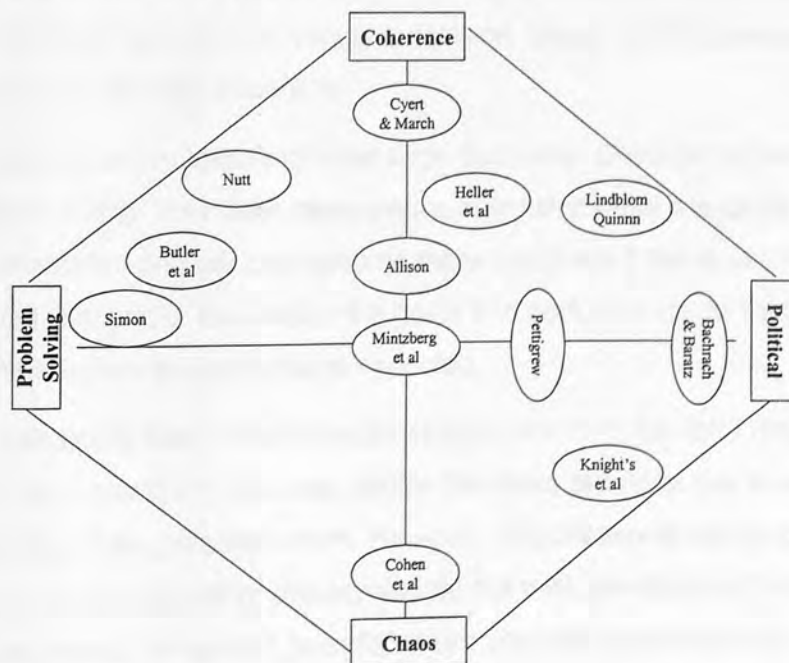


Figure 14 – The Dimensions of Decision Theory

Only the four models at the extremities of the diamond will be described:

- The Cyert and March (1963) model is based on the concept of "Intended Rationality". The decision makers are driven by the desire to make rational decisions but are constrained by imperfect knowledge, environmental complexity and cognitive limitations.
- The Cohen et al model (1972) by contrast is based on chaotic decision making. Using the garbage bin analogy they stress that problems, issues, decisions, ideas and solutions all get mixed up and emerge at random. If the system is working well then the right solution gets matched with the right decision maker and a problem is solved. But this will not always be the case.
- The Simon model (1960) approaches the classical economic tradition, with a fixed focus on arriving at the optimum (satisficing) solution to a problem. The optimum may well have to balance many more factors than the simple risk return view of the economists but nevertheless, decision-making is seen as a pure process unsullied by political influences.
- The Bachrach and Baratz model (1970) eschews all consideration of problem solving and sees all organisational decision making as a political process wherein the group that controls the decision agenda controls the direction of the business. This is a distinct step further than the Pettigrew model along the same axis which stresses the exercise of power, but as a means of resolving problems.

These models provide clear pictures of the decision process but fail to highlight the influence of different factors in arriving at a decision. March (2002) provides an insight into some of the key influences:

- **Uncertainty:** Is a key feature of most large decisions. Decision makers respond in two ways. Firstly, they seek reassurance in solutions that are close to those already attempted and will only become more ambitious if these solutions patently fail. Secondly, they adjust the goals and performance so that, to a large extent, the solution delivers what is expected.
- **Risk:** Is classically seen as an acceptable component of the risk / return equation. As in gambling, you may double the stake provided this is accompanied by a doubling of the potential return. However, organisational decision makers do not conform to the gambling analogy and do not evaluate risks as if it were a factor to be traded off against potential return. Instead organisational decision makers typically seek to avoid or minimise risk regardless of the consequential impact on returns.

- **Adversity:** Organisational decision makers are acutely aware that they are subject to incentives and punishments. If a player in the decision process is confident that their performance has been well above standard, their response is likely to be lower risk aversion. Under normal circumstances their view of risk is as above, but when a player feels that they are perceived as underperforming then their reaction will be one of rigidity and inertia. Previous mistakes will be repeated and risks will be avoided at all costs, even where it is patently advantageous to the company to accept a degree of risk in the hope of gaining a return.
- **Power:** Is a key factor in decision-making, but power in this sense does not simply mean assigned authority from status. Power can come from a perceived highly developed competence, which gives the recognition of who really is in charge. *"It's immaterial who owns the gun and who has the licence to use it: What counts is who has their finger on the trigger"*. Power can come from allocation of scarce resources. It can come from unique knowledge, or the control of information flow and it can come from the ability to persuade.
- **Sense making:** The ultimate goal of decision makers is to arrive at decisions they can make sense of and presumably can justify to others. To do this they strive to constrain information into patterns and rules they can understand, even if this means excluding critical data that doesn't fit the pattern. Junior management are allowed the luxury of admitting that there are things they don't understand. Senior decision makers prefer to avoid that exposure.

Linking all of the above together, a recent study of how decisions are actually taken in the ceramics industry (Weston 2001), found evidence of all of the above decision making styles and recognised all of the influences at work. However, the dominant decision style that emerged was that of "nemawashi", in which issues are evolved informally, subtly and progressively to ensure consensus, before they are ever tabled as formal decisions. Gut-feel plays an important part in the nemawashi process with consensus and "cabinet responsibility" being used to play down the sense of uncertainty and risk. By the same token it reduces the potential for the exercise of power other than by the subtlest of means.

Decision making and Cognisance

The two previous subsections have introduced the concepts separately. Schwenk (1988) brings the two together, focusing on the role of cognitive schema as inputs to decisions: Schwenk's model is shown fig 15 below:

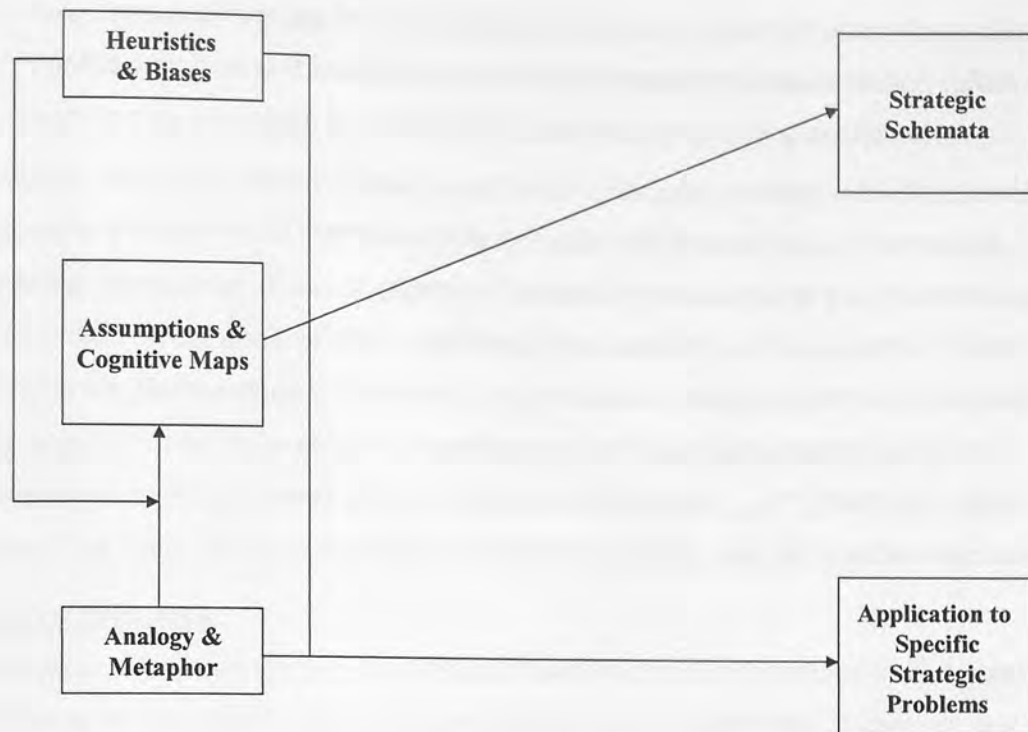


Figure 15 – The Interaction of Cognisance and Decision Making

According to the model, decisions are affected by a number of cognitive processes, which combine to not only influence specific decisions but also to re-design the mindset for future strategic issues :

- **Heuristics and Biases:** Aid decision makers in the processing of information. Heuristics are rules of thumb developed to simplify complex information. They are typically based upon specific remembrances of past events, and if one particular decision has met with outstanding success it may be used as the basis for future judgements, disregarding other similar decisions that did not meet with the same success (and which had been, therefore, consigned to the cognitive wasteland). Biases instead are tendencies that recurrently affect all decisions taken by the player(s) concerned and that avoid the cognitive schema being overwhelmed with too much diversity. Typical of these is the illusion of control. Those displaying this bias will repeatedly overestimate their ability to influence outcomes and will inevitably predict a higher return than objective factors merit.
- **Analogy and Metaphor:** Are clarifying tools that aid in the management of complexity. A CEO struggling to comprehend all the dimensions of process standardisation may resort to the analogy of a McDonalds outlet, even though it is an imperfect comparison with his much more complex business.
- **Assumptions and Cognitive Maps:** Are used to deal with areas of uncertainty within the strategic decision process, and in particular with the human elements.

These assumptions are the mechanism for blending the information flow (often simplified by bias and heuristics) and the environmental understanding (often simplified by analogies and metaphors) and emerging with a decision.

However, the relationship between cognition and decision-making is bi-directional. Decisions that are taken that do not fully coincide with the cognitive schema will generate dissonance. This will reflect in the need for reassurance that the decision was in fact correct and this in turn will demand an updating of the schema. "*Once dissonance exists following a decision, the pressure to reduce it will manifest itself in attempts to increase the relative attractiveness of the chosen alternative and to decrease the attractiveness of the un-chosen alternatives.....*" (Festinger 1962) And so the cycle between cognition and decision-making rolls on another revolution.

Section Conclusions

This section has been largely theoretical. There has been no specific discussion of the focus of this thesis "Language and Multinational Subsidiaries". However, the following points are unlikely to have escaped the reader:

- In a newly created, parent-subsidary relationship with two companies coming together from different national and company cultures, there will inevitably be a separation of cognitive schema. The key to convergence is clear, sustained communication, but in a situation where language is a barrier, this will be severely problematic.
- Decisions taken by the parent company will be impaired by reliance on assumptions, heuristics and biases that are unlikely to match well the host country situation, and by inadequate knowledge due in part to the language barrier and in part to the filtering of the parent company schema. The decisions are likely to be cautious, badly formulated and for sure will be misinterpreted by the host country managers who will be viewing them through their own schema.
- The host country managers with little authority but considerable power due to their superior knowledge, information flow and local communication will employ tactics such as delay, distortion or even sabotage to arrive at what they regard as a more appropriate decision.
- Viewing but not understanding the local response, the parent management will update their schema with new information: "The decisions are right but we can't trust the local management to implement them". Future decisions must be more decisive and future implementations must be more strictly controlled.

These points and others will emerge in the Case Studies in Chapter 5.

2.6 Language Management Strategies

Introduction

This section begins the literature review of the operational cycle of the model. The next four sections will review the literature concerning several aspects of multinational strategy. This section is specifically focused on the prior research related to how multinational companies manage language. However, it would be imprudent to launch into such a review without painting an overview of the multinational context and how it is evolving, and the next two sections address the issues of globalisation and diversity.

The Globalisation Context

Globalisation has been a recurrent theme in business research literature over the past three decades. An analysis of articles published in the *Journal of International Business Studies* (Inkpen and Beamish 1994) shows clearly that within this broad umbrella, the principal growth areas of interest have been

- The theory of FDI and Multinational Enterprises (a fivefold increase in 20 years)
- Cross-cultural management (a fourfold increase in 20 years)
- International Human Resource management (a fivefold increase in 20 years)
- HQ-subsidiary Relations (a fivefold increase in 20 years)

To understand why these issues in particular have seen so much interest, it is necessary to paint a picture of the global business context.

In the 20 years from 1977 onwards, trade in goods and services increased more than 30 times, greatly outstripping the much more modest growth in world production (United.Nations 1997). By 1997, international trade had reached a staggering US\$ 6.3 trillion.

The world's multinationals have responded to this trend in like measure. In the same 20 year period foreign direct investment has grown from US\$211 billion to more than US\$3.2 trillion. As a consequence the majority of the top 100 economies of the world are no longer countries, but are Multinationals Corporations and the largest of them now dwarf the majority of the host nations in which they operate (Czinkota, Ronkainen et al. 2000) Despite some evidence that the trend has slowed temporarily (Economist 2001) the long term perception is that the appetite of multinationals for global expansion will continue unabated well into the 21st century (Czinkota and Ronkainen 1997).

Impressive though they are, these bald statistics fail to convey three important issues.

- As industries rationalise, the Multinationals are sustaining themselves by absorbing other Multinationals. Within the automotive industry, the subject of this research, it is easy to cite examples such as Daimler and Chrysler, Renault and Nissan, G.M. and Fiat and the ill-fated BMW acquisition of Rover. In short the Multinationals are getting bigger.
- The number of genuine Multinational companies is increasing rapidly. By the early 1990's the number of MNE's had grown to almost 40,000 supporting a network of over a quarter of a million subsidiaries (John, Letto-Gillies et al. 1997). Of these close to 1,000 will by now have surpassed the landmark of US\$ 1bn a year.
- The growth has been accompanied by a widening of the MNE's sphere of activity. United Nations data suggests that more than three out of five multinational subsidiaries are now being established in developing countries in Asia, South America, Africa and Eastern Europe (United Nations). Given this burgeoning of the subject area it is inevitable that international business researchers would turn their attention to the increasingly problematic field of managing diversity.

The Management of Diversity

There can be no doubt that diversity is increasing exponentially. John (1997) analysed the expansion of UK-based MNE's. In 1950 only a handful of these had wide-scale overseas operations (defined as activities in more than 20 countries) while 80% plus had narrow international bases (defined as activities in less than 6 countries). By 1990 this profile had been inverted to the extent that almost 75% of British MNE's were then classified as wide, whilst the number of MNE's with only a narrow network of subsidiaries had shrunk to less than 5%. Similar evidence from Vernon (1979) suggested that American and European Multinationals were experiencing the same trend of ever widening foreign portfolios.

However, whilst there is unanimity concerning the fact of increasing diversity, there is a complete absence of consensus regarding the effect. Early researchers likening internationalisation to product diversification, used the same resource-based models to hypothesise that geographical spread would be advantageous to a multinational company. Grant (1987) and Kim (1993), for example, predict that multinationalism should confer a range of advantages including economies of scope and scale, spread of risk, enhanced market power, less-expensive inputs and less price-

sensitive markets. However, whilst these are all logical arguments, they fail to consider the costs of managing diversity. So where does the equilibrium lie?

Early empirical researchers failed totally to resolve the discussion. Sullivan's seminal work (1994) on measuring multinationalism shows that empirical researchers examining the relationship between financial performance and degree of internationality, are evenly split into three camps; those reporting a positive relationship, those reporting a negative one, and those whose findings were indeterminate. Sullivan blamed the incongruent empirical findings on the "medley" of single-factor constructs used to measure the degree of internationality. All used a simple ratio comparison of "foreign to home" but some researchers had calculated on the basis of sales, others profit, a third group assets and yet a fourth employees. What is clear is that none of these oversimplified measures provide a meaningful insight into the degree of internationality.

In order to provide a credible measure, Sullivan (1994) offered up a 9-factor construct definition of internationalisation embracing in a single scale the conflicting ideas that had been used previously, and adding in a couple of basic attitudinal measures which were intended to estimate Psychic Distance. However, Sullivan's ideas were still hot off the press when Ramaswamy et al (1996) refuted this approach, and criticised in particular the inclusion of attitudinal factors alongside purely financial ones.

A further defect of Sullivan's model was that it failed to embrace the difference between related and unrelated diversification (Vachani 1991). Building on the product diversification analogy, Vachani emphasised that a clear distinction had to be drawn between related geographic diversification, extensions into markets that are geographically, culturally and economically close to the parent, and unrelated geographic diversification into countries that are distant on these scales. He advanced, but did not test, the belief that focused geographical diversification into related countries would achieve a greater profit performance than diffused diversification into unrelated markets. This hypothesis supports the intuitive assessment that internationality is inherently advantageous but that as diversity in all its forms, economic, legal, political and cultural, increases, companies will reach a break-even point after which the costs of managing diversity outweigh the advantages.

Notably none of the various business measures of international spread have ever included a language component, even though it is self-apparent that at a practical level there are few types of diversity that present a greater threat to multinational

management. Indeed language was once described as the "*Ultimate Non-tariff barrier to Commerce*" (Anonymous 1990).

Language Management Strategies – An Overview

Language management is by no means the most important of the strategies confronting multinational companies, but that is not to say that language management is a trivial issue. Indeed one leading industrialist, Percy Barnevik, then CEO of ABB, identified communicating across the language barrier as his single most severe operational problem (Barnevik and Taylor 1991). His feelings are endorsed by a survey of Board Members of top European companies (Beneke 1981). The principal findings of the research were:

- The overwhelming majority of top managers accepted that English had emerged as an international lingua franca.
- Nevertheless, there was an equally overwhelming view that fluency in other European languages was essential to gain a competitive edge.
- Speaking and listening (the persuasive skills) were the most important of the linguistic capabilities for an international manager.
- The required skill level for management level 2nd language capability is very high, demanding both rhetorical skills (argumentation, negotiation, humour and flexibility) and technical vocabulary.
- Finally, the respondents insisted that language skill was not the exclusive province of senior managers, but that with the increasing focus on participative management, total quality and team structures, it would become increasingly important to employ language-skilled workers even on the shop floor.

Other, more recent studies have also highlighted the importance of language management in different multinational contexts:

- One study focused on the language problems prohibiting effective communication and integration of Japanese expatriates working in US subsidiaries (Wiseman and Shuter 1994).
- Another study reported language as the major source of frustration, dissatisfaction and friction between foreign (principally French) parent-company managers working in UK subsidiaries and their UK colleagues (Neal 1998).
- A third piece of research, focused on the Finnish multinational Kone, illustrated the corrosive impact of language differences of organisational harmony and cohesion. (Marschan-Piekkari, Welch et al. 1999)

- And a more expansive study of Japanese Multinationals described the two pillars of their international HRM strategy as "Management by Japanese" and "Management in the Japanese language" (Yoshihara 1999). He went on to predict that such policies would limit and ultimately curtail the success of Japanese Companies operating multi-nationally.

And yet, despite these studies highlighting the importance of language management strategies in multinational companies, there is very little literature related to the blanket issue of how languages are managed. The researchers active in the field, and there are precious few of those, prefer instead to focus on a specific aspect of language management. The best panoramic view is provided by a recent paper (Feely and Harzing 2003). In it the authors identify a range of different options for companies confronting a language barrier, for each one giving a potted summary of the relative merits and problems of the approach. The options consist of:

- English – the Lingua Franca
- Functional Multi-lingualism
- External Language Resources
- Language Training
- Corporate Languages
- Language Nodes
- Selective Recruitment
- Expatriate Managers
- Inpatriation
- Machine Translation
- Simplified Language

The remaining subsections will review each of these options separately, but before any decisions can be made about how to manage the language problem, the problem itself needs to be defined and quantified. The first subsection, therefore, deals with the topic of linguistic auditing, a methodology developed to evaluate the scale and severity of language problems.

Linguistic Auditing

The methodology of linguistic auditing was developed to enable companies to assess their level of preparedness to cope with the language barrier problems they face both currently and within the time horizon of their strategic plan (Reeves and Wright

1996). In the view of the authors a language aware company would be characterised by:

- Systematic preparation of "road maps" analysing the current and predicted communications processes and language interactions within each function and site of the company.
- Formalisation for each function of a language needs analysis specifying for individual post holders a proficiency level in each required language.
- Periodic, vocationally based, language skills testing for each post holder.
- Maintenance of an inventory of existing language skills and a measurable plan of language improvement targets.
- An integral filter within the company strategic planning cycle to identify threats and weaknesses imposed by deficiencies in company language skills.

The methodology has been criticised on three counts:

- It is a highly costly and time-consuming process.
- It focuses exclusively on the HR resource elements of language management.
- It provides quantification of the language barrier but fails to provide an insight into or measurement of, the nature of the problem.

To address the first two issues an alternative methodology has been proposed, based on self-assessment but with a wider scope (Reeves and Feely 2001). This methodology examines further operational-level characteristics which a language aware company would exhibit:

- A policy for the deployment of multilingual publications and web sites.
- Systems for budgetary management and service-level monitoring of translation and interpretation services.
- A policy covering the maintenance and synchronisation of computer systems with multilingual interfaces.
- A concerted programme for the adoption and implementation of machine translation systems.
- An HRM system in which language skills were defined components of the recruitment, training, advancement and reward strategies.

The third issue is addressed in a recent paper proposing a framework for the operationalisation of the language barrier measure (Feely and Harzing 2002).

There appears to be almost no empirical research measuring the advancement of these "language awareness" indicators, although one comparative study of Denmark and Britain (Randlesome and Myers 1998) suggests that very few large companies had implemented Linguistic Audits. At the SME level, however, an interview conducted in support of this research with the British Chamber of Commerce, confirmed that between 150 and 200 UK companies annually were undergoing linguistic audits as part of the DTI's Export Communications Review programme. However, even when an audit has clarified the problem of the language barrier, the solution is by no means clear. It will involve knitting together a combination of the following options:

Lingua Franca

The simplest answer, though realistic only for English speaking companies, is to rely on one's native tongue. This is the solution favoured by a class of companies that a recent study termed "Anglophiles" (Sidnick 2003). As recently as 1991 a survey of British exporting companies found that they used English exclusively in dealings with foreign customers (Metcalf 1991), and had internationalisation and export strategies strongly favouring English speaking markets.

This attitude that "one language fits all" has also been carried through into the Internet age. A survey of the web sites of top American companies confirmed that over half made no provision for foreign language access (Frook 2000), and another found that less than 10% of leading companies were able to respond adequately to emails other than in the company's language (WorldLingo 2001).

Widespread though it is, however, reliance on a single language is strategy that is fatally flawed. It makes no allowance for the growing trend in Linguistic Nationalism whereby buyers in Asia, South America and the Middle East in particular are asserting their right to "*work in the language of the customer*" (Hagen 1999). It also fails to recognise the increasing vitality of languages such as Spanish, Arabic and Chinese that over time are likely to challenge the dominance of English as a lingua franca (Graddol 1997). In the IT arena it ignores the rapid globalisation of the Internet where the number of English-language e-commerce transactions, emails and web sites, is rapidly diminishing as a percentage of the total. Finally, the total reliance on a single language puts the English speaker at risk in negotiations. Contracts, rules and legislation are invariably written in the local language, and a company unable to operate in that language is vulnerable.

Functional Multilingualism

Another improvised approach to Language is to rely on what has been termed "Functional Multilingualism" (Hagen 1999). This approach is typical of novice exporters and essentially means to muddle through, relying on a mix of languages, pidgins and gestures to communicate by whatever means the parties have at their disposal. In a social context such a shared effort to make one another understand might be considered an aid to the bonding process with the frustration of communication being regularly punctuated by moments of absurdity and humour. However, as the basis for business negotiations it is clearly very hit-and-miss. And yet Hagen's recent study suggests that 16% of international business transactions are conducted in a "cocktail of languages." Functional Multilingualism shares the same defects as reliance on a lingua franca and increases the probability of cognitive divergence between the parties engaged in the communication.

External Language Resources

A more rational and obvious response to the language barrier is to employ external resources such as translators and interpreters. This approach is often adopted by International Professional Services Companies in fields such as Legal, Accounting and Health where very hi-fidelity communication is essential (Hearn and Button 1994). However, such a response is by no means an end to the language barrier. For a start these services can be very expensive, with a top Simultaneous Translator commanding daily rates as high as a partner in an international consulting company. Secondly, any good translator or interpreter will insist that to be fully effective they must understand the context of the subject matter. This is not always possible. In some cases it is prohibited by the complexity / specialisation of the topic, sometimes by lack of preparation time but most often the obstacle is the reluctance of the parties to explain the wider context to an "outsider". Another problem is that unless there has been considerable pre-planning between the interpreter and his clients it is likely that there will be ambiguity and cultural overtones in the source messages the interpreter has to work with. They will, of course, endeavour to provide a quality translation but in this circumstance the interpreter has to use initiative and guess work. This clearly injects a potential source of misunderstanding into the proceedings. Finally, while a good interpreter will attempt to convey not only the meaning but also the spirit of any communication, there can be no doubt that there is a loss of rhetorical power when communications go through a third party. In situations requiring negotiation, persuasion, humour etc. an interpreter is a poor substitute for direct communication.

Language Training

There are numerous periodicals dedicated to the methodology of language training but a very practical and pertinent illustration of how business manages language training comes from Fischel (1981). He describes the process employed to manage language training within the Volkswagen Group. In many ways this process accords with the strictures of Reeves Linguistic Auditing Methodology. Potential trainees are required to justify their training needs with a "job voucher" defining their role and language interactions. A formal assessment of required proficiency level is undertaken (Volkswagen use the internationally recognised ELTDU Stages of Attainment Scale (English Language Teaching Development Unit 1976) and the post holder then undergoes a placement test to establish their current competency level.

Volkswagen's system recognises 6 stages of training necessary to progress from a complete beginner to competent language user. Each stage will demand approximately 90 hours of classroom tuition spread over a 6-month period and will be followed by a post-training achievement test. The programme is managed as a strategic investment and costs and returns are evaluated as for any other investment.

Obviously training with its accent on human resource development and job enrichment is, in social terms, a highly desirable means to manage language. However, as indicated by the Volkswagen case it is both costly and time-consuming and so other solutions will inevitably be sought.

Corporate Languages

An alternative to a customised training programme is to adopt a single corporate language. All recruitment and personnel development could then be focused upon achievement of required standards in that one chosen language. Lester (1994) identifies a number of major multinational companies who have adopted this strategy including Siemens, Electrolux and Olivetti. Marschan-Piekkari (1999) commenting on this trend, identified four major benefits of a corporate language;

- Facilitation of formal reporting.
- Ease of access and maintenance of technical literature, policy and procedure documents and though not-stated, implicitly information systems.
- Facilitation of informal communications between operating units, and implicitly, within cross-national teams.
- Fostering a sense of belonging as an element in diffusing a corporate culture.

However, in no sense is a Corporate Language solution without problems. Marschan-Piekkari highlights a number of drawbacks:

- It is a long-term strategy. Palo (1997) studying Outokumpu, a leading Finnish metals group, reported that 7 years after the designation of English as the Corporate Language, the minutes of board meetings were still taken in Finnish.
- It is sometimes effectively impossible to adopt a single language for all circumstances. Lester, for example, cites Nestle who had designated both English and French as the company's official language.
- A corporate language will often incur resistance if there is a large body of corporate personnel lacking competence in the chosen language. Marschan-Piekkari cited the case of Kone the Finnish elevator company that adopted English as its corporate language despite the fact that almost two thirds of its employees were non-native speakers of the language.
- Finally, there is the risk of a corporate language strategy being undermined by the convenience of using the local language. Marschan-Piekkari (1999) quotes a Kone top manager "*In the late 1960's [the] ambitious goal was set that personnel should be able to communicate internally in English. Still today it has not been achieved*". This slow progress, she explains, is due to weak, uncoordinated HR management in the areas of training and recruitment and a lack of clarity about how, by whom and in what circumstances, the use of the official language is to be considered mandatory.

So with both Training and Corporate language adoption to be considered long term solutions, it is necessary to examine more immediate measures.

Language Nodes

In the absence of sufficient language capability and without the time or finances to adopt a training, or corporate language, approach, companies become heavily dependent upon their scarce, linguistically skilled, personnel. These key personnel become informal "language nodes" becoming the default communications channel between headquarters and its network of subsidiaries.

This approach to language management was studied in Kone (Marschan-Piekkari, Welch et al. 1997) and a number of potential problems were identified:

- It placed an onerous burden on those acting as language nodes impairing their ability to perform their organisational duties.

- It introduced an increased risk of miscommunication, as the language node personnel might be inexperienced in the field of work that is the subject of the communication.
- The individuals working as language nodes are invested with the power to act as communication gatekeepers. This inevitably brings with it the risk that this power will be used in counter-productive ways filtering, distorting or even blocking transmission, thereby impeding rather than facilitating the flow of information from the parent company.

Although not identified by Marschan-Piekkari, a further defect of the Language Node solution must surely be the extent to which these parallel information networks undermine the formal chain of reporting. The informal communications paths will inevitably weaken the positions of the senior managers who are being bypassed and will create a source of potential conflict.

In concluding her research, Marschan-Piekkari emphasised that short-term tactical solutions based on language nodes would not suffice and that Multinational Companies would have to place a more strategic value on language.

Selective Recruitment

As noted on the basis of Nestlé's experience, *"the easiest and cheapest way to approach the language problem is to hire people already possessing the required skills"* (Lester 1994 p43). However, this is clearly not a painless solution implying, as it does, the redeployment and perhaps redundancy of existing post-holders lacking those skills. Moreover, there is considerable evidence to show that the right level and mix of language skill is not always available in the marketplace.

So the recruitment approach to bridging the language barrier must be used very selectively. In her work with Kone, Marschan-Piekkari (1999) identifies three areas where selective recruitment of language-skilled personnel might be advantageous:

- To fill critical areas of language exposure
- To create a language node (see above)
- To develop as expatriate managers.

Expatriate Managers

One immediate solution to any multinational company facing a language barrier with its subsidiaries is to assign expatriates to work within each subsidiary and to act as the "language node" linking back to corporate headquarters. Every major global company employs expatriates but there is considerable evidence to suggest that

companies with parent operations domiciled in countries with minority languages will rely more heavily on them.

Indeed, Yoshihara (1999) identifies two key components of the Japanese "International Management Style"

- Management by Japanese and
- Management in the Japanese language

The results of his survey of leading Japanese multinationals indicates that the vast majority of their subsidiaries (78%) are managed by Japanese Executives and that more than half employ Japanese expatriates at departmental manager level. One clear explanation for this is the necessity of Japanese headquarters to continue working in the Japanese language. Yoshihara's analysis of telephone and fax traffic between the Japanese headquarters and their US subsidiaries demonstrated that 88% of all telephone calls were either partly or wholly conducted in the Japanese language. A similar pattern emerges for fax exchanges where only 17% of transmissions were drafted in English.

Clearly, in Yoshihara's example the use of expatriates has eased the problem of the language barrier between the parent and subsidiary but in no sense is this a satisfactory solution. Yoshihara highlights some serious defects of this approach.

- It is an inherently costly solution. According to one estimate (Boyacigiller 1990) a typical expatriate package even in the early 1990's could cost around US\$ 1m for a three-year assignment, way in excess of similar costs for a host country manager of similar qualifications and experience.
- It doesn't eliminate the language barrier; it merely shifts it down a level. Linguistically the expatriate managers have to develop a twin personality. In Yoshihara's survey, while 80% plus of headquarter contact is conducted in Japanese, 99% of local management is conducted in the local language. It may be worse still if local operations are managed in the parent language. In their study of the implementation of Mariachi Circles in Mexican subsidiaries of American Multinationals, Sargent and Matthews (1998) reported that language problems between Spanish-speaking workers and English-speaking expatriate managers were the principal barrier to team working.
- Finally but most importantly, this approach limits local managers to supporting roles in the company development, impeding knowledge transfer, blocking career opportunities and undermining the potential benefits from cultural diversity. In the words of Bartlett and Ghoshal (1986), companies like the Japanese

multinationals relying heavily on expatriation, will be unable to "*tap their subsidiaries for global reach*".

These defects, allied to the earlier problems discussed under Language Nodes suggest that expatriation is at best an interim solution capable of bridging the language gap only until a more complete solution is developed.

Machine Translation

All of the potential solutions to the language barrier discussed previously rely upon human means. However, computing does hold out the possibility of an alternative: Machine Translation and its sister technology Machine Interpretation.

Machine Translation has been around for over 4 decades. Machine Interpretation is more recent but is essentially a machine translation kernel with a speech-recognition front-end (in the source language) and a post-translation, speech generation module (in the target language). All of these technologies are quite mature and extensively used. Speech generation has been employed industrially for over 30 years and now underpins many consumer systems ranging from delivery status (MFI) to Directory Enquiries (BT). Speech recognition, though less diffuse, is advancing rapidly and according to BT (2001) will emerge within the next 5 years as the principal method of user interaction with computers. And Machine Translation is sufficiently mature as a technology that according to one writer (Haynes 1998) it is used annually to translate more than 30 billion pages of text. So is this the definitive answer to language management?

Reviewers of Machine Translation are fairly unanimous in recognising an advantage in efficiency. "*for a 2,000 word text a translator would require a day – machine translation only 10 minutes*" (Haynes 1998), "*automated translation systems can translate for 0.06 cents per word, compared to 0.25 cents per word by conventional means*" (Frievalds 1998). However, there is less of a consensus about the quality of translation possible. Although Haynes confidently predicted that there were no longer any real barriers to widespread adoption of machine translation, a sample test (Balkin 1999) generated largely nonsensical translations of admittedly difficult source material.

The bulk of opinion rests between these two extremes as indicated by this quote "*Some of the better MT systems produce text that is 90% accurate*" (Frievalds 1998) but the stance of industry and commerce remains cautious. An industry survey of leading hi-tech companies (Hearn and Button 1994) suggests that business is uncertain as to the feasibility of MT, a point underlined by some quotes taken from the survey:

- Shell international *"due to the very wide range of subject fields covered, no use is made of machine translation or machine-assisted translation tools"*.
- BT *"Although electronic document processing is well established at BT, no machine assisted translation tools nor electronic terminology management systems are currently used"*.
- Rank Zerox *"experience has shown that optimisation of translation and particularly MT can only be achieved by close cooperation with technical authors on controlled English style and terminology"*.
- World Bank *"The World bank has tested and purchased two machine translation systemsbut neither is operational at this time"*.
- The European Community *"The EC employs 1,000 translators and has had an MT system for 20 years. The system is used only by a small percentage of translators and only covers 13 of the 72 language pairs [required by the EC]"*.

It is clear that at this stage of its evolution, Machine Translation depends almost wholly on context. Linguistic issues will be important. The way that the target and source languages handle sentence structure, prepositions, conditional forms and future and past tenses will all influence the quality of the translation. The material to be translated is also critical. If it contains symbolic or abstract language, if there is jargon or if it uses idiomatic phrases or proper names then these too will detract from the success of the translation.

Summarising, it would seem that a balanced view of the state of Machine Translation is that it certainly can be advantageous, but only:

- If the software system is high quality.
- If there is considerable effort pre-launch to customise the basic dictionary with company terms and jargon and the idiomatic dictionary with oft-used company phrases.
- If there is an extensive programme post-launch of debugging, to iron out the major causes of mistranslation.
- If the users have received training and extended practice in writing for translation – this means simplifying sentence structure and vocabulary and avoiding abstract concepts, conditional arguments and idiomatic phrases.

Without these prerequisites Machine Translation and, by extension, Machine Interpretation must be considered clever toys rather than valid business tools.

Controlled Language

The last approach to bridging the language barrier is that of controlled language. A controlled language imposes limits on vocabulary and syntax rules so as to make the text produced more easily comprehended by the non-native speaker/reader and equally more amenable to machine translation. Caterpillar in 1970 was the first to launch such a system with CCE (Caterpillar Controlled English) that allowed a vocabulary of only 8,000 words including product terminology (compared to over half a million words in the full English vocabulary). General Motors then followed launching their own system called CASL (Controlled Automotive Service Language). Clearly such systems have merit, after all Caterpillar's system has been successful for over 3 decades. However, as a solution to multinational communications the potential of a controlled language is clearly limited. The costs and timescale for implementation are prohibitive to all but the world's largest companies, a restricted vocabulary is advantageous only to those who share the same alphabet, and its usage is effectively limited to the written form where it is possible to filter and simplify language before transmission. More importantly still, the scope for communicating in a controlled language is clearly limited to conveying operational detail. To impose this constraint on business situations demanding persuasion, negotiation or motivation would clearly rob the participants of their powers of rhetoric.

Language Management Conclusions

At the level of national economies, the Fishman-Pool Hypothesis (Pool 1972) predicts a negative correlation between linguistic heterogeneity and strong economic performance. Over the intervening decades the theory has been tested by several linguists and economists, most recently by Nettle (Nettle 2000) and the relationship has been consistently demonstrated. Several explanations have been advanced, but the intuitive logic links language fragmentation with misunderstanding, sectarianism and conflict and that these social ills will inevitably bring about economic damage. Should this indeed be the explanation for the Fishman-Pool findings then it would be reasonable to extend the same logic to those Multinational Enterprises for whom linguistic diversity is an important issue. To avoid these consequences multinational companies will have to adopt specific strategies to manage language diversity. This section has provided an overview of the range of language management strategies open to them.

2.7 – Internationalisation Strategy

Introduction

The field of International Business has been a very rich field of research over several decades, with several of the seminal works dating back to the 1960s and 1970s (Aharoni 1966), (Vernon 1966), (Johanson and Vahlne 1977), (Chandler 1962), (Buckley and Casson 1979).

One notable feature of these early contributions and the multitude of subsequent works has been the diversity of perspective. Aharoni and Vernon focused on the decision to go international; Johanson and Vahlne examined the subsequent process of internationalisation, Chandler's contribution concerned organisation and structure and Buckley and Casson developed a theoretical framework for the options facing a multinational in how to service a foreign market. There can be little dispute. The field of International Business is not only rich but also multi-dimensional.

An attempt to frame this multi-dimensionality in a model is provided by Welch and Luostarinen (1988). Their model, reproduced in fig 16 below, demonstrates several of the dimensions important to this research thesis:



Figure 16 – The Dimensions of Internationalisation

However, whilst the model represents a useful starting point for a consideration of the impact of language, it is inadequate as the complete foundation for this literature review:

- The model commences after the initial decision to go international. No review of internationalisation theory can ignore the rich body of literature dedicated to this decision-making process.
- The model overlooks certain issues that will be key to this research, notably strategic configuration and control, and at the same time includes two issues Sales Objects and Finance that are not considered pertinent to this thesis.
- The model suggests a linearity which some authors e.g. Anderson and Gatignon, (1986) and this researcher, consider inappropriate, preferring to accentuate the interdependence between such issues as strategy, organisation and control.

To address these concerns, the literature review of internationalisation will be framed around a revised model illustrated in fig 17 below:

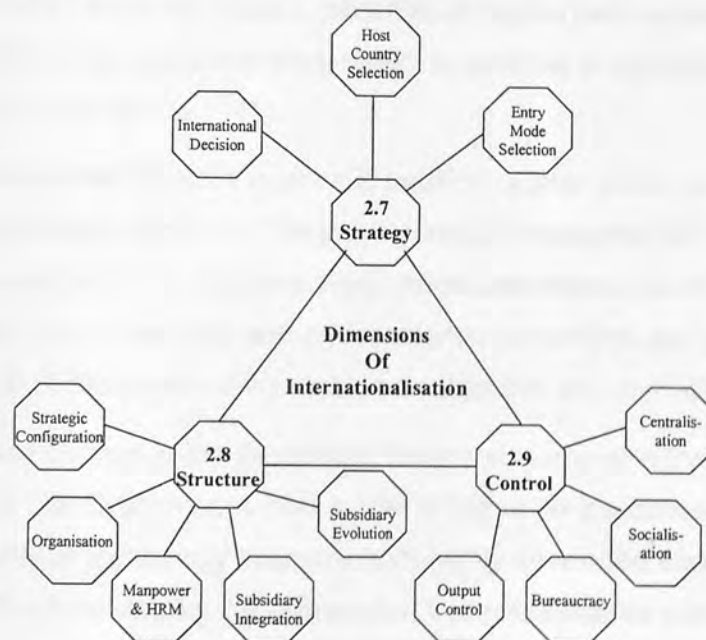


Figure 17 – An Alternative Model of Internationalisation Dimensions

As illustrated, the remainder of this section will be given over to issues of strategy: The decision to go international, the selection of markets and host countries and the selection of entry method.

Section 2.8 then proceeds to examine structural issues such as Strategic Configuration, Organisation, Personnel and Subsidiary Integration. Finally, section 2.9 reviews the literature focused on a key area of this thesis, the means by which the parent company exercises control.

Internationalisation – The Decision Process

All of the early theories on international trade originate from economics. For a comprehensive summary of these see Webster (2000). These theories begin with

Adam Smith (1766) who introduced the concept of Absolute Advantage, and over the next two centuries the thinking has been extensively refined:

- The concept was developed to include opportunity costs, and advantage between nations emerged as a comparative rather than an absolute benefit (Ricardo 1817)
- Developing the theme of factors of production, new models were developed predicting that capital per worker would be a key determinant of international trade. Countries with high levels of capital per worker would be well placed to export products that were capital intensive and to import those that by contrast were labour intensive. (Heckscher 1919) (Ohlin 1933)
- Then reflecting the dynamics of the relationships between factors of production, the model was refined to predict that for any internationally trading nation the cost of the abundant resource (labour, materials or capital) will increase relative to the scarce factor. This would ultimately reflect in patterns of international trade (Stolper and Samuelson 1941).
- Moving firmly away from the economic tradition, a later model considers the internationalisation decision a "*very complicated social process*". (Aharoni 1999 p:13). The original book (Aharoni 1966) introduces the issues of timing, risk and uncertainty, corporate goals and environmental constraints and goes on to recognise that decisions will inevitably be subjective and sometimes irrational.
- Another step-change in the theoretical framework came with the introduction of the Product Life Cycle model. This model is based on the concept of the transferability of technology stepwise from highly developed economies to lesser ones and finally to developing economies. It predicts that as a technology matures and the domestic market saturates, companies will be inclined to launch the same innovations in other economies where the market is still evolving (Vernon 1966; Vernon 1979).
- The Eclectic Theory (Dunning 1973) emphasised the important distinction between international trade and international production. A later paper (Dunning 1995) made clear that international competitiveness is in large measure due to the desire and ability of a business to capitalise on superior resources. Within this the possession of foreign production facilities is a key competitive advantage factor conferring an ability to understand, adjust to and manage market, structural and cognitive perfections of the host country environment.

- Linking the work of Ricardo and Heckscher and Olin, a composite model was developed introducing efficiency units as the principal driver of comparative advantage (Davies 1995).
- And after extensive global research Porter introduced the Diamond Model, a comprehensive six-factor predictor of the competitive advantage of nations (Porter 1990).

However, important though these contributions are, they shed little light on the actual internationalisation decisions taken by individual companies. The logic seems to be “companies go international because it is profitable to do so”, and such decisions appear to be more at the level of “do we go international or stay domestic?” rather than “do we exploit a specific overseas opportunity?”

This is at odds with the findings of latter-day researchers who suggest “*generally, the decision to go abroad is a specific one. It is a decision to look at the possibility of a specific investment in a specific country, not a general decision to look around the globe for investment opportunities*”. (Ghuri 2000 p: 131)

Building on the ideas of Aharoni (1966) Ghauri develops a model more clearly focused on the practical decision-making within a firm (see fig 18 below:)

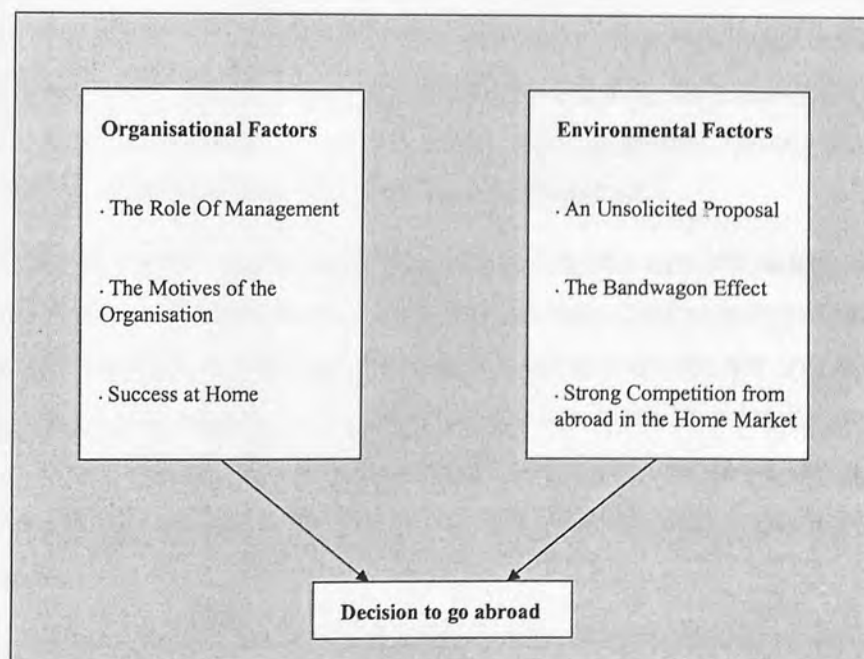


Figure 18 – Influences on Internationalisation Decisions

Ghauri identifies six principle drivers of internationalisation decisions:

- Harping back to the eclectic model Dunning (1995) he stresses the critical role of an active and committed management. Within that, prior experience or specific market knowledge are considered important springboards for making the step to go international and Ghauri emphasises the crucial input from managers who *"have lived abroad, are bilingual, are interested in foreign cultures and particularly interested in exploring business opportunities abroad"* (Ghauri 2000 p: 133)
- The second organisational factor is related to company objectives and their source of competitive advantage. Ghauri identifies three discreet motivations. "Market seeking" as a means of enhancing economies of scale in R&D, production or logistics by extending into new markets. "Efficiency seeking" using overseas resources such as specialised R&D skills, established distribution routes or skilled labour to achieve improved business performance. "Resource seeking" principally of natural resources such as oil. As an example most car companies have transferred the production of catalytic converters to South Africa to take advantage of the reserves of platinum, palladium and rhodium mined in that country.
- A successful domestic track record is also a major driver of internationalisation. Products that are in demand worldwide and which have high R&D costs can rarely sustain their competitive advantage based purely on a domestic market and so companies like Ericsson and Nokia had little option. To stay ahead in the market they had to operate internationally if not globally.
- Sometimes a market opportunity arrives by virtue of a specific, unsolicited proposal. Such proposals can be instigated by both foreign entrepreneurs and by national governments, and though it is essential to evaluate not only the proposal feasibility but the instigator's motivation, there can often be advantages. Foreign entrepreneurs can provide local knowledge and resources, are often willing to share equity risk, while governments can ease the way with subsidies and tax holidays.
- The fifth factor reflects the high competitiveness of international markets. (Schnitzer, Liebrecht et al. 1985). When one company in such a tight-run industry seeks to achieve competitive advantage through an internationalisation decision, then it is inevitably countered, in like measure, by its leading competitors. Subsequent research in markets such as International Banking (Engwall 1992) and Computer Software (Coviello and Munro 1997) has demonstrated that the

bandwagon effect is not limited to competitors. Companies internationalise in response to similar moves made by customers, alliance partners or indeed any other company or group of companies with whom they share a network relationship.

Ghuri's model summarises most of the prevalent schools of thought about why companies decide to internationalise. However, ultimately there is no escaping the fact that internationalisation is an executive decision based on imperfect knowledge, with large areas of uncertainty and with risks and potential benefits that are at best only estimated and at worst may be unquantifiable. Earlier theorists (Aharoni 1966) and (Dunning 1973) emphasised the need for successful international managers to minimise the uncertainty and so to swing the balance of risk and benefit in favour of the venture. One of the principal ways of doing this is through prudent selection of target markets and host countries for investment, and this is the theme for the next subsection.

Market / Host Country Selection

Some of the decision components making up Ghauri's model come with a choice of market or host country already factored in to the equation:

- If the decision is instigated by a specific invitation then the country is pre-defined by the instigator.
- If the action is a response to competitor or client initiatives then they have defined which region and which countries are strategically important.
- And if it is an aggressive strategy to attack an international competitor in their home market then once again the choice of target country is preordained.

However, given a free choice, the factor underlying the principle theories of market selection is the minimisation of uncertainty. In general international management teams will choose locations:

- Where they have the greatest market knowledge
- Where they have the greatest understanding of the local culture
- Where they have the greatest capacity in the local language (or arguably where the local population have the greatest capacity in the parent company language).

In sum, they will choose locations with the smallest psychic distance. This measure, discussed in Chapter 2.2, is based on a series of economic, cultural and linguistic factors which enable nations to compare themselves and to evaluate the degree of similarity / dissimilarity.

Of course, few, if any, companies actually employ a systematic measure of psychic distance to facilitate location choice, but at a purely psychological level the principle holds. Managers will err towards internationalising into countries where they feel at home, and, more importantly, where they feel more in control and so will give precedence to those countries.

This is one of the key tenets of the Uppsala Model developed during the 1970's (Johanson and Wiedersheim-Paul 1975), (Johanson and Vahlne 1977). This model, often termed the process model, suggests that internationalising companies will proceed cautiously and incrementally:

- From direct exporter, to foreign agency, to sales subsidiary and hence to manufacturing subsidiary.
- From countries that are culturally very similar to the parent country to ones that are progressively less similar.

This incremental sequence is described as the Establishment Chain and assumes that internationalisation is an iterative learning process in which the development of foreign market knowledge and the building of commitment to overseas trade are intertwined. As foreign market knowledge increases, uncertainty decreases and the parent company management team feel more relaxed about making decisions to commit resources to those markets. As experience in those markets grows, the more valuable the knowledge resource is considered and the greater, therefore, the commitment to the internationalisation process. This iteration is firmly grounded in the behavioural theory governing how companies are managed (Cyert and March 1963).

In the years following the formulation of the theory there was considerable empirical evidence to support the process model. (Davidson 1980) (Yu 1990) (Walters 1979). There is also mirrored support from the purchasing perspective (Hakansson and Wootz 1975) which supports the view that companies prefer to buy from those they are psychically close to. For a fuller review of empirical evidence see Johanson and Vahlne (1990).

However, more recently, the model has been criticised most notably:

- As being bounded and, therefore, of limited generalisability. Critics have alleged it is bounded in time (Sullivan 1994), in Scandinavian cultures (Sullivan 1994), in manufacturing industry (Engwall and Wallenstall 1993) and in large company organisations (Coviello and Munro 1997).

- Because low psychic distance does not necessarily confer reduced uncertainty and risk (O'Grady and Lane 1999). In a fascinating study the authors evolved the concept of the Psychic Distance Paradox suggesting that cultural similarity breeds complacency and a tendency to ignore the small but critical cultural differences that exist. As a consequence, internationalising companies should positively avoid commitments to culturally similar countries.
- Because the theory developed and tested principally on the basis of small scale case studies is not borne out by large scale statistical studies (Benito and Gripsud 1992). In their study of more than 200 Norwegian companies they found no support for the process model. However, their findings can be criticised on two counts. Firstly, to measure similarity they used the cultural distance scale (Kogut and Singh 1988) which ignores the language and economic components of the full psychic distance measure. Secondly, they made no attempt to explore the motivation of the internationalising companies. Referring back to the earlier model (Ghauri 2000) it is clear that freedom to select target country is limited to only those companies that are motivated by organisational factors. If the motivation comes from an environmental factor, then the target country is generally preordained.

Despite these criticisms, however, the process model remains the dominant theory for market / host country selection at least for those businesses that have total freedom of choice. It is strongly supported by behavioural theory and is intuitively logical. Managers dislike uncertainty and unquantified risk and will take steps to minimise it. One way is to choose markets judiciously and to focus on those they feel they understand and can control. Another way is to minimise the exposure by choosing a low risk entry method and this is covered in the subsection below.

Entry Mode Selection

There are numerous modes of market entry and almost as many typologies for classifying them. Based on the work of Young et al (1989), Root (1987) and Buckley and Brooke (1992), Cross (2000) proposes an ownership-based typology subdivided into Exporting (8 Modes), Non-Equity (6 modes) and Equity (4 modes). By contrast Anderson and Gatignon (1986) make control the focus of their typology and identify 17 modes subdivided into High Control (4 modes) Medium (9 modes) and low (4 modes). Both systems of classification would accept that some of these categories could be further subdivided between green-field sites and mergers / acquisitions. Cross goes-on to provide an excellent summary of the relative merits and

disadvantages of each entry method but does little to shed light on how the entry method decision is taken. This is the domain of the Anderson and Gatignon paper. Their first revelation is that few companies make a conscious, costs/benefits analysis of the options, a conclusion supported by empirical research (Robinson 1977). Instead the decisions are generally collective, with several executives contributing to the debate and intuitive, based on experience, company goals and a general view of strategy. This analysis harps back to the discussion of “nemawashi” in section 2.5. The other key issue to emerge from Anderson and Gatignon’s analysis is that the pivotal factor in internationalisation decisions is control. Referring to earlier studies (Robinson 1978), (Vernon and Wells 1976), (Daniels, Ogram et al. 1982) they insist that without control an international company will find it difficult to coordinate actions, implement strategy or resolve disputes. They class it as the single most important factor in the determination of both risk and return, with high control being offered by wholly owned subsidiaries and dominant equity joint ventures and low control by licensing arrangements and minority share-holding joint ventures. Cross (2003) amplifies this definition suggesting that green-field entry arrangements are lower risk and higher control than acquisitions or mergers. Based on their ideas Anderson and Gatignon develop a model in which control is predicated on four factors. Based on the transaction cost framework developed by several international business theorists (Rugman 1982) and (Hennart 1982), the model (fig.19) relates control and entry method with long-term efficiency.

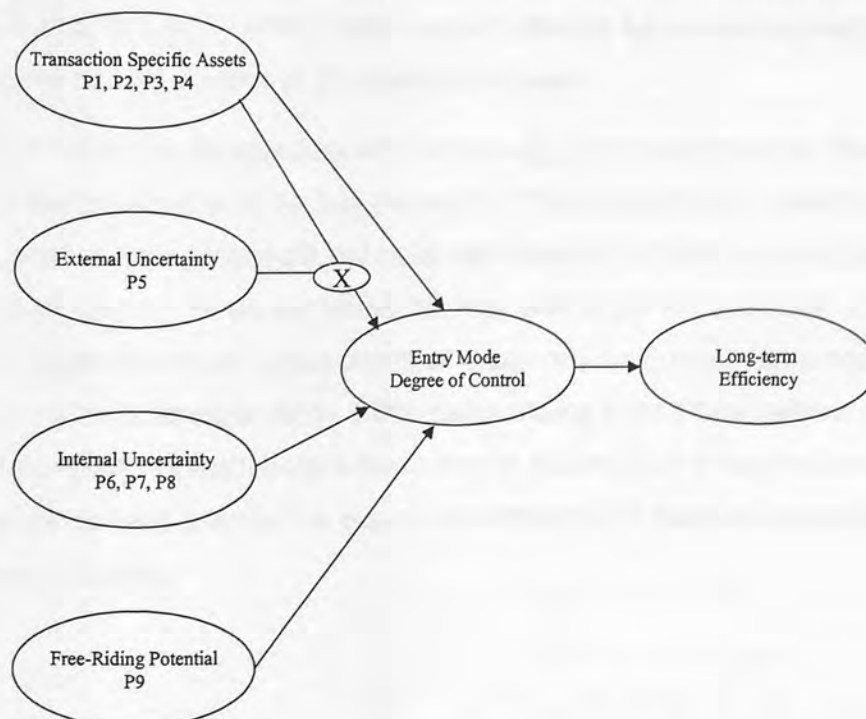


Figure 19 – The Transaction Cost Model of Entry Mode Selection

Anderson and Gatignon use the model to develop nine testable hypotheses concerning the conditions favourable to one method of entry compared to another. Of these the three most relevant to this research thesis are those concerned with internal uncertainty (propositions 6, 7 and 8 in the model).

- P6. *"The entrant's degree of control of a foreign business entity should be positively related to the firm's cumulative international experience"*. In support of this they quote a couple of earlier writers whose observations will prove very meaningful in the context of Case Company 1 (Chapter 5). The first is from Williamson (1981). *"Uncertainty internal to the firm makes control more desirable regardless of the level of asset specificity"* and the second from Teece (1983) *"Firms that operate in competitive industries and try to exert control before they know how to use it will make serious errors that should depress efficiency."*
- P7. *"When socio-cultural distance is great: Low levels of control are more efficient than intermediate levels: High levels of control are more efficient than intermediate levels: High control levels are more efficient only where there is a substantial advantage to doing business in the entrants way"*. Although not defining how socio-cultural distance is to be measured they make clear that "in host countries where parent company executives feel uncomfortable with or don't understand the values and operating methods then they may shy away from involvement and should, therefore, seek a low control entry method. Again, as will be seen in Chapter 5, this did not happen in Case Company 1 and the result was a hybrid of a high control entry method allied to an ineffective and counter-productive control system at the operational level.
- P8. *"The larger the foreign business community in the host country, the lower the level of control an entrant should demand"*. This proposition is based on the idea that a large, existing international business base will ensure a strong pool of skills in the host country. However, whilst this may well apply to developing countries and for Anglo-American corporations who can rely on English-language skills, for a company such as case study 1 internationalising from a base where most of the parent company executives are fluent only in Italian, then it may be that the proposition is valid only for the business community of companies domiciled in the parent country.

Since the formulation of these theoretical propositions there has been a great deal of empirical research and refinement of the model:

- Eriksson, Johanson et al (1997) provide qualified support for proposition 6 whose findings led to a refinement of the proposition whereby internationalisation knowledge emerges as an antecedent of both institutional knowledge and business knowledge, which in turn are determinants of perceived internationalisation cost, the driver of entry method choice. In a further refinement of the model the authors also found that a deficiency in language skills of the host nation is a problem for the internationalisation process; and problems have costs and costs determine entry method.
- Kogut and Singh (1988) provided support for proposition 7 finding that greater cultural distance between parent and host country increased the preference for green-field (lower risk) and joint venture (lower control) entry methods compared to wholly owned and acquisition options. They also found that the greater the level of Uncertainty Avoidance (Hofstede 1980), in the parent country culture, the greater the preference for green field (lower risk) and joint venture (lower control) entry methods compared to wholly owned and acquisition options. These findings were later challenged by Hennart and Larimo (1998) who found after controlling for firm and industry variables that cultural distance did exert a powerful influence on ownership strategies but cultural characteristics of the home base did not.
- A study of second and subsequent entries into a market (Chang and Rosenzweig 2001) provides selective support for proposition 8. They found that uncertainty factors such as lack of market knowledge and cultural distance applied to initial forays into new markets but were insignificant for later entries into the same market. In short, it is not the overall international business community that encourages companies to feel comfortable but specific company experience.
- Introducing the concept of performance satisfaction, Brouthers and Brouthers et al (2000) found that the greatest performance satisfaction came from those ventures where the internationalising company had made a risk-adjusted decision concerning entry mode allowing for the level of environmental uncertainty. It is clear that those companies with the greatest level of internationalisation knowledge will be best equipped to undertake such risk adjustments.

A comprehensive model embracing much of the theoretical and empirical research is provided by Buckley and Casson (1998). Their model, based on twelve entry strategies analysed against a strategy set of 5 factors, does not specifically address

uncertainty and control in the way that Anderson and Gatignon's model does. However, it does include two factors Learning Costs and Trust-Building Costs that, as has been shown with earlier literature, will both be much higher if language is a barrier to information gathering and to communication, respectively.

Section Conclusions

In reflecting back on the three subsections that have made up this part of the literature review, two common features emerge.

- Firstly, in all three themes the importance of experience is stressed and there is an unstated, but nevertheless strong, implication that all experience is positive, that the experience gained in one market will provide the confidence and knowledge to extend and accelerate the internationalisation process into new markets with more commitment and certainty than before. However, this implication is by no means a given. Surely a negative experience in one market would provide a different type of learning experience, encouraging management to be more, not less, cautious when next they extend into a new international market. This is certainly the logic underpinning one of the links in the operational cycle of the twin vicious circle model proposed in Chapter 1, and is illustrated by Case Study Company 1 in Chapter 5.
- Secondly, again in all three themes the decision processes are governed largely by the desire to minimise uncertainty. Uncertainty is strongly influenced by lack of market knowledge, the establishment of which is severely impeded by psychic distance. And the key component of psychic distance is language difference. The literature review in this section, therefore, has provided strong support for the linkage between the communications and operational cycles of the twin vicious circle model

All of the literature in this section has been focused on the establishment phase of the internationalisation, but for companies that have already made the commitment to foreign markets and who still have market / subsidiary management problems, the choice is stark: Withdraw from the country or take remedial action. The literature relating to the range of structural options for remedial action is reviewed in the next section.

2.8 – The Organisation of Multinational Companies

Introduction

The scale of multinational operations is now staggering. By 2002 some 870,000 foreign subsidiaries of about 64,000 parent firms contributed approximately \$18

trillion, to world sales (UNCTAD 2003). The geographic (and implicitly the linguistic) spread of their networks is widening as the larger multinationals are now present in 20 or more countries, and the host countries being targeted for future investments are increasingly in developing areas of the world, characterised by a shortage of parent company language skills (John, Letto-Gillies et al. 1997).

The challenge facing each of these 64,000 companies and many others preparing to internationalise is how best to organise so as to achieve success in global markets, overcoming the coordination and communication problems implicit in managing such a wide and diverse network of operations. In particular they will need to address the following questions:

- What style of international management strategy to pursue (what type of strategic configuration to adopt).
- What type of management structure to impose, and what manpower strategy to adopt.
- How best to integrate the subsidiaries into the group operation.
- How to manage the dissemination and exchange of knowledge between the parent company and its subsidiaries.

The literature reviewing these questions provides the content for the remainder of this section.

Strategic Configuration

Over the past 15 years the subject of multinational integration has been largely subsumed into the wider topic of Strategic Configuration. The concept of configuration refers to the strategic orientation of a multinational company attempting to balance the conflicting demands of global operations. Throughout the 1970's and 80's, numerous authors advanced systems of strategic classification (Harzing 1999 p: 34).

Each of these contributions had merit but by examining different attributes (environment, strategy, management attitudes and structure) they added to an already confused literature. However, the debate clarified in the late 1980's with two decisive additions to the discussion (Prahalad and Doz 1987) and (Bartlett and Ghoshal 1989) and . The Integration-Responsiveness matrix (Prahalad and Doz 1987) is shown in fig 20 (below), with the supporting taxonomy of multinational strategic options (Bartlett and Ghoshal 1989) superimposed over.

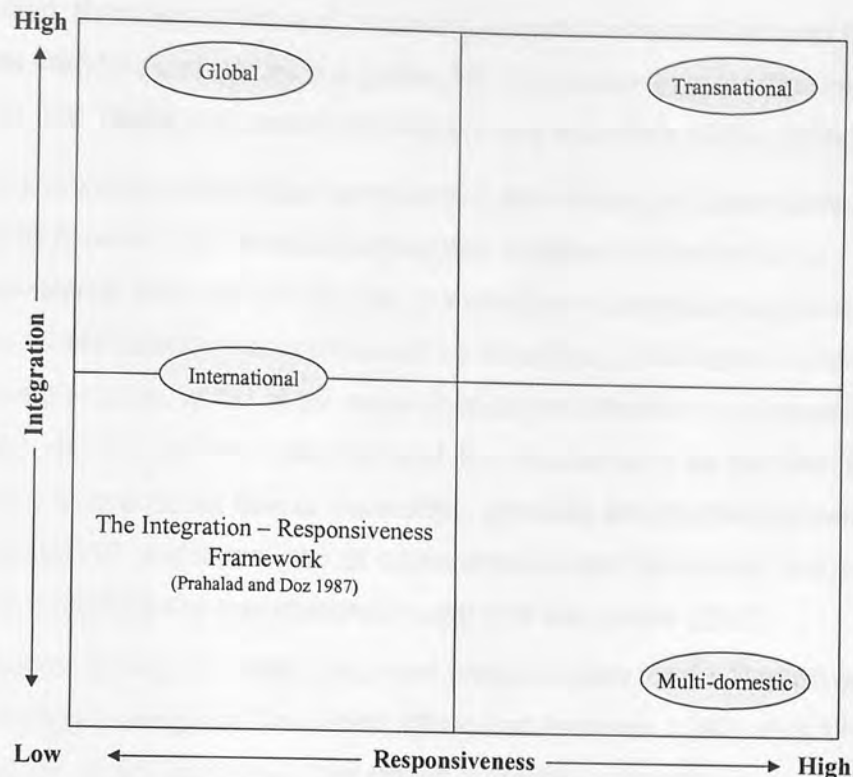


Figure 20 – The Integration Responsiveness Matrix

The four classifications each relate to a particular strategic orientation that a multinational enterprise could adopt.

- Companies that pursue an international strategy seek to create value by transferring valuable skills and innovative products to foreign markets lacking those skills or products. If the source of competitive advantage is the product, it is likely that the R&D function will remain rigidly under HQ control, but marketing and manufacturing may well be de-centralised in order to minimise logistics costs. IBM, Kellogg's, and Proctor and Gamble have all been described as following the international model (Hill and Jones 2001).
- Multi-domestic companies, by contrast, pursue a strategy of maximising local responsiveness. They are prepared to accept the costs of customising their product to the demands of each national market, establishing a complete set of value creation activities including national R&D, production and marketing. Typically, therefore, multi-domestic corporations work with streamlined HQ operations. According to Hill and Jones, GM and Philips and the majority of Japanese multinationals have until recently preferred this configuration.
- In the opposite quadrant of the matrix are the global companies, who seek to base their competitiveness on efficiency. They look to reap the benefits of global economies of scale and of experience-curve effects, by keeping their innovation

teams lean, their production and marketing operations centralised and their products standardised across the global. Hill and Jones suggest that Intel, Motorola and Texas Instruments are current day examples of this configuration.

- The transnational configuration represents a sort of holy grail with companies working to achieve high levels of both global coordination and of local responsiveness. They seek to do this by exploiting experience-based cost economies and location economies and by transferring distinctive competences within the company, whilst at the same time paying attention to pressures for local responsiveness. It's a tall order and one that can only be satisfied by ensuring a bi-directional flow of knowledge, products and technology between a multinational HQ and its network of subsidiaries. Caterpillar is one company that is said to epitomise the transnational model (Hill and Jones 2001).

Empirical studies during the 1990's provided broad support for the Bartlett and Ghoshal typology (Leong and Tan 1993), (Roth and Morrison 1990) and (Johnson Jr 1995). However, shedding light on the criteria whereby companies chose a particular strategic configuration proved more problematic. Some of these earlier writers on multinational strategies and structures believed that the selection of strategic configuration was driven mainly by the nature of the market requirement and the strength and volatility of the competitive environment. Intuitively, this would suggest:

- An MNE operating in, say, household products might be attracted to a Multi-domestic configuration, competition being intense but focused on the national level.
- A telecommunications company would be unable to compete without a degree of both global coordination and local responsiveness suggesting an International configuration.
- A consumer electronics company with largely standardised consumer needs will benefit from economies of scale and scope and will consequently favour a Global configuration.
- A computing company facing complex and conflicting pressures for high levels of both responsiveness and integration may feel compelled to adopt a Transnational configuration.

However, empirical researchers found inconclusive support for this intuitive explanation. Several authors classify the food industry as typically Multi-domestic and the computer industry as Global (Bartlett 1986), (Doz 1986), (Kobrin 1994), Ghoshal and Nohria (1993), however, reclassify the computer industry as Transnational and

Brinkgreve (1993) reverses the classification finding strong evidence of transnationalism in the food industry and little in the computer industry.

A parallel stream of research, therefore, elected to examine the influence of country of origin on configuration. Bartlett and Ghoshal themselves identified a pattern with American MNE's favouring the International configuration, European MNE's the Multi-domestic, and Japanese the Global. There is again a certain intuitive logic which supports this with high Uncertainty Avoidance countries such as Japan wanting the reassurance of global coordination, low Uncertainty Avoidance countries including Scandinavia and Britain, favouring the "let each country do its own thing" stance and the US, with medium Uncertainty Avoidance, opting for the compromise choice. However, Doyle et al (1992) found evidence of a reversal with Japanese Multinationals being more locally responsive.

Harzing (1999) tested this contradictory research looking at both industry and national culture influences on strategic configuration. By examining subsidiaries and using their level of interdependence as a measure of "international integration" she was able to test a range of hypotheses.

In terms of industry influence her research concluded:

- Companies in the computer, automobile and petroleum industries are likely to favour the Global model.
- Companies in the paper industry were by contrast likely to favour the Multi-domestic model.
- Companies in the electronics and chemical industries were likely to choose between either the Global or Transnational models.
- Companies in the food industry were likely to choose between the Multi-domestic or the Transnational model
- For pharmaceutical companies the Transnational model is dominant

Harzing's research also found strong patterns in terms of national preferences as summarised in table 2.6 (below) although several of the correlations were not statistically significant:

Parent Country	Preferred Configuration	Least preferred Configuration
Finland	Multi-domestic	Global
France	Multi-domestic	Global
Germany	Global	Multi-domestic
Japan	Global	Transnational
Netherlands	Transnational	Multi-domestic
Sweden	Multi-domestic	Global
Switzerland	Transnational	Multi-domestic
UK	Multi-domestic	Global
US	Transnational	Multi-domestic

She offers no explanation of her national culture findings although Industry bias across countries and Uncertainty Avoidance certainly offer partial explanations. Nevertheless, although Harzing, has not considered the linkage, there is a plausible correlation with language. The only two countries to be positively and strongly correlated with the Transnational model are the Netherlands and Switzerland: The two most linguistically skilled nations in the sample.

Subsidiary Management – Manpower Strategy

Perlmutter (1969) produced a system of classification defining three perspectives from which Multinational Enterprises could view their global empires. These were:

- Ethnocentric (Orientated towards the parent country in which the company is domiciled)
- Polycentric (Orientated towards the host countries in which the company operates)
- Geocentric (Taking a global view)

Subsequently a fourth perspective was added. (Heenan and Perlmutter 1979) in which the focus is a continent, trade community or region.

These classifications were largely attitudinal, but a parallel field of research (Stopford and Wells 1972) took an organisational perspective. Their model of international structural stages, suggested that in the early stages of internationalisation, the company structure remained largely domestic with an international division tacked on. Subsequently the business could develop in two ways depending upon the market imperatives. If product diversification to meet foreign market needs is low

then the accent will be on managing the diversity in international markets. In this event an organisation based on area or region will be the preferred option. By contrast, if competitive advantage is gained by a wide product diversification to meet the conflicting needs of different markets then it will be advantageous to create worldwide product divisions. However, according to Stopford and Wells, both of these structures are unsustainable in their pure form and they predict that after time a global matrix structure will be adopted, optimising both product control and geographical coordination.

From these two strands of research evolved the field of multinational HRM strategy and in particular the issue of expatriation. Various researchers examined the field of multinational staffing policies (Hossain and Davis 1989), (Dowling and Schuler 1990) and (Buckley and Brooke 1992) and theories developed along two axes:

- What determines the use of expatriates as opposed to host country managers?
- What roles do the expatriates serve in the HRM strategy of a global company?

On the first of these it became clear that companies would seek to achieve an optimum blend between:

- Parent-country nationals who are expatriated to work in the host country and who generally will have experience of working in the company headquarters, and who will, therefore, be able to bring to the subsidiary knowledge of the parent processes, culture and language.
- Host-country nationals who may well have worked in the subsidiary, or a similar company, previously and so, therefore, will be acquainted with the processes of the subsidiary and the culture and language of the host country.
- Third-country nationals who will possibly have worked in the company headquarters previously but who certainly will bring a sense of cross-cultural awareness and who are best able to avoid criticisms of partiality in dealings between the headquarters and the subsidiary.

A variety of researchers have examined the respective merits of each employment group including Tung (1982) and Negahandi (1987). Further work also explored the factors influencing what companies considered the optimum blend. A wide variety of factors have been identified as promoting the deployment of Parent country expatriates.

The principle ones are summarised below:

- **Country of Origin:** Several researchers including Hulbert and Brandt (1980), Negahandi and Welge (1984) and Tung (1987) identified national patterns of expatriate usage. Japanese MNE's are identified as being exceptionally reliant on expatriates and American MNE's being exceptionally low in their employment of expatriates, in their overseas subsidiaries.
- **Cultural Distance.** Other researchers found that cultural distance between parent country and host country would encourage reliance on expatriates (Boyacigiller 1990), (Wolf 1994)
- **Strategic configuration:** A third factor was found to be the strategic configuration of the group operation. Corporations requiring high levels of international coordination i.e. Global and Transnational configurations, would make greater use of expatriates. (Hammill 1989)
- **Strategic Importance:** Research has found evidence to suggest that the larger and more strategically important the subsidiary, the more likely the parent company is to employ expatriate management. (Welge 1981), (Hammill 1989) and (Boyacigiller 1990).
- **Subsidiary Age:** Having researched the impact of subsidiary age several writers have concluded that the more mature the subsidiary, the less likely that expatriate managers will be used. (Franko 1973), (Tung 1982) and (Hammill 1989).
- **Entry Method:** Although not tested, Hammill (1989) argues that green-field entries are more likely to employ expatriates than would acquired subsidiaries, and this is supported by Cross (2003) .
- **Extent of Internationalisation:** One study demonstrated that MNE's who were more extensively internationalised (and who by implication would have a deeper experience of international management) would make less use of expatriates (Egelhoff 1984).

Harzing (1999) tested each of these correlations across more than 200 subsidiaries in 20 countries and found only partial support for the above:

- **Country of Origin:** A clear pattern emerged with Japanese multinationals being the most dependent on expatriates, and the USA, UK and Sweden being amongst the least.
- **Cultural Distance:** Multinationals were found to make more use of expatriates in Asian and South American markets and less so in European countries. Harzing

interpreted this as confirming that cultural distance is a factor promoting the use of expatriates

- **Strategic configuration:** Typically Global industries (Automotive) were found to employ more expatriates than industries such as food and paper, which are often classified as Multi-domestic.
- **Strategic Importance:** The absolute size of the subsidiary was found to increase the number of expatriates but as the same factor is likely also to increase the number of women, disabled employees and people over 2 metres tall, this cannot be considered a meaningful finding.
- **Subsidiary Age:** The findings confirmed that subsidiary age was inversely associated with the number of expatriates employed.
- **Entry Method:** Harzing's findings confirmed that green-field sites typically employed more expatriates and in more senior positions than acquired companies
- **Extent of Internationalisation:** Partial support was found for the proposition that internationalisation experience would be inversely related to the reliance on expatriates. Harzing found that greater international experience shifted the balance from usage of Parent Country Nationals to usage of Third Country Nationals, a clear sign of a developing geocentric perspective.

From the manpower strategy viewpoint, her work endorses the choice of the automotive industry for the case studies in this thesis, showing it to have:

- A high level of global interdependence.
- An exceptionally high level of expatriate usage.
- A high complement of Third Country Nationals in their expatriation programmes.

However, this research is not only interested in how many expatriates are deployed but also in what roles they perform. Here the seminal work comes from Edstrom and Galbraith (1977). They defined three discrete roles:

- Position filling i.e. using parent company personnel purely because host country nationals do not have either the mix or level of skills and /or knowledge required.
- Management development i.e. using international postings as a means to develop the abilities and experience of personnel considered as having potential for senior management positions.

- Organisational Development i.e. the use of expatriates to provide control, socialisation, corporate culture diffusion and a channel of communication between the parent company and its subsidiary.

Harzing (1999), synthesising the contributions of other researchers in the field, principally German, showed that the Edstrom and Galbraith classifications have received almost unanimous endorsement high level of endorsement, however Harzing 1999 subdivided these three role definitions into seven functional subgroups:

- **Organisational Development:** Control / Corporate culture diffusion / Information Channels
- **Position Filling:** Knowledge Transfer / Covering for absence of Local Skills
- **Management Development:** Training for HQ / Training for Subsidiaries

Her research showed that each one of the seven groups was considered important by MNE subsidiaries but it is significant that the two rated most important were Knowledge Transfer and Information Channels, the two categories most dependent on communication.

Further results from Harzing's 1999 research showed that the functions of expatriation varied according to both parent and host country. Her findings are presented in summary form in the tables 2.7 and 2.8 below:

Functions of Expatriation	High Importance in MNE's from:	Low Importance in MNE's from:
Organisation Development	Japan and Germany	USA and France
Management Development	Netherlands, Switzerland and Germany	Japan and Sweden
Position Filling	UK, USA	Germany and France

Functions of Expatriation	High Importance for Subsidiaries in:	Low Importance for Subsidiaries in:
Organisation Development	Asia, Latin America	Nordic Countries, Southern Europe
Management Development	Anglo-Saxon countries	Asia, Germanic Countries
Position Filling	Latin America Asia	Anglo Saxon countries, Southern Europe

Of the research discussed previously, only Tung (1987) has explicitly examined the role of language in expatriate work, despite the fact that qualitative studies (Sargent and Matthews 1998), (Neal 1998), (Yoshihara 1999) and general management books such as Rugman (2000), stress the critical role of host country language competence.

However, examining the tables above it is clear that Harzing's findings do suggest that language and communication skills will figure highly in the manpower strategy.

- English-speaking and linguistically skilled nations do not rely on expatriates for organisational development: They let the internationality of the English language do it for them.
- MNE's rarely position-fill in Anglo-Saxon countries. They have an abundant choice of well skilled personnel, all of whom can be assumed to be fluent in the International business language, English.
- Japan, the world's second largest home base of MNE's adopts a strategy almost wholly dependent upon expatriation, almost certainly due to the lack of utility of Japanese as an International language.

Why given these pointers, researchers have failed to explore the language influence on Multinational manpower strategy, is beyond explanation, but in the case studies and survey of this thesis (Chapters 5 and 6 respectively), this is one aspect that will be pursued in some depth.

Subsidiary Management – Integration

Another critical issue facing a multinational after having acquired a subsidiary is how best to integrate that subsidiary into the group operation. An overview of the process is provided by Zander and Lerpold (2003) who advance an alliance integration wheel model. The wheel is broken down into 8 phases:

- **Evaluate and Negotiate:** Includes a re-appraisal of the fit of the acquiring and target companies. This would embrace not only the traditional areas of product and market complementarity and compatibility of visions and objectives, but should also include a cultural fit analysis (Rosenbaum 1999).
- **Announce:** Involves clarification of the new management structure and the nomination of the key members of the team that will manage the integration.
- **Structure:** In which specific alliance goals are developed and conflict resolution mechanisms are put in place.

- **Organise:** Involves the creation of knowledge transfer channels (see the next subsection) and the planning of alliance HRM policies.
- **Team build:** Involves specific measures to manage the cultural diversity encountered.
- **Implement:** Demands strong leadership, clear and continuous communication and constant monitoring of the integration processes.
- **Evaluate:** Implies a formal and impartial evaluation of alliance goals and the effectiveness of the now merged business.
- **Learn:** Marks the end of the integration cycle and the capitalisation on the knowledge, technology and core competences of the relationship.

Implicit in this model is the un-stated plea that if more companies were to follow this cycle then the high level of failed acquisitions and mergers would be reduced. They cite Judge and Ryman (2001) who firmly place the blame for such failures at the door of poor leadership, a critical resource in the implementation phase. From a different perspective other writers (Faulkener 1995), (Child and Faulkener 1998) and (Lerpold 2000) stress the importance of clear organisational arrangements to alliance success, arrangements that are the key to the Structure, Organise and Team Build, phases. The absence of these mechanisms can be clearly seen in the evidence from Case Study Company 1 in Chapter 5.

Zander and Lerpold (2003) stress that cultural diversity is a serious impediment to the integration and emphasise that cultural adaptation has to be bi-directional, citing Berry (1980 p: 217) "*Acculturation is a culture building as well as a culture-receiving process*". This observation will be echoed in the evidence from Case Study Company 2 in Chapter 5. Fleshing out the role of acculturation in the process, Zander and Lerpold advance a model of the influences on cultural integration based on the work of Janson (1994) and reproduced in fig 21 (below):

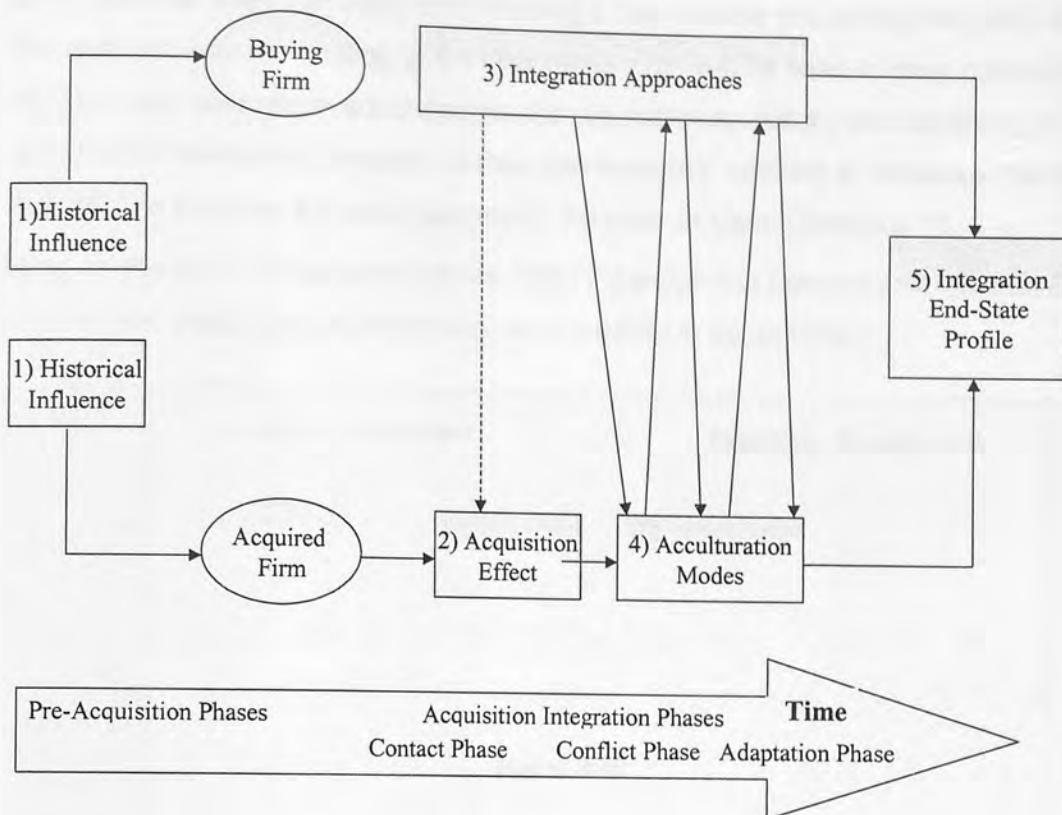


Figure 21 – The Acculturation and Integration Model

In this model the end state of the integration process is dictated by four earlier influences:

- **1. Historical Influence:** Which will probably be much stronger in the acquired company, for whom there is a large unknown and a degree of trepidation. This will be seen strongly in case company 2 in Chapter 5.
- **2. The Acquisition Effect:** Whereby the employees of the acquired company feel a sense of loss and nostalgia for the “good old times”. There is evidence of this in both case studies, but principally in Case 1 where many of the time-served workforce still live in a state of denial many years after being acquired.
- **3. The Integration Approach:** In which the two companies seek to achieve the optimum balance between interdependence and autonomy (Haspeslagh and Jemison 1991). Inevitably this phase will be accompanied by conflict but if this has been anticipated and arbitration mechanisms put in place then this can lead on to the mutual adaptation phase.
- **4. The Acculturation Modes:** These are in part stimulated by the integration approaches adopted by the buying company, but ultimately depend upon the attitudes and historical baggage of the acquired management team. There are

three options: They can transform, creating a new culture preserving the best of the past but accommodating to the new owners (as will be seen in case company 2): They can assimilate, subordinating the old company culture and replacing it with that of the buying company or they can separate, seeking to preserve the old culture and blocking the new (essentially the state in Case Company 1).

Building on the work of Marks and Mirvis (2001), Zander and Lerpold emerge with 5 alternative end states for the integration, as illustrated in fig 22 below:

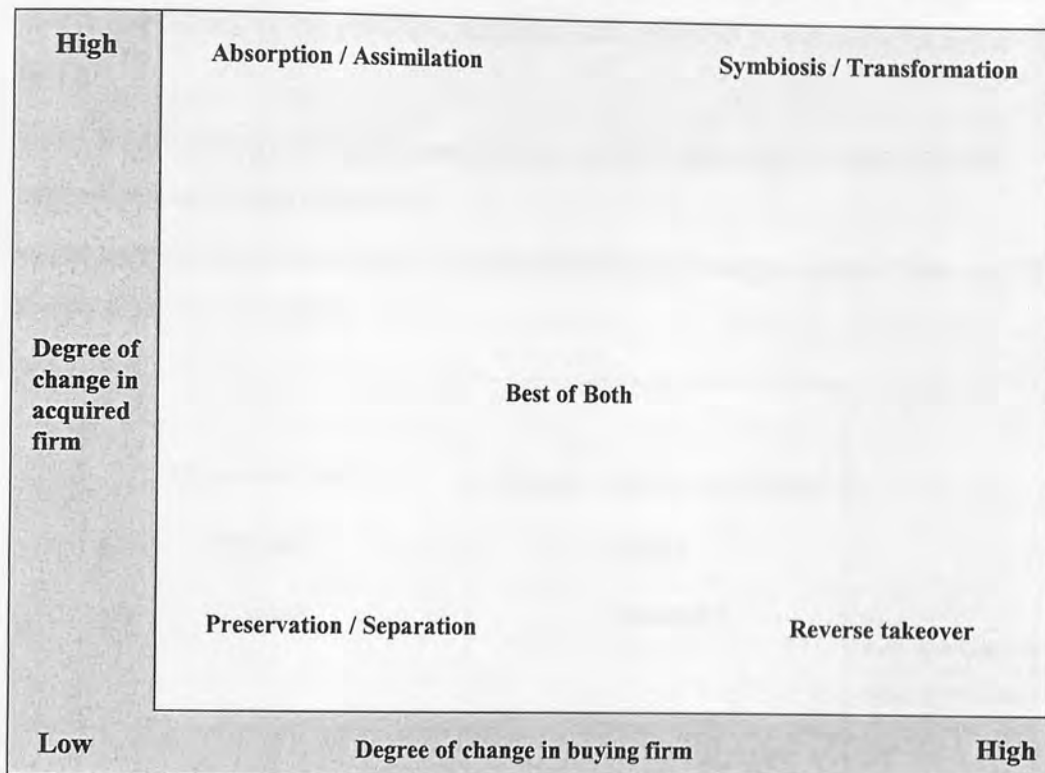


Figure 22 – A Matrix of Integration End States

Of these five, the most significant for this research project are those on the diagonal axis: The preservation state where the companies stay separate and even continue to diverge, the best of both state and the symbiosis state where both companies submerge themselves in creating a new culture based on neither of the former company cultures. The two case studies will provide interesting and contrasting illustrations of these end states in practice.

To date this discussion of integration has focused on managerial and cultural convergence, and this is appropriate given the evidence that will be brought to light in the case studies (Chapter 5). However, in the survey the emphasis will switch to a more tangible aspect of integration, the level of inter-trading and interaction between the subsidiary and the group it is part of. It is equally appropriate, therefore, to review the literature concerned with this aspect of integration.

It has long been the consensus amongst international business researchers that multinational companies assign different roles to different subsidiaries (Doz and Prahalad 1986), (Martinez and Jarillo 1991) and (Birkinshaw and Hood 1998). Some of these have taken up the mantle of trying to establish a typology of subsidiary roles:

- Martinez and Jarillo base their typology on the two axes of the Integration-Responsiveness matrix (Prahalad and Doz 1987).
- Ghoshal and Bartlett (1988) by contrast base their typology on the integrative role of the subsidiary in the creation, adoption and diffusion of innovations within the group.
- Yet a third typology (Ghoshal and Nohria 1989) is based on environmental complexity and local resources.

These three typologies have been superimposed onto a single matrix (Harzing 1999) as illustrated in fig 23 below:

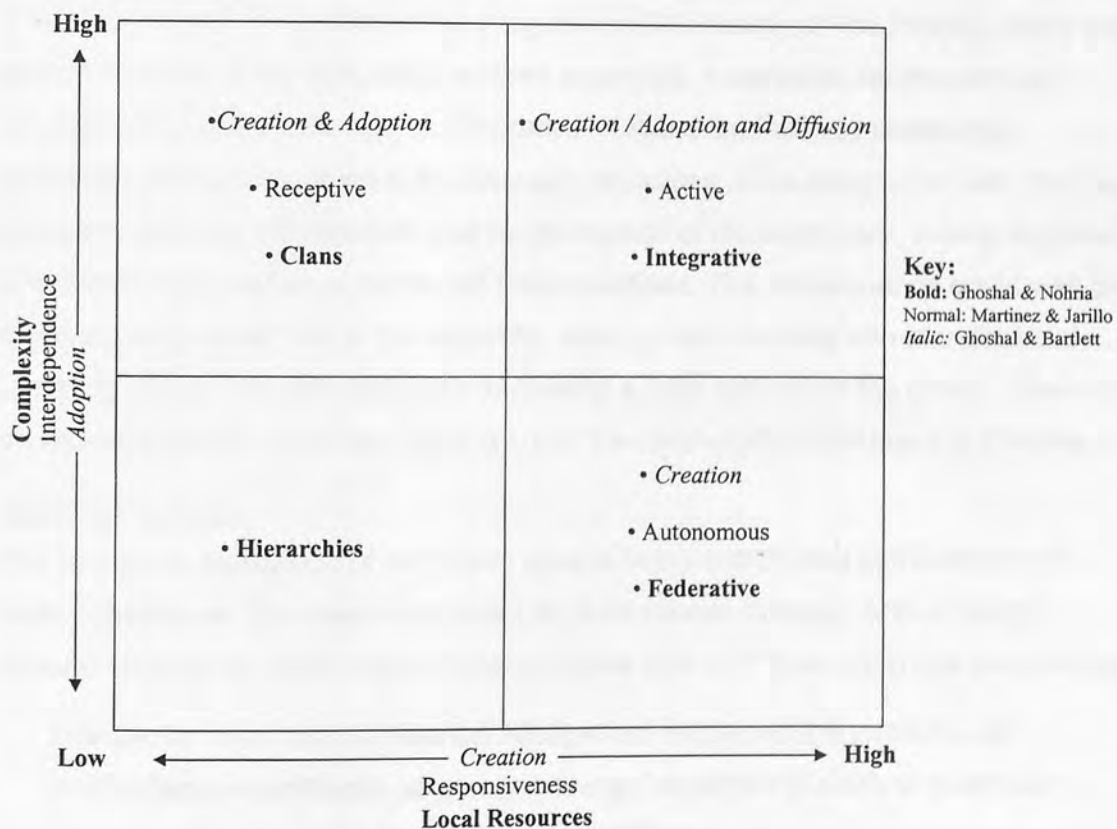


Figure 23 – A Merged Typology of Subsidiary Roles

Harzing offers no evidence to support her confidence that a subsidiary operating in a complex environment will also be more closely integrated into the group operation (interdependent), or that an autonomous unit will be more locally responsive, although the correlations are intuitively correct. Moreover, in her survey this typology found a close association with strategic configuration of the group.

- The greatest percentage of autonomous subsidiaries was found in multi-domestic corporations.
- The lowest percentage of active subsidiaries was found in multi-domestic corporations.
- The greatest percentage of receptive subsidiaries was found in global corporations.
- The greatest percentage of active subsidiaries (albeit low) was found in transnational corporations.

In view of the above, it is reasonable to presume that subsidiaries most closely involved in the logistical integration of the group will also be most active in the creation and diffusion of knowledge and will benefit most in terms of allocation of local resources.

Recapping this subsection, a chain reaction takes shape. For a company acquired by a foreign group, the success of the integration relies heavily on leadership, clarity and communication. If the integration process succeeds, a symbiotic relationship will emerge which will encourage an integrative relationship, facilitate knowledge exchange and empower the subsidiary with resources. If the integration fails, the two company cultures will separate and the absorption of the subsidiary, in both logistical and knowledge exchange terms, will be jeopardised. The consequence could well be a strategically minor role in the hierarchy, serving local markets with standardised products and denied the resources to develop a fuller role within the group. There will be flavours of both extremes, coming out of the case studies discussed in Chapter 5.

Subsidiary Evolution

The foregoing discussion of subsidiary roles is firmly entrenched in the logic that sees subsidiaries as a mere instrument of multinational strategy. And certainly several strands of classic international business research draw upon this perspective:

- Transaction cost theory (Hennart 1982) which explained the existence of multinational subsidiaries as purely a "hedge" against variations in material and labour costs across the international marketplace.
- Product life cycle theory (Vernon 1966) which sees a subsidiary as a transient stopping-off point for a product as it percolates down the life cycle hierarchy.
- Internationalisation theory (Johanson and Vahlne 1977) which views subsidiaries as an outpost of the multinational operation tasked with accumulating market knowledge as market commitment expands.

- Charter theory (Galunic and Eisenhardt 1996) which advances the concept of a subsidiary charter assigned by the multinational parent for a given product and/or market.

It is indisputable that each of the above plays a key part in the establishment of subsidiary roles, but there have been numerous challenges to the idea that subsidiaries respond only to the preferences of the parent company. Principal amongst these challenges have been:

- That it is naïve to assume that agents will always work so as to maximise the principal's welfare (Jensen and Meckling 1976). In the context of a multinational and its subsidiary, there will be conflicting and divergent objectives and the emergent role of the subsidiary will inevitably be some form of compromise.
- That empirical research has shown that subsidiaries evolve over time. They either grow through the accumulation of resources and capabilities, or wither as those self-same resources and capabilities are depleted. (Hedlund 1986)
- That in examining such evolution it is necessary to consider both the subsidiary's charter and its capabilities. It is dangerous to assume that they are always balanced and that they develop in harmony. Where there is a mismatch there is need for some form of evolution, expansion or depletion of resources or enlargement or contraction of charter, to redress the imbalance. (Birkinshaw and Hood 1998)
- That strategic behaviour is not limited to headquarters management alone. Subsidiary management will have ambitions and will launch local initiatives aimed at developing the role of their operation, within the group. (Burgelman 1983)
- That subsidiaries are, almost invariably, part of a global network of company operations and that the intra-firm, international interdependence established, has a major bearing on the way that subsidiaries are managed. (O'Donnell 2000) Moreover, the individual subsidiaries will be competing for the same charters requiring adjustments of role as one subsidiary achieves superior resources and commands an enhanced charter relative to its competitors.
- That host country and regional policies to attract Foreign Direct Investment will have a bearing on the assignment of subsidiary charters, influencing and, in some cases dictating, the choices available to the parent company. (Ozawa 1992)

- That multinationals will favour culturally similar host countries when assigning charters, regardless of resources and capabilities. This is because cultural proximity will promote trust, reduce uncertainty and facilitate knowledge, and resource, transfer, (Kogut and Zander 1992)

Blending all of the perspectives listed above, Birkinshaw and Hood (1998) emerged with an organising framework for the evolution of subsidiaries illustrated in fig 24.

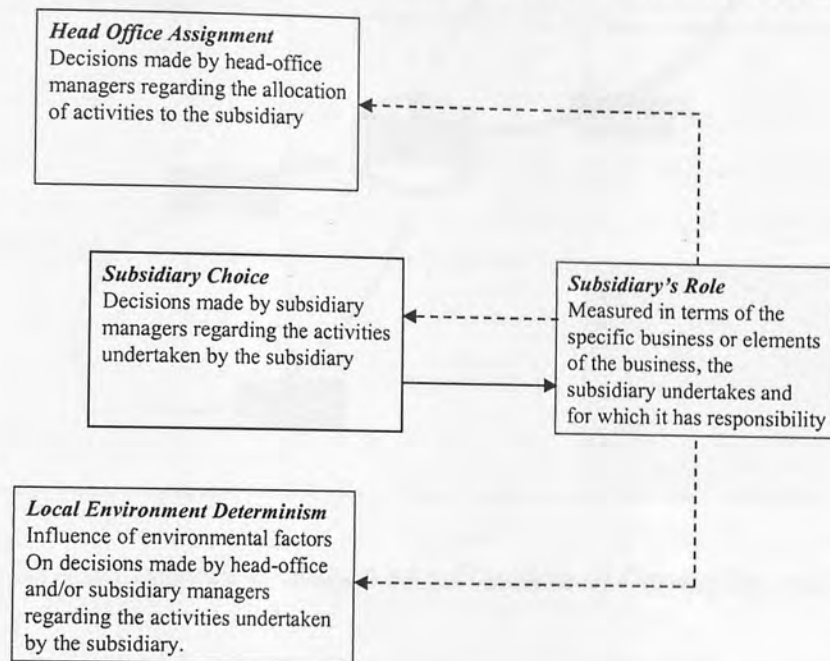


Figure 24 – Organising Framework for Subsidiary Evolution

In this model the subsidiary role is maintained in a dynamic balance with three blocks of determinant factors. The first block reflects the decisions taken by headquarters management and the consequential charters and mandates assigned by them to the subsidiary. The third block focuses on local environment factors including national and regional incentives for F.D.I. and the cultural proximity of the host country to the parent. However, the central and dominant block concerns the issue of subsidiary choice and the potential that each operation has to influence its own destiny. In this context Birkinshaw and Hood identify five evolution patterns each of which is directly or indirectly, consciously or unwittingly, driven by subsidiary choice and the consequential actions of the subsidiary managers. These options are illustrated below in figure 25 and then discussed more fully.

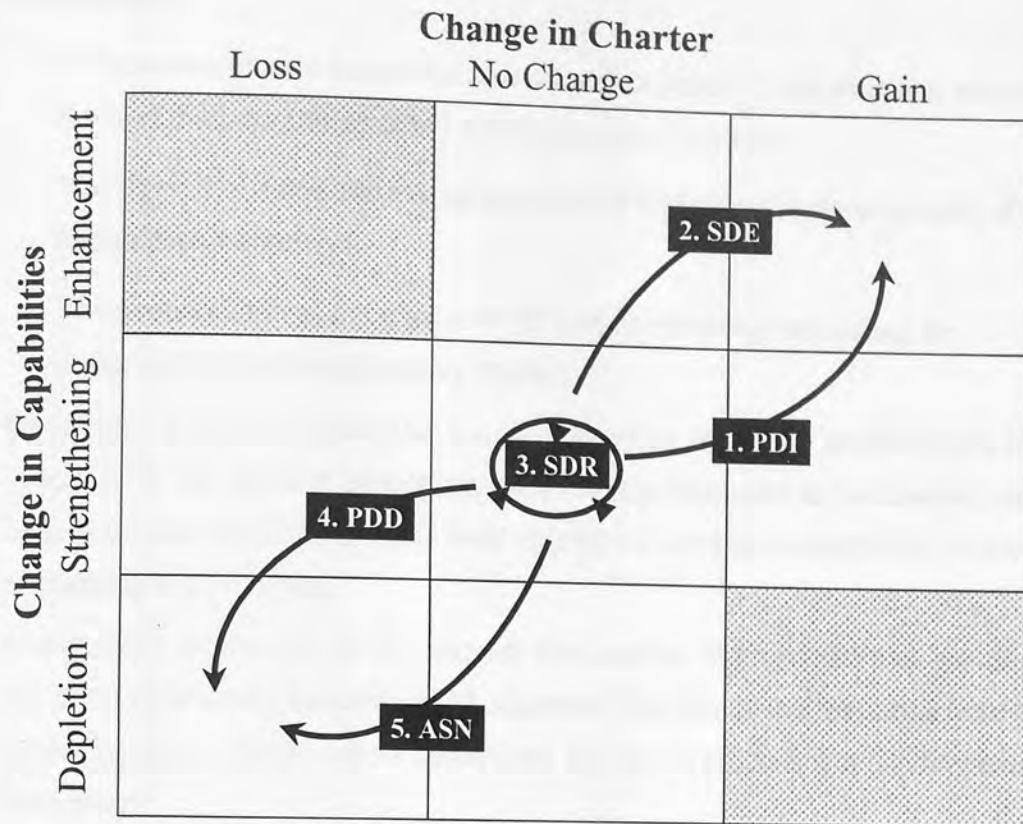


Figure 25 – Subsidiary Evolution as a Function of Capability and Charter

Evolutionary Process 1 – Parent Driven Investment: The PDI route is clearly controlled by the multinational headquarters. However, as Birkinshaw and Hood make clear, the subsidiary is often able to influence the process. They can do this by:

- Establishing unique capabilities that the parent company would be ill advised to ignore and which invite the assignment of an appropriately enhanced charter.
- Effectively lobbying the parent company, engaging in negotiation and professionally marketing their case for an enhanced charter.
- Developing a close, friendly, mutually respectful, relationship with the parent company, a relationship that will encourage senior managers to look favourably on this subsidiary to the disadvantage of others seeking the same charter.

It is self-evident that the second and third of these mechanisms would be denied to any subsidiary that faces a serious communication barrier with the parent company. It might also be a severe problem to persuade the parent of the existence of unique capabilities unless there is a pre-laid foundation of trust on which to build.

Evolutionary Process 2 – Subsidiary Driven Charter Extension: By contrast the SDE process is almost wholly the result of subsidiary initiatives. The process involves

three stages:

- A subsidiary-driven search for new market or product, opportunities extending beyond the boundaries of the existing charter from HQ.
- The pursuit of a specific market opportunity including the development of the capabilities to satisfy it.
- The presentation of a proposal to the parent company requesting an enhancement of the subsidiary charter.

Birkinshaw and Hood stress that such autonomous behaviour will inevitably trigger suspicion in the ranks of parent company management and its success will depend heavily on the credibility and the level of goodwill already developed by those presenting the proposal.

The authors do not specifically address the question of proposals that are delayed to the point where they become a "fait accompli", but clearly the response from the parent company would not be benevolent and would erode any amity that existed beforehand.

Evolutionary Process 3 – Subsidiary Driven Charter Reinforcement: This route is exclusively influenced by subsidiary choice. The process is limited to two stages:

- Self-appraisal, perhaps as a consequence of internal transfers of best practice, but more often following a programme of benchmarking against sister subsidiaries and external competitors.
- Internal subsidiary development of resources and capabilities to ensure they are fully capable of satisfying the parent company charter.

Although there is no direct involvement of the parent company in the reinforcement, the process will result in improved subsidiary performance and, long term, this will contribute to the sort of credibility and goodwill essential for the PDI and SDE evolutionary routes.

Evolutionary Process 4 – Parent Driven Divestment: Birkinshaw and Hood describe this as the mirror image of the PDI process. However, this fails to convey the full reality. Decisions to divest will inevitably be taken without the involvement of, or consultation with, the subsidiary management. As such the decision will be predicated on:

- Parent company understanding of the economic and industrial imperatives relating to the subsidiary and its charter.

- Parent company evaluations of the capabilities of the subsidiary and how these compare to other subsidiaries who themselves might be candidates for divestment.
- Parent company goodwill towards the subsidiary based on the quality of the relationship built up over years of interaction.

Given that the decision is totally within the hands of the parent company, there is nothing that the subsidiary could do to block a divestment. However, there is much that could have been done in advance. In common with the PDI process, subsidiary efforts aimed at developing unique capabilities, marketing them effectively to the rest of the group and developing and maintaining a close relationship with the parent company would in many cases avoid the trauma of divestment.

Evolutionary Process 5 – Atrophy through Subsidiary Neglect: The term Neglect probably overstates the process, but nevertheless it is possible to identify three discrete circumstances where subsidiary capabilities decline or stagnate, ultimately leading to a reduction in charter and possibly subsidiary closure:

- An acquired subsidiary with abundant capabilities may feel disappointed with what is considered to be a restrictive, even unworthy charter. Unless there is prompt action to renegotiate the charter, and this would be improbable without a level of trust and the communications capability to explain the mismatch, then those “excess” capabilities will wilt.
- A subsidiary operating in a non-competitive internal trading arrangement may deliver its charter but cease to seek out opportunities for capability enhancement and operational improvements. Relative to the industry norms and possibly even in absolute terms, the subsidiary will progressively slip behind the capability standard necessary to sustain its charter.
- Finally the efforts dedicated to Subsidiary Driven Charter Reinforcement may bring about enhanced capabilities but at a rate slower than in other group subsidiaries. In the event of group rationalising or downsizing, it is clear that subsidiaries that are seen to be slipping behind the pack will be the ones to lose their charters.

Again it should be noted that strong relationships and healthy communications, not only with the parent group, but also with the network of other subsidiaries, would reduce the risk of complacency and neglect.

Birkinshaw and Hood (1998) conclude their paper by advancing a series of propositions to explain the determinants of each of the processes. They suggest:

- A competitive internal mechanism for resource allocation and charter assignment will have a positive impact on the level of SDE and SDR and a negative impact on the level of ASN, at least those due to actual capability depletion.
- A decentralisation of decision-making in the multinational will increase the likelihood of SDR and SDE. They also argue that there will be an increasing likelihood of ASN but this assumes that the subsidiary will not use its extended decision making powers to enhance capabilities and charter in a unilateral way.
- Ethnocentric attitudes on the part of the parent company, but also the subsidiary, will lead to a greater likelihood of PDD and ASN but will reduce the probability of PDI and SDE.
- A strong track record of success, or the perception thereof, will have a positive impact on the likelihood of PDI, SDE and SDR and a negative impact on the likelihood of PDD and ASN.
- A high quality relationship between the parent and subsidiary will have a positive impact on the likelihood of PDI and SDE and a negative impact on the likelihood of PDD and ASN.
- The entrepreneurial orientation and capability of the subsidiary team will increase the probability of SDE and SDR and will have a negative impact on the likelihood of ASN.

These propositions echo the themes discussed in earlier sections. Cultural distance, relationship quality and communications effectiveness all impinge upon the direction and extent to which the subsidiary will be allowed to evolve. Clearly the subsidiary is by no means a passive observer in determining its own evolutionary path, but when faced by a cultural and linguistic barrier and an ethnocentric parent company, its future charter will be determined by its capability to overcome the barrier with effective communications and relationship building. Nothing in this body of literature suggests that the parent company will feel moved to develop its own capabilities in order to facilitate subsidiary evolution.

Knowledge Transfer

There was once a time when the transfer of knowledge between the operating units of a multinational company was seen as a worthwhile but non-strategic by-product of the internationalisation process. These days it is widely acknowledged that the

internalisation of intangible assets such as knowledge is the very reason why multinationals exist in the first place. (Buckley and Casson 1976), (Teece 1981), (Porter 1986) and (Ghoshal 1987). Although their view still persists, the underlying logic has been challenged. These early contributors took a market-driven perspective and argued that multinationals had to internalise knowledge because there was no efficient, external market for trading it. Later researchers (Kogut and Zander 1992) (Zander and Kogut 1995) reversed this focus and used empirical findings to argue that the reason that multinationals exist, is because they are efficient vehicles for creating and transferring knowledge, far more so than external arrangements such as collaborations and licensing. They also refined the theory claiming that companies were more likely to internalise, and use for competitive advantage, knowledge that is difficult to understand and codify. By contrast, that which is easily assimilated and readily coded is more likely to be information that is traded through licensing or franchise arrangements.

To fully understand this last point it is necessary to address the question of what is knowledge. Knowledge is classically subdivided into tacit and explicit (Polyani 1966), (Nonaka and Takeuchi 1995).

- Tacit knowledge is related to experience and involves the intangible components of the cognitive schema discussed in section 2.5. It is difficult, but not impossible to formalise tacit knowledge and indeed expert systems are specifically designed to do just that.
- Explicit knowledge is much easier to articulate, formalise and codify in documents, systems databases.

Zander and Kogut (1995) employ a slightly different typology using the terms know-how (which broadly equates to tacit) and information (explicit). However, neither attempt to classify knowledge into a simple dichotomy is entirely convincing. In part this is due to the fact that with time and cost most tacit knowledge can be converted into explicit knowledge. But more importantly at the strategic level most blocks of knowledge are hybrids, a mix of tacit and explicit knowledge. Technology is one form of knowledge that is of crucial importance to multinational success and yet exists as a hybrid of the two knowledge forms. A new piece of machinery may well be comprehensively defined by explicit means: Designs, specifications, preventative maintenance manuals etc. However, equally valuable knowledge explaining why it was designed the way it was and how best to utilise the new plant in the overall manufacturing system are unlikely to be codified and formalised and will rely instead on the transfer of tacit knowledge.

This distinction between tacit and explicit knowledge has encouraged researchers to examine how knowledge is actually transferred, what factors stimulate transfer and what factors impede it. The literature relating to these three questions will be reviewed below.

Concerning transfer mechanisms, the seminal work was provided by Keegan (1974). He found that for senior management documents were much less important than verbal communication, particularly in face-to-face meetings. A later empirical study (de Mayer 1991) confirmed Keegan's findings and concluded that technological innovations such as video-conferencing and emails had done little to reduce the importance of face-to-face meetings as the prime vehicle for transferring knowledge. And from the slightly different perspective of horizontal as opposed to vertical communications within a multinational, Ghoshal et al (1994) found that informal networking among managers in international project teams and task forces was the main determinant of knowledge flow.

More recently these contributions have been distilled into a model of knowledge transfer (Pederson, Peterson et al. 2001) illustrated in fig 26 (below):

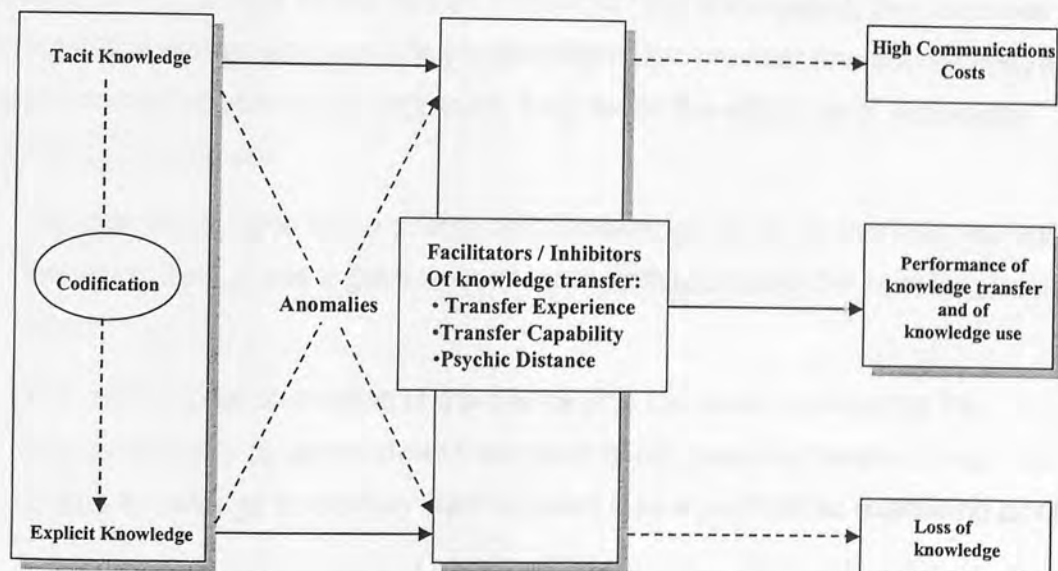


Figure 26 – A Model of Knowledge Transfer Mechanisms

Their findings, based on a study of almost 250 experienced Danish exporters, confirmed the following:

- Tacit knowledge is typically transferred by “rich communication means” comprising, face-to-face meetings, informal interactions and team-based mechanisms. This was also shown to be the most efficient communications medium for tacit knowledge.

- Explicit knowledge is typically transferred by means of "formal means" such as written documents, manuals, databases and designs. Again this was shown to be the most efficient medium for transferring explicit knowledge.
- The company achieves maximum knowledge transfer performance when the transfer medium is selected on the basis of the nature of the information to be transferred. However, despite this, approximately one third of all knowledge transfers employ a means that is inappropriate and inefficient for the information being transferred.
- Notwithstanding the choice of transfer medium, knowledge transfer efficiency is aided by previous knowledge transfer experience and developed transfer capability, and impeded by cultural distance between the transferring and receiving partners.

Useful as these findings are, however, they are largely based on the naïve assumption that knowledge transfer is a mechanical process in which human frailties play no part. This was not the view taken by Gupta and Govindarajan (2000). In their research based almost exclusively on know-how (tacit knowledge), they explored the impact of the human issues relating to the information provider (the source unit) and the information recipient (the target unit). They found the efficiency of knowledge transfer depended on:

- The perceived value of the source unit's knowledge stock. In short did the rest of the group think it was a good investment to work to acquire the knowledge on offer?
- The motivational disposition of the source unit. Did those possessing the knowledge want to demonstrate their value to the group by disseminating their unique knowledge or did they want to hoard it as a platform for exercising power?
- The existence and richness of the knowledge transfer channels, redolent of Pederson and Peterson's model.
- The motivational disposition of the target unit. Were they keen to catch up with their colleagues or were they resistant to any new ideas 'not invented here'?
- The absorptive capacity of the target unit, defined as their general ability to value, assimilate, and commercialise new, external knowledge. (Cohen and Levinthal 1989).

Based on a global survey of multinational subsidiaries, they examined information inflow and outflow with both the parent company and with peer subsidiaries.

They found that the perceived value of the source unit's knowledge stock, the richness of the knowledge transfer mechanisms, the motivational disposition of the target and the absorptive capacity of the target unit all had an impact on the quality and effectiveness of knowledge transfer. They did not find evidence that the motivational disposition of the source unit has an impact but they acknowledge this may have been due to the way this construct was operationalised. Their conclusions that the transfer of knowledge has a human dimension complements another important study (Szulanski 1996) which found that the three most significant components of knowledge transfer stickiness are:

- Low absorptive capacity of the target unit.
- Causal ambiguity: A lack of clarity and understanding about why the knowledge is important or why it is being transferred.
- Arduous relationship between the source and target units.

Their finding concerning the debilitating impact of an arduous relationship on knowledge transfer harps back to the discussion of social capital Section 2.4 and the two principal conclusions of the study by Barner-Rasmussen (2003):

- High levels of language skills promote inter-unit social capital.
- High levels of inter-unit capital promote inter-unit knowledge sharing.

Unfortunately none of the survey-based studies have as yet explicitly looked at language skills as a driver of knowledge transfer or the language barrier as an impediment. However, a qualitative study into the collaboration between Kone and Toshiba (Fai and Marschan-Piekkari 2003) illustrates the many ways in which language impinges on knowledge transfer. In a collaboration specifically established to capitalise on complimentary knowledge, Kone Japan was created, but there were several problems:

- Allegiance: Kone Japan was staffed by Finnish engineers who were fluent in Japanese and who were paid by the parent company in Finland. They were intended to provide a balanced flow of information, but living and working in the Japanese language they came, over time, to ally themselves more with Toshiba. Parent company managers in Finland felt that flow of information became one-way due to the biased allegiance of the Kone Japan engineers.
- For some purposes the Japanese and Finnish personnel used English but in a pidgin form. Miscommunication even with native English speakers was commonplace.

- Given the dearth of Finnish/Japanese translators, written documents often had to undergo a two-stage translation: From Japanese into English and hence into Finnish or vice versa. The potential for mistranslation and omission was profound.
- Top management meetings were held quarterly and in English, but key Japanese executives uncomfortable about communicating in English often absented themselves and demanded written documentation that slowed down the whole information exchange process.

Clearly not all inter-unit relationships will be so severely disrupted by the language barrier. However, it is equally clear that information exchange relies on effective communication and that in turn depends upon a shared language. Where there is no shared language, information exchange will be impossible and where there is only a partial sharing of language then it will have a detrimental effect on the quality and efficiency of the information transfer process.

Section Conclusions

There can be no doubting the increasing importance of the Multinational Enterprise nor can there be any question that these enterprises are having to manage ever-increasing levels of diversity. As has been demonstrated in this section, numerous researchers now acknowledge that many aspects of multinational management are not being driven by rational considerations but by the uncertainty of the international market place and the cognitive limitations of the international manager. Cultural issues shape their strategy and structure, define their control systems and influence their manpower selections.

Yet within this critically important area, language, the very substance of communication and a pre-requisite of understanding, trust, social capital and ultimately information transfer, has been largely ignored. As a research topic it has been left to linguists, whose preoccupation with syntax and semantics has left them blind to the implications of language for strategy, structure and systems. The findings of the two case studies in Chapter 5 will go part way to illustrating the seriousness of language as a field in International Business research.

2.9 The Control of Multinational Subsidiaries

Introduction

The subject of control was a significant theme in the literature related to entry method selection. Management teams would wish to adopt those methods of entry that provided an optimum balance between risk avoidance (low commitment) and comfort

(high control). However, control is not just about ownership it has to be exercised in some practical manner, and that implies a system of one sort or another.

Such control systems have been a long-time focus of business researchers. As a consequence there are numerous definitions of what control actually means. One of the earliest and most meaningful definitions is "*Organisational control systems represent mechanisms that convey information to initiate and regulate activities. They are needed to integrate individual goals and organisational diversity, to create order and co-ordination out of potentially diffuse individual behaviours and diverse interests*". (Pucik and Katz 1986).

In the context of this research on Multinationals and their Subsidiaries, this definition is particularly revealing for the following reasons:

- It stresses that the object of control is to direct behaviour of individuals and organisational sub-units towards the goals of the organisation as a whole.
- It highlights the existence of diversity and makes clear that control is intended to contain the effects of such diversity.
- It places an emphasis on the role of information flow as a key component of control.
- It makes abundantly clear that control is not passive monitoring but is an active process for initiating and regulating activities.
- Finally, it suggests that in harnessing the diverse interests to the over-arching organisational goals, there has to be the exercise of power by the parent company.

Beyond the simple definition of control, two areas that have particularly interested researchers have been the classification of different systems of control, and the understanding of why a company would select one system over another.

Control Typology

On the first of these, there have been many excellent typologies advanced, the most influential being Lawrence and Lorsch (1967), Galbraith (1973), Mintzberg (1979), Child (1984), Pucik and Katz (1986) and Martinez and Jarillo (1991). Analysing the work of 17 different writers active in the area of control, including those listed previously, Harzing (1999) has synthesised the various systems into a simple two-by-two matrix reproduced below (table 2.9):

Table 2.9 Matrix of Control	Personal/Cultural (founded on social interaction)	Impersonal/Bureaucratic (founded on instrumental artefacts)
Direct / Explicit	Category 1 – Personal Centralised Control	Category 2 – Bureaucratic formalised control
Indirect / Implicit	Category 4 – Control by Socialisation & Networks	Category 3 – Output Control

The four categories are explained below:

Personalised Centralised Control: Although several writers refer to centralisation there appears to be considerable variation in the interpretation of the term. Some writers (Agarwal 1993), (Wolf 1994) use the term as the corollary of autonomy and include functional centralisation i.e. the centralisation of business functions within the definition. Others (Kriger and Solomon 1992) and (Lincoln, Hanada et al. 1986) focus specifically on decision-making control but even here there is some divergence. Lincoln, Hanada et al. draw a distinction between formal authority (centralisation in theory) and de facto authority (centralisation in practice) that other writers do not acknowledge. In the empirical sections, Chapters 5 and 6, consideration will be given to both functional centralisation and de facto centralisation

Bureaucratic Formalised Control: Control by bureaucracy as the name suggests implies using impersonal mechanisms to direct not only what employees and organisational sub-units should do, but also how they should do it. (Hulbert and Brandt 1980). They refer specifically to a morass of procedures and reports, and predict that some American companies are at risk of drowning in their manuals and policy guidelines. This prediction will find echoes in Case Company 2, Chapter 5, following the post-Enron directives relating to ethics, financial regulations, harassment and discrimination. Today it is also reasonable to assume that such directives have in many cases been developed into computerised systems that facilitate, and in some cases will enforce, compliance.

Output Control: Is based on Agency Theory and focuses wholly on what individuals and sub-units should do and leaves the how unstated (Neghandi 1987). Companies that impose onerous reporting requirements on their subsidiaries' performance are recreating a form of market coordination in which the supplier (the subsidiary) is left to work unshackled as long as he delivers to the customer's (the parent company's) expectations. The performance reports serve simply as a monitor of the subsidiary's capability to deliver.

Socialisation and Networks: This control form builds on the emerging view of organisations as a network of interpersonal relationships (Calori, Lubatkin et al. 1994). Multinational enterprises that successfully diffuse their corporate culture and that effectively harness the potential of formal and informal networks within the virtual organisation would be seen as controlling through socialisation. At the macro level the tools are corporate symbols, missions and visions, while at the interpersonal level they include visits, social events, corporate get-togethers, global training programmes and international project teams.

In proposing this taxonomy of control systems Harzing (1999) offered three further insights.

- Firstly, she suggested that these systems are complementary with a single organisation possibly employing different control styles for different sub-units or subsidiaries.
- Secondly, she embraced the ideas of Martinez and Jarillo (1989)1989 accepting that conceivably the 4 systems might be cumulative, with socialisation being the last to be added after the other three had each been consolidated.
- Finally she recognised that in terms of complementarity some combinations of systems were more plausible than others. In particular she saw Output Control and Socialisation, and Centralisation and Bureaucracy as logical pairings.

Having established a robust taxonomy, researchers have turned their attention to the criteria that influence the selection of system.

Factors influencing Control System Selection

Early theories focused on domestic businesses and attempted to explain the control systems as a function of the business characteristics. For example, Child (1973) was able to demonstrate that control system choice was linked to the size, ownership pattern and level of technology of the company. His model showed that bureaucratic control was the preferred choice of large, technologically developed organisations while smaller organisations especially those with concentrated ownership were more likely to adopt centralisation strategies. Later studies (Van de ven, Delbecq et al. 1976) and (Child 1984) added further influences, notably the degree of interdependence and the uncertainty of the business environment. Both of these factors were positively correlated with control by socialisation and networks.

A parallel field of research looking specifically at Multinational organisations moved away from this purely functionalist approach and began to consider how control system choice was influenced by the national culture of parent and host country.

The anticipated correlations using the Hofstedian cultural dimensions are easily predictable. Parent companies domiciled in countries with high Uncertainty Avoidance might prefer the comfort of a strict bureaucracy. Those based in countries with high Power Distance might prefer centralisation, while low Masculinity and high Individuality suggest a preference for Socialisation strategies. However, the empirical research generally comparing only a single cultural dimension across two or more countries is far from unanimous.

A cross-section of researchers looked specifically at personal centralised control (Agarwal 1993), (Harrison 1994) and (Jain and Tucker 1995). They all provide evidence that a high Power Distance parent, typically Japan, adopts a more centralised control strategy than does a lower Power Distance parent, for example the USA. However, their findings were challenged by other researchers (Chow, Kato et al. 1994) and (Kriger and Solomon 1992) who found the exact opposite.

A possible explanation for these apparently incompatible findings might be the use of expatriation as an alternative form of centralised control. Several researchers (Bartlett and Ghoshal 1989), (Kopp 1994), (Ferner 1997), (Yoshihara 1999) refer to this tendency of Japanese Multinationals (high on Power Distance) to create what Harzing (1999) terms mini-headquarters within the subsidiary. This being the case, a form of centralisation based on local expatriates acting as representatives of Head Office, may have confused earlier research findings.

A similarly confused picture emerges when considering prior research on the use of bureaucratic control. One group of researchers (Harrison 1994), (Zaheer 1995) and (Chow, Kato et al. 1994) all found evidence supporting the intuitive idea that high Uncertainty Avoidance would encourage parent companies to formalise. However, here too other researchers (Yaeger and Baliga 1985), (Ferner 1997) have found contrary results. Another researcher (Neghandi 1987) reports that 88% of the subsidiaries of US companies (relatively low on Uncertainty Avoidance) depend on written procedures while the same dependence is true for only 12% of subsidiaries of Japanese MNE's.

A more consistent picture emerges concerning the research on output control. Several researchers including (Hulbert and Brandt 1980), (Egelhoff 1984) and (Neghandi 1987) have attested to a preference by US and British parent companies (both high on Individualism and medium-low on Uncertainty Avoidance) for this style of hands-off control.

Finally, a small body of researchers (Snodgrass and Grant 1986) and (Calori, Lubatkin et al. 1994) have demonstrated that the US parent companies (high on

Individuality) do achieve a higher level of shared values and do establish higher levels of informal communication within their subsidiaries than do their more collectivist equivalents from Japan and France respectively.

The research discussed thus far has considered only the cultural perspective of the parent company but other researchers have examined also the issue of cultural distance between parent and subsidiary. The results once again are ambivalent. Although not using the same taxonomy of control systems discussed previously, Baliga and Jaeger (1984) and Rosenzweig and Singh (1991) both proffer evidence linking high cultural distance with bureaucratic control and low cultural distance with socialisation. However, this was only weakly supported by Wolf (1994) who instead found evidence of a negative correlation between output control and cultural distance.

A major research project pulling together most of the previous strands of research (Harzing 1999) was based on a survey embracing respondents in over 20 countries. She examined both the impact of business characteristics and cultural dimensions and her findings represent the most complete model of control selection available at this time.

In terms of business characteristics she examined the following correlations at the corporate level:

- Strategic Configuration of the parent group had an influence on control. Corporations with a Multi-domestic configuration experienced an overall lower control intensity and had a preference for output control and socialisation. Global companies prefer to control using the two direct methods and transnationals prefer control by socialisation and networks.
- Company size too is an influence. Larger companies show a preference for both output control and control via socialisation and networks, though the logical correlation between size and bureaucracy was proven only for companies domiciled in selected countries.
- The degree of multinationality, a surrogate measure for previous international experience, does not appear to influence control style selection. Harzing tested a range of hypotheses and none proved statistically significant.
- And the complexity of the business too was found to have no statistically significant influence on control style preference.

Harzing also examined business characteristics at the subsidiary level:

- Subsidiary size, both absolute and relative to the group, was found to have a strong positive influence on the adoption of both output control and control through socialisation and networks. Size however, had no influence on bureaucracy or personal centralised control.
- Subsidiary age found no correlations with any of the four methods of control though there was a strong negative relationship between age and numbers of expatriates.
- Interdependence, as measured by logistical integration, was positively correlated with both personal centralised control and bureaucracy. Surprisingly, given that interdependence implies more contact and a higher level of common interest, it was not seen to have any influence on control by socialisation and networks.
- Local responsiveness, linked to the multi-domestic strategic configuration, was found to be negatively correlated with total control intensity and with both direct methods of control: personal centralised control and bureaucratic formalised control.
- Environmental uncertainty, at least in terms of technological dynamism was found to be positively linked to control by socialisation and networks and negatively associated with personal centralized control.

Valuable though these insights are, several of them confound earlier research leaving the whole field of the impact of business characteristics on control, an area requiring yet further research.

Examining the impact of cultural issues on control, the Harzing study exposed other interesting findings:

Parent country of origin was found to be a strong influence on the choice of control system, as illustrated in the table 2.10 (below):

Control Mechanism	High Use in Subsidiaries of MNE's from:	Low Use in Subsidiaries of MNE's from:
Personalised Centralised Control – traditional model of HQ control	Germany UK	Switzerland Sweden
Personalised Centralised Control – alternate model expatriation	Japan	
Bureaucratic formalised control	UK US	Finland Japan
Output Control	UK Germany	Finland Japan
Control by Socialisation and Networks	Switzerland Sweden	France Japan

Cultural distance between parent and host country cultures was surprisingly not found to have an impact on the aggregate level of control intensity. However, there was a positive correlation between cultural distance and control by expatriation, and statistically significant negative correlations between cultural distance and both bureaucratic control and output control. These findings were theoretically supported by Hamilton and Kashlak (1999) but using a different typology and a different theoretical framework.

Looking at the relationship between control and trust, in the context of Joint Ventures, Das and Teng (1998) advance some clear ideas about the impact of one on the other. They suggest:

- The aggregated level of trust and control will determine the firm's confidence in partner cooperation. Ideally you have both, but if you don't have trust you must have control and vice versa. If you have neither then the situation is set for suspicion and recrimination.
- Formal control mechanisms (bureaucracy / output reporting) will undermine the level of trust.
- Social control mechanisms will enhance the level of trust.
- Control mechanisms will achieve a higher effective level of control in high-trust situations as opposed to low-trust situations.

With these observations, Das and Teng return again to the conclusion that control is not a separate entity but is an integral component of Internationalisation strategy: A strategy in which the balance between risk and probable return and uncertainty and trust need to be optimised.

Section Conclusion

The whole field of control appears to be fraught with contradictions. For example, with their risk aversion and with a culture built around clans and trusting relationships, it is hard to understand why Japanese MNE's are so loath to employ either bureaucratic or socialisation styles of control.

One possible explanation is that there has been a constant, unstated presumption in all the research conducted to date; the presumption being that multinationals adopt the mix of control systems that they are commercially and culturally predisposed to prefer. There has been no attention paid to the idea that companies instead choose the control systems they are best equipped to deploy. Yoshihara's research (1999) confirms that up to 80% of communications, verbal and written, between a typical Japanese multinational and its subsidiaries is in the Japanese language. Given that only a very small proportion of host country employees have any competence in the Japanese language, this would seem to preclude control by bureaucratic means and by socialisation. As a consequence, Japanese multinationals adopt control through expatriates and control by outputs because those are the systems least constrained by the language barrier.

This oversight has been partially addressed by Feely and Harzing (2004) who have classified the four control systems into those that are communications intensive (Socialisation and Bureaucracy) and those that are less so (Centralisation and Output Reporting), and have used this new typology to advance hypotheses about the preferred control styles for English-speaking corporations, where global communication is less of a problem, and non English-speaking corporations who will have much greater problems communicating globally in the parent language.

2.10 Literature Review Conclusions

This Literature Review was tasked from the outset with four separate but overlapping objectives:

- To test the initial claim that the field of language in international business was, as predicted, barren of empirical research and therefore, a fully justified focus for a doctoral thesis.

- To establish a wide-ranging foundation of extant knowledge to enable the findings of this research to be assessed from multiple perspectives, and to correctly position the findings of this research in the body of knowledge related to international business management.
- To evaluate the extent that existing research supports and informs the simple twin-cycle model presented in the opening chapter.
- To provide an informed platform upon which precise research propositions could be formulated for testing in the empirical stages of the research.

The last of these forms the theme for the concluding section of this chapter and will not be further discussed here.

The first was abundantly confirmed by the findings in section 2.1. Amongst the many academics consulted during the research there was a clear consensus that the impact of language difference in international business was indeed “forgotten”, “neglected” and “orphaned” as claimed. This view was further borne out by the statistical analyses conducted using the Web of Science database. There is little need, therefore, to re-assert that this is a wholly valid area for research, and one in which there is a complete absence of deductive studies designed to test propositions.

That leaves the creation of a robust foundation and the evaluation of the twin cycle model. The foundation provided is certainly expansive and has been widened considerably over the course of the research programme. Key issues omitted at the outset and subsequently added have included:

- Group theory and the possible impact of language on group identity.
- Uncertainty and trust, and the corollary conflict and conflict management.
- Social capital and relationships.
- The need to review multinational management from both the parent and subsidiary perspectives.
- Knowledge management.

This breadth of literature, when distilled down, provides a clear response to the positioning issues that were not obvious from the initial model:

- The research could not focus exclusively on “what” questions of the type “what is the impact of language difference on the establishment of a shared corporate culture?” The “why” questions were equally important and the research needed to explore the underlying issues of mistrust, conflict, respect and dishonesty.

- When examining the impact of language from the parent perspective the key indicators to be tested would be entry method, post-acquisition integration, strategic configuration and language management strategies, all of which emerged as key themes in the literature.
- Similarly, from the subsidiary perspective the key indicators would be role charter, expatriate usage, knowledge transfer and control styles. These again stood out as key themes in the literature on subsidiary management.

The final clarification emanating from the literature was expected but, nevertheless, unwelcome. The review confirmed that no previous work had attempted to establish operational measures for the language barrier and that the definition and operationalisation of this construct would be a fundamental task to be added to the research programme.

Indispensable though these findings have been, the true value of the literature review is to be found in what it says about the original model advanced in chapter 1. And this is the topic for the remainder of the section.

To remind the reader of that model, it is reproduced in graphic form (fig.27) below:

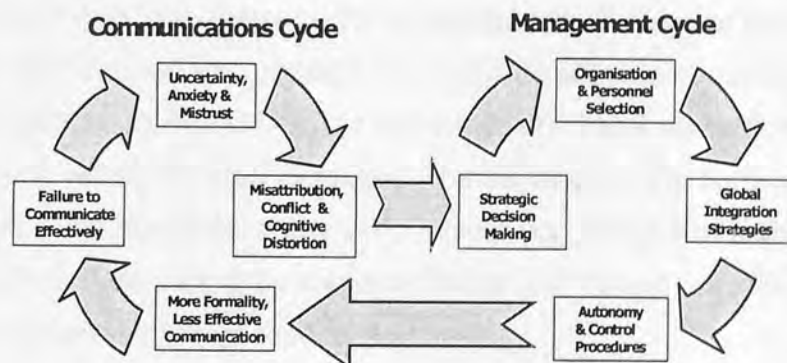


Figure 27 – The Twin Vicious Circle Model

The sociolinguistic literature reviewed in section 2.3, and the cognition and decision-making literature that formed the focus for section 2.5 combine to provide strong support for the communications cycle of the model. The linkages can be summarised as follows: *Linguistic attribution* at the outset of the relationship, deludes the parent and subsidiary to imagining that they are more similar and enjoy a higher level of understanding than is really the case. Subsequently, communications failures caused by *loss of rhetorical skills*, *misunderstandings* and *face* lead to uncertainty, anxiety and a general under valuation of the out group's capabilities. Attitudes harden, and inter-group relationships suffer as *group identities* polarize and motives and actions

are incorrectly and negatively *attributed*. The risk of affective conflict intensifies as factors such as *code switching*, *power-authority distortions* and *parallel information networks* compound the sense of suspicion and friction. All of these negative influences then become cemented in the *cognitive schema* of those involved, reinforcing stereotypes and fuelling *group identities* and *attribution*. The combined impact of the anxiety, the polarization, the suspicion and the negative stereotyping, is to increase the sense of *separation* between the parent company and its subsidiary, and communications between the two become more strained, guarded and formal as time goes on. In similar fashion the *polarisation* of the *cognitive schemas* between parent and subsidiary, impair both the quality and appropriateness of the parent company *decisions* and the ability of the subsidiary management to *understand* and contribute constructively to those decisions. With *misunderstandings* and *misattributions* now commonplace the levels of *suspicion mistrust* and *conflict* increase and the *separation* between the two groups widens further.

Section 2.4 then focused back on the relationship and looked at the factors that would determine the quality of the partnership that would exist between a parent company and its subsidiary. Key influences such as trust, conflict, social capital and the exercise of power were explored and these were related back to the systems model of relationship management. Taken together the findings of this section confirm the view that, where language is a barrier to effective communications, trust will be undermined, conflict stimulated and the use of power abused. The quality of the relationship will be severely damaged. The evidence of this body of literature endorses the lower horizontal arrow of the model, confirming that problems in the communications cycle cannot be contained there, but instead will spill over into the operational and strategic areas of the relationship.

The first such area is likely to be the strategies adopted to contain and manage the language problems, and this was the theme of section 2.6. This section made clear that the geographic and linguistic spread of most multinational companies is expanding rapidly. Drawing parallels with the Fishman-Pool Hypothesis (Pool 1972) it went on to demonstrate that the existence of a language barrier between parent and subsidiary would have an unwelcome economic impact on the group performance, and that competent, rational companies will be alert to those costs and will take corrective actions to reduce them. The literature on language management solutions then highlighted the wide range of options available and stressed that language aware companies would blend those options into a coherent language management strategy. Sparse though it is, therefore, the literature on language management does

support the first of the boxes on the operational cycle. Where language difference is an issue, strategies will be invoked to manage the language problems.

Section 2.7 consisted of three subsections that review the literature related to the internationalisation strategies of multinational companies. Two common features emerged.

- The decision processes are all governed by the need to reduce uncertainty. When there are barriers to understanding or knowledge building then companies will be prudent, cautious and risk averse in the internationalisation decisions they take.
- The importance of experience was stressed as was the strong reliance upon incremental development, using the knowledge and capabilities gained from one international initiative to direct and guide the next. If that experience has been positive and successful, then the future steps will be more ambitious. If not then the parent company will further ramp up its caution and risk aversion and will take more prudent steps still, to avoid a repetition.

Language difference which is patently a very serious barrier to accumulating knowledge and understanding of a target market should encourage the parent company to be very cautious, selecting such markets with care and avoiding high risk entry methods. And if one unhappy experience with language barriers has caused costs and management problems then the company should be even more circumspect when considering future overseas ventures.

Section 2.7 did not provide unequivocal backing for the strategic box on the model. No research beyond the very early work of the Uppsala team has included language as a variable in their studies. However, by concentrating on the themes of uncertainty, incremental learning and transaction cost, this section certainly provided very plausible circumstantial support for the claim that language difference would have both an initial and a learning curve impact on the internationalisation strategies adopted.

Section 2.8 covered the bread and butter issues of multinational management: Strategic configuration, manpower, subsidiary role and knowledge transfer. It demonstrated that numerous researchers now acknowledge that many aspects of multinational management are not driven by rational considerations but by the uncertainty of the international market place and the cognitive limitations of the international manager. Cultural issues shape strategy and structure, define integration goals and influence manpower selections. Subsidiary choice was shown

to be a major determinant of capability development and charter enhancement, but the literature demonstrated that this too is constrained by the effectiveness of the parent subsidiary communications and the quality of the relationship developed.

Despite the absence of specific language-focused research, therefore, the literature did provide a strong body of evidence upon which language influences can be validly mooted. For example:

- The transnational and global models of strategic configuration rely upon trouble-free communications between parent and subsidiary. Hence, it is entirely logical to suggest that English-speaking parent companies who enjoy the luxury of the one truly international language, and to a lesser extent language skilled companies, will be better equipped to adopt these configurations.
- The level of trust and respect the parent holds for the subsidiary will in large part, determine the assignment of a strategic role to it. As the language barrier curtails the development of trust and respect, it is reasonable to conclude that subsidiaries disadvantaged by a language barrier are less likely to be assigned those roles.
- Two of the principal reasons advanced for the appointment of expatriates to work in a subsidiary are to provide a channel of communication, and to exercise control. It is entirely in keeping with the earlier findings of the literature review, that where a language barrier exists there will be a heightened need for communications channels and with a lack of trust there will be a greater emphasis on exerting restrictive control.
- Trust and openness are two pre-requisites of effective knowledge transfer. In the presence of a language barrier both attributes will be severely depressed, indicating that indirectly language will impair the transfer of knowledge.

The general thrust of the evidence presented in section 2.8 was that it would be naïve not to expect language to influence these multinational management practices. The absence of documented evidence is attributable to the absence of specific research to explore the exact nature of the language barrier at work. Nevertheless, it would be a harsh judge who, reading between the lines of the published literature, did not find encouraging support for the international management box of the operational cycle.

Section 2.9 examined the final box of the operational cycle: Control. All the research reviewed is predicated on the idea that companies chose their style of control based upon their cultural pre-disposition to favour one method over another.

However, the contradictory evidence suggests a different explanation e.g.

- With their high uncertainty avoidance and a culture built around clans and trusting relationships, why are Japanese MNE's so loath to employ either bureaucratic or socialisation styles of control?
- With their tolerance of uncertainty and their encouragement for individuality, why are US corporations so keen on bureaucratic control?

One possible explanation is that instead of choosing the control styles that they prefer, companies adopt the control systems they are best equipped to deploy, and in this language would be a key factor. Japanese companies shy away from socialisation and bureaucracy because the minority status of the Japanese language prohibits them from doing so. US companies by dint of the international popularity of the English language are ideally placed to disseminate their policies procedures and systems with no adaptation for local markets, and so they do so.

So, as previously, the literature on control provided no direct evidence because quite simply there has been no prior research. Nevertheless, the literature that does exist does suggest that, as some control styles will inevitably be more communications dependent than others, then the presence of a language barrier between parent and subsidiary will influence the blend of control styles adopted.

This conclusion advances credible support for the final box of the operational cycle of the model. There remains only the feedback arrow; the arrow indicating that the strategies decided on, the management practices adopted and the control styles adopted will generate an opposing reaction to that sought. Instead of easing the language barrier problems they will exacerbate the situation and cause a further escalation of miscommunication, mistrust, conflict and polarisation.

The literature review has shed very little light on this final part of the model except for the very simple observation in section 2.4 that asserts "trust begets trust: mistrust begets mistrust". Quite clearly a subsidiary that finds itself:

- Excluded from the strategic development of the group.
- Flooded by expatriates overseeing their work.
- Subjected to oppressive level of control and reporting.

Will feel itself mistrusted, and will respond to the parent in like measure. However, this is a relatively weak basis for claiming support for the return arrow. Any future research programmes should, therefore, give pride of place to the communications and relationship literature focused on reciprocation.

2.11 Propositions for the Empirical Research Phases

This Literature Review has been wide ranging, transcending several subject areas and also more than a few Social Science disciplines. However, this breadth has been necessary to provide a foundation for a research design that will be anything but unfocused. The value of such an extended literature review in the context of this thesis has been fourfold.

Firstly, the review has opened up new fields of research that had not figured in the original planning. Fields such as relationship management, social capital and strategic configuration have emerged as key areas to be explored in this thesis, and yet at the outset of the review they were complete unknowns.

Secondly, the review has brought into clear relief the stark divisions of methodology that have been applied by earlier researchers to explore the field of multinational management. The soft case study approach exemplified by Marschan-Piekkari and Tayeb provides fascinating insights into specific issues but offers limited generalisability. The broad-brush global survey approach adopted by Harzing and many other researchers in the field generates a plethora of answers of the "what" type without being able to offer any insights that help to explain "why". As will be discussed in Chapter 3, this thesis employs both approaches; a testimony to the impact made by the literature that was reviewed.

Thirdly, the review provides at least partial support for the twin vicious circle model introduced in the opening chapter. Section 2.3 clearly established that language directly through miscommunication and code switching and indirectly through group allegiance and psychic distance, adversely affects relationships. It introduces uncertainty, promotes mistrust, triggers conflict and distorts the power balance, and in section 2.5 these are factors shown to have an impact on decision-making. Section 2.7 takes up this theme and specifically explores the influence of uncertainty on internationalisation strategy. Section 2.8 continues at the subsidiary level and demonstrates that language, relationship distance, and uncertainty are strong influences on such strategies as manpower selection, subsidiary integration and knowledge transfer. Finally, in section 2.9 the clear interdependence of trust and control comes through with language and communication being shown to a plausible explanation of the choice of control strategy adopted. The basic building blocks of the model have been substantiated, by reference to prior literature. It remains the task of the empirical phases of this research to find evidence to support the other components of the model: The sequence of linkages and the iterative nature of the cycles.

The fourth, and arguably the most important, role of the literature review has been to furnish a credible foundation for the definition of more precise research propositions. This it has done:

Sections 2.3 and 2.4 have amply demonstrated the corrosive effects of the language barrier on business relationships. Applying these findings to a parent / subsidiary relationship generates the following proposition:

P1. The existence of a language barrier between the parent company and its subsidiary will have a detrimental effect on the relationship between the two parties:

- *There will be unsatisfactory interpersonal relationships with a lack of liking, respect, honesty, openness and trust.*
- *There will be an emphasis on blame assignment with negativity, polarisation, criticism and friction.*
- *There will be a lack of appreciation, and recognition of the qualities of the "outgroup" members.*
- *There will be an absence of teamwork and collaboration, and on the part of the subsidiary there will be a tendency to autonomous strategic behaviours.*

Section 2.5 illustrated many of the ways in which language-aware companies could respond to the language barrier. It was clear that the greater the language barrier confronted, the more the company will be alert to these options, hence:

P2. The existence of a language barrier between the parent company and its subsidiary will help to focus awareness on the importance of language as a management issue. Language-aware companies will:

- *Be more likely to formalise a corporate language policy or at least a protocol for the use of language in parent subsidiary communications.*
- *Be more ready to spend on language training for those involved in international communications.*
- *Be more alert to the need to provide multiple language options in publicity materials, technical literature and brochures.*
- *Be more likely to adopt multiple language interfaces in their IT Systems, their Website and their Intranet.*

The third proposition blends consideration of internationalisation strategy, section 2.7 with strategic configuration and subsidiary role 2.8. Linking these together the following proposition emerges:

P3. The existence of a language barrier between the parent company and the host country where it proposes to establish a subsidiary will impair information flow and will undermine the parent company's confidence that they have fully understood and evaluated the target market. As a consequence:

- *They will be more likely to adopt a low risk entry method i.e. A Joint Venture or a modest green-field site acquisition.*
- *They will be less likely to take decisive actions in the short term e.g. large investments, wholesale changes in management structure etc.*
- *They will be less likely to accord the newly acquired /created subsidiary a strategically important role in the Group operation.*

Section 2.8 also developed a clear argument that subsidiary integration and information flow were processes in which the relationship characteristics, trust, social contact and motivation would have a decisive bearing. Hence the proposition:

P4. The existence of a language barrier between the parent company and its subsidiary will have a detrimental effect on the degree to which the subsidiary becomes integrated in the Group organisation. This low level of integration will be manifested itself in:

- *A limited involvement of the subsidiary in internal group supply chains (purchasing from or selling to other group operations).*
- *Restricted involvement of the subsidiary in strategic decisions relating to their field of operation.*
- *A low level of knowledge transfer between the two, especially from the subsidiary to the parent company.*
- *Ineffective use of the skills of the subsidiary personnel within the wider group operation.*

Again referring to Section 2.8, the reliance upon and the roles for expatriate managers clearly emerged as communications driven. Relating this to the language barrier brings the proposition:

P5. The existence of a language barrier between the parent company and its subsidiary will serve to increase the reliance of the parent company upon expatriate managers. Specifically, where a language barrier exists the parent company will:

- *Employ a greater number of expatriates*
- *Employ those expatriates in key line roles rather than in advisory roles*
- *Depend on those expatriates as means of exerting control over the subsidiary operation*
- *Depend on those expatriates as a channel of communications that helps to circumvent the language barrier.*

Moreover, where there is a language barrier the expatriates so employed will be less well liked and respected and will integrate less well into the subsidiary management team.

Finally, section 2.9 highlights the interlinking of control and trust and communication and control style, hence the proposition:

P6. The existence of a language barrier between the parent company and its subsidiary will serve to increase the aggregate level of control exerted by the parent company over its subsidiary. Within this aggregate imposition the effect will be to avoid those styles of control that are “communications intensive” (Bureaucracy and Socialisation) and to emphasise those styles of control that demand less communication - “communications independent” (Centralisation and Output Reporting).

These propositions are illustrated in the correlation diagram fig 28 below.

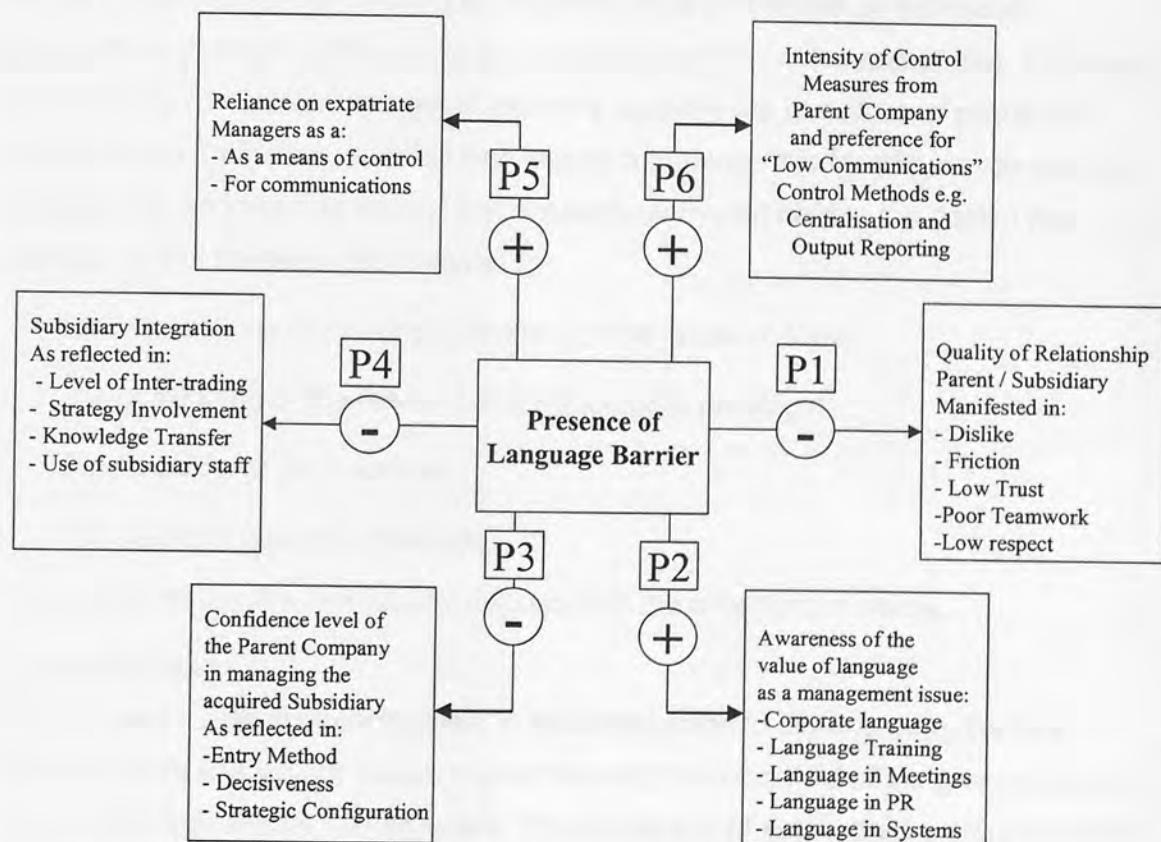


Figure 28 – The Research Propositions

These propositions will drive the research design and the selection of methodologies (Chapters 3 and 4 respectively) and will form the focus of the Case Study Analysis in Chapter 5.

Chapter 3 Research Design

3.1. Introduction

This chapter defines and explains the design of the research programme and is a prelude to the discussion of the specific methods adopted in the conduct of this doctoral project, which is the subject for Chapter 4. It begins with a review of some of the philosophical issues that have driven the approach to the research. It then goes on to review the selection of methods and the way that these have been blended into a cohesive research design. This chapter also summarises the process, structure and overall timing plan for the research project and concludes with a distillation of the design principles that will be carried forward into the Methodology development.

3.2. Philosophy of research

As a veteran of many projects in industry the researcher arrives at doctoral research with a mixed preparation. Strong in methods and with a wealth of first-hand experience, there are indisputable advantages over the novice researcher. However, practitioners rarely take time out to examine explicitly the questions of philosophy underpinning their work, and this was initially a problem. It is for this reason that it is important to address four issues that are particularly pertinent to the design and conduct of this research programme:

- The implications of pre-understanding of the research topic
- The positioning of the researcher's sociological paradigm
- The reliability of data sources
- The status of research methods

These four issues are individually discussed in the subsections below.

Pre-understanding

As has been made abundantly clear in the introduction to the Literature Review chapter, there is a severe dearth of prior research into the field of Language and its impact on Multinational Management. The framework of extant theory around which to develop hypotheses is notable by its absence, and this would normally dictate an exploratory methodology with an inductive objective.

However, based on many years of international working, the researcher came to this project armed with a pre-understanding of strategic management and the influence of language on the business processes that link multinational parent companies with their subsidiaries. The word "pre-understanding" as used here takes on the wider

connotations of the definition (Gummesson 2000): Pre-understanding is not just knowledge, but experience, attitude and commitment to one's own beliefs. Expressed in simpler terms, the researcher began with a broad understanding of the issues, and the object of this research, therefore, was to develop and refine that understanding.

In many ways this is, of course, a virtue and Gummesson stresses the importance of first-hand institutional knowledge and practical understanding of the social interaction processes, as pre-requisites for research of high quality. Indeed, he goes on to identify four problems of research conducted in the absence of pre-understanding:

- The inability to weigh or prioritise factors
- The risk of choosing an inappropriate or restrictive method for access
- A lack of awareness of the wider picture leading to weakness in the empirical data collected
- A vulnerability to fashionable answers at the expense of rigorous analysis.

Nevertheless, despite his advocacy of the value of pre-understanding, Gummesson is at length also to alert researchers to its risks. He uses the De Bono "hole analogy" to warn against prematurely "pegging out" the hole (the hypothesis) based on false pre-understanding. Thereafter, tireless effort may make the hole bigger, deeper and more impressive but it will do nothing to improve the correctness of its positioning.

Gummesson uses the term "*blocked pre-understanding*" to describe how knowledge and experience, if too selective or erroneously focused, can seduce the researcher into forcing reality into the concepts of his prejudged theories instead of using that reality to expand further the foundations of that understanding.

This astute and perceptive warning makes clear that any pre-understanding must be "*subject to change*" and that the researcher must remain alert to "*paradigm, selective perception and personal defence mechanisms*" that could threaten openness and objectivity. To achieve this the research will be designed so as to develop the pre-understanding into a more robust base of knowledge through a process that Gummesson defines as the hermeneutic cycle (later the hermeneutic spiral) – fig 29 (below).

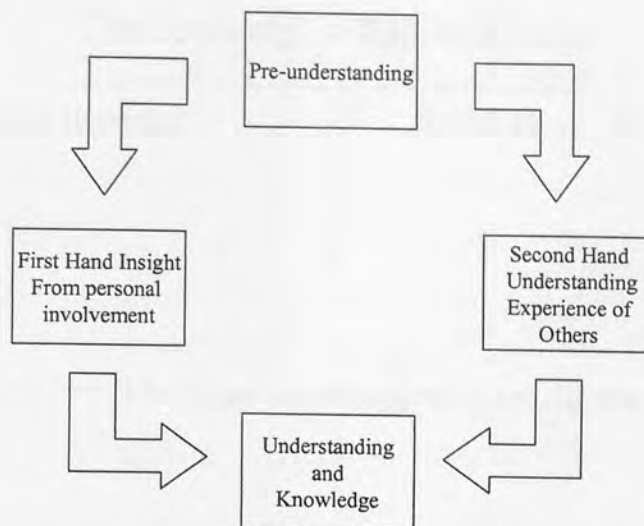


Figure 29 – The Hermeneutic Spiral

This model gives a proper positioning to pre-understanding, not as a direct input to understanding itself but as a point of departure for study, which must involve both research of the experience of others and personal development through continuing first hand involvement in the processes being researched. Accordingly, the research design will seek to employ both styles of investigation, in order to ensure the pre-understanding emerges as a platform for, and not a constraint upon, the advancement of objective knowledge.

Research paradigm

A seminal work on research philosophy (Burrell and Morgan 1979) introduces the concept of sociological paradigms as a framework for understanding the alternative perspectives that researchers could adopt when viewing the social world. These paradigms act as a frame of reference defining the researcher's ontology and epistemology and explicating their assumptions about the relationship between humans and their environment. Burrell then draws out the implications of the research paradigm for the selection of research methodology.

This framework proved to be a practical foundation for defining personal research paradigms, and for confronting the methodological questions that would underpin the research design. As illustrated below (fig 30) the Burrell and Morgan classification is based on a two-by-two matrix.

The Sociology of Radical Change

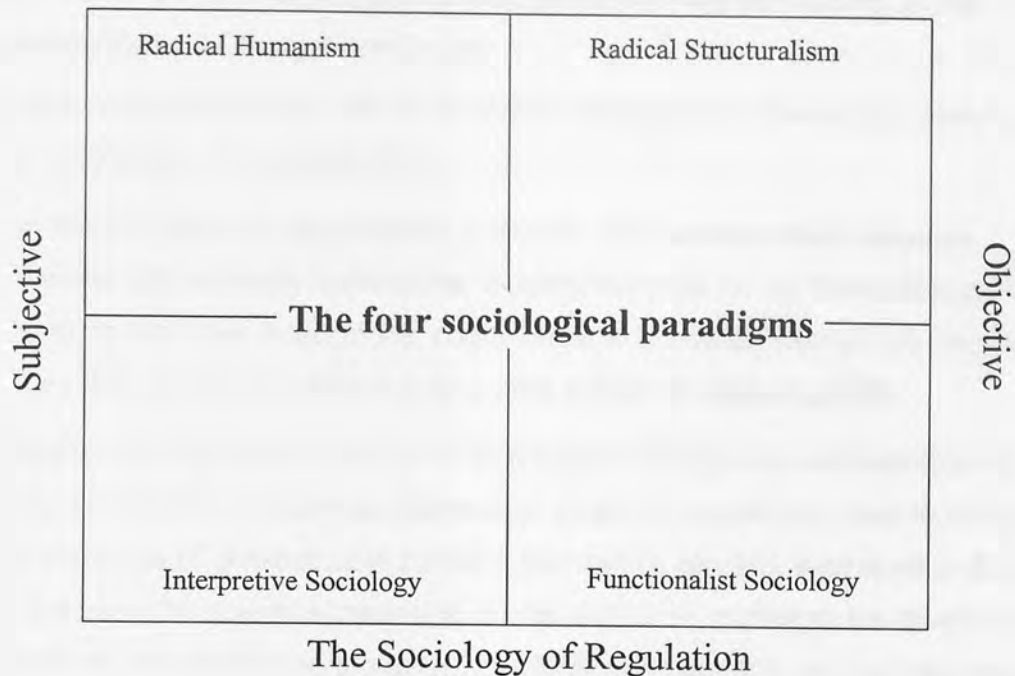


Figure 30 – The Matrix of Sociological Paradigms

Simple though this framework is, however, the positioning of the researcher's own paradigm proved to be problematic.

The vertical axis divides the matrix into the sociology of regulation and the sociology of radical change. From a personal perspective the researcher's paradigm is characterised by:

- A focus on regulation.
- Comfort with the "ordered view" and it's emphasis on stability, integration, coordination and consensus and with its purpose of explanation.
- Balanced by an understanding that within business, and even more so within society as a whole, change is a pre-requisite of survival and conflict is an inevitable, arguably even a desirable, stimulus of change.
- And underpinned by an acceptance that society forms part of a hugely complex, open system and so has to adapt and evolve constantly to maintain the delicate equilibrium with its environment. Then, as with any complex system, there will be emergent consequences that cannot be easily explained simply by analysis of the component parts.

In Burrell and Morgan terms, this is a hybrid stance. It believes strongly that there are underlying patterns that help one to understand how the societal system works, but

accepts that these patterns will often be complex and will mutate dynamically as the system itself evolves. This pluralism leaves unresolved the positioning on the "Regulation/Radical Change" continuum.

The positioning on the other axis of the matrix, "Subjectivity versus Objectivity" is equally ambiguous. The researcher:

- Can readily reject the two extreme positions: The concept of an objective, universal truth is wholly implausible. Society depends on the interaction of actors who bring their own intelligence, cognitions and idiosyncrasies to bear on the issues they touch, thus introducing a wide margin of unpredictability.
- However, by the same token, given that human intelligence and cognition will follow some form of balanced distribution curve it is equally impossible to deny the existence of generalisable patterns that can be studied, evaluated and used as the basis for objective theorising. In defining one's paradigm the crucial issue, therefore, is to determine the extent to which these patterns can be treated as external realities as opposed to subjective interpretations.

At first sight the inherent contradictions discussed previously represent a direct challenge to one of the main tenets of the Burrell and Morgan analytical scheme. They insist that the paradigms are mutually exclusive based on opposing meta-theoretical assumptions and predicated on incommensurable views of the very nature of society. Yet the analysis above had embraced conflict and order, dynamic change and status quo within a single paradigm. It was able to marry the search for generalisable, objective patterns whilst acknowledging that the important "why" questions can only be addressed from an interpretative perspective?

Fortunately, leading theorists had long since anticipated and resolved this dilemma, offering up a variety of paradigmatic approaches which knit together the strands of research philosophy. In particular the following contributions find a direct parallel in the issues discussed in the Literature Review:

- Symbolic Interactionism (Mead 1934) stresses that actors respond not to the deeds and words of others but according to their interpretation of those actions. This concept is wholly in accordance with the literature discussion of attribution theory.
- The Exchange and Power Model (Blau 1964) places emphasis on the analysis of social associations and the forces and influences upon them. Much of the literature review concerned with power and relationships focuses directly on this issue.

- Social and Cultural Structure Theory (Merton 1968) explores the evolution of groups within society and addresses the issue of peer pressure both conforming (to the group norms) and deviant (towards out-group interests). This paradigmatic approach finds endorsement in the literature concerning Group Theory.
- Conflict Functionalism (Coser 1967) examines both the functional and dysfunctional effects of conflict and posits a view of social structure in which cooperation and conflict coexist, one sustaining the status quo while the other exerts pressure for change. The literature review of Conflict Theory develops many of the same themes.
- Morphogenic Systems Theory (Buckley 1967) shifts the focus of social systems away from mechanical or organic analogies and towards a process model in which actors are the key system components and intercommunication the linkage holding the system together. Again this essentially philosophical concept can be directly equated with the more empirical literature on Communications Theory.

Enlightened by these refinements, it was clear that the researcher's social paradigm was neither an illogical hybrid nor a challenge to the Burrell and Morgan framework. On the contrary, it accords closely to the Integrationist school of thought occupying a central position within the functionalist paradigm; (fig 31 below).

The Sociology of Radical Change

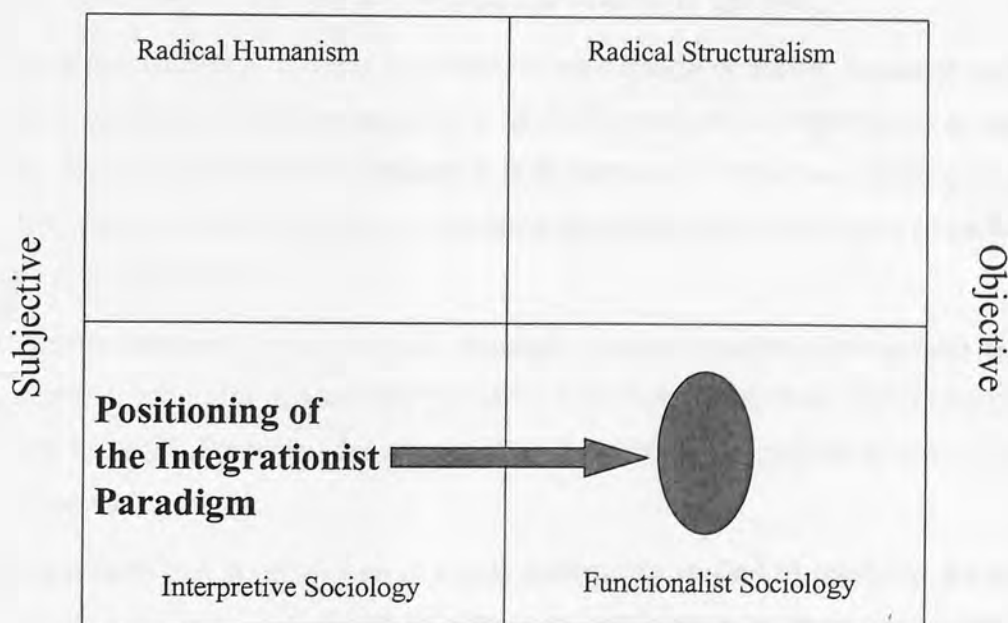


Figure 31 – The Positioning of the Integrationist Paradigm

This school can readily embrace the apparent contradictions. It considers patterns of social order to be real whilst repudiating simple mechanistic linkages as the

explanation. It acknowledges the importance of interpretation without jettisoning the goal of objective knowledge. And it can incorporate change and conflict into research even though the primary goal of that research is to explain the ordered patterns of the status quo.

Data Sources

A cursory examination of any book on research methods will throw up a lengthy list of data sources available to the would-be researcher. This list will certainly include Experiments, Surveys, Interviews, Observation, Document Analysis and Artefact Analysis.

However, all data sources are potentially flawed and the rigorous researcher must be prudent in avoiding dependence on any single source of information. This assertion rests on a series of effects which are known to distort the process of data collection:

- **Hawthorn Effect:** Research subjects adapt their behaviour and words due to the presence of the researcher. This effect typically undermines data collected through experimentation and observations but clearly could also influence interview data.
- **Systematic Bias:** As a consequence of cultural or personality influences, research subjects consistently understate or overstate their true opinions. This effect is commonplace in survey-based data and data analysis techniques have been developed to identify and reduce the severity of the bias.
- **Social Desirability:** In order to enhance one's image or status, research subjects project what they perceive as socially desirable opinions in place of his or her own. This effect is known to influence both survey and interview based data, and in the wider context will apply to company documents that may often preach what they do not practise.
- **Accommodation:** As a gesture of goodwill, research subjects are known to accommodate to the researcher by telling them "what they think the researcher wants to hear". Typically, accommodation is an influence only on face-to-face interviews.
- **Symbolism:** Is a special case of social desirability applied to artefacts. As an example a crèche for workers' children may well imply a company committed to employee welfare, but equally it might also be a mere smokescreen; a low-cost measure to create the impression of a caring company.

- **Mendacity:** The deliberate furnishing of false information to a researcher with the goal of either sabotaging the research or of furthering some wider goal indirectly connected to the research. This effect is normally limited to interview-based data.
- **Politics:** A variation on social desirability, whereby the research subject maintains the "party line", presenting opinions that are the company policies or objectives, as opposed to the actuality. This effect is prevalent in interview-based data but can also impair survey data.
- **Self Deception:** A commonplace and deep-rooted bias in which the research subject provides data distorted by their own delusions. Relationship issues are particularly susceptible to this type of distortion and opinions of the type "I get on very well with my staff" expressed in surveys or interviews have to be considered suspect unless endorsed by other evidence.

So, based on the premise that any and all data sources are potentially flawed, the implication for this research design is clear: Data must be triangulated by reference to several sources and anomalous or incongruent data must be pursued to gain further insight into the issue.

Methodology

The researcher's epistemology is characterised by pragmatism and a desire to avoid extreme positions.

- There is unease with bold assertions of the type "*Questions of method are secondary to questions of paradigm*". (Guba and Lincoln 1994) and "*Qualitative and Quantitative Approaches represent fundamentally different epistemological frameworks*" (Filstead 1979). Both quotations project a style of narrow-minded, academic bigotry neatly summed up by the term "*methodolatry*" (Janesick 1998).
- Much more readily accepted are views such as "*.... Researchers are pragmatists connecting various available techniques to obtain desired results*" (Creswell 1994) and "*Purpose is the controlling force in research*" (Patton 1975). These quotations position methodology in the practical rather than the philosophical realm of research thinking as does the view of Strauss and Corbin: "*Methods are simply instruments of research and should not take on any higher significance*". "*An instrument is an instrument not an end in itself*" (Strauss and Corbin 1998). Viewed in this light, research methods are no more than tools to perform a job, and as such should not be considered as having inherent weaknesses and strengths. Instead they have attributes that in the context of a specific research

goal may render that tool more or less "fit for the purpose". Thus, the very attribute that makes a particular method 'unfit' for objective "A", may make it the ideal method to be employed for objective "B".

This epistemology can best explain this with the analogy of golf. Within his bag the golfer possesses a range of clubs each ideal for a specific purpose. The driver can be equated with quantitative survey-based research. It is a means of covering a lot of ground but accuracy is sacrificed. By contrast a putter (like a case study) is useful only where range is very limited but assures a high degree of accuracy. A serious golfer understands the relative attributes of each club and uses this diversity to add richness, quality and guile to his play. An able researcher should do just the same, selecting from his "bag of methods" according to "fitness for purpose".

Patently this pluralist approach to method selection indicates that the Research Design will adopt a multi-method approach, weaving qualitative and quantitative methods together as necessary to achieve "the desired result".

Philosophical Summary

The foregoing review of philosophical issues provides clear guidelines for the conduct of the research.

- It will pursue a deductive approach testing propositions that in part are based upon pre-understanding of the research topic, but which have been underpinned by the findings of the literature review.
- It will employ largely positivist methods reflecting the integrationist paradigm.
- It will, wherever possible, seek to triangulate data in order to moderate the types of distortion endemic to all sources of information.
- It will employ a multi-method approach so as to add guile, flexibility and sensitivity to the accumulation of knowledge. Using pre-understanding as the start point, the various phases of the project will refine the simple conceptual model into a series of research propositions underpinned by existing theoretical and empirical research that will be tested against the findings of both a comparative case study and an international survey.

In the next section these guidelines will be developed into a coherent Research Strategy.

3.3 Research Design

Method Selection

Based on the conclusions of the previous section, and reflecting the long tradition at

Aston Business School of methodological plurality as exemplified by Tayeb (1984), the research design will ensure that an appropriate blend of methods will be selected so as to ensure an insightful, but also generalisable, conclusion.

Fig 32 below, summarises a spectrum of potential research methods positioning each one horizontally according to how well it accords to the “fitness criteria”.

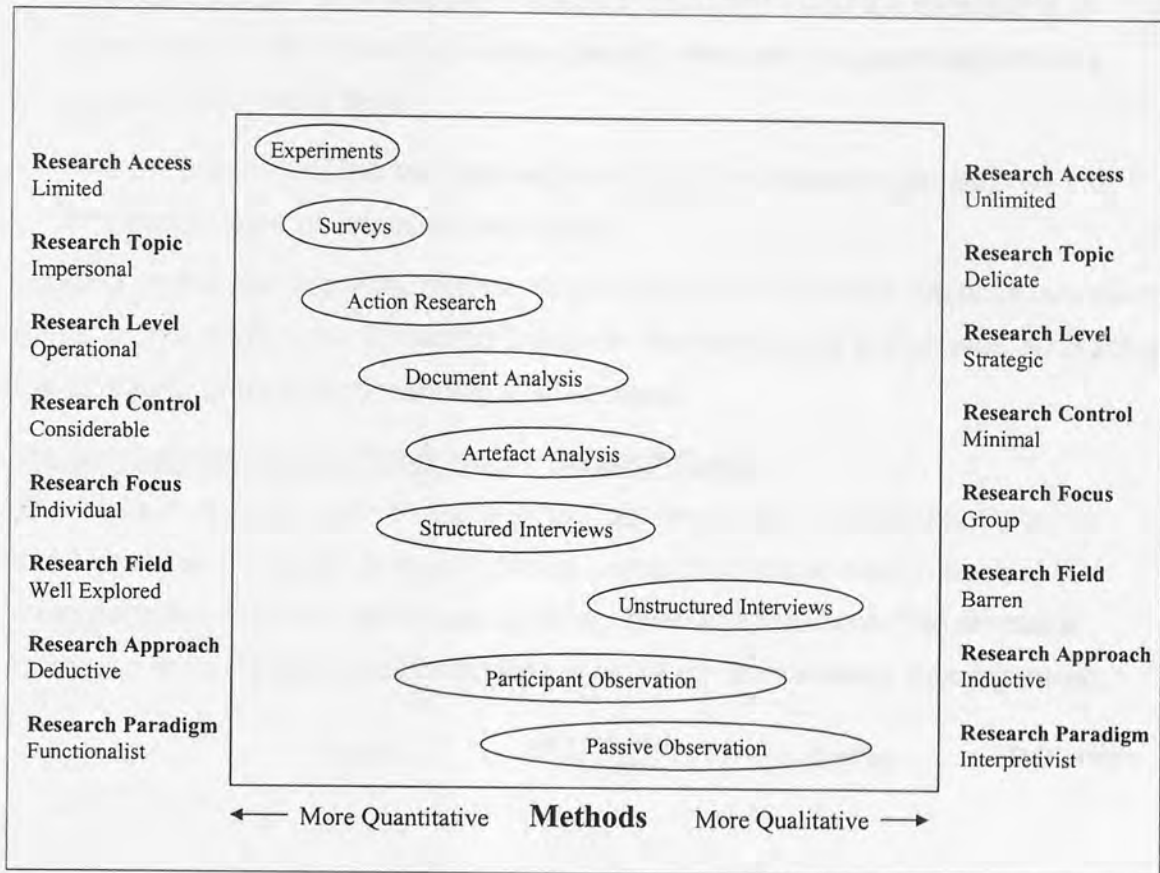


Figure 32 – The Research Methods Continuum

Clearly, in selecting methods from this array, the researcher’s paradigm is an important criterion, but it would be a mistake to argue that it held a dominant position in method selection. A researcher confronted by a subject field characterised by sensitivity, complexity, a dearth of prior research and the absence of a hypothetical framework, would be well advised to adopt methods to the right of the spectrum, regardless of paradigm. And this is where the research begins with a comparative case study tasked with the goal of probing the propositions developed in section 11 of this chapter.

By the same token, a research programme such as this, that has the ultimate goal of seeking explanations, must adopt methods to the left of the continuum (again regardless of paradigm) and to this end the decisive phase of the research is built around a survey conducted to test specific hypotheses articulated on the basis of the case study findings.

This pluralist research design achieves an optimum balance between all of the fitness criteria, whilst respecting the goals of the hermeneutic spiral:

- Involvement in the case study companies provides an opportunity for first-hand testing and development of personal understanding and insights.
- The survey is the ideal vehicle for collecting and analysing the experience of others sharing the same experience (though obviously this could only be at a relatively superficial level).
- And the blending of the two approaches allows for a spiralling iteration as the knowledge base develops on both fronts.

Building on the philosophical, methodological and hypothetical foundations laid down earlier in this section, the Research Design is then developed in 3 phases embracing the structure, process and planning of the project.

The Structure, Process and Planning of the Research Design

The framework owes much to the work of Osborne (1996). In his paper Osborne explains research design in these phases, using diagrams to explain each of the three perspectives. This same approach has been adopted here. The structure illustrated in fig 33 below illustrates the way in which the research was organised.

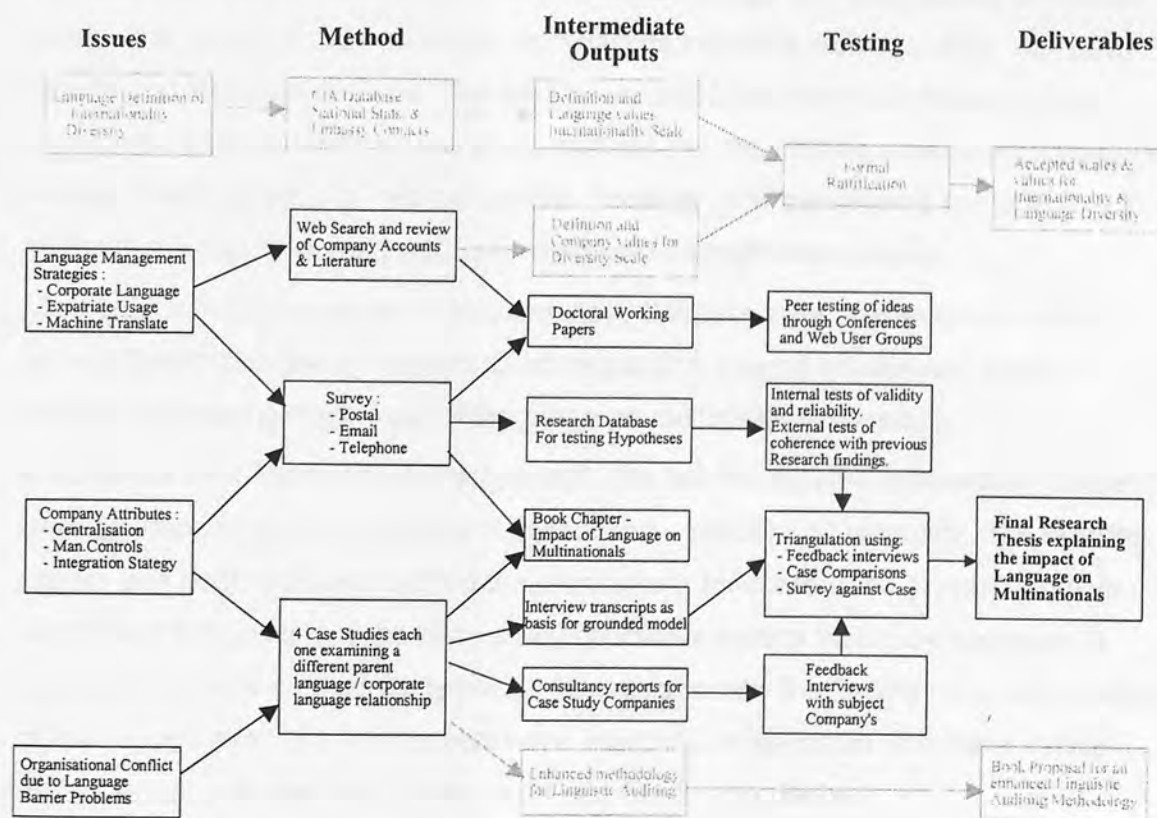


Figure 33 – The Structure of the Research Design

On the vertical axis it is subdivided into four. The areas marked in bold trace the flow of the Case Studies and the Quantitative Survey, while the other blocks (printed in lighter text) follow the peripheral activities that are not central to the doctoral thesis. Meanwhile, on the horizontal axis the diagram traces the linkage of the research from Issues to Methods, Intermediate Outputs and Testing and ultimately to the final Deliverables. It commenced with 4 principal **Issues**:

- The definition and operationalisation of the language barrier construct. Although this doctoral thesis uses two surrogate measures, the proposals for ongoing research will develop such a measurement system.
- The use by Multinational Companies of language management strategies including the adoption of Corporate Languages, the use of Expatriates as language channels and the take-up of Machine Translation technologies.
- The attributes of Multinational Corporations in their management of UK subsidiaries. Key characteristics to be explored will include the centralisation or devolution of decision-making, the use of different control styles, and the pursuit of global integration strategies.
- The examination of organisational conflict attributable to the problem of language.

The first two of these issues were then followed through with desk-based **Methods** involving a variety of data collection approaches including web searches, company reports and literature reviews. The third issue, that forms the main focus of this thesis, was explored with a case study method and then tested statistically through a survey. The final issue of internal conflict, however, was considered too sensitive to address in a survey and so was examined only through case studies.

After data collection a series of **Intermediate Outputs** were published including several Doctoral Working Papers, Conference and Journal articles and a book chapter addressing the impact of language on multinational business.

A variety of **Test Methods** were employed. The results from the quantitative research were exposed to rigorous checks of consistency, validity and reliability. The working papers and book chapters formed the foundations for conference presentations to solicit peer criticisms and the case study conclusions were tested by exposure to feedback from the subject companies. Most importantly the findings and conclusions of the various strands of the project were internally cross-tested to ensure mutual endorsement between the Survey and Case Study approaches.

The final **Deliverable**, this doctoral thesis, embraces all of the research conducted and refines and validates the research hypotheses. Secondary deliverables produced

in parallel with the thesis will include academic papers focussed on the measurement and business implications of language, and a proposal for an updated methodology of linguistic audit.

In phase 2 of the Research Design the foregoing Structure was elaborated into a Process model as illustrated below in fig. 34, below.

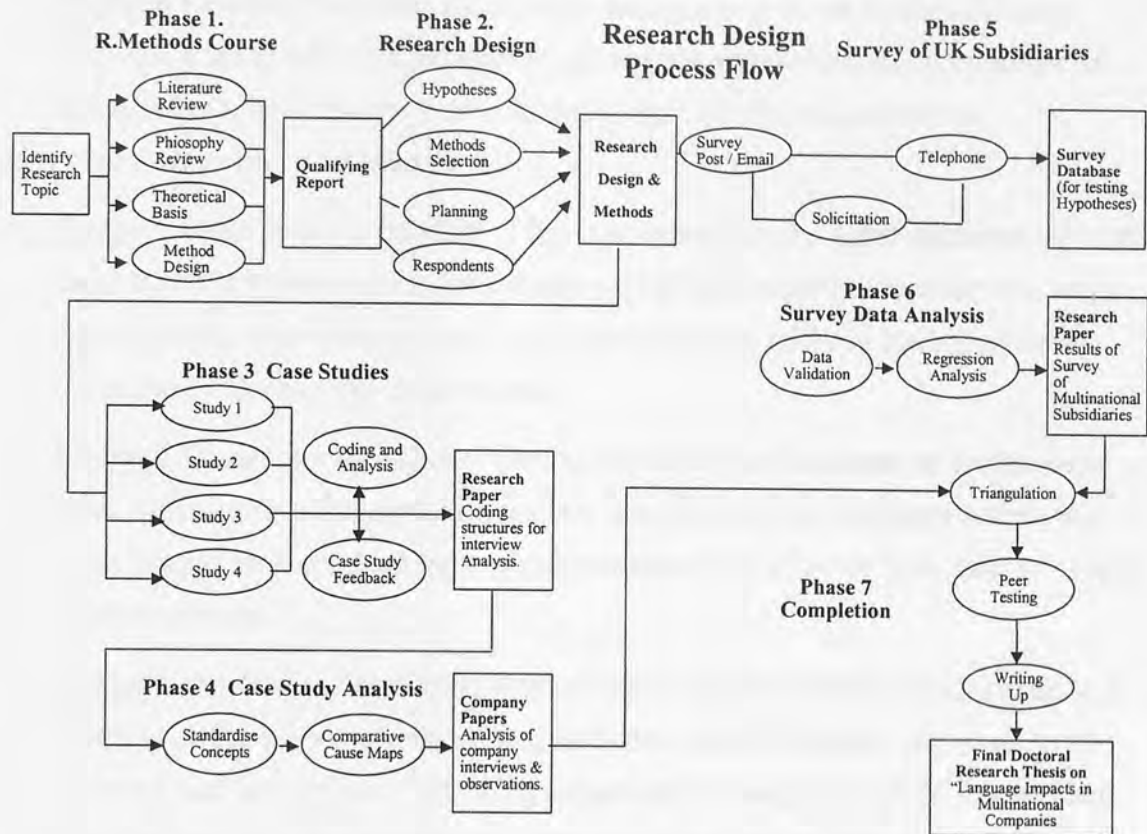


Figure 34 – The Research Design Process Flow

As can be seen, the Research Process was subdivided into 7 phases, each one concluded by the attainment of a tangible milestone. The phase numbering broadly equates to the chronological sequence of events, although as demonstrated by the project plan that follows later in this chapter, there was a considerable degree of parallel effort. The paragraphs below summarise the key features of the phases:

- **Phase 1** The first year defined the general positioning of the research within the literature, and outlined the methodological tools that would be employed. It provided the framework for the later development of this Research design.
- **Phase 2:** As evidenced by this chapter, the Research Design phase embraced such diverse issues as philosophy, method selection, hypothesis development, questionnaire design and data analysis. It proved to be far more arduous and time-consuming than anticipated, but as subsequent events have demonstrated, it was time well invested.

- **Phase 3** The four case studies emerged as the critical phase of the project offering opportunities to explore issues in more depth than the Survey could accommodate. Although essentially data collection, there was inevitably a degree of analysis and interpretation “on the hoof”, which triggered a process of clarification demanding amplification of the data collected.
- **Phase 4** Elevated the Case Study Data Analysis to a more systematic level involving coding and classification of essentially textual data as a precursor to subsequent cross-company comparisons, from which the patterns of relationships could be teased out.
- **Phase 5** Describes the conduct of the supporting survey. Later sections will make clear that this survey was a collaborative effort with other researchers but which, nevertheless, was designed and conducted so as to address the hypotheses developed following the case studies.
- **Phase 6** Covers the activities of testing, validation and analysis of the survey data. Although a relatively brief process, it is important to delineate it from the other stages as it employs logic and methods wholly different from that employed in other phases.
- **Phase 7** The title of Concluding Phase might suggest a simple mopping up and ordering of the work undertaken and recorded in other phases. It proved to be anything but, with much effort being expended to merge and blend the findings from the two research approaches adopted. A further key task was then to review once more and re-position the research within the framework of literature, which could now be focussed much more selectively than previously.

In the third and final phase of the Research Design the process model is translated into a top-level Project Plan defining broad timescales, project milestones and major interdependencies between project phases.

This plan is illustrated in fig. 35, below:



Figure 35 – The Research Timing Plan

This global plan follows the same logic as the previous subsection on Research Process but has been reworked to provide the reader with an understanding of the relative timing of events. Through the life of the project, the plan was reviewed on a quarterly basis and was subject to several major changes as the research evolved. This definitive version summarises the 'Actual Achievement' and compares very unfavourably with the first version prepared in 2000. The three most important changes to be noted are:

- A wholesale slippage of the timing programme due to unpredicted teaching commitments throughout 2001 and 2002.
- A major re-distribution of the time with the elevation of the case studies to a major proposition-testing phase following advice gained at the 2001 AIB Doctoral Colloquium.
- A significant delay in the conduct of the survey in 2002.

Even allowing for these progressive modifications, the timing plan illustrated above proved to be stretching. The implications of this and the lessons learned are discussed fully in the critique of the research methods at the end of Chapter 4.

Research Design Conclusions

The Project Design developed in the preceding sections is based on sturdy foundations. A balanced philosophical stance, a pragmatic approach to research-method selection, clearly stated propositions carried forward from the Literature Review and a systematic methodology for project design, are the pillars upon which the research scheme rests. As a consequence of this groundwork, the Research Design must be considered one of the principal strengths of this project, and one which offers an invaluable blend of positive attributes:

- The comparative case study approach conferred wide-ranging opportunities for data triangulation both within and across company boundaries.
- The conduct of a supporting questionnaire-based survey of companies in the same organisational setting provided a healthy level of methodological triangulation and ensures the generalisability of the thesis conclusions.
- The parallel pursuit of both first-hand and second-hand understanding created the balanced perspective demanded by Gummesson's "hermeneutic spiral".
- And the modularity of the research structure in which Issues, Methods, Intermediate Outputs, Testing of Findings and Deliverables were all clearly delineated, simplified the problems of planning and control of the research programme.

The robustness of the research design shines through in the clarity with which the individual research tools were selected and employed. However, this would count for little without professionalism and rigour in the application of the individual research methods to the collection and analysis of the empirical data. This is the theme for the next chapter.

Chapter 4 Research Methods

4.1. Introduction

The previous chapter viewed the design of the research methodology from a philosophical and conceptual perspective. This chapter by contrast takes a very practical standpoint and addresses the individual research methods that were employed in the conduct of the research. Each phase of the research is allocated a specific section within which the following issues are discussed:

- The factors involved in the method selection.
- The methods and software tools adopted.
- The questions confronted in relation to the methods application.
- How specifically they were used on this project.

In the concluding section all of the methods are appraised to identify problems and limitations in their application to this research programme.

The flow of the chapter is illustrated schematically below in fig. 36.

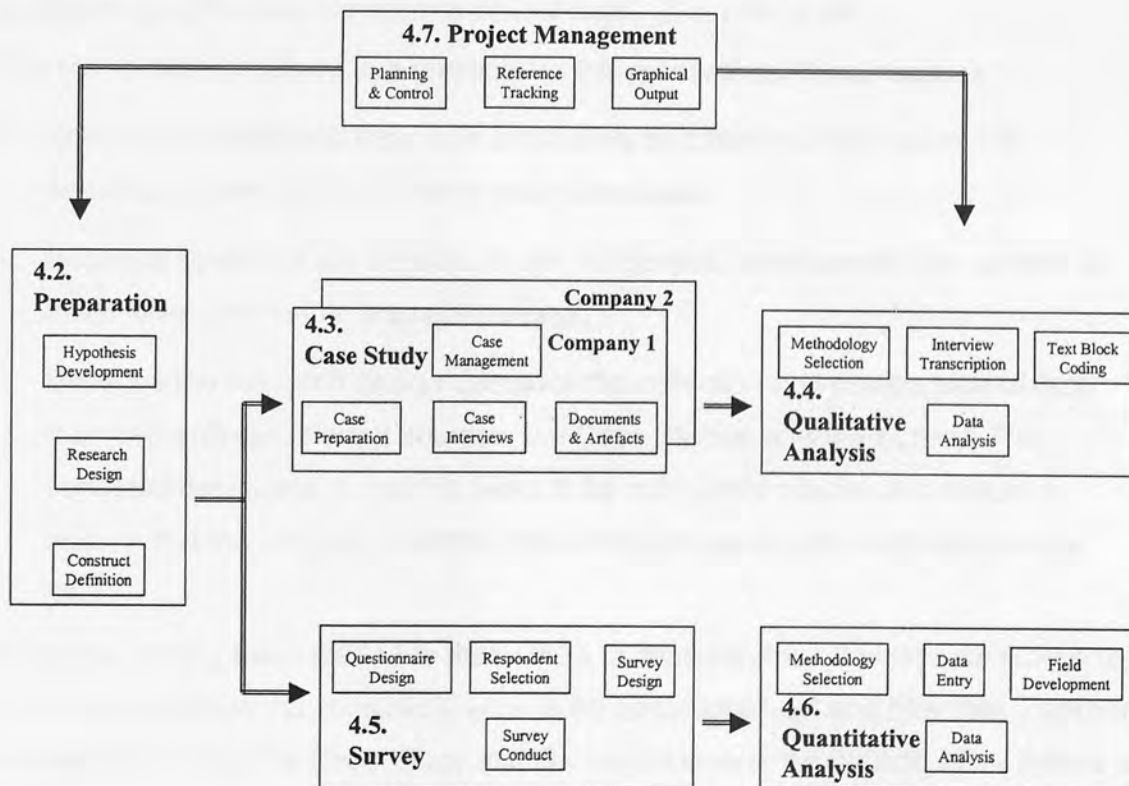


Figure 36 – The Methods Flow Diagram

Each box corresponds to a section of this chapter and the inset boxes reflect the subsection contents:

- Section 4.2 addresses the approach taken to define and operationalise the constructs used in the research.
- Sections 4.3 to 4.6 then deal with the methodologies adopted in the 4 principal phases of the research: The Case Studies, the Qualitative Analysis, the Survey and the Quantitative Analysis.
- Section 4.7. then briefly outlines other methodologies that have been used.

An appraisal of the methodologies adopted, and in particular the issues of Validity and Reliability, which according to Yin are "*commonly used to establish the quality of any empirical social research*". (Yin 1994 p:32), is included in Section 4.8

4.2. Preparation

The Hypothesis Definition was fully discussed in Chapters 1 and 2, and the Research Design was the focus of Chapter 3. There remains, however, the task of defining and operationalising the construct definitions that will be employed as the basis of testing the hypotheses. Critics, particularly of the case method, have warned that researchers "*can fail to develop a sufficiently operational set of measures and that subjective judgements are used to collect data*". (Yin 1994 p:34)

The risk of such problems are amplified in this research for three reasons:

- Because the research topic is in a relatively arid field in which few of the constructs have been previously operationalised.
- Because several of the constructs are composites, amalgamating a number of lower-level factors into a single concept.
- Because the research design demands the collection and comparison of data from two entirely different sources, the Case Studies and the Survey. The construct definitions, therefore, need to be sufficiently precise and robust to ensure that the two very different methodologies were producing comparable data.

However, having been alerted to these risks, a considerable effort was dedicated to understanding how the constructs were to be operationalised and how these were to be explored during the Case Study and Survey phases of the project. More details of these deliberations are to be found in two discussion papers that were prepared and reviewed during the Research Design phase of the project:

- Framework of Analysis - An Introduction and Explanatory Overview to the Issues and Questions that will provide the focus for Case Study Interviews (Feely 2001)

- The Survey of the International Automotive Industry - Issues and Proposed Approaches” (Feely and Forrester 2001)

For each of the constructs referred to in the Propositions discussed in Chapter 2.11, a concise but explicit definition was developed, and then appropriate operational indicators were developed, to enable these constructs to be explored. For the survey it was necessary to develop a series of scales or derived constructs to add to the fields transcribed directly from the survey questionnaires, a range of supplementary fields have been added as part of the data analysis. The distillation of this work summarising the definitions, the reference sources, the indicators that were used in the case studies and the scale definitions and calculations used in the quantitative data analysis, are described in Appendix A – The Reference Table of Constructs.

4.3. Case Study Data Collection

Case Study Design

The selection of the case study methods was heavily influenced by the work of consultants such as Normann (1970). His observation that the comprehensive measurements permitted by case studies make it possible to achieve “*a fundamental understanding of the structure, process and driving forces rather than a superficial establishment of correlation or cause-effect relationships*” was one considered to be particularly meaningful in the context of this research topic.

At the same time it was important to acknowledge the limitations of generalisability often associated with case studies i.e. that “*quantitative studies based on a large number of observations are needed to determine how much, how often and how many*” (Gummesson 2000).

To ensure an optimum balance of “*fundamental understanding*” and “*generalisability*” it was important to adopt the right style of case study investigation. Yin (1994) recognises 4 distinct types of case study research. He illustrates these options using a 2 x 2 matrix illustrated below (fig. 37):

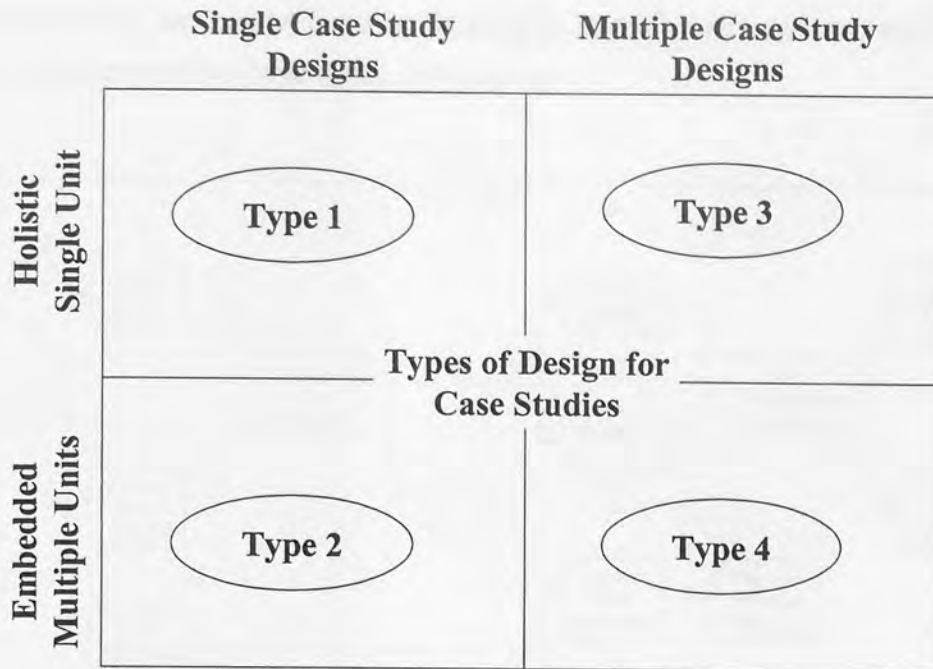


Figure 37 – The Matrix of Case Design Strategies

For this case study research the Type 3 approach was adopted.

- Holistic, because the unit of analysis is clearly the subsidiary relationship with the parent company. Some aspects of this research do touch upon a wider unit, i.e. the parent companies global strategies, but to stray from the holistic focus of the parent/subsidiary relationship would put at risk the fundamental understanding sought.
- Multiple because it provides a firmer foundation for arriving at generalisable conclusions. *“The evidence from multiple cases is often considered more compelling and the overall study is considered more robust”* (Herriott and Firestone 1983)

Within this broad classification it was decided to pursue what Yin describes as *“theoretical replication”* that is *“cases which produce contrasting results but for predictable reasons”* (Yin 1994 p:46). This type of replication provides more compelling evidence for the hypotheses than a simple repetition of the same results across multiple case companies. The case study selection discussed below was, therefore, specifically targeted to achieve this contrast.

In conducting the case studies a common methodology was adopted based on the model proposed by Yin p.49 (Yin, Bateman et al. 1983). This model demonstrates the pivotal role of the initial theory in focusing the research. It is a necessary precursor to both the selection of case companies and the formulation of the questions that will be explored.

As illustrated in fig 38 (below) the model then proceeds through sequential stages before emerging with the case study conclusions.

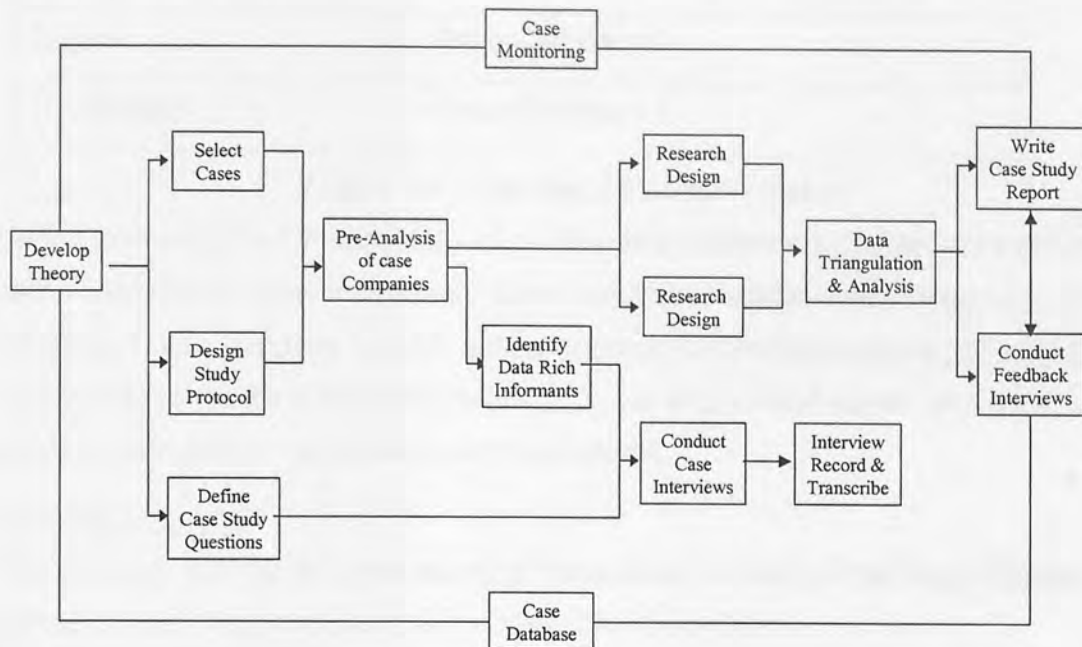


Figure 38 – The Case Study Design Flow

The key stages of this model are summarised in the subsections below:

Case Selection

The case study research was focused on the automotive sector. This was an obvious choice given the researcher's near 30 years of working for car companies, but was appropriate for other reasons:

- Car production is most definitely a global industry with every leading company established in multiple countries.
- The globalisation of the automotive industry is one of the few that spans not only the first world but is increasingly present in developing countries, countries in which language skills are not strong.
- Car companies are mass employers requiring coordination across multiple functions and at multiple organisational levels. Language interfaces cannot be focused on a few key individuals as they might be in Banking or Software.
- Worldwide overcapacity is leading to a glut of international collaborations transcending language barriers. Recent examples include Mercedes / Chrysler, G.M. / Fiat and Renault / Nissan.

Financial and access constraints limited the choice of case companies to two, which were selected on the basis of the criteria cross-matched in fig 39, below:

	Subsidiary Language	
Parent Language	English	Not English
English	Case Company 2	-
Not English	Case Company 1	-

Figure 39 – The Case Selection Matrix

Case Company 2 (a UK subsidiary of an American Corporation) acted as a reference sample in order to examine parent / subsidiary relationships where language was not an issue. Case Company 1 (a UK subsidiary of an Italian Multinational) provided the opportunity to examine the same relationship but in a context where language was a constraint on parent / subsidiary communications.

Case Study Protocol

The Protocol was constructed ahead of the commencement of the Case Studies.

Based on the Yin guidelines (1994), it had the objectives of:

- Laying down a framework for the conduct of the Case Study such that departures from the original direction can be identified and evaluated.
- Defining the rules and methods whereby the Case Studies would be conducted.
- Formalising the key documents and procedures to be employed.
- Clarifying for collaborating companies the objectives, approach and approximate time requirements for the conduct of the Case Study.
- Identifying the data sources to be examined.
- Providing an Audit Trail for the Case Study that would enable the process to be replicated by a subsequent researcher.

The Case Study Protocol developed for this project is contained in Appendix B.

Interview Question Design

Before defining the exact questions it was necessary to select the interview approach from the array of options offered by specialists in Interview techniques (Minichiello 1990) (Flick 2002).

The selection of the appropriate approach for the main data collection phase of the Case Study was influenced by four considerations:

- The informants were senior international managers and would have little time available for vague discussion. The questions, therefore, needed to be focused.

- That such busy individuals might ask for the questions in advance. In this event to avoid their being deterred from collaborating, the number of questions had to be kept to a minimum.
- The Case Studies were to be contrasted and compared and their results aggregated into a coherent theoretical framework. It was essential, therefore, that the same issues were to be explored with the same questions across both of the Case Study companies.
- In view of the complexity and / or sensitivity of some of the issues being explored by this approach it was crucial that the respondents be allowed ample scope to express themselves openly and to develop their ideas with a minimum of prompting.

The interrogation style matching best these conflicting requirements is that of Semi-Structured Interviewing and accordingly the questions were developed in this style. The questions were designed to be as open and wide-ranging as possible, encouraging respondents to expand and embellish their answers, and often touching a variety of themes within a single response. A Table of Questions Matrix was prepared, cross-referencing each question against the indicators it would explore. This table too was included within the Case Study Protocol (Appendix B).

Case Study Pre-Analysis

The initial stage of each case study was a Pre-Analysis which was conducted in two steps:

- Acquisition, analysis and distillation, of Case Study Company information available in the 'public domain'. Such information was accessible through Web Sites, Company Reports, Business Databases, Brochures and industry Publications.
- An introductory unstructured interview with the company 'gatekeeper' (i.e. The Production Director for Case Company 1 and the Distribution Manager for Case Company 2) in order to understand the subsidiary functional composition and organisation structure, and the command chain to the parent company.

The principal output from this pre-analysis was the identification of the key informants to be interviewed.

Identification of Key Informants

The process of identifying interviewees attempted to balance four factors:

- To limit the duration of each interview to approximately one hour which, with the

type of open-ended questions being posed, suggests a maximum of twelve (and ideally fewer) questions for each interview.

- To interview a wide cross-section of functions ensuring that any issues identified would reflect on the organisation as a whole rather than specific departments.
- To triangulate the response to each topic with at least two (ideally 3) respondents for each question, using a mix of those best placed to answer and those who are less directly involved but who will nevertheless have an informed opinion.
- To allow people the freedom to answer as openly as possible, it would be necessary to allow those most vulnerably placed to respond off the record, i.e. with their comments not being attributed in the analysis.

A matrix of questions were developed and then these were discussed with the company gatekeepers to identify the best-placed respondents.

The tables 4.1 and 4.2 below summarise for each of the case companies, the interviewees identified, the duration of their respective interviews and the number of questions posed to each.

Table 4.1. Interview Summary for Case Company 1			
UK Subsidiary of Italian Parent Company			
Function / Role / Title	Interview Duration	Questions Asked	On the Record?
Technology Manager	1.50	12	Y
Engineering Manager	1.50	12	Y
HRM Manager	1.50	14	Y
Systems Manager	1.25	12	Y
Factory Manager	1.25	14	Y
R & D Manager	1.50	12	N
Purchasing Manager	1.25	12	N
Marketing Manager	1.50	14	Y
Managing Director (1987 – 1997)	2.00	15	N
HRM Director / Consultant	1.00	12	N
Managing Director Current (Italian)	1.50	12	Y
Case Study Total	15.75		

Table 4.2. Interview Summary for Case Company 2			
UK Subsidiary of US Parent Company			
Function / Role / Title	Interview Duration	Questions Asked	On the record?
Distribution Contract Manager	1.5	12	Y
Purchasing Manager	1.25	12	Y
Quality Project Manager	1.25	13	Y
Logistics Director	1	12	Y
Planning Director	1.75	14	Y
Finance Director	1.75	14	Y
Supply Chain Manager	1.25	12	Y
IT Systems Coordinator	1	12	Y
HRM Director	1.25	12	N
Managing Director	1.25	12	N
Case Study Total	13.25		

A more detailed profile of each interviewee is to be found at the start of Chapter 5, and a copy of the Question/Respondent Matrix is included in the Case Study protocol (Appendix B).

Interview Conduct

Interviews were generally conducted on site, in closed offices, generally those of the informant. Prior to the start of each interview the interviewee received some introductory explanation:

- About the research project. This was enough to set the context without indicating the specific relationships under investigation. A copy of the interviewee briefing-note is included within the Case Study Protocol.
- About the list of questions that they would face, the approximate time-scale for the interview and the interview style that would be adopted. Copies of all the question lists are included in the Case Study Protocol.
- About the ethical position regarding research data collected for this project. Again a copy of the ethical statement was included in the Protocol but was also printed at the top of each Question Sheet.

Using what Yin describes as the "*genuinely naïve*" stance, informants were encouraged to express themselves openly, though prompts were used to maintain the direction of the interview and to ensure that key issues were addressed. In all cases, the meeting was recorded on minidisk. It was supported by real-time note taking using a pre-formatted Interview Response Sheet. These response sheets were used immediately after the conclusion of the interview as the basis for recording impressions of the interview the environment, the attitude of the interviewee and the issues where the response had been evasive or misleading. These impressions and the interview content were subsequently transcribed from minidisk to hard copy. Copies of the minidisks, the hard copy transcripts and the interview response sheets were too bulky to include as appendices but are maintained in the separate Case Study Archives.

Documents

Yin stresses the importance of documentary evidence, stating, "*documentary information is likely to be relevant to every case study*". However, he makes clear that "*the most important use of documents is to corroborate and augment evidence from other sources*". And so it proved in this research project.

Prior to commencing the Case Study a list had been prepared of typical documents that would support the interview programme. Several of these emerged as important corroboratory evidence to underpin the more subjective input obtained from interviews. On operational level issues such as the control of "language budgets", the use of multiple languages in publications, and the formalisation of policies and procedures, it was possible to validate what I'd been told by direct reference to documentary evidence.

However, the respondents were constrained by company security and in most cases the documents examined could not be copied, and confidential documents such as Board Minutes and Confidential Memos were, for obvious reasons, withheld. However, such documents as were collected were included in the Case Study Archive.

Artefacts

Artefact research proved to be a useful but unexpected adjunct to other data sources. The protocol had not initially listed artefacts to examine but this was rectified in the course of the first Case Study as it became apparent that studying these data sources could further understanding of a number of areas.

For example:

- A cursory examination of the companies' office systems was enough to understand that neither company made use of language translation software, neither had foreign language spell checkers and neither had foreign character keyboards available.
- A more in-depth observation of the use of their information systems revealed the effective level of company integration at an operational level.
- A brief perusal of their email statistics provided testimony concerning the level of routine parent / subsidiary communications.
- A perusal of the company intranet (only Case Company 2 had one) and especially their periodic company web-casts provided further insight into the companies' approach to social relationships between parent and subsidiary.
- An observation of the prevalence of company symbols such as logo's on buildings, in offices and on uniforms attested to the strength of the Corporate Culture:

Quite clearly such "findings" were inferential and could not alone stand as evidence. However, used in collaboration with interview and / or documentary sources, it did add an important extra dimension to understanding of the Case Company.

Case Management

In conducting the Case Study two management tools recommended by Yin, were employed. These were the Case Database (Archive) and the Case Diary.

Yin insists that a Database is necessary so that "*other investigators can review the evidence and not be limited to written reports*". In this research it proved equally important as a personal aid to crisp project management. The Database was the repository of all raw data including notes, documents, transcripts, brochures and computer printouts. It existed in both a hard copy form (the Case Study Archive) and in the form of a series of complimentary computer databases which managed data such as the contact details of Case Study Informants, and the referencing of all externally collected documents and artefacts.

The Diary was a simpler affair. It consisted of an initial Case Study Plan prepared as an explanatory tool for the Case Company and later used as a monitoring device to identify and remedy slippage against plan. And a more detailed diary in which all events such as letters, telephone communications, site visits and interviews were recorded supported this.

Writing Up

The interviews were transcribed into text documents. Certain passages, not pertinent to the research, were excluded from the transcription although these remain on the minidisk, and are available for consultation.

Subsequently these interviews and other data sources were analysed prior to formulating conclusions and drafting the Case Study Report. However, as these analytical processes were an important component of the project they have been detailed separately in the next section.

4.4. Qualitative Data Analysis

Introduction

Yin (Yin 1994) argues that all research should have a general analytic strategy to guide the decision regarding what will be analysed and for what reason. He proffers four possible analytic techniques: pattern-matching, explanation-building, time-series analysis, and program logic models. Given the scope and goals of this thesis the "explanation-building" approach was deemed most appropriate.

Using the explanation-building technique, data from the case is repeatedly analysed and re-analysed with the objective of building a robust explanation of the evidence uncovered. "*The case study evidence is examined, theoretical positions are revised, and the evidence is examined once again from a new perspective, in this iterative mode*" (Yin 1994 p:111). According to Yin, the analysis process proceeds through 6 stages which have to be recycled as many times as is necessary to emerge with a robust theory, the stages being:

- Making an initial theoretical statement or an initial proposition about policy or social behaviour;
- Comparing the findings of *an initial case* against such a statement or proposition;
- Revising the statement or proposition;
- Comparing other details of the case against the revision;
- Again revising the statement or proposition;
- Comparing the revision to the facts of a *second, third, or more cases*; and,
- Repeating this process as many times as needed.

The appeal of this approach is that it blends the best features of both inductive and deductive theory building. It begins with a hypothetical framework, a classically deductive start-point. "*Deductive research starts with existing theories and concepts*

and formulates hypotheses that are subsequently tested; its vantage point is received theory". (Gummesson 2000). However, the later stages demanding the use of case study evidence to refine and develop the hypotheses is more typical of inductive theory building. "*Inductive research starts with real-world data, and categorises, concepts, patterns, models, and eventually, theories emerge from this input*" (Gummesson 2000).

Having adopted this mode of data analysis the next stage was to select the technique to be used for the analysis. Given that most of the data would be interview transcripts running to very many pages of text, it was important to recognise the workload implications of the techniques adopted. There are essentially two ways of undertaking this analysis: by hand using manual cut and paste methods to provide a visual representation of the data, or using a computer software package. In this case the software package would be QSR NUDIST 4 as this was the Aston Business School standard.

Whilst it was important not to over-dramatise the role of computers in research as "Frankensteins" that would eliminate the human role, it was equally important to stay mindful of some of the possible risks (Denzin and Lincoln 2000) of computer-aided analysis, notably:

- That the sheer ease of use of auto-coding options would encourage "quick and dirty research".
- That the visual reinforcement of data relationships that comes from the physical process of highlighting text by pen and then cutting and posting on to wall charts achieves the same type of data tangibility that has made KANBAN so successful in production management. Without this process the researcher would be distanced from his data.
- Finally, that the software itself would constrain and influence the style and outputs of the analysis.

To address these concerns a three stage evaluation was undertaken:

- The use of computerised analysis was discussed in depth with two researchers who had used such tools in their own doctoral research, and with other researchers who were intending to use such software, and we debated what could be done to minimise these risks.
- Secondly participation in two NUDIST Training Courses and the conduct of a pilot assessment project, facilitated a hands-on evaluation of the degree to which NUDIST would allow retention of control over the analysis.

- Finally the exchange of correspondence with two methodology experts provided specific guidance on how to avoid the pitfalls.

As a result of these steps QSR NUDIST was adopted for the qualitative data analysis phase of the research. However, as a safeguard certain rules were followed:

- Almost all data coding would be manual. Auto-searches were used to identify common themes not anticipated in the initial coding structure, but these were only for guidance, they did not add additional coding to the analysis database. The only use of automatic coding would be to apply "universal" codes applicable to every text block within a transcript.
- To retain the visual component of the analysis it was necessary to link QSR NUDIST, that has very limited graphics capability, with another package that would allow visualisation and manipulation of the data relationships, graphically.

Having made these choices, the next stage was to prepare the case study data for analysis.

Data Preparation

Transcription of the interview minidisks took place as soon as realistically possible after the interview. The transcription process was subdivided into three phases.

In the first phase, the minidisk was played back in a single pass. At the same time a rough set of hand written notes was prepared using a specially designed "Interview Recording Summary Sheet" (included in the Case Study Archive).

In the second phase the track-end facility of the minidisk was used to subdivide the minidisk into tracks each one with a duration of between 15 and 150 seconds depending upon the relevance of the content, with more pertinent material being subdivided into shorter and more precise tracks. The Interview Recording Summary Sheet was used to classify each track into one of three priority levels:

- A – Verbiage such as general chitchat, interview interruptions or extended commentary by the interviewer.
- B – Background in which the interview discourse departed from the primary research theme, but which still offered useful context.
- C – Key material directly pertinent to the research theme.

In the third and final pass the interview was transcribed according to the level of priority assigned previously:

- Class A material was not transcribed though was left on the minidisk.

- Class B material was paraphrased and précised.
- Class C material was transcribed verbatim – and was precisely identified by the registration on the Summary Sheet of the minidisk track number immediately prior to the transcribed text. (Please note: The transcript quotations used extensively in Chapter 5 have been edited to eliminate company or personal references. However, in all other respects they can be regarded as verbatim extracts from the interviews)

All interview material was transcribed as complete sentences that were individually identified as text units by putting a hard copy return at the end of the sentence. Generally, text was based solely upon the responses of the interviewee, although the interview questions were inserted even where the interviewee did not read them out. In the rare cases where the interviewer's comments were transcribed these were identified by the use of upper case characters.

In the final stage to prepare the transcripts for analysis the files were saved as text only files in Courier font, a pre-requisite for importation into NUDIST.

Data Coding

Qualitative data analysis systems such as NUDIST rely on coding of the blocks of text to facilitate the structuring of ideas into conceptual groups. These groups then serve as the building blocks for the testing or development of theory.

NUDIST supports both the deductive and inductive approaches to theory building by offering two types of coding function:

- Standard nodes are often inserted into the system ahead of the coding and analysis process and correspond to the constructs embraced in the theoretical framework under examination. These codes can be on a single level but more typically are structured hierarchically with major concepts being exploded into sub-concepts and indicators. The overall hierarchy within NUDIST is called the Index system and every standard node is assigned a position within that index using a numerical address, title and definition.
- Free nodes emerge out of the data coding and analysis. Text blocks that appear from initial analysis to be anomalous or at odds with the pre-defined coding structure will often trigger the need for the addition of new nodes. In some cases the "fit" of the new node into the index will be immediately obvious and these may be coded as standard nodes, but more probably the new node will remain an anomaly for some time. In this event they can be coded as free nodes with a title and definition but without a numerical address that positions them in the index.

The initial coding of the interview transcripts used only standard coding. Miles and Huberman advise that the initial list of codes should fit on one sheet of paper. (Miles and Huberman 1994). Accordingly, the initial index structure was kept very simple and limited to only two levels as illustrated in diagram 40, below:

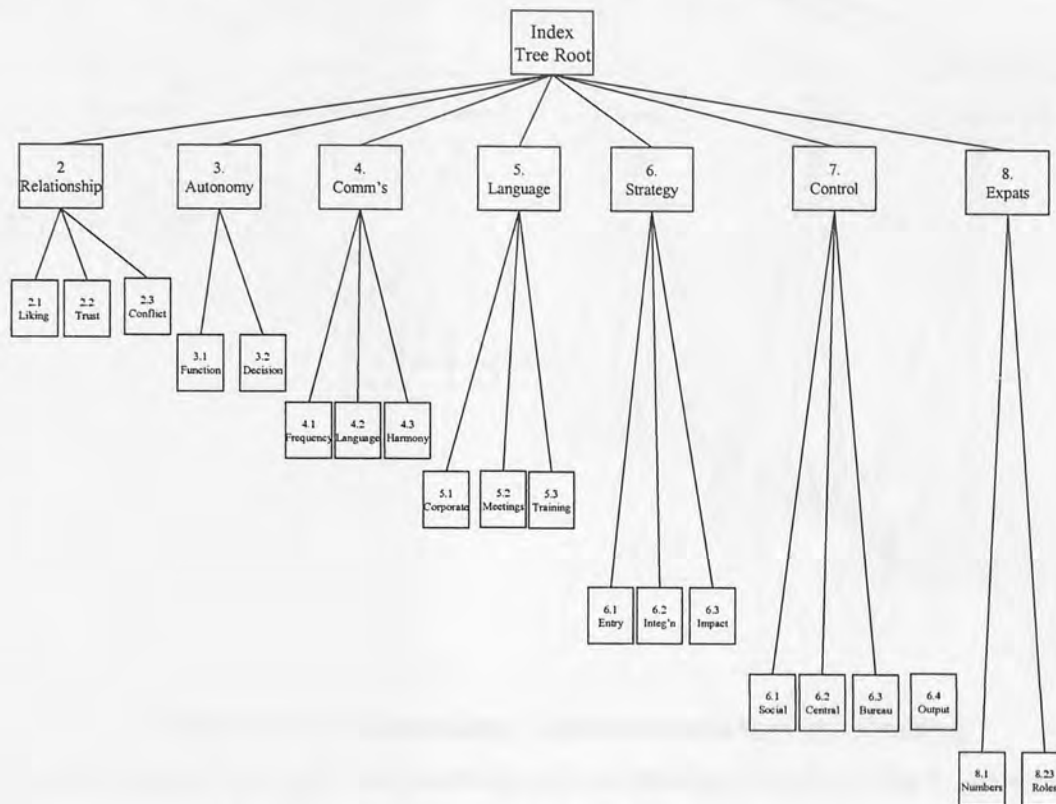


Figure 40 – Initial Index Tree for Text Coding

The process of coding was achieved in five stages with stages 2 and 3 taking place concurrently. Stage one involved writing simple macro commands for automatic application of codes that applied to every text block within the transcript file. In this way codes for company, interviewee and function of interviewee (not illustrated on the Index Tree) could be readily inserted across the transcript with minimal effort.

The second stage was much more time consuming and demanded manual coding of individual text blocks. Each block was assigned one or more codes, depending upon how it related to the nodes of the index structure. For example, a text block explaining how lack of leadership by the parent management had created friction and led to a reduction in subsidiary autonomy could have been coded as “Leadership”, “Friction” and “Autonomy”. Sometimes the blocks could be readily coded with the index system already available, but in around 40% of cases they didn’t lend themselves to classification in this way. So it was necessary to create additional nodes that supplemented those present in the index tree. In stage 3 these were created as free nodes, as and when the interview text demanded a new perspective.

At the conclusion of stage 3 the enlarged index tree appeared as in fig. 41, below:

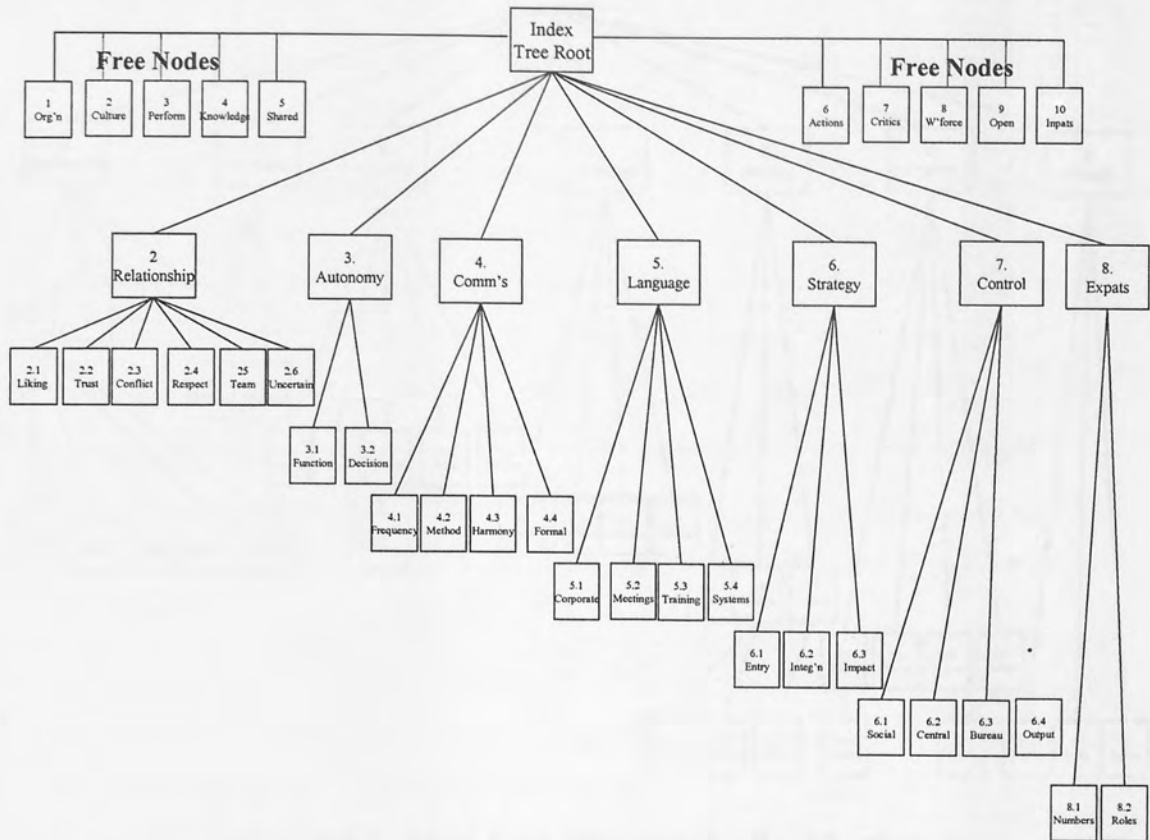


Figure 41 - Intermediate Tree Structure for Text Coding

The fourth stage involved re-evaluating and re-defining the index tree to eliminate those nodes that had not provided useful insights and to bring together the original index tree and the added free nodes into a single rationalised structure as illustrated in fig. 42, below:

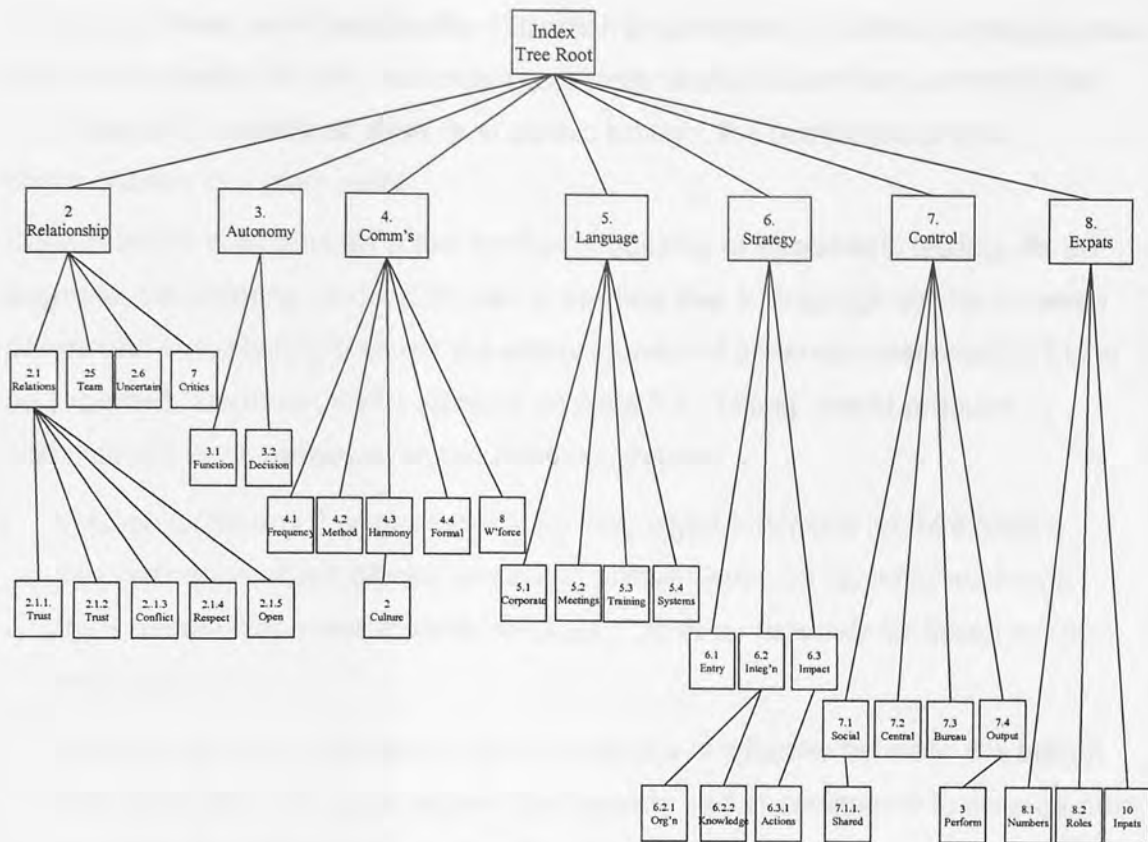


Figure 42 – Final Tree Structure for Text Coding

The final stage of coding required that each of the interview transcripts be revisited in the light of the rationalised index tree and the text blocks re-coded accordingly.

Once the data had been fully coded, the diverse perspectives provided by the transcripts, could be explored, using the tools of data analysis provided by NUDIST.

4.4.4. Data Analysis

The research employed two functions of data analysis offered by NUDIST. These were:

- Code Retrieval
- Text Searches

The two functions were used to different ends and in different phases of the analysis and so are best discussed separately.

Code retrieval, as the name suggests, allows previously coded text blocks to be retrieved and examined or printed. As an example (referring to the initial index tree illustrated in section 4.4.3. above), an extraction of the transcript files for code 2.1 would bring out all the text blocks referring to liking, or its converse, within the parent company relationship. Such an extraction would embrace all respondents within the two case companies, but using interview identification codes (not illustrated) as

secondary filters, would enable the extraction to be limited to individual respondents or to single cases. For this research it was most useful to work and perform code retrievals at the combined case level as this brought the comparisons and contradictions into stark relief.

Code retrieval is essentially a tool for theory building or hypothesis testing. As an example, the opening model (Chapter 1) predicts that a language barrier between parent and subsidiary will hinder the establishment of a friendly relationship. It is to be expected, therefore, that a retrieval on code 2.1. "Liking" would produce contrasting results between the two case companies:

- In Case Company 2 where there is no language barrier one might expect a predominance of text blocks containing phrases such as "*good to work with*", "*nice people who seem to care about us*", "*meet up regularly for social events*" and so on.
- Whereas in Case Company 1 where language is a barrier between the parent and subsidiary one would expect the opposite sort of sentiments to emerge from the code retrieval with phrases such as "*heavy going being in the same room*", "*they don't like the Brits and they show it*" and "*even when they come they sit at separate tables at lunch and never invite us to go out to dinner with them*" etc.

When the evidence, thrown up by code retrieval, is overwhelmingly supportive of the hypothesis being examined then a line can be drawn under the analysis and the conclusions written up. However, in research this is rarely the case. Problems were essentially of two types:

- The retrieval was producing too many responses, making it hard to see patterns in the data. This led to a need to refine the coding structure.
- The retrieval produced some responses that were anomalous, at odds with other respondents and incompatible with the hypothesis. These responses demanded a return to the interview transcript and often to listen again to the interview recording to try to understand better the context.

As the coding structure developed and anomalies were explored it was essential to retain a trace of the evolving understanding of the data. The memo facility within NUDIST proved the best vehicle for maintaining this history, allowing the development of concepts, codes, categories or emergent themes to be recorded. These memos were particularly important due to the fact that the refinement of the coding did not proceed in a linear fashion. Several times arms of the index tree were developed only to result in "cul-de-sacs" that failed to enhance understanding. These

demanded a "back out and start again" and the memos provided the vehicle for maintaining a history of these experiments and corrective actions.

By contrast, the text search facility is less about theory building and more about data exploration. Continuing the example from above; the text blocks had been already coded so as to identify those that were related to 2.1 "Liking", and this had allowed code retrievals to extract relevant comments from the transcripts. However, this approach has twin defects:

- Firstly, it relies wholly upon the researcher's interpretation of the transcript to code accurately and consistently.
- Secondly it gives no sense of relative importance of the issue to the two cases. Liking, or disliking, might come up 10 times in once case study and 100 times in the other but this is hard to explain using only selected quotations in the analysis.

Text searching provides a solution to both of these problems. By establishing a simple thesaurus of similar words e.g. hostility, dislike, friction, arguments, resentment etc, NUDIST is able to search the transcripts to find phrases containing these synonyms. These searches served as a double-check on coding, often identifying text blocks that had not been coded in advance, and they provided a quantitative measure of the frequency of such words being found in the case transcripts, a clear indication of the relative importance of the issue.

Using these two facilities of code retrieval and text searching facilitated the progressive development of a clearer understanding of the data and the refinement of the hypothetical model underpinning the research. The analysis and the refinement of the hypotheses is the subject for Chapter 5 of this Thesis.

4.5. The Survey

Introduction

The early stages of this research programme had anticipated a discrete survey focused only on the needs of this thesis. However, late in 2001 an opportunity arose to collaborate with Anne-Wil Harzing of the University of Melbourne and Niels Noorderhaven of Tilburg University, to participate in a more extensive and ambitious global survey. After discussions with key colleagues at Aston University, this collaboration emerged as the preferred option. The design, planning and conduct of the survey was therefore, a collaborative effort involving these three Universities, although Melbourne played the dominant role in the survey conduct phase.

The key events and decisions related to the survey design and conduct are summarised in the sections below:

Survey Issues

Dillman (2000) begins his chapter on Business Surveys with the words "*Few survey undertakings are as difficult as...obtaining responses from businesses or other organisations*". This is particularly relevant to large multinational companies of the type to be consulted in this study, who suffer the twin problems of corporate disclosure rules and survey saturation. In order to overcome these hurdles it would be necessary to rely upon best practice in the preparation and design of the survey and in particular to understand what factors would motivate, or de-motivate, managers to complete it.

Much of the advanced literature on the design and conduct of surveys (Goyder 1987), (Jobber and Saunders 1988) and (Dillman 1991) (Dillman 2000) is based on the Theory of Social Exchange (Blau 1964). The theory addresses the question '*why do people respond to surveys and what can be done to increase the probability that they will respond?*' and posits a relationship between Reward, Cost and Trust.

Interpreting these guidelines in the context of this research, indicates that it would be necessary to:

- Select the sample of respondents with attention to balance and likely empathy towards the goals of the survey.
- Establish a mutual trust between researcher and respondent
- Increase the respondents' perception of reward
- Decrease their perception of social cost (time/effort/hassle)
- Differentiate the survey from others they would receive.

These objectives have been distilled into a "recipe" for successful surveys. The Tailored Design Method (Dillman 2000) is "*a set of procedures for conducting successful self-administered surveys that produce both high quality information and high response rates*". It is articulated as a series of tailoring principles covering all aspects of the survey from question definition and questionnaire design to mode selection and survey conduct.

This Tailored Design approach formed the basis of the methodology to be employed in the survey, and this threw up a series of methodological issues, notably:

- How could a sense of trust be established with would-be respondents? The ideas reviewed included a sequential multi-stage contact process and a prestigious committee of recommendation.

- What would help the respondents to perceive reward? Ideas included cash or token incentives, charitable donations and a promise of survey feedback.
- What steps could be taken to decrease the respondents' perception of social cost? Ideas included multi-mode options for survey completion, pre-addressed, postage-paid envelopes, a "time-barometer" within the questionnaire, questionnaire translation into multiple languages and, of course, the need to keep the questionnaire small.
- How could the survey questionnaire be differentiated from the numerous others that the respondents would receive? Ideas included coloured paper, professional printing and researcher photographs.

These issues and the decisions that were eventually taken are discussed individually below and a chronology of the interchange of emails, that define the Aston contribution, is included in the Survey Archive.

Survey Respondents

The targeted respondents, all subsidiaries of large multinational companies, were selected using the Dun & Bradstreet database. They were chosen based on a series of criteria:

- **Industry Sector:** Food, Automotive, Chemicals and Electronics
- **HQ Country:** Six countries were selected UK, USA, Netherlands, France, Germany and Japan. (Between 2 and 4 Multinationals were selected from each HQ country in each of the 4 industry sectors. – in total some 85 companies)
- **Subsidiary Host Country:** Between 10 and 70 subsidiaries were chosen for each Multinational. A global spread of 24 host countries was adopted and not more than 5 subsidiaries were selected for each Multinational / Host Country combination.
- **Size:** Subsidiaries had to have a minimum of 15 employees to be selected.

No specific attention was paid to selecting subsidiaries likely to have a language difference with their parent company, but the global spread of the selection ensured that there would be a significant sample to be examined.

Survey Mode

Given the advances in communications technology, and the wide geographic spread of the sample, some consideration was given to the possibility of offering alternative modes of questionnaire submission e.g. by post, email and website. Dillman (2000)

believes that mixed mode surveys offering method alternatives to respondents “*will emerge as the norm for business surveys*”. However, mixed mode surveys at this time still have notable defects, including:

- Low response rates (Schuldt and Totten 1994)
- A tendency towards extreme responses (Sproull 1986)
- Self-selection of respondents by virtue of their IT proficiency (Harzing 1999)
- Varied visual presentation of the survey depending upon the hardware and screen configurations of the respondents (Schneiderman 1997)
- Mode distortion of the survey feedback (Sangster 1993)

Accordingly it was agreed that this research would rely on a conventional survey using hard copy questionnaires sent by post.

The Survey Planning

Concerning the value of a multiple contact approach, the evidence from earlier researchers is consistent and persuasive. “*Multiple contacts have been shown to be more effective than any other technique for increasing response rates to mail surveys*” (Linsky 1975). Moreover, “*recent research confirms that this is also true for surveys by email*” – (Schaefer & Dillman 1998).

However, cost, resources and the language barrier were all considerations to be balanced. In the end a compromise was reached:

- In those countries where the survey team could call upon an acquaintance to help and where language was not a barrier a three-stage contact would be adopted. A pre-advice by phone or fax to check and correct address and name details: The questionnaire sent by airmail, and then a follow-up by phone to solicit reluctant respondents.
- In those countries where there was no local support this was reduced to a fax to check address details followed by the questionnaire arriving by airmail.

In all other countries there was a single-stage contact with no pre-advice and no follow-up.

Letter of Commendation

The value of a letter of recommendation was difficult to assess due to the absence of published research examining the efficacy of such letters. However, an earlier international research project (Harzing 1999) very similar to this in both content and target audience, included a letter of commendation within the questionnaire and

generated a healthy 20% response rate. It was decided to follow a similar approach, with a very prestigious committee of endorsement appearing on the front page.

Incentive

Several researchers have attested to the power of a token incentive in boosting response rates (Dillman 2000), (Jobber and Saunders). However, they insist that charitable contributions and other types of deferred, after-response, incentives, have no effect. It has to be cash and it has to be 'up-front'. The experience of other researchers including Harzing (1999) however, suggests that a token such as a teabag or an after-dinner mint, can be equally persuasive.

Sadly the survey budget did not permit an up-front cash payment and at the time of the survey there was widespread international concern about the threat of anthrax attacks through the post. As a consequence it was agreed that there would be no token incentive offered.

Question Definition

The definition of questions developed collaboratively between Tilburg, Melbourne and Aston. The 47 questions that make up the questionnaire break down as follows:

- The questionnaire opens with 16 questions of a factual nature about the parent and subsidiary companies. These were almost exclusively designed between Tilburg and Melbourne with no input from Aston. However, one question concerning the cultural similarity of the parent and subsidiary companies was included at the request of Aston.
- A second block of 4 questions then examines local responsiveness issues. These were discussed and agreed collaboratively between Melbourne and Aston.
- Two multi-part questions then look at subsidiary capabilities and knowledge flows, respectively. Tilburg and Melbourne presented these in collaboration. Aston played no part in their formulation.
- A single but multi-part question then examines subsidiary autonomy. A first draft was provided by Melbourne but was revised in line with suggestions from Aston.
- A further 8 questions then look at control methods. These are principally the work of Melbourne though with minor inputs from Aston.
- Six questions on expatriation follow. Five of these are the exclusive work of Melbourne; Aston added the sixth.
- The language diversity block is composed of 8 questions and except for minor wording changes is the work of Aston.

- The survey closes with two miscellaneous questions, one focused on subsidiary performance and the second on corporate strategy. Tilburg and Melbourne working together furnished both questions.

Summarising the above and excluding the purely factual requests, of 31 questions Aston contributed 10 and made contributions to a further 13, of which 8 were only minor wording suggestions. The substantive contribution from Aston covered approximately half of the non-factual questionnaire questions.

Questionnaire Design

Perceived questionnaire length is considered an important predictor of response rate; the longer the questionnaire the lower the response rate expected. However, as this single questionnaire had to meet the data requirements of three researchers each with a different focus to their research, it was impossible to achieve brevity. The composite questionnaire emerged as a 12 page, A5 booklet a photocopy of which is included in Appendix C.

To minimise the “deterrent effect” of such a document it was designed according to the following criteria proposed by the Tailored Method (Dillman 2000):

- It was printed professionally to achieve the format and quality standard required to underline the seriousness of the research.
- Judicious use was made of colour, shading and fonts to maintain the interest of the respondent as they completed the questionnaire.
- A timeline was included to indicate progress and to encourage the respondent to complete the questionnaire in a single sitting.
- Questions of a factual nature requiring fact finding by the respondent would be minimised, and those seeking opinions would be presented against a 7-point answer scale, to simplify the act of answering.

These design features together with the fact that pre-addressed, reply-paid envelopes were provided with the questionnaire, made the survey as user-friendly as was possible in the circumstances.

Survey Conduct

The survey was conducted in three phases as summarised in the table below:

Phase	Country Focus	Administered By	Questionnaires Sent Out	Useable Responses Received
Phase One April 2002	Global: Subsidiaries across 24 countries in all	University of Melbourne	2753	102
Phase Two August 2002	Subsidiaries only in Australia and New Zealand	University of Melbourne	378	41
Phase One October 2002	Global 24 Countries in all	Tilburg University	1525	28

Follow up, where it occurred, was undertaken between 4 – 6 weeks after the distribution of the questionnaires. It was done by telephone using a prescribed text, a copy of which is included in the Survey Archive. Aston undertook the follow-up for approximately 200 UK-based respondents.

Survey Conclusions

Despite the experience of the Melbourne and Tilburg contributors the survey results were very disappointing. The probable reasons for this are reviewed in section 4.8 below.

4.6. The Quantitative Data Analysis

Methodology Selection

The choice of SPSS as the software package for analysis was relatively simple:

- It is the standard application for statistical analysis used in the Business School.
- It is the package that is taught as part of the Doctoral Research Methods Course
- It provided easy-to-use functions for all of the relatively simple statistical functions needed in this research.

In addition SPSS has excellent testimonies from experts in methodology.

A much more demanding decision concerned the functions of SPSS that would be useful to the research. After much debate, reviewed in section 4.8, the following techniques were chosen:

- **Exploration** was used to explore the distribution of responses around a single field. An example of this was parent language. How many parent companies spoke English, how many spoke German and so on?
- **Cross Tabulations** were used to explore the distribution of responses in two dimensions using two cross-matched fields. An example was the use of corporate language by parent nationality. How many American Companies had adopted a corporate language, as opposed to German, French and Japanese companies?
- **Spearman's Rho** was the principal technique for measuring association / correlation between two fields or scales. For example the hypotheses developed in Chapter 5 predict that language difference between parent and subsidiary will be positively correlated with the deployment of expatriate managers. Spearman's Rho provides a measure of the strength and statistical reliability of the correlation between those two fields.
- **Cramer's V and Mann-Whitney U** were supporting techniques used to verify the relationships between fields.
- **Factor Analysis** was employed to test the convergence and underlying factors for fields employed to construct scales.

In analysing the data there was experimentation with other techniques including regression analysis, but this failed to add any insights beyond those discussed in Chapter 6.

Data Entry

It has to be stressed that the raw entry of data from the questionnaires into SPSS was not done personally but by Dr. Harzing's team in Melbourne. However, it was done in a way that was wholly professional.

- Individual elements of data on the questionnaire were assigned meaningful SPSS field names e.g. the preferred language of the subsidiary would be coded SUBLANG. Then each field was given a full definition referring back to the questionnaire text and a group code to ensure that like fields were retained together.
- For those fields that had multiple possible responses a coding structure was developed. An example is Host Country where a coding structure was developed

with 1 as Australia, 2 France, etc. In general, where several fields share the same concept then the same sub-coding structure would be applied.

- Finally, the data were keyed-in one questionnaire at a time, using a two-person team. One person read the data and checked the input while the second keyed the input.

Prior to analysis the completed SPSS database was subjected to a check for completeness and data validity and a master copy of the data was then saved as permanent point of referral.

Statistical Data Analysis

The statistical analysis was completed using the six functions of SPSS described previously. Copies of the database and of the numerous analyses performed are too bulky to include as an appendix, but they are available in the Survey Archive.

The results of these tests form the basis of chapter 6, the Quantitative Data Analysis.

4.7. Other Methods

Although the methods described in the foregoing sections provided the central core of the research methodology, there were other tools which merit a brief mention.

Project Management

The doctoral research began using Microsoft Project to plan and control the advancement of the work. However, Project is most effectively used for planning and control where there are multiple resources to be managed and where there are repetitive elements to the work being undertaken. The Doctoral Research programme by contrast was a step into the unknown with new unanticipated tasks emerging as the project progressed and with each task being a total unknown in terms of man effort or elapsed time. Accordingly, this was abandoned for a much less rigorous but more flexible scheme of planning and control. A simple Gantt chart with a 6-month time horizon, updated every three months, provided the broad direction for the project and weekly task sheets ensured the impetus was maintained on a day-by-day basis.

References

Endnote was chosen as the system for managing the rapidly burgeoning database of academic reference. This proved to be a very prudent choice. Along the way to the Thesis papers were submitted to five different academic journals each of which demanded a slightly different representation of the reference data. The use of Endnote permitted this with minimal effort and without having to change the

reference data.

Graphics

Graphic representation is often essential to support the explanation of concepts and this Thesis is liberally peppered with diagrams for this very purpose. Also conference submissions invariably call for slide presentations.

For both of these purposes Microsoft Powerpoint was chosen. It is by no means the most flexible or sophisticated of graphic applications and has no 3D capability.

However, it was chosen because:

- It is the most fully integrated graphics package to use alongside Microsoft Word.
- Its very simplicity serves as a useful discipline ensuring that diagrams cannot get so complex that they become counterproductive.

The only graphics application used in addition to Microsoft Powerpoint was Decision Explorer, selected specifically to provide graphic output of the NUDIST index trees.

Methodology Review

Section 3.2. of the Research Design chapter made clear that methods should be judged in terms of their "fitness for purpose". In the opinion of one researcher the deciding factor of this fitness is whether the research has rendered the "*desired results*" (Creswell 1994). Viewed in this light, it may be premature to arrive at a judgement and so any fuller assessment is postponed until Chapter 7, by which time the results of the research will have been examined in depth. However, enough has been explained in this chapter to persuade most readers that the methods have been carefully chosen, fully researched and carefully implemented.

4.8 Critique of the Research Methods and their Application

Overall the methods employed achieved the goals stated in the Research Design:

- They provided a reassuring level of methodological and data source triangulation.
- They avoided the risk of blocked perceptions by demanding that the case study be used to evolve and refine the researcher's pre-understanding before it is tested with a survey.
- And, as will be demonstrated in the next two chapters, they combined to generate a wealth of data that provided invaluable insights into the impact of language on international business.

However, to rest at that point would be to deny the inadequacies of the methods employed and the mistakes made in the way they were applied to this research

project. Foremost amongst these problems were:

- The system of project planning and control adopted was inappropriate for this type of research and ultimately proved counter-productive.
- The comparative case study approach, to be wholly effective, needs to embrace all perspectives on the issues being explored. By studying only two companies, albeit those with the dominant perspectives, there were some issues that could not be fully explored.
- The almost unlimited functionality offered by NUDIST the text analysis system employed, exposed cognitive and ethical problems to the researcher in how to represent a balanced consensus when on most issues there was a degree of dissention.
- The shared survey imposed difficulties and constraints on the research programme and ultimately these undermined the quality of the research findings.
- The use of dichotomous variables as opposed to an ordinal scale reduced the sensitivity of the quantitative analysis.
- The controlling for variables other than language, emerged as an important step in interpreting the data.

None of these problems were apparent at the time the methods were chosen but their significance became more obvious as the research proceeded and each one merits further discussion.

Project Planning and Control

The system of planning and control, using Microsoft Project, was based upon the conventional two tier approach:

- An overall Project Plan subdivided into phases and with timescales measured very broadly in terms of 3-month blocks.
- A short-term Activity Plan focused on task deliverables and measured in weeks.

The fact that the original 3-year target was missed by nearly two years, is due in large part to the fact that the plan had failed to address five issues which, with hindsight, appear glaringly obvious:

- Before planning any project it is essential to lay down a clear, precise objective and a stable, well-defined methodology.
- In order to make reasonably accurate estimates of man effort and elapsed times of project activities, it is necessary to be fully informed about similar projects

involving similar activities.

- For the project manager to ensure satisfactory progress against plan, he or she will need total control over the conduct of the project. If there are elements of the project outside of their control then the timescale will be under threat.
- Only full time resources can be planned with any confidence. Even with goodwill, part-time resources will be distracted with other priorities and will fail to deliver on time.
- Large / long projects rely upon the team dynamic to sustain motivation and momentum. An individual working alone on a big project will encounter extended periods of frustration and doubt that will detract from motivation and impair momentum.

All of these five issues had an impact:

- Over the course of the research the focus, the research question and the scope of the study all changed, leaving the planning in tatters.
- The methods approach too altered, with the comparative case study being inserted only after the initial research-design phase was complete, and thereby adding a major additional phase to the planning.
- Almost without exception the tasks making up the project have been uncharted territory. The planning relied on ill-informed "guesstimates" rather than informed experience, and as a consequence the deadlines were consistently missed.
- Control of the survey was relinquished to the co-researchers. This introduced a 6-month delay relative to the plans for this thesis.
- Unplanned teaching obligations in years 1, 2 and 3 of the doctoral programme, and later the acceptance of a part time job away from the research brought about a loss of momentum and conflicting time priorities.

However, the consequential delays were magnified by the emphasis on phase level planning that served only to amplify the sense of failure and project stagnation.

With hindsight a system of planning focused almost exclusively on task level control, would have been more forgiving of the problems identified above, would have accentuated what had been achieved rather than what had not, and ultimately would have ensured a more effective use of time and a more motivated approach to the difficult phases of the project.

The Comparative Case Study

The principal problem with case studies is to gain access to companies that can provide an insightful perspective on the issues being explored. Ideally, there would have been four comparative case studies embracing all combinations of the Parent and Subsidiary Language matrix as illustrated in fig 43, below:

Parent Language	Subsidiary Language	
	English	Not English
English	Case 1	Case 3
Not-English	Case 2	Case 4

Figure 43 – The Case Selection Matrix

However, tentative enquiries with a few UK based multinationals indicated that it was highly unlikely that access would be allowed to any of their overseas subsidiaries, precluding the possibility of a Case 3 example. A similar approach to one foreign multinational rendered an equally negative response and underlined the language difficulties in pursuing a Case 4 example. The research, therefore, was ultimately restricted to a comparative study between cases 1 and 2.

Even with this reduced scope it was difficult to select companies that would fairly test the language-based propositions as opposed to some other variable that differentiated between the two cases. The two companies chosen, in many ways offer a good contrast:

- They share the same industry sector.
- They share a common provenance, both coming from the same UK organisation, but having been acquired by different multinational companies.
- They were both considered successful, profitable, strategically important divisions by their respective acquirers.

However, there were other selection attributes by which they could not be considered well-matched, and which could easily have influenced the comparison:

- One was a manufacturing organisation (case 1) the other a distribution company (case 2) and it is not unusual for a manufacturing business to be controlled more strictly than a services company.
- One company (case 2) was much larger (by a factor of three to ten depending upon the criteria used) and it would be easy to justify an argument that larger organisations enjoy more autonomy.

- One (case 2) was performing very well economically while case 1 was only breaking even. It is easy to understand that high performing divisions will have a better relationship with their parent company than others performing less well.
- One company (case 1) was acquired several years before the other and, over time, management philosophies and practices change. Arguably the experience of this company derives from the philosophies and practices prevalent at the time of acquisition.

The cases analysed, therefore, can be considered an adequate but less than ideal comparison. Moreover, the comparison only allows language issues to be explored from the perspective of English-speaking subsidiaries. With English being widely regarded as the international language of business this must limit the generalisability of any findings and leaves unanswered questions such as *"would the same tensions have occurred if the parent company had been working in their second language and the subsidiary had to fall in line"* or *"what is the impact of both organisations compromising on a neutral language for parent subsidiary communications?"*

The Analysis and Summarising of the Case Study Testimony

There are many ethical challenges facing would-be researchers (Hirschman 1986) but for those engaged in case studies having collected a database running to thousands of text units, one of the most testing issues is "what testimony to cite?" The use of NUDIST made the filtering, prioritisation and categorisation of text units a relatively painless process, but the selfsame functionality also served to expose the inherent inconsistency in the testimony collected. It was predictable that there were contradictions between witnesses, but there were self-contradictions too, where a single informant expressed contradictory views at different stages in their testimony. And very prevalent in these two cases there were longitudinal contradictions where, for example, a statement that was explaining how things were in the late 1990's was no longer appropriate for the modern day.

Earlier researchers limited to physical cut-and-paste methods may have remained unaware of many of these contradictions but modern tools such as NUDIST capable of analysing many thousands of text blocks against a multiplicity of criteria, deny the current-day researcher this blissful ignorance. It is futile to demand that the researcher takes an impartial view and faithfully reports all of these contradictions. To do so would be a recipe not for analysis but for anarchy. Instead, the researcher must look for prevailing patterns and, as in this research, use the number of repetitions and the reinforcement from multiple interviewees to identify the dominant attitudes of the case study management. This provides a degree of reassurance but

still leaves unanswered the challenge that, perhaps, one well thought out opinion might actually be more meaningful than ten others which merely trot out the conventional wisdom.

The Survey.

As has been extensively discussed in section 4.5, the survey was a collaborative affair encompassing the needs not only of this research but also of research programmes underway at the University of Melbourne and Tilburg University in Holland. This collaboration conferred a number of important benefits to this study:

- It permitted a much larger, and geographically dispersed, sample than would have been possible for a doctoral researcher working alone.
- It spread the administration costs and efforts involved in conducting the research, with the University of Melbourne picking up the lions share of both.
- It facilitated the sharing of ideas and the brainstorming of difficult issues.

Nevertheless, there can be no denying that, for this research programme, the advantages were outweighed by the disadvantages. The following problems were key:

- The survey questionnaire, like any document designed by committee, and a virtual committee at that as all contact was by email, emerged as an unsatisfactory hybrid. To accommodate the needs of the three research programmes, it was larger than any one of the contributors would have liked and, crucially, key questions were sacrificed. For this study in particular there was no question included to assess the perceived scale of the language barrier. Several language difference questions were included but these failed to provide an ordinal scale against which the language barrier hypotheses could be tested.
- A parallel problem was the demand by the other researchers for factual information requiring the respondent to consult with others in the organisations. This research programme could have functioned with an absolute minimum of factual data, relying purely on opinions and perceptions. However, the emphasis imposed by the other researchers for quantitative data clearly deterred many would-be respondents.
- The questionnaire format too was something of a compromise. It emerged looking too professional for a typical University survey and too bulky and academic for a business survey. There can be little doubt that this quirky design contributed to the very low response rate.

- The conduct of the survey was less rigorous than a single-focus survey would have been. Issues such as checking addresses, monitoring survey delivery agents and following up on late respondents would have been essential steps in a less ambitious survey, but in this collaboration they got lost in the fog of "everybody and nobody" accountability.
- And finally the timing schedule proved disadvantageous. As a discrete piece of research the single survey for this thesis would have been ready to go in the spring of 2002 and complete by midsummer. Instead the more ambitious, collaborative survey drifted on 6 months after those dates.

Having knowingly and voluntarily conceded control of the survey in order to be part of a wider, more prestigious research programme, it would be churlish to bemoan the way that the research was conducted. After all it did provide an adequate database of responses that enabled the research hypotheses to be fully tested. However, the experience on this project has certainly demonstrated that collaborative research is not just about synergies and shared benefits. There are very real compromises to be accepted and in many cases such as this one, the disadvantages attendant to the compromises will outstrip the returns offered to those involved in the collaboration.

The Quantitative Analysis

As a consequence of the exclusion of a "perceived language barrier" question in the final questionnaire design, it was necessary to adopt two surrogate constructs, which taken together approximate to a measure of the language barrier at work:

- The first is simply whether or not there is a national language difference between the parent company and its subsidiary.
- The second defines whether the parent language is English (An Anglo parent) or another (A non-Anglo parent). As there are many more second language speakers of English than any other language, where there is a language difference it will normally be less severe if the parent language is English.

This replacement of a scale with two dichotomous variables created significant problems for the quantitative analysis. Most importantly it brought into question what statistical tools to employ when exploring the relationships using these variables.

After a wide-ranging review of the literature and consultation with statistical specialists, it was concluded that:

- Dichotomous variables are rankable.
- Consequently they lend themselves to rank order tests such as Spearman's Rho.

However, it is clear that this simplification brought about a loss of sensitivity in the analysis of the survey data, and it re-emphasised the need to anticipate the nature of the analysis before finalising the content of the data collection survey.

Controlling for Other Variables

This thesis began by berating earlier researchers for examining the influence of cultural dimensions without ever considering that language might be one of those variables. This point was reinforced in the literature review that demonstrated that it was almost impossible to separate culture and language.

In view of this it would be blinkered in the extreme for this research to examine the impact of the language barrier without ever pausing to reflect that possibly it is other cultural dimensions, rather than language, which explain the findings uncovered. This is not an easy endeavour but an effort has been made to preclude other cultural variables by:

- Controlling in the analyses for cultural rather than language variables.
- Using the findings of the case studies to illuminate and inform the interpretation of the survey.

The specifics of how these two methods have been applied are described in section 22 of Chapter 6.

Methods Critique Conclusions

At first glance, the methods evaluation does not appear positive. On the contrary, problems in Project Management, the Case Studies and the Survey, several contentious issues identified and a twenty-month delay relative to the original plan, all suggest a negative assessment. However, as discussed fully in Chapter 3, the essential criterion for judging methods has to be fitness for purpose. Against that measure it can be confidently asserted that the methods employed were more than adequate to meet the strict obligations of validity and reliability.

- Construct Validity, was protected by basing construct definitions on prior research and by fully documenting the provenance of each one. Each dimension of the propositions was tested by reference to multiple informants during the case study phase. And in both the qualitative and quantitative analysis phases, where the most contentious issues were raised, there is full traceability provided.
- Internal Validity was preserved in the case study phase by means of a formal matching of patterns of testimony against the propositions evolved from the Literature Review.

- External Validity was ensured by methodological triangulation and in particular by the use of the survey to examine the generalisability of the case study conclusions.
- Reliability of the research was underpinned by full documentation of the research process, much of which is included in the Appendices. Spanning the full duration of the project from the early conceptual papers, through the case study protocol and on to the survey, there is a clear audit trail that would enable another researcher to reproduce the research and to arrive at similar evidence of the impact of the language barrier.

There were many problems encountered, many lessons learned and much that would be done differently the next time around. Nevertheless, none of this compromises the validity and reliability of the research evidence: Evidence that will be discussed at length in the next two chapters of the thesis.



Figure 44 - The Language Barrier Model

The model is primarily based on the work of... The Language Barrier... The model is primarily based on the work of... The Language Barrier... The model is primarily based on the work of... The Language Barrier...

Chapter 5 – Case Study Analysis

5.1. Introduction

Yin (1994) identifies six different styles for writing up the findings and conclusions of a case study, of which five, he contends, are appropriate for an explanatory project of this type. In one of these styles, the Linear-Analytic style, the primary focus is the entity being studied, developing the findings and their theoretical implications within the envelope of the case. An alternative report type, the Theory-Building style, places the theoretical argument centre-stage, and is employed to explore the findings of the case or cases in the context of causal relationships already hypothesised.

The Case Study Archive is built exclusively around the case companies being studied. Full details of the company background, their business activities, the takeover chronology, the organisation structures and the roles and profiles of the personnel interviewed are contained there. Most of these details, however, have not been carried forward to the thesis for reasons of confidentiality and sections 5.2 and 5.3 give only brief and anonymous summaries of the case companies themselves. The remainder of the chapter, sections 5.4 to 5.10, is structured using the Theory Building style. The focus shifts to the theoretical concepts being explored and refers back to the expectations derived from the researcher's own experience (Chapter 1) and the Literature Review (Chapter 2). It is worth recalling at this stage that the research is founded on the twin vicious circle model reproduced in fig 44 below:

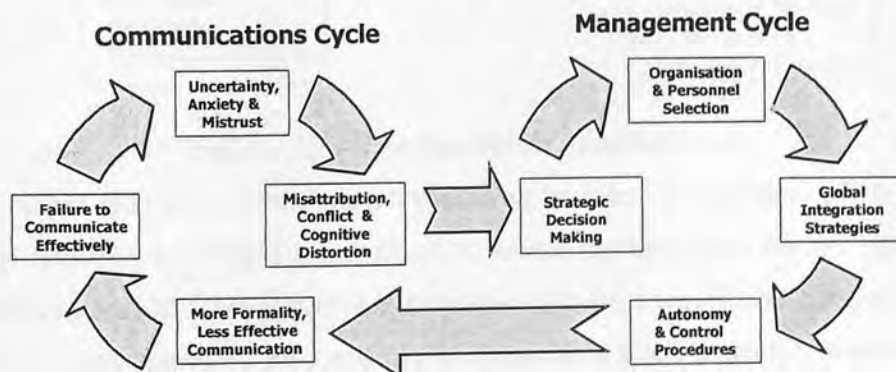


Figure 44 – The Twin Vicious Circle Model

The model is essentially based on three fundamental tenets:

- That Language Barrier problems generate unease, frustration, suspicion and conflict and that these negative emotions damage the relationship between parent company and their subsidiary operations.
- That the parent organisation cognisant of the problems caused by the language barrier will adopt strategies, structures and controls so as to counter or minimise the negative effects of these problems.

- That these measures, contrary to the intention of improving the situation, will in fact add additional strains and pressures to the relationship, causing heightened levels of mistrust and division, and resulting in a further gyration of the vicious circle.

This model was then developed in the Literature Review into a series of more precise propositions summarised in fig 45, below.

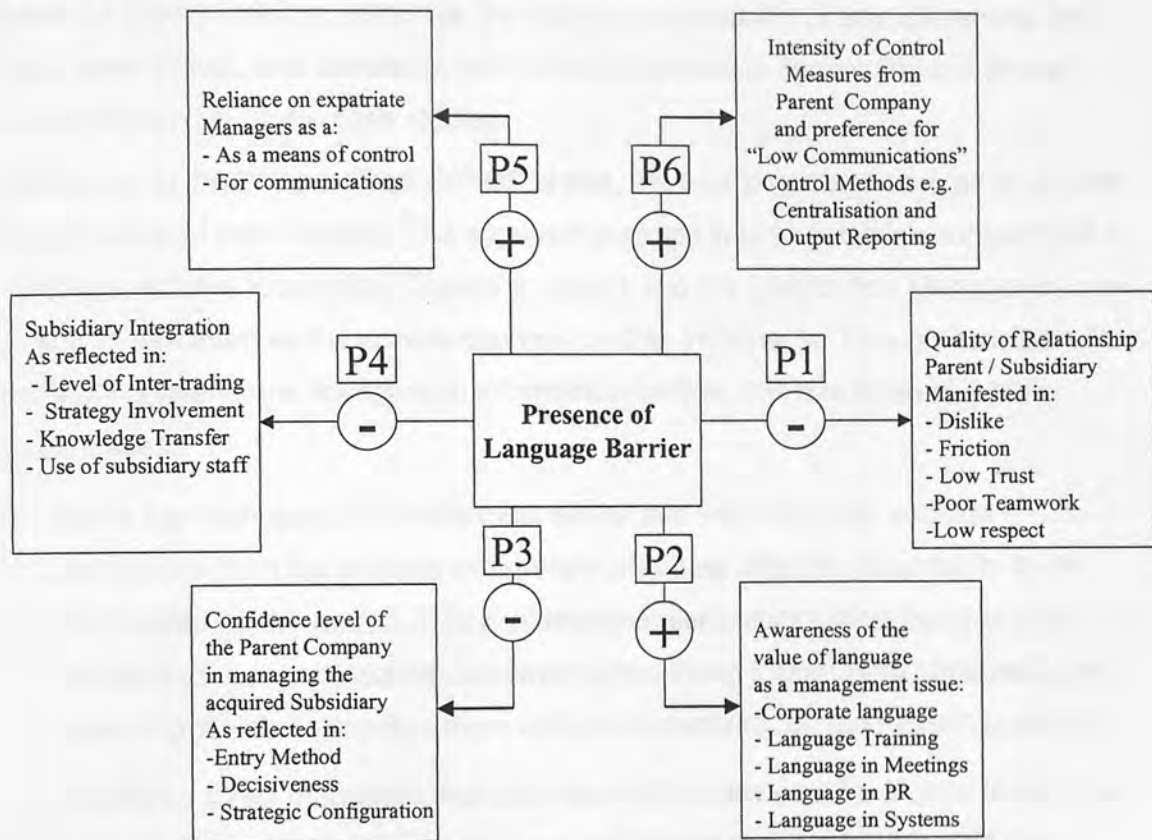


Figure 45 – The Research Propositions

The two cases provide contrasting perspectives on these propositions. The first case company provides an insight into a situation where the language barrier between the UK subsidiary and its Italian parent is considered to be a significant problem. And the second company presents the case where there is no such barrier in place.

Sections 5.4 to 5.9 examine the case study findings to test the plausibility of each of the six propositions in the light of the experience of the two case companies. By making the theory rather than the case the primary focus in these two sections concentration has been focused on the issues that have been identified as the "why" of the case (Kvale 1996). In this way the subjective interpretation of the findings has been elevated above the simple reporting of verbatim quotes from interviewees. (Kvale's what and how). Most of the evidence presented is in the form of quotations extracted from the testimony of those interviewed. Again, for reasons of

confidentiality, personal names and company details have been withheld.

The final section of the chapter summarises the conclusions to be drawn from the case studies and, using these insights, develops the specific hypotheses that will be tested in the survey phase of the research.

A review of the case studies from a methodological perspective is included in Chapter 8 Discussion. This chapter examines the limitations of the research as a basis for theory building, assesses the validity and reliability of any inferences that have been drawn, and concludes with some observations concerning the ethical issues thrown up by the case studies.

Moving on to the "Prepare and Collect" phase, the problems here were all to do with the selection of interviewees. The approach pursued was to establish contact with a "gatekeeper" (the Production Director in case 1 and the Distribution Manager in case 2) and to use them as the access channel to other informants. Though considered a perfectly conventional approach to informant selection, this has three notable weaknesses:

- Some key managers, often the most senior and well informed, exclude themselves from the process completely or at best offer the opportunity to be interviewed off the record. This can deny the researcher critical insights only available to senior personnel, and even when these insights are obtained it can prove impossible to express them without recourse to "off the record" testimony.
- Contrarily, those managers that volunteer to be interviewed are often those on a crusade. They see the research as an opportunity to get something off their chests and their testimony may not always be as objective as the research demands.
- Finally, those informants nominated by the gatekeeper are likely to be people who share a common outlook. The risk here being that like minds will provide a shared perspective regardless of its veracity.

These weaknesses were countered through a variety of means. In several cases having established the organisation chart, the gatekeepers were bypassed and contact made directly with those best placed to help. The liberal peppering of director level interviewees in both organisations demonstrates that this approach was largely successful. Secondly, each question on the structured interview questionnaire was directed to at least two and generally three interviewees. This minimised the risk of the study being overly influenced by an individual with an axe to grind. Finally, in conducting the interviews a whole range of probing devices were employed to get

beneath the stock answers. By using silences, challenges, requests for examples and referrals from one interview to another, it was possible to extract something approaching the truth as perceived by the informant.

Overall, therefore, although there were significant problems in the Prepare and Collect phase, they were well managed and did not seriously compromise the validity of the research.

5.2. Case Company 1 – Italian Parent Company / UK Subsidiary

The Parent Group

The Parent Group was founded over 100 years ago and despite being a very sizeable company with a turnover close to \$5bn p.a. and being separately quoted on the Borsa di Milano, it is itself a subsidiary. It is the component division of one of Europe's largest automotive companies and specialises in automotive and electronic components.

The company was a late entrant to globalisation. It had been founded almost a century ago but until the mid-1980's it had remained a domestic Italian company exclusively supplying its automotive parent company. However, in 1986 it launched its "Progetto Internazionalizzazione", an ambitious programme to convert the business into a global player in the automotive components sector. Over the past 25 years it has expanded rapidly in terms of both geographic and product activity, and it is now active in every continent of the world. In terms of product portfolio, the company is now well represented in almost every area of automotive components and in most sectors it is in first or second place in the European league table.

However, this transformation has not come without a significant cost in human terms. At the time of the UK acquisition it was estimated that almost all of the company senior management were Italians with experience only of managing a domestic operation. Of them it was estimated that only 17% were able to operate effectively in a second language, and for many of those the second language would have been French or German rather than English.

The division that acquired the case study operation in the UK is one of the largest and enjoys a very strong market share. However, margins in the supply of original equipment to automotive assemblers are notoriously slim and so despite burgeoning sales and a growing market presence, profitability for the division has been a problem through the 1990's and to this present day. Despite this, however, buoyed by financing from the parent company, there has been a generous flow of investment capital and the UK subsidiary has received its fair share of that. This investment plus

the international expansion into new countries has created surplus capacity and this has generated internal competition between subsidiaries for charters and resources.

The UK Subsidiary

The company was formed around 120 years ago and was the flagship division of a major UK multinational until acquired by the Italians. It had not only a proud history but also an enviable record of product and process innovation that made it a market leader not only in the UK but also in much of France and Germany. Its client list included all the major vehicle marques including Japanese, Australian and US manufacturers, as well as European.

However, notwithstanding this prestigious reputation, the division had for several years been suffering. There were essentially two problems:

- The parent company had determined a development strategy more focused on electronics and aerospace than on conventional automotive componentry, and so for several years this division had been starved of investment.
- Despite its innovative edge, the division lacked the critical mass to challenge as a market leader, and needed some form of collaborative arrangement to survive as more than a niche player.

At the time of the acquisition the company had three manufacturing sites in the UK, a turnover of approximately £65m and a workforce of around 1,250 employees. At that time it did not manage its own aftermarket distribution, though it took on that responsibility approximately 10 years following the takeover.

The Acquisition

The acquisition of the UK business by the Italian parent was completed in two stages. The first stage, in 1987, was by a family-owned Italian company, but this arrangement lasted only a few months before the combined activity was absorbed into one of Italy's largest companies. This was interpreted by some observers as a "stitch-up" designed to keep the cost of the acquisition down.

Nevertheless, the acquisition process was friendly with the senior UK management welcoming the collaboration. It was perceived that there were three primary motivations which made the takeover desirable:

- The need to establish critical mass in a marketplace that was rationalising.
- The need to gain synergy through the sharing of contracts and know-how.
- The need to gain access to investment funding for the development of new products and technologies.

From the acquirer's viewpoint the UK was valued for its expertise in design and development and in particular for its materials technology in the moulding of thermoplastics and thermoset dough. At the time it was valued as a good strategic linkage for both companies, although the UK management now bemoan the takeover and its consequences.

Post-Acquisition

Immediately following the acquisition there was a burst of activity with the rationalisation of production across the two countries and the closure of some of the smaller subsidiary sites, mainly in Italy. The UK was assigned the lead role on the up-and-coming plastics technologies, while Italy took responsibility for the larger volume, but dying, steel technology. However, after that first hiatus the UK group was left largely intact and autonomous. However, while the UK welcomed the sense of autonomy it became increasingly aware of being sidelined and excluded from major strategic decisions. Low margin contracts and unrealistic deadlines negotiated by the Italian marketing team were foisted onto the UK operation and there were a series of major problems involving delays and quality problems. The UK management bemoaned the lack of professionalism of those in Italy that had made un-thought-through commitments to customers and the Italians reciprocated with complaints about inflexibility and lack of team spirit.

As the relationship distanced and chilled, and the UK operation began to see a downturn in new contracts coming through, the local management decided to take direct action. De-regulation of the American market had opened up a wealth of new opportunities, and the UK business, still acknowledged for its technology, was ideally positioned to benefit. It obtained two massive, and apparently highly profitable, contracts with General Motors. Sadly this apparent godsend marked a watershed in the relationship with Italy. The Italians, angered by what they saw as an act of defiance, waited until there were delivery problems with the contract and then used this as the pretext to flood the division with expatriates, ostensibly there to help but in practice tasked with tying the hands of the UK management.

As key UK personnel moved on they were frequently replaced by expatriates. Strategically important functions such as marketing and R&D were taken out of the hands of the local operation and centralised, and the rules on decision-making autonomy were severely tightened. As a consequence, the scale of the business and the number of employees has been reduced in recent years. In 1997 the MD was forced into early retirement and since then the UK business has been run by a series of short-term expatriates.

The Interviewees

The organisation charts below (fig. 46) shows the evolution of the case company management team since the time of the take-over. The boxes that are shaded indicate managers who have been interviewed as part of the case study.

Take-over 1987



Current



Figure 46 – The Organisation of Case Company 1: Past and Present

Fuller details of the companies, the interviewees and the transcripts of their interviews are contained in the Case Study Archive. Unfortunately, this archive is very bulky and unsuitable to be appended to the thesis.

However, the potted CV's provided below serve to demonstrate the status and experience profile of the respondents interviewed. Those asterisked declined to allow the interviews to be recorded and requested that none of their quotes be used directly in the thesis. Their input nevertheless was invaluable in providing background knowledge to aid understanding. In sections 5.4 - 5.9 the testimony from these interviews is used to evaluate the propositions. Each quote is presented in italics and is identified in the following format ". [Technology Manager: Text unit 46] where the job title refers to the list below and the Text Unit refers to the paragraph number assigned in Nudist. These two pieces of information provide a direct key into the Case Study Archive and allow individual quotes to be put into the wider context of the testimony.

- **Factory Manager** (Various Senior Roles): A time served engineer with a wide range of experience, he was brought to the UK business in 1986 to head up the programme to introduce Total Quality and Just-in-Time production. At the time of the takeover he was Production Manager but was promoted to Factory Manager

and subsequently to Deputy Managing Director in 1991. As the most fluent in Italian of the UK team he was the principal interface with the Italian parent company and he continued in this role until the departure of the MD in 1997. After a short handover period he was then used as an international trouble-shooter, working across the world on short-term secondments. He was brought back to the UK operation in 2000 but was never re-instated as the deputy, Managing Director, as an expatriate had by then taken this role.

- **Divisional Managing Director** (1991 – 1999): A highly experienced engineer and an inspirational leader. At the time of the takeover he was Factory Manager, but almost immediately took over as Managing Director following the retirement of the incumbent MD. He continued in this role until his forced early retirement in 1999 at the age of 49. He was a staunch defender of the autonomy of the UK from Italy and was responsible for some notable achievements in his time as Managing Director. These included the introduction of Total Quality (1989), the redesign of the factory to facilitate cellular manufacturing (1993/94) and the acquisition of large, long-term American Contracts (1995 continuing to this day). However, almost as a matter of principle he never learned to speak Italian and insisted that his Italian bosses spoke to him in English.
- **Personnel Director:** (Personnel Director 1987 – 1995): He was a long-serving senior HRM manager in the UK group, “headhunted” to manage Human Resources just prior to the acquisition by the Italians. He managed the function until his retirement in 1995 and still continues as the Chairman of the Board of Trustees of the Pension Fund. Although he never learned more than a smattering of Italian, he managed to establish a close rapport with one or two of the key Italian directors and was generally respected by both sides.
- **HR Manager:** (HRM Manager 1997 - 2002): She had developed a career within the catering function of the acquired company and in the years prior to the takeover by the Italians she was Restaurant Manageress. However, about a year prior to the acquisition the UK company decided to outsource the catering activity and she was moved into Training. She proved unexpectedly good in this role and she was later promoted into Personnel, where she was appointed HRM Manager in 1997, a position held until she took early retirement in 2002. She was one of the few UK managers who developed a working competence in Italian and she was generally held in high regard. However, hers was a particularly difficult role balancing the demands of her Italian functional heads with the interests of the local operation.

- **Technology Manager** (Technology Manager 1987 – 1994): After a career in central R&D he was brought into the UK division in the mid 1980's to improve the materials technology capability. By 1987 his role was that of Technology Manager essentially focused on long-term materials and process innovation. After the acquisition his role was absorbed into a group-wide technology function and he became one of the first managers to be inpatriated to Italy, where he took control of the divisional Technology Team. He too became proficient in Italian and his work in Italy appeared to be respected and valued. However, he was not allowed to see through his 3-year inpatriation contract, and he was returned to the UK in 1994, after only 2 years, and was given an early retirement package.
- **Chief Engineer:** (Engineering Manager 1987 – 2001): He was seen as “Mr.UK Site” having begun his career there in 1961 and having remained a loyal servant of the factory throughout the following 4 decades. At the time of the takeover he was Engineering Manager responsible for the design and management of the factories' production processes. Although his brief was modified at different stages of his career, he continued as the senior engineer on site until his retirement in 2001. He never developed his Italian skills beyond exchanging pleasantries but his wide experience and pleasant manner allied to his relatively “un-political role” ensured that he avoided the worst of the tensions between the two organisations.
- **Systems Manager:** (IT Manager 1999 on): At the time of the takeover he was responsible for Systems Development, a position he held under several Systems Managers before he was promoted to the IT Manager's role in 1999, a position he holds to this day. Able and unassuming the low strategic value placed on IT within the parent group meant that he was little involved in contacts with the Italians and as a consequence he never developed any Italian language skills.
- **R & D Manager:** A cradle-to grave employee who had started his career as a junior draughtsman and by the time of the acquisition had risen to Deputy Head of R&D. His specialist skills were very highly rated by customers and colleagues alike and when the Head of R&D was inpatriated to Italy, he was promoted to R&D Manager overseeing a team of close on 80 design staff. In the mid 1990's he too accepted a 3-year secondment to serve as the number two in the Italian R&D team, but he never mastered the Italian language skills and never fully adjusted to the Italian culture. His secondment was cut short after less than a year and he returned to the UK operation. However, by that time, the pressure was on to centralise R&D in Italy and his function was starved of resources. He

made repeated appeals to Italy that fell on deaf ears and the relationship with his erstwhile Italian colleagues descended into acrimonious exchanges. He was given early retirement shortly after his 50th birthday in 1996.

- **Purchasing Manager:** (1990 – 1997) Another man who had worked almost all of his life in the UK Division, he had moved quite late in life from Admin and Logistics into Purchasing. He proved to have an aptitude for buying and in the few years following the acquisition he rose from number 3 in the function to manager. He maintained this position for seven years before accepting a retirement package. Although he never mastered much in the way of Italian language skills, he was fortunate in that his principal contacts in the highly centralised Purchasing function were fluent English speakers. He was replaced by an expatriate from Italy.
- **Marketing Manager:** (Sales and Marketing Manager 1994 on): In 1987 he worked as an Account Manager in the UK. He was later promoted to Sales and Marketing Manager and continues, in a modified way, in that role to this day. Together with the Ex-Managing Director he was instrumental in bringing to the UK the American contracts that are the cornerstone of today's business. However, while the MD was later condemned and ultimately retired because of the problems of the US contracts, the Marketing Manager avoided the worst of the blame: Clearly the fault was not seen to be obtaining the contracts in the first place but for then being unable to deliver against them once obtained. His excellent contacts especially with General Motors were seen as an asset and when Marketing was reorganised he took on group-wide, global responsibility for the GM account. Although not fluent in either, he developed modest skill levels in both Italian and German.
- **Managing Director UK Operations:** (Managing Director 2002 onwards). An Italian national, he was part of the original team that managed the original acquisition and was divisional Production Director for the first couple of years. He then worked in other divisions for a decade before returning to this division in 2000. After spells in Italy and South America he accepted responsibility for the UK factory in late 2002. He has a very wide experience and a senior position in the group, and is generally respected by both sides. Although his English skills are significantly better than many of the Italians who have been expatriated (he had worked for 3 years in the US in the 1970's) he has difficulty finding the right words to express what he is thinking. Relationships are, therefore, more cordial than friendly, but nevertheless, he recognises many of the problems identified in

the case study and is attempting to remedy them.

5.3. Case Company 2 – American Parent Company / UK Subsidiary

The Parent Group

The Parent Group was founded over 100 years ago. It specialises in components for the automotive, aerospace and industrial systems sectors. It has established itself as one of the largest automotive suppliers in the world and a world leader in spacecraft and aeronautical technology. For the last financial year it achieved a turnover of \$17.2 bn and a net profit approaching \$500m. Of the sectors, Automotive is by far the largest with sales of around \$11 bn and it supplies to almost every vehicle manufacturer in the world.

To support this global customer base the group now manages approximately 280 operations across 35 countries. The company has a long history of international management which until recently had been focused on South America and Western Europe. However, in recent years the focus has shifted and the group is now pursuing a strategy of expansion in Central Europe and China and South East Asia.

The UK Subsidiary

The company was formed around 120 years ago and is also active in the automotive, aerospace and industrial systems sectors. The aftermarket business, the focus for this case study, was initially just a vehicle for distributing product manufactured within the parent group. However, in the late 1970's it was set free to establish an "all-makes" programme offering products for all major car models regardless of who had manufactured the original equipment. The company grew quickly developing outsourced supply chains and in some areas establishing or acquiring factories to make exclusively for the aftermarket. By the mid-1990's it was a very buoyant and highly profitable division with an annual turnover approaching £700m. Based in the UK midlands it also had subsidiary operations in most major European countries.

The Acquisition

The acquisition of the UK business by American parent companies was completed in two stages. The first stage in 1997 was officially classified as a merger with the American company. However, all respondents recognise that in practice it was a takeover with the Americans taking the dominant role. And this was followed in 1999 with stage two, as the American Group formally acquired the newly constructed empire.

The acquisition process was friendly with the senior management welcoming the collaboration. No doubt they would have been happier still had they remained the

dominant party but it was perceived that there were three primary motivations which made a merger or acquisition a "necessary evil":

- The need to establish critical mass in a marketplace that was progressively rationalising.
- The need to gain complementary products.
- The need to gain access to sources of US funding as a way of improving the company's low gearing relative to the competition.

From the acquirer's viewpoint the UK was noted for its technology particularly in Aerospace and Automotive and was valued for the quality of its management personnel. So, in many senses, it was a harmonious coming together although, for some of the managers interviewed, the post-acquisition changes have been traumatic.

Post-Acquisition

Following the acquisition, the UK group has been broken up and has now been fully integrated into the product structure of the parent company. The aerospace factories now report through a single division and the automotive factories have now been subsumed into the four group-wide Automotive Sectors. The flagship diesel business was sold off to help finance the acquisition, and the Aftermarket company (the focus of this case study) now sits outside the main automotive structure, reporting to a Vice President who has global responsibility for Automotive Aftermarket.

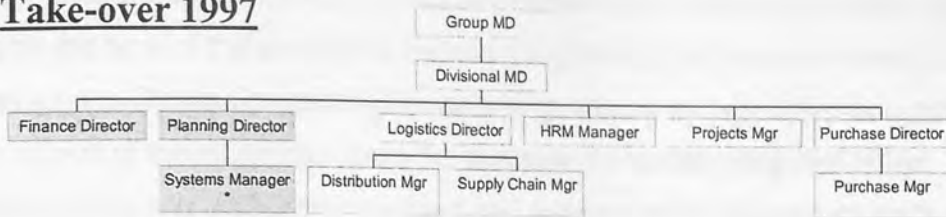
A second traumatic change following rapidly after the acquisition was the adoption of a ruthless business process re-engineering approach in which all UK Managers were required to re-apply for their own jobs. About two thirds were successful but many managers were culled as a consequence of this initiative, and many more were assigned new roles far removed from their previous areas of expertise.

Finally, and this is specific to the Parts and Service business, the global responsibility for managing the Aftermarket has been stripped from the UK operation which is now responsible only for the UK market. The HQ has been shifted to Germany. As a consequence of this downgrading the Managing Director and several of the first line directors have been replaced and UK staffing levels have now reduced by more than 60% to just over 150.

The Interviewees

The organisation charts below (fig. 47) show the evolution of the UK management team since the time of the takeover. The boxes that are shaded indicate managers who have been interviewed as part of the case study.

Take-over 1997



Current



Figure 47 – The Organisation of Case Company 2: Past and Present

The potted CV's provided below serve to demonstrate the status and experience profile of the respondents interviewed, though more information is provided in the Case Study Archive. Those asterisked declined to allow the interviews to be recorded and requested that none of their quotes be used directly in the thesis.

- **Purchasing Manager:** (Purchasing Manager 1990 on). He has been a buyer with the UK group for almost 20 years, coming to the Aftermarket division in 1990. He became a manager 10 years or so ago with special responsibility for investment purchases, services and all other product purchases not intended for resale. He has regular contact with the American parent company particularly with Purchasing and Legal functions, and is part of a European purchasing liaison group.
- **HRM Manager *:** (HRM Manager 1988 on): He has more than 30 years experience in the UK Group working in various Divisions, but always in the HRM function. He became manager of HRM for the Aftermarket in 1988 and managed the personnel issues resulting from both the organisational rationalisation of the early 1990's and the more recent takeovers. Following the downsizing of the UK operation he has relinquished day-to-day HR management responsibilities and instead concentrates on global integration projects. As such he has extensive contact with the US parent company.
- **Distribution Manager:** (Distribution Contract Manager 1997 on): He has a long

experience within the manufacturing arm of the Group spanning almost 30 years, but by the time of the acquisition he had transferred into the Aftermarket to manage the distribution contract outsourcing, valued at over £10m annually. At the behest of the parent company he oversaw the outsourcing first of the warehousing and distribution contract and subsequently the product-packaging contract. His contact with the American parent company are limited but he has been involved in key benchmarking activities, which he believes demonstrate that the American way is inferior to the solutions adopted previously.

- **Logistics Director:** (Logistics Director 1992 on). He has more than 30 years experience in the Group, initially in Finance but more recently in operations and logistics. He took over the management of all aspects of aftermarket logistics in 2000 and continues in that role today. His span of control includes Distribution and Supply Chain Management. He reports into the European Logistics Director and as such his contacts with the American parent company are limited. However, he remains convinced that overall the American influence has been positive and that the business is more secure and better managed than previously.
- **Projects Manager:** (Project Manager 1995 on). He has worked for the Group for over 15 years but mainly in manufacturing areas. He was recruited specifically to manage the Total Quality project in the UK Aftermarket and continued in that role extending the Total Quality concept to international operations. Since the acquisition he has been appointed the UK Manager responsible for the Six Sigma project, and of all the UK team he has spent most time in contact with his parent company colleagues. Visiting the US several times a year he has developed a balanced attitude towards the American parent company. He recognises and appreciates their professionalism in many areas, but doubts that the more "jingoistic" solutions proposed by the Americans will find a welcome in the UK culture.
- **Supply Chain Manager:** (Supply Chain Manager 1992 - 2002): He has an experience within the UK group spanning more than 30 years, principally in aftermarket roles. At the time of the takeover he was responsible for Supply Chain Management coordinating the demand of large customers with the scheduling of key component suppliers. He retired early in 2002. Of all those interviewed he was the most sceptical of the US influence, feeling that their high pressure, everything must happen today, approach married poorly with the more measured, controlled and analytical stance of the UK operation.

- **Planning Director:** (Director of Planning and Systems 1995 - 2001). He was a member of the UK Board responsible for Systems and Strategic Planning at the time of the acquisition. He continued in that role and was given special responsibility within the UK for managing the post-takeover integration. He retired in 2001 after nearly 30 years with the Group exclusively in the Aftermarket Sector, though he continues to undertake sporadic consultancy work for the company. As one of those most closely involved with the Americans during the frenetic post-acquisition period, he too has an ambivalent attitude. He acknowledges their professionalism, single-mindedness and, to an extent, their ruthlessness, but he also feels that many of their decisions were insensitive and ill informed. The sale of Diesel for example was seen as a short-term expedient that has damaged the long-term strategic positioning and viability of the group.
- **Finance Director:** (Finance Director 1985 – 2001): He joined the Aftermarket company as Finance Manager in 1973 having left Rolls Royce. He continued in Finance roles of increasing status until he took retirement in 2001. Along the way he accepted responsibility for non-Group Manufacturing operations and he was instrumental in many of the strategic acquisitions and divestments undertaken by the Aftermarket group in the 1980's and 1990's. He was very closely involved with the Americans both prior to the takeover and subsequently, and was widely respected both for his ability and for his humanity. However, after the transfer of European HQ to Germany, there was no UK role appropriate to his stature and salary and he was unwilling to accept relocation. Now retired he reflects on the acquisition process and considers it both an exciting but highly stressful process. With hindsight he believes the Americans could and should, have managed the process less brutally.
- **Company Managing Director:** (1997 onwards) Arrived in the division shortly before the acquisition after an extended career in Marketing. Following the downsizing of the division and the relocation of European HQ to Germany, he was promoted from Marketing Director to Managing Director. He has close contacts with both the European and American management teams and is very positive about the changes that have taken place, since the acquisition. He is now trying to build a local business culture built on the principles of openness and socialisation that he sees as the hallmarks of the American style.

Having introduced the two case companies, the next six sections examine the experience of these companies against the propositions discussed in section 5.1.

5.4. The Impact of the Language Barrier on the Parent Subsidiary Relationship

Proposition 1

The existence of a language barrier between the parent company and its subsidiary will have a detrimental effect on the relationship between the two parties:

- *There will be unsatisfactory interpersonal relationships with a lack of liking, respect, honesty, openness and trust.*
- *There will be an emphasis on blame assignment with negativity, polarisation, criticism and friction.*
- *There will be a lack of appreciation, and recognition of the qualities of the "outgroup" members.*

Communication is key to the process of relationship building. It is the way to establish and develop interpersonal rapport. It is the vehicle for gaining mutual understanding and respect. It is the means to demonstrate competence, leadership and professionalism. And it is the foundation for teamwork and trust.

Denied effective communication, either because of a lack of regular contact or because of the language barrier, and the pillars of a good relationship are seriously undermined. This is what emerges as the situation in the first case company, a UK subsidiary of an Italian Multinational.

There is plentiful evidence that the language barrier is a serious problem to the relationship. *"I've dealt with the Italian Parent Company for 30-35 years and there was always a language problem"*. [Engineering Manager: Text Unit 23]. One immediately obvious problem is that there was confusion about which language would be used in the Anglo-Italian meetings, with English being the recognised international language of business, but the Italian management being reluctant to accept the problems of working in their second language. At one stage it appeared that the choice, of English or Italian, would be decided by the participants at the meeting. *"It would depend on the centre of gravity of the people coming to it"*. [Technology Manager: Text unit 46]. Later there was a more formal ruling but one that was never effectively applied. *"They made a rule that meetings in English would be in English but it never happened"*. [HRM Manager: Text Unit 45]. Instead meetings and videoconferences were held in a mix of languages with code switching by the Italians - a constant frustration for the UK managers. The formal Executive Meetings "the Comitato" were a case in point. *"They would do bits in English but would then lapse into Italian with one another, which was pretty appalling really as there were so many of the management team that didn't speak Italian. The MD*

understands but wouldn't speak Italian, but a lot of the new Managers understood nothing". [HRM Manager: Text Units 46 and 48]. The same was true of the videoconference reviews. *"The reviews always start off in English because of the numbers of us that don't speak Italian but within ten minutes it's in Italian. Which I don't have that much problem with but most of my other colleagues are sitting there thinking 'what's going on?' I can't translate for them. I can barely survive myself"*. [Production Director: Text Unit 57].

The language barrier was also a problem to those Italians assigned to work for extended periods in the UK. *"A lot of the experts they brought over had so much experience but they didn't speak English"*. [HRM Manager: Text Unit 53].

It is worthy of note that the language problems were not limited only to face-to-face contacts. The information systems and reporting procedures suffered similarly. *"They were working on a central database so we'd all have access. The idea was that you could go in and see past data at the touch of a button. Very good idea but unfortunately it didn't work for the UK. All the forms were in Italian"*. [HRM Manager: Text Units 104 and 105]. In the same way the group practice of issuing information and directives only in Italian was destined to confuse rather than help the UK management. *"We now get emails the size of which you've never seen in your life, and at the very end of it is a communication typed totally in Italian, so whilst it is of some use to me it is no use to most of my colleagues who know even less Italian"*. [Production Director: Text Unit 53].

The most direct consequence of the language barrier is misunderstanding and this has already been alluded to in the references concerning code switching done by the Italian Managers when talking to groups of local managers. However, the problem of understanding goes beyond the simple bemusement of the UK junior managers who are left *"sitting at the table letting the world pass them by"*. [Production Director: Text Unit 58]. The English Managing Director, too, had severe difficulties in meetings where the subject matter strayed from his sphere of understanding and vocabulary. *"I never learnt Italian on a fluent basis but it got to the point where I could take part in a meeting and understand it....on the P&L account or in a technical discussion"*. *"But it must be difficult for the Italians to say exactly what they want in English. And if it's something outside of what I understand they won't get the response they want"*. [Production Director: Text Units 48 and 91]. The problem equally affected the visiting Italian managers who were unable to gain an adequate insight into the UK operation. *"They tried very hard to understand but certain times they just couldn't grasp things"*. [HRM Manager: Text Unit 63].

The inevitable result of these misunderstandings was friction created by failure of the Italians to comprehend the detail of the UK operation or failure of the UK management to respond to HQ directives. The interviews provide a rich store of examples that illustrate the variety and intensity of disputes borne out of this failure to understand:

- The difficulty of recruiting and dismissal in the UK [HRM Manager: Text Units 74-80]
- The problems of long term contract employees [Production Director Text Units 32-34]
- The procedure for new product approval [Marketing Manager Text Units 127-129]
- The inadequacy of outdated equipment [Production Director: Text Unit 118]
- The special needs of a new UK customer [Engineering Manager: Text Units 109-112]

The situation was well summed up by the current Managing Director who has only been in place for a year or so but who has followed the progress of the UK business since its acquisition. *"The difference is that in the past the General Manager came here once a month and looked only at the numbers on paper. But he wasn't aware of the real problems and didn't know in detail the activity. He didn't have a real relationship with the technical management (here in the UK)".* [Managing Director: Text Unit 29].

Episodes such as those illustrated above, where failure to communicate adequately has caused the parent and subsidiary management to question the ability and judgement of the other, will have seriously undermined two of the other key pillars of the relationship: Trust and Respect.

Direct quotes from the UK Management certainly indicated that they didn't feel trusted. *"I don't think they trusted us at all. I think that's why they would set us things to do. To make sure that we did them they'd want proof that things had been done".* [HRM Manager: Text Unit 60]. And even expressions of trust from the Italian management were not accepted at face value. *"Even when they say 'I want you to do this job and I trust you to do this job', they aren't being honest".* [Production Director Text Unit 81]. It was equally clear that the UK management held little trust in the Italians. *"You used to get a lot of actions coming out of an Italian meeting but sit on your flight home and think nothing is going to happen anyway. There were a lot more words but almost zero action came out of them"* [Marketing Manager: Text Units 64 and 65]. The same perceived lack of support came through in Engineering. *"Anything*

you requested in terms of support and Design they ignored, totally ignored. We used to have a report back and you'd go back to reflect on the minutes of what was said at the previous meeting and it would be exactly a repeat of the same problems we had before". [Engineering Manager: Text Unit 89]. Worse still was to be found in HRM where negotiated agreements were reneged upon. "So you'd say 'if I lose so-and-so can I then recruit'? 'Yes. Yes', but it would never get that far. After you'd made that reduction it would be No Recruitment!" [HRM Manager: Text Unit 89]

There is also a considerable body of anecdotal evidence to suggest that the UK personnel over the years have been treated with little respect by the Italian management. Examples include:

- The manager who made a pointless trip to Italy. *"Frequently they used to cancel or rearrange these meetings only the day before, ignoring the fact that there were people coming from the UK and Poland. On one occasion I actually went to one and I was sat in the Conference Room and about 10 minutes before it started the Technical Director at the time, came along. He was surprised to see me and asked 'what are you doing here?' I said 'I'm here for the Comitato'. He frowned and said, 'Has nobody told you it has been cancelled?'" [Marketing Manager Text Unit 57]*
- The newly appointed HR Manager *"I found that although there was all sorts of support promised from Italy, it was pretty sparse. I was never presented as the new HR Manager to the management team in the UK. I was told to attend the next management team and that was the first one and I was expected just to slot in. There was no sign of the Italians who were supposed to make it all official". [HRM Manager: Text Unit 12].*
- The manager arriving in Turin for his first day of work as an expatriate *"I just finished work on a Friday afternoon and I started work in Italy on the Monday morning. I was there at 8.00 on the Monday morning - stupid Brit! The boss was moving house and didn't come in". [Technology Manager: Text Unit 81]*
- The Production Director being recalled from his roving international role to take up the reins again in the UK *"I had a couple of years as MD and then another couple travelling the world but a new man appeared and said, 'You're back running the factory' and it wasn't 'Will you?'... it was 'You are!'" [Production Director: Text Unit 118]*
- The workforce who were largely ignored by visiting Italians *"Occasionally they would talk to engineers. They would have a tour round the factory. They would*

always have a look around. Perhaps it was a language thing, they didn't feel confident enough to converse with someone on the shop-floor" and who, when they were addressed, found few reasons to feel respected "There were occasions when they came to talk to supervisors but it wasn't friendly conversation. They used to come to batter the supervisors". [HRM Manager: Text Units 118 and 121].

In the light of this fairly shoddy treatment it is unsurprising that the UK management respond with an equal and opposite lack of respect for their Italian colleagues *"In terms of warmth, trust, openness and confidence, it's ever so difficult to measure. Even when you think you've got it right you usually haven't. I've had levels of warmth, trust, openness and confidence with a succession of Divisional Managers only to find it's been misplaced, probably. There is, I believe, an enormous amount of management deceit in the way they operate. Which is a way of life apparently because it's very prevalent". [Production Director: Text Units 139 - 141].* And the same man summing up the difference between imposed and earned respect states *"There is respect but if it's just respect for their power then that's got a short life in industry". [Production Director: Text Unit 143]*

The vicious circle model advanced in Chapter 1 and reproduced at the start of this chapter, predicts that when respect and trust are gone then honesty, openness and teamwork will soon follow. This tendency is exemplified in the way that the UK subsidiary responded to the Italian management. Lacking belief that the Italians would understand the subsidiary context and would respond professionally and sympathetically to the genuine problems being experienced in the UK, the British management set out to systematically filter and distort the information that was fed upwards. This practice was widespread throughout the functions of the company as illustrated by the quotes below:

- *"Cards on the table. When I first went into HR Management there were all sorts of things they'd been told about head count and this and the other. And they were all lies. It used to be the joke that you had two sets of figures, the ones you told the Italians and the ones that showed how really it is". [HRM Manager: Text Units 62 and 63]*
- *"If you want an indirect (i.e. a staff or technical employee) increase you can't do it. What we will do is we take people on as directs (production operators) who we believe we can convert into an indirect role, such as a technician, we employ them as directs but we pay them the indirect wages as a personal allowance, and we count it as a loss to the business". [Production Director: Text Unit 36].*

- *"We used to have technical meetings and if I'm honest the object of those meetings was to deceive one another. We used to tell them about new techniques and any technical advancements we'd made, but not openly".*

[Engineering Manager: Text Units 64 and 65].

These operational "mistruths", however, pale into insignificance when compared to the major strategic deception perpetrated by the UK management team when they sought new business in the USA. It was at a critical time for the UK business with a major contract on the Ford Mondeo and with no new prospects coming through the Italian Marketing function. The then UK Managing Director who controlled the UK operation through most of the 1990's and who has been variously described by those interviewed as highly intelligent, a born leader and a little bit mischievous, had no intention of watching his charge founder due to loss of business, and determined that contrary to Group policy the UK would seek new clients in the USA. *"From his point of view there was no option. He either had to watch the business sink or do something. So as you'd expect him to do; he did something".* [Production Director: Text Unit 36]

The intervention (fully described in the Marketing Manager's testimony) was highly successful obtaining a prestigious new customer and more than replacing the business that was about to be lost. But it came at a price in terms of the relationship with the Italian Headquarters who felt they had been bypassed. *"We didn't really discuss these things openly within the corporation. We just got the order and thought now we can go and explain it to them. They became a little bit annoyed because we hadn't discussed something of this strategic magnitude. So there was a little bit of annoyance there and also some annoyance that not only had we not discussed it but we'd been successful and they hadn't".* [Marketing Manager Text Units 125 to 127].

That annoyance hardened further as the full implications of the US contracts emerged. *"We weren't just going out to get new business to bring in financial benefits to the Group. As part of that equation we were also committing to investment from the Group. We should have discussed it more"* [Marketing Manager Text Unit 129].

Outwardly, the Italian Management applauded the initiative taken by the UK team, but the seeds of relationship breakdown had been sown. *"There was always lots of praise as long as everything was going well and the contribution was good but we made our problems because it's human nature that when there's a problem they'll say 'we told you that you should have discussed this before you did it. You've entered the US market and there are dangers which you didn't understand and we didn't'."* [Marketing Manager Text Unit 127].

As the logistical and financial problems of supplying a transcontinental customer intensified the relationship continued to deteriorate reaching a zenith in 1999. *"The MD's acquisition of the American business was unpopular because it was not what they (the Italians) wanted to do at that time. I think that by the end they had decided whatever it took they were going to part company. The icing on the cake was when the Group Chief Executive came over. He was responsible for lighting world wide and he didn't like the way our MD was operating and halfway through he telephoned the HR Director and said, 'we've got to get rid of this guy'."* [Production Director: Text Unit 84]

Relationship problems had cost a brilliant young director his career and denied the Group an asset that could have made a major contribution to the group's international development. How much is due to the language barrier remains open to debate, but there can be no doubting that the predictions of the vicious circle model have been fulfilled in this case study.

Now contrast this experience with the relationship development in our second case company - a UK subsidiary of an American Parent Company. Not that the acquisition, described by many UK managers as a reverse takeover, was easy. As will emerge in the case review, particularly in section 5.6, the post acquisition period was far from relaxed and is variously described by the interviewees as *"brutal"*, *"painful"* and *"traumatic"*. Nevertheless, whatever the problems encountered, the two management teams did not have to contend also with a language barrier. The parent management were able to express their goals, plans and expectations in a confident and unambiguous way and the subsidiary management were able to be equally eloquent in explaining the UK context, its problems and constraints. And as we shall see this proved to be the foundation for a workable, if not happy, relationship that would avoid the failings of understanding, trust, respect, honesty and teamwork that so damaged the parent subsidiary rapport described in the first case company.

The principle foundation for the development of the relationship was mutual understanding, although initial contacts suggested the US management were limited by the archetypal mid-western attitudes about the world outside. *"They are very ignorant of Europe. They look at a map and think that it must be easy to get a train from Zurich to London and they think that the dollar is used in Europe"*. [International Project Manager: Text Unit 38]. *"We have a language in common but the way of running successful businesses is very different. The Americans see Europe as being geographically small and have no appreciation of how big the continent is"*. [Finance Director: Text Units 94 and 95].

Thankfully for the relationship the level of understanding of business related issues proved to be much more astute. *"They spent their time thinking strategy, they came to the business and they understood the business, reviewed the strategy, accepted or rejected it, were always visible and once our strategy was set they were incredibly supportive"*. [Finance Director: Text Units 36 and 95]. *"The VP Customer Service, who is really running the operation, understands the business. He's been very clear in terms of what he expects us to deliver - stretching but realistic"*. [Logistics Director: Text Unit 17].

An insight into how this understanding was built up suggests that communications ability is absolutely key to the process. *"What the VP does as an individual that works quite well is that he triangulates. He talks to people at different levels because he has good understanding of who is around and he compares what's been said to him from 2 or 3 different angles, and if he's getting the same messages he'll be comfortable. If not he'll come back and question"*. [Logistics Director: Text Unit 17].

The understanding of the Parent Company management formed the basis for a very focused management style *"The previous Group CEO was very much a man of the people but you never saw him. Suddenly after the takeover you had the CEO and the whole of his management team coming every three months and spending a day with you. They didn't want to nit-pick the numbers they wanted to talk about your ten-year strategy. And providing you were delivering on the operational level that was all they wanted to talk about basically"*. [IT Director: Text Unit 76 and 77].

This approach effectively precluded the type of mendacity described in the first case. *"That was very demanding because they didn't come for a nice little chat they wanted to see progress. If you said we ought to be exploring the acquisition of so and so they would demand, 'When by what dates?' and they would expect you to have your proposal ready. They used the tools of operational management to drive a strategic debate; something I'd never come across before and something I found very demanding. One of those people who arrived from Headquarters would play back to you by rote all those things you'd committed to. There was no hiding place"*. [IT Director: Text Unit 77 to 79].

Other references attest to the ease with which the local management were able to explain to the Americans the strengths and problems of the UK operation. The value of the strengths is reflected in the number of UK management initiatives adopted by the US Parent Company and is discussed fully in section 5.7, but perhaps more importantly for the relationship, the UK managers were able to explain the complexity of local problems and were able to gain HQ support in taking corrective action. This

was exemplified when the UK tried to implement a Group Policy on printing. *"All our printing was to be done by a single company that was being pushed from the States. When we got the results back there were errors in the printing, - it was poor! Immediately we went back to the States and sent them examples and showed them, to which the States said, 'OK, go and do your own thing'."* [Purchasing Manager Text Unit 106]. Even where there was not a wholly acceptable resolution of a problem, the ease and clarity of communication can make unpopular decisions palatable *"We've had a bit of a contretemps over manning in recent months, but it's been very open. We've known where the VP is coming from and though we haven't agreed with it, we've found a way to accommodate it"*. It is notable that this style of challenging a group policy involving communication, open discussion and persuasion is very different to the unilateral action taken by the subsidiary in the first case study.

According to the vicious circle model, clear, unambiguous communication like that described above should avoid downstream problems with interpersonal liking, respect and trust. To a large extent that is borne out by the case study, though there can be no doubt that the relationship was built more on respect than liking as portrayed clearly in the following assessments:

- *"They were an upstart but had made some big deals and had a team who were ambitious and aggressive and had financial backing. Although they were smaller, their senior team were strategically and tactically superior to our own."* [Finance Director: Text Units 36 and 95]
- *"You can use adjectives like supportive, focused, tough, ruthless, decisive and confident. And you can add self-serving as well if you want!"* [Finance Director: Text Units 36 and 95].
- *"Like it or not they achieved their objectives. There is no question about that"*. [IT Director: Text Unit 35].
- *"We may not have liked the personalities of the 3 or 4 most senior guys but they operated in a very professional way"*. [Finance Director: Text Unit 35].

Nevertheless, despite this ambivalence to the management style of the Americans there can be little doubt that respect and trust were present in the relationship. *"There were some tough characters at the centre but they were very, very focused and supportive"*. [Finance Director: Text Unit 43]. *"There is mutual respect which means that as we're doing quite well they don't put us under a lot of pressure and they don't interfere"*. [Logistics Director: Text Unit 5]. *"They trusted you if you performed and allowed you flexibility to manage the business and so you definitely felt part of the*

family". [Finance Director: Text Unit 84]

The ease of communication also opened up another channel of relationship building denied to the Italian management in the previous case. The American management team during their regular visits made an effort to establish links with junior level management. *"When the senior team came for reviews they would actively ask to speak not only to the senior people but would ask to see the most promising young people and they would have a drinks party to see them. They made themselves visible and that was seen as an important part of the culture. They were prepared to put themselves on the line and be questioned. They were happy to have junior people saying. 'It doesn't make sense from where I sit', or whatever. But if there was something they didn't feel was right about a business they would find out about it through those meetings"*. [Finance Director: Text Unit 84].

The contrasting opinions expressed about the two companies were very consistent across those interviewed. The managers of case company 1, were unanimously adamant that the language barrier had been a major obstacle to the creation of the sort of parent relationship they would have wanted. They were frustrated that because they were not fluent in Italian, they had little opportunity to demonstrate their ability and trustworthiness, and there was a widely held resentment that they were treated with a lack of consideration and respect for the work they did in the UK. These views were of the senior management of the UK subsidiary. All indications suggest that had the views been solicited of lower levels then they would have been more "anti-Italian" still.

Case company 2 were similarly unanimous. They, of course, did not have views on the language barrier because there was none. However, they did appreciate the latitude to manage that the US parent company had allowed them, and they acknowledged that this was due in no small measure to the level of trust and mutual respect that had been built up. Again the views solicited were those of senior management. However, with the US managers actively seeking out and involving junior personnel, it can be assumed that they would have been more appreciative still of the relationship being built up.

There should be no question that the views expressed reflected the company at large and not just isolated individuals.

5.5. The Impact of the Language Barrier on Language Awareness

Proposition 2

The existence of a language barrier between the parent company and its subsidiary will help to focus awareness on the importance of language as a management issue.

Language-aware companies will:

- *Be more likely to formalise a corporate language policy or at least a protocol for the use of language in parent subsidiary communications.*
- *Be more ready to spend on language training for those involved in international communications.*
- *Be more alert to the need to provide multiple language options in publicity materials, technical literature and brochures.*

Based on the Linguistic Auditing Methodology (Reeves and Wright 1996) and (Reeves and Feely 2001) a company would be expected to demonstrate its language awareness in seven discrete areas:

- The formalisation of language protocols and corporate language policies
- The development of language training programmes
- The conduct of language skills audits and the maintenance of language inventories
- The inclusion of language skills in the criteria for job selection
- The effective use of language service providers
- The provision of computer systems, intranets and web sites with multiple language interfaces
- The provision of brochures, technical literature and other publications in multiple languages

However, it was to be expected that the case study would give only a partial opportunity to explore these propositions as there was a separation of analytical unit (Yin 1994): The data collection was wholly at the subsidiary level but the issues being explored were more appropriately a policy of the Group as a whole.

Nevertheless, enough information could be extracted from the interviews and from secondary sources to provide an initial assessment of the proposition.

In the case of the Italian subsidiary, we would expect to see evidence of language awareness manifested in various ways, and this is to a large extent borne out.

Commencing with the topic of a Corporate Language, there was an early attempt to establish a working protocol. *"In the UK the meetings would be in English. In Italy*

some meetings would be in Italian others partially in English partially in Italian". [Technology Manager: Text Unit 84]. As the inability of most UK managers to contribute in Italian became clear the protocol was refined and there was an agreement that all Anglo-Italian meetings would be conducted in English. As has been previously evidenced in section 5.4 this agreement was rarely honoured, but with the acquisition of a large German company in 1999 and the transfer of the company HQ to Germany, though still with predominantly Italian Directors, the protocol was redefined as a formal Group policy. *"When the company changed it was announced that English would be the Official Language"* [HR Manager: Text Unit 52]. When pressed for a copy of the Corporate Language Policy or a plan for its implementation the company was unable to furnish anything; but to some extent there is evidence that it is now adopted at a senior level. Speaking of the monthly "Group Comitato" now held in Germany *"The Comitato takes place in English. All of the people who come from Germany speak Englishand the Italians also"*. [Marketing Manager: Text Unit 58]. And in the 12 months or so since the arrival of the new English-speaking Italian Managing Director even the formal UK meetings are held in English. *"When the CEO comes it tends to be just a couple of people. Once a month or once a quarter, it depends on the situation. The meetings are always in English. The official language is English and all the reports are in English"*. [Current Managing Director: Text Unit 54].

At a more operational level, however, implementation of the Corporate Language policy is far from complete. As evidenced in section 5.4 functional level communications still arrive written in Italian and there is no adequate provision for getting translation done. *"When I get Italian emails I've been taking them to the best English-speaking Italian on site. And quite often they've not been able to do me an adequate translation because as soon as you get off the track of simple phrases, as soon as you get on to computer jargon, it's very difficult to get a proper translation"*. [IT Manager: Text Unit 85]. In the UK there is no formal budget category set aside for language service provision (translators, interpreters or trainers) and given the number of expatriate managers on site, a subject discussed more fully in section 5.8, the implication is that all important communications will be channelled through them. The evidence concerning training is ambivalent. In the years immediately following the acquisition there was considerable investment in Italian language training at least for the senior personnel of the UK division. *"My Italian was fairly good. I was desperate to learn. The managers had training but I wasn't a manager at the time but we had a teacher come in and if anyone wasn't available I'd take their slot. And then I*

went to night school. I enjoyed it and found it very useful". [HR Manager: Text Unit 44]. But as time went on, the availability of Italian training reduced. "At the beginning they did a lot of Italian training but then it dropped off". [HR Manager: Text Unit 51]. Eventually, following the announcement of English as the Corporate Language, the budget for Italian training was terminated completely even though it was evident that many UK managers still needed to be able to converse in Italian. "When the company changed it was announced that English would be the official language. So there was a big drive for English training in Italy but there was no money for Italian training in England". The view of the Italian management was "It's not needed, it's not needed" ignoring the practical issue "But you come over to England and speak Italian". [HR Manager: Text Unit 52].

There was no evidence of any formal language skills audit ever being conducted and the local UK personnel database I was shown but not allowed to copy only had a free format space for language skills; not at all adequate for maintaining a language skills inventory as recommended by the National Language Standards (CILT 2000).

However, at an informal level there was certainly evidence to suggest that managers more disposed to learning Italian were those selected for inpatriation assignments (discussed more fully in section 5.8) and a strong suggestion too that language capability was a factor in appointing people to UK management positions. The HR Manager who enjoyed three promotions during the 1990's was asked if her Italian language skills had been a factor "Definitely - I don't think I would have progressed like that without the Italian. Yes it was certainly a major factor"! [HR Manager: Text Unit 52]. This awareness of the importance of language skills is exemplified in the Marketing team where they have adopted the practice of recruiting native speakers to deal with international clients. "In my team I'm English, I've got a French lady, a Spanish guy, and a German guy. And then of course we work with Italians so it really is throwing all the different nations into a pot". [Marketing Manager: Text Unit 47].

Moving on to computer systems, the company had only flirted with language technology. "I did have a translation package, but it was sketchy at best. The translation from Italian to English was not that good. You could get the gist of what they were saying but that was about all. So now we don't use it". [IT Manager: Text Unit 84]. And given the number of expatriates on site and the volume of Italian language correspondence still, there is the surprising admission "For the office applications we don't generally use Italian spell checkers or keyboards. I'm not sure if anyone on this site has an Italian spell checker; it's not the easiest thing to get hold of". [IT Manager: Text Unit 76]. Nevertheless, for the mission critical applications

there is a more serious view taken of language. The main operational system used by hundreds of people in the factory was initially available only in Italian but was translated into multiple other languages before implementation. The English language translation was undertaken locally in the UK and was done in such a way as to preserve both the Italian and the English user interfaces, ingeniously allowing individual users to see Italian or English screens and reports, or a combination of the two. *"An Italian coming over here wouldn't recognise our version of the system but the original Italian programs still work. On the menus some users have both".* [IT Manager: Text Units 51 and 52]. In the same way the corporate Website can be accessed in English, German and Italian by selection of a language icon. Admittedly, the UK Website and publications, such as they are, are only available in English, but this is a conscious decision given the low importance assigned to this form of PR. *"We've got maybe 4 customers in the UK realistically. So if we spend money on websites or brochures is it going to bring anything back into the business? The answer is, 'no it won't!'"* [Marketing Manager: Text Unit 60].

The situation in the second case company is rather different. Prior to being taken over the UK operation with its own European network of distributors had demonstrated some aspects of language awareness.

- Although there was no formal corporate language policy there was an understanding *"The language was English, always English".* [IT Director: Text Unit 101].
- There was language training for key individuals *"When I was running the European Businesses we went out for intensive French lessons for some months so we could communicate more broadly within the subsidiary companies".* [IT Director: Text Unit 107].
- They were aware of the need for language skills when recruiting *"Although it was never a requirement of working for us that you had to be able to speak English fluently, in practice there was a very high level of English".* [IT Director: Text Unit 16].
- They selected a software package with languages in mind *"It was one of the requirements in the SW we chose that it was available in all European languages".* [IT Director: Text Unit 12].

However, even in those days, astute observers within the business could see that the measures were not delivering the level of concerted understanding that was sought. *"You have to understand that when you speak to them in English the translation isn't*

always particularly pure. Whilst they understand the words and you think what jolly good English speakers they are, you've no guarantee they've understood what you mean. I've seen people rush off and work very hard doing precisely the wrong thing, believing they had understood what you've asked for. But they hadn't!" [Supply Chain Manager: Text Unit 26].

Subsequent to the takeover, and the concomitant transfer of the European HQ away from the UK, there has been much less evidence of any language awareness. There remains no Corporate Language policy, there is no further language training in the UK, specifications for the latest system modifications are specified only in English and the corporate website and intranet are only available with an English Language interface. Managers are still recruited on the basis of their ability to speak English, as evidenced by the recruitment of several UK Managers to key positions in the European HQ, but other language skills are undervalued. The large, centralised Management Development Database makes no explicit reference to language skills. The post takeover situation suggests a complete absence of language awareness. There appears to be little understanding that American English does not always read across well. *"When we were doing the summary document for GDP I worked with a senior American guy in Toronto. I wrote in "diplomatic English" finding a form of words that would be acceptable and at least making sure that the key points were there. The guy then re-wrote it into American English and missed the point on many issues. But even when he explained that it meant the same thing it was clear the interpretation of the words was quite different".* [Project Manager: Text Unit 71]. *"We have a language in common but the way of running successful businesses is very different".* [Finance Director: Text Unit 94]. And there is even less sympathy for those whose first language is not English *"The parent company is a very centralised, very traditional, very US focused organisation. You only have to look at their website or their corporate literature and it made clear they didn't take into account the differences between running a business in the US and the UK, let alone in other countries where language and so on was an issue".* [IT Director: Text Unit 60]. Naturally, there were no strongly held views about language strategies in either of the groups of managers consulted. There were more urgent issues to be managed. However, the evidence presented is a matter of record, not of opinion.

- Case company 1 had established a formal corporate language policy; case company 2 relied on an "understanding".
- Case company 1 did have a multilingual corporate website; case company 2 did not.

- Case company 1 had invested heavily in language training; case company 2 had decimated all training budgets.

It is reasonable therefore, to claim that had many more opinions been polled they would have only been able to confirm the basic facts, and that consequently the evidence presented can be taken as representative of the companies as a whole.

5.6. The Impact of the Language Barrier on Parent Company Confidence

Proposition 3

The existence of a language barrier between the parent company and the host country where it proposes to establish a subsidiary will impair information flow and will undermine the parent company's confidence that they have fully understood and evaluated the target market. As a consequence:

- *They will be more likely to adopt a low risk entry method i.e. A Joint Venture or a modest Green Field site acquisition.*
- *They will be less likely to take decisive actions in the short term e.g. large investments, wholesale changes in management structure etc.*

The original conception of Psychic Distance (Johanson and Vahlne 1977) was later developed and redefined as "factors preventing firms learning about and understanding a foreign environment" (Nordstrom and Vahlne 1992), and in the operationalisation of the construct, the language barrier was identified as one of the critical prevention factors. The implication underpinning the theory is that internationalising companies would be more confident and aggressive where they believed they understood the foreign environment and less so where Psychic Distance had restricted their ability to do so. Relating this to the two case studies leads to the expectation that the Italian company would be relatively hesitant and cautious relative to the American one.

The entry method adopted by the Italians does nothing to suggest hesitancy or caution. Not only was it an outright acquisition, but it was also part of a pan-European acquisition programme running to hundreds of millions of pounds sterling. However, it is in the post acquisition period that the uncertainty begins to manifest itself. Whilst there have been major organisational changes these have been slow to emerge.

- The Research, Design and Development activity has been closed. *"Before the Italians we would have taken over the product complete. All the interfacing with the customer, all the design work, specified all the photometrics, and put the product into production. Now we would only be able to do a very small part of that, in a very limited way. We're now dependent on the design centres in*

Germany and Italy". [Production Director: Text Units 9 and 10]. But it was a full seven years after the takeover that this occurred.

- The Marketing function too has been largely centralised with the Marketing team on site having a wholly group rather than a local responsibility. *"Sales and marketing too is centralised. We still have the same concept where a specialist, an account manager, looks after a specific customer, but that is now centred around the German factory"*. [Production Director: Text Unit 11].

The same leisurely evolution is demonstrated in the change of senior personnel. The organisation charts shown in section 5.3, pay testimony to the scale of change with key roles now occupied by expatriates or Italian appointees, but much of this has been quite recent. Looking at 5 critical positions within the UK management team shows a marked reluctance on the part of the Italians to impose change.

- The Managing Director continued for nearly 11 years until his forced retirement in 1999.
- The HR Director continued for over 6 years until his retirement in 1995.
- The Production Director continues to this day although he was temporarily redeployed as joint Managing Director (1997-1999) and as International Trouble shooter 1999 to 2001.
- The Purchasing Manager continued for 9 years until his retirement in 1997.
- The Design Manager after a one year secondment in Italy continued for 8 years until made redundant with the closure of the UK Design function in 1995.

The replacement of UK managers in key positions has clearly been progressive rather than aggressive. *"All those (UK Managers) have died out or left. The replacement, not always straight away, it's been an evolutionary thing, has become an Italian national (or an Italian appointee)"*. [Production Director: Text Unit 22].

On other fronts too, the pace of change was snail-like.

- The central information system used for production planning and control was changed to the group-wide standard but this did not come about for 10 years after the takeover, and even then was fudged so that the group system was made to look like the one it was replacing.
- The aftermarket distribution of product was eventually merged into the group network but this too did not happen until 9 years after the takeover.
- The negotiation of new business was finally brought under group control with the

introduction of the Target Cost Target Profit system 9 years after the takeover, but prior to that the UK business had continued to produce its own costings and price quotations.

The view of one manager summarises the situation prevailing for most of the first decade following the Italian acquisition. *"We had little input from the Italians for a number of years. The MD managed the business his way. But after that the Italians appointed their own MDs"*. [Production Engineering Manager: Text Unit 30].

The third tenet of the proposition is that uncertainty will lead to reluctance on the part of the parent company to give the subsidiary a strategic role in the new group organisation. This was certainly evidenced in the first case study. At the time of the acquisition the UK operation represented approximately 50% of the group's design, development and production capability in that particular product sector, but although over the years the strategic importance of the product sector has grown, the company is now the 2nd largest in the world, the contribution of the UK operation has progressively declined. The design and development capability has been eliminated. *"We are now a manufacturing unit, a satellite really of the company, allegedly for the UK market but in reality for the American market because there is so little for us in the UK"*. [Production Director: Text Unit 4]. Even this status as a production unit is not highly regarded as there are now multiple manufacturing sites. *"A lot of things have changed from the beginning because the division is now much bigger than in the past. It is more international. At the beginning the group was only Italy and UK and then there was also Poland. Now we have Germany, the Czech Republic, France, Spain, Mexico and Brazil"*. [Current Managing Director: Text Unit 38]. And since the move of HQ to Germany, the UK operation has been increasingly treated as the Cinderella *"We've become more of a subsidiary than we used to be. More of a satellite if you like. There's the feeling that the group starts and stops with the HQ in Germany. The attitude is that there's a plant in Italy that does stuff for the Italian market and, oh yeah, there's that place in England which I think they call Cannock. Which I think is a bit of a shame"*. [Marketing Manager: Text Unit 67]. This decline in status did not go unnoticed by the UK Management team *"When I left there were about 750 employees and £60m turnover but we were still the poor relations"*. [HR Manager: Text Unit 40].

So the picture that emerges of the first case study is of an aggressive takeover, but followed by a pedestrian rate of change accompanied by a progressive reduction in the strategic role of the acquired subsidiary. Compare this to the experience of the second case company where language was not a "factor preventing learning and

understanding”.

On paper the takeover of the UK company was seen as a merger with the UK company being the larger partner, but for those on the ground it didn't appear that way. *“It's commonly viewed that it was a reverse takeover”*. [Project Manager: Text Unit 30]. *“The way the two companies merged it was 60% UK and 40% American but it became an American company”*. [Distribution Manager: Text Unit 6]. What is particularly surprising is the speed with which this reversal came about. *“Within weeks it was the American management who were calling the shots. They were impressive because they had thought long and hard about how do you make a successful takeover”*. [Finance Director: Text Unit 28].

One of the first targets was to attack the relatively sedate and complacent culture of the UK “acquisition”. *“The merger was a traumatic experience. It would have been for anyone from the old company and who'd lived in the culture of UK focus and slow stagnation”*. [Finance Director: Text Unit 24]. However, the Americans were alert to the problem and had prepared for it. *“They had an advisory board of eminent people who they turned to for advice. One of those was Peter Drucker and one of his inputs to the process is that most takeovers fail and most of those fail because nobody breaks the old cultures of the two businesses”*. [Finance Director: Text Unit 30].

Armed with this understanding, the American company had no intention of falling into that trap. *“There had been a very deliberate and fast process of changing the culture, and the Americans were very clear and open about it. They didn't like the old UK culture, they didn't approve of it and they wanted to kill it”*. [IT Director: Text Unit 34].

The means chosen to change the culture were ruthless *“When the Americans took over it was a merger but it was more like the guillotine arriving. The top guys had to apply for their own jobs”*. [Project Manager 51]. The imposed acculturation was done professionally but with little consideration for the sensitivities of those involved. *“We were all summoned to London, 150 or so managers and we were told we would all have to reapply for our jobs, and by the way there were only 100 jobs. We all had to go through a very intensive process of psychological profiling before ultimately they threw out some and retained others”*. [IT Director: Text Unit 33]. The results were severe *“When the Americans came in I think about 70 of the top 150 managers survived. The others were just cut overnight. And things like the Group Training Department - 50 or 60 people just gone. All the central functions just went. It was brutal.”* [Project Manager: Text Units 36 and 37]. Nor was the process limited to weeding out the chaff. Many managers as a consequence of the psychometric tests were redeployed to other roles and the process was deeply resented by many. *“It*

wasn't so much painful as totally unnecessary. I saw enormous changes with about 80% changing jobs, and now perhaps only 10% remain and the company suffers as a result". [Supply Chain Manager: Text Units 83 and 84].

So the immediate post acquisition period was traumatic, painful, and intensive but there can be little doubt that within a few months the new American management had achieved their target of breaking the prevailing managing culture, and softening up the UK business to absorb a whole series of downstream changes. The first two years following the merger were to see phenomenal and far-reaching changes in the UK business:

- The European HQ was re-located from the UK to Germany and the UK organisation had been decimated. *"We've gone through major changes when the European HQ was moved to Germany. We used to have 550 people working here but now we're regarded as a UK distribution centre of around 150 people. So we've taken a big cut in headcount".* [Purchasing Manager: Text Unit 13]. The decision is explained as a logical consequence of the demise of the UK motor industry, but it was nevertheless a drastic action to refocus a HQ operation that had been UK based for more than a century. *"The final nail in the coffin was when BMW pulled out of Rover. It's brought a lot of changes....a lot of changes".* [Purchasing Manager: Text Units 11 and 12].
- The main operational activities packaging, warehousing and IT were outsourced to external organisations, leaving just the administrative functions intact. *"We outsourced the UK packaging to one company and the warehousing to another. We outsourced the German packaging but the warehousing was kept internal. We outsourced both warehousing and packaging in France and we outsourced warehousing in Spain".* [Supply Chain Manager: Text Unit 157]. *"Almost all of the (IT) functions were outsourced just leaving expertise in high level business. function definition and end user acceptance testing".* [IT Director: Text Unit 7]

The changes for the UK and European operations continued in the year following the second stage of acquisition in 1999:

- One of the largest acquired divisions was sold off, allegedly to balance the cost of the acquisition. *"When the Americans took over they couldn't afford to invest in Diesel and so a large chunk of the business was carved out and divested. Which again was a project I led even though it was one I didn't want at all"* [Finance Director: Text Unit 18]

- The UK Board was dismembered with all of the first line directors being retired early. *"It was a very radical change in quite a short time. And so the whole infrastructure of which I was a part, within 6 months totally disappeared"*. [IT Director: Text Unit 28]
- All of the major contracts for such things as Credit Cards, Travel, Transport, Printing and Email were altered to bring them in line with corporate standards. *"We've changed Diners Club to American Express. We've changed corporate hotel chains. Things like that have changed"*. [Distribution Manager: Text Unit 107]. *"It was probably within six months so it fairly swept through the organisation. After acquiring us the Group went up to \$19 bn. So it's a big, big organisation. Even the email changed. We were all on Microsoft Outlook and we moved over to Groupwise. Whether we thought that was a good idea or not we didn't really have a choice"*. [Purchasing Manager: Text Units 7 and 8].

Many of these changes are regretted by the current UK management, who now question whether they have brought about any significant business improvements. What is beyond question, however, is that the pace of change imposed by the Americans has been anything other than relentless.

The third part of the proposition predicts that having understood the "foreign environment" the parent company will be more inclined to maintain or develop the strategic role of the acquired company. At first sight this appears not to be the case with the sale of one major division and the downsizing of the UK Aftermarket HQ. However, viewed from a European perspective, a different picture emerges. The European HQ was not eliminated but merely relocated to a more strategic market. And now in this most recent phase, the parent company is beginning to enlarge the role of the European Aftermarket operation by channelling the parent company product through it. *"The Americans do not have an aftermarket distribution network. There is an opportunity to consolidate all of its aftermarket distribution (using the network of the UK company it acquired)"*. [Distribution Manager: Text Unit 110]. This is a progressive move as the parent company is still obligated under pre-acquisition outsource contracts, but as these expire the volume of traffic being channelled through the European network will continue to expand, and the process is already underway. *"The hope was that in time it (the loss of Diesel) would be replaced by more traditional American company product which is starting to happen now but it will be a long time before the P&L recovers"*. [Supply Chain Manager: Text Unit 110].

Once again it would be futile to challenge whether the views expressed by the interviewees were representative of the company as a whole.

In the main the evidence presented merely attests to the events that took place:

- The acquisition of case company 1 was a traditional takeover of a medium-sized company by a much larger multinational company. Case company 2 by contrast was acquired by means of a very audacious reverse takeover.
- The post-acquisition processes in case company 1 proceeded at a snails pace with the apparent intent to leave the local culture unchanged for as long as possible. The pace of change in case company 2 by contrast was frenetic with the avowed intent to break the UK culture from the outset.

There can be no question that a much wider interview programme would still have emerged with much the same conclusions.

5.7. The Impact of the Language Barrier on Subsidiary Integration

Proposition 4

The existence of a language barrier between the parent company and its subsidiary will have a detrimental effect on the degree to which the subsidiary becomes integrated in the Group organisation. This low level of integration will be manifested in:

- *A limited involvement of the subsidiary in internal group supply chains (purchasing from or selling to other group operations).*
- *Restricted involvement of the subsidiary in strategic decisions relating to their field of operation.*
- *A low level of knowledge transfer between the two especially from the subsidiary to the parent company.*

From the evidence of those present at the time it appears clear that the initial plan of the Italian Management in case company 1 was to achieve substantial integration of the UK operation into the group activity. *"I felt that in the main the Italian senior managers had genuine positive aspirations for the company. I think there was a positive attitude to get to know the business and to strike the right relationships so we could work together".* [Technology Manager: Text Units 13 and 14]. In one strategic area, New Product Introduction, the initial signs were positive. *"I felt when the Italians came in that they were still operating as we had in our heyday. In the evolution during the 70s and 80s there had been considerable effort on decentralising the business. One of the impacts of that was that the centre had been reduced quite drastically. One of the casualties had been that the network of Technology and R&D that deals with new products was severely weakened. As a result of this fragmentation there was a loss of the network whereby one division could learn from another. Going into the Italian structure it was obvious that they still held great store in that sort of relationship and that was illustrated by the interplay between what we were doing in*

the UK and what they were doing in Italy and the way that it was being orchestrated centrally". [Technology Manager: Text Units 13 and 14]. This interplay was supported by complementary strengths between the two countries "*We were better in materials at that time and the Italians were a bit better in terms of new lighting flair*".

[Technology Manager: Text Units 13 and 14] However, instead of building on this complementarity, the Italians decided to pull those with expertise to the centre "*After the takeover, the heart of the business was very much based in Italy, and they wanted the management team, the people who'll be making decisions, to spend a good part of their time there*". [Technology Manager: Text Units 13 and 14].

And so began a concerted programme of inpatriation. In the space of 3 years the Commercial Services Director (responsible for the New Product Programmes), the R&D Director (responsible for the Specification, Development, Costs and Performance of new products), the Technology Manager (responsible for materials development), the Production Engineering Manager (responsible for the development of manufacturing processes for new products) and the Chief Designer (responsible for the design and drafting of all new components) were all inpatriated into Italy. Instead of integrating the UK operation, the parent company had merely absorbed those possessing the skills and thereby had denuded the very assets that made Anglo-Italian integration a desirable goal.

This would have been less of a problem if the inpatriation programme had achieved its own integration objective. "*It seemed to me at that stage that there was a real attempt to make the Italian Parent a multinational company, and part of that was to get people working in countries and languages other than their own*". [Technology Manager: Text Unit 53]. However, the inpatriates themselves were suffering integration problems. Within 18 months the Commercial Services Director had been transferred to another Division, one that did not have a presence in the UK. The R&D Director lasted a little longer but his role was at best ill-defined and led to conflict "*He went to Italy to take charge of the combined design function but it all went sadly wrong. He was a bit naïve - he thought he would be in charge. But an Italian was in charge of the whole design and development function and it was apparent to everyone who would report to who. It seemed that one of them would have to go*". [Production Engineering Manager: Text Units 51 to 53]. The UK R&D Director left to find a job outside the company less than 18 months after moving to Italy. The Production Engineering Manager lasted less than a year. "*He went to work in Italy for 12 months. He was 2nd in command of the Italian Engineering function but unfortunately during that period he made enemies, and his days were numbered. He*

came back a little early and within six months he had a 'you've got to go'."

[Production Engineering Manager (note the current post holder as opposed to the person referred to): Text Unit 31 and 32]. The Chief Designer met a similar fate. After a short time in Italy he was repatriated to head up R&D in the UK, but the contacts he'd established in Italy did nothing to aid integration. *"He lost his job purely by making himself unpopular with Italy. He was constantly in Italy pleading for help, pleading for support and didn't get any. And it reflected on him as being incompetent"*. [Production Engineering Manager: Text Unit 50]. Only the Technology Manager succeeded in establishing a role. *"I had a bout 15 people in Italy and 7 in the UK reporting to me. They, I think, respected me because I knew what I was doing"*. [Technology Manager: Text Unit 97 and 98] But even he was to be retired prematurely before the completion of his three year contract. Reflecting back he identifies two possible reasons why the in-patriates had not succeeded:

- The traditionalism of the Italian Management. *"I found among my peers that there was quite a lot of traditionalism and I don't know that all the things I did were always appreciated and taken in the spirit I was trying to do it"*. [Technology Manager: Text Unit 102]
- And the high turnover of personnel of the senior Italian team. *"One of the weaknesses that became increasingly obvious during the period I was in Italy was the high turnover of the senior management. And so we were trying to integrate into a management team that was becoming increasingly more unstable"*. [Technology Manager: Text Unit 106].

Whatever the reasons it is clear that the in-patriation strategy had failed in its aims.

Five of the most senior UK Managers had been in-patriated to the parent company in Italy. None completed their 3 year contracts: One was retired early, three were shown the door and one was shipped off to another division. With such unpromising precedents it was inevitable that later candidates for in-patriation were reluctant.

"They amalgamated all the design functions and all the development functions in Italy. So the whole of the design department was given notice that in several months they would move to Italy. It was a major upheaval and basically nobody wanted to go. In the end only one person went out of 35 or 40 people". [Technology Manager: Text Unit 106]. Clearly there was to be no integration through the strategic deployment of acquired company personnel.

Another promising avenue for integration was in Manufacturing and Logistics. At the time of the takeover, the UK and Italian companies shared several major supply contracts and had very similar production capabilities.

One strategic option would have been to enhance this complementarity facilitating the sharing and interchange of components and the distribution of customer demand between factories depending upon the capacity and loading of each one. Instead the parent company chose the alternative strategy of vertical separation of production capabilities based on technology. *"We went out of steel reflector business and all the lamps made with steel reflectors are now made in Italy. DMC programmes focused on Cannock"*. [Technology Manager: Text Unit 28]. It was a solution that minimised the need for contact and collaboration between the two businesses and reduced the concept of integration to a formality. *"All we had was an English factory and an Italian factory and integration was simply meetings between two factories"*. [Technology Manager: Text Unit 29].

Further potential functions that lent themselves to close integration were Purchasing and Information Systems but these too have achieved dubious progress:

- Initially using the combined buying power of the parent organisation enabled significant cost savings to be achieved but that has proved to be a temporary gain *"Purchasing has been one of the more successful of the centralisations, but that's changing as the suppliers are now putting up more resistance"* [Production Director: Text Unit 18]. Moreover, for some the benefits have been outweighed by the risks. *"I do believe the constant striving to achieve better and better and better packages from our suppliers sometimes leads to dangerous instability in our supplier base. More than dangerous!"* [Marketing Manager: Text Unit 76].
- In terms of systems there has been minimal effort to achieve integration and this has been welcomed by the UK Management *"This site has tended to stay on it's own really. It's been good for us to stay separate and in terms of costs it's probably been of benefit to this site as well. Some of the ideas coming out of Italy would certainly have cost more"*. [IT Manager: Text Units 34 to 39]. Even at a purely technical level the systems remain unlinked *"There are no links between Cannock and Automotive Lighting in terms of physical connections. What's proposed is to link the systems together, through some form of communications line, but that hasn't happened yet. So I have to say we're not really integrated with the other factories"*. [IT Manager: Text Unit 55]. This failure to integrate has come at a cost to the business *"There would be benefits with common customers, common suppliers and common stock items, and if we'd have gone for an integrated system it's written for that sort of thing. But we're very much at the moment alone"*. [IT Manager: Text Unit 56]

Even with disappointing progress on functional and management development integration, there was still scope to integrate the UK division into the group's strategic planning cycle but this opportunity too was ignored. Information flow in general has deteriorated *"Back in the days when there was regular contact you at least got to understand the corporate view. Things that are perceived are all important. Now there are a lot of things that happen and we don't even find out"*. [Production Director: Text Units 51 and 52]. And the attitude of the Italians was allegedly to consult with the UK Management as little as necessary *"We weren't involved in anything unless it was good for them I think"*. [HR Manager: Text Unit 41]. This created a situation where the UK managers felt they were being kept in the dark about strategic issues. *"You always felt that someone had a big master plan and you were only being fed little pieces of it. But you never saw the master plan"*. [HR Manager: Text Unit 41]. And this led to resentment. *"If there was a master we could cope with it even if it was bad news. What makes them less professional is that there is no transmission good bad or indifferent"*. [Production Director: Text Units 62 and 63].

On all levels there has been a failure to integrate the businesses, a failure that is succinctly summarised in the following observation: *"There was no effort at integration. I went to Italy to a personnel meeting to discuss how we were going to integrate the Germans into the new business. And I thought for 12 years we've been trying to integrate the UK and the Italians and it hasn't worked"*. [HR Manager: Text Units 96 and 97].

If the vicious cycle model is to be believed, then part of the integration failure in case study 1 is due to the language barrier and communication difficulties and by the same token it is to be expected that there will be more evidence of integration in the second case study where language and communication are less severe problems.

Some of the early evidence of integration strategies has already been discussed in section 5.6. and includes:

- The steps taken to channel parent company product through the newly acquired Aftermarket Distribution network (the parent company previously having outsourced its aftermarket distribution)
- The emphasis placed on bringing the newly acquired company into line with group purchasing policies on such commodities as Credit Cards, Travel, Computing, Transport and Printing.
- The rapid action to introduce group standard Email systems to the acquired company.

However, there are several other interventions which signal the parent company's intent to achieve integration at the functional level:

- The two companies have rationalised and adopted common practices on remuneration packages and related issues. *"It took them about twelve months to integrate the Pension Schemes so it's now an American Scheme".* [Distribution Manager: Text Unit 17].
- A programme is underway to integrate stock management and demand planning on a pan European basis. *"The flavour of the month now is to try to get back on track with our Enterprise solution, which would mean centralised planning for all of the European sites. It is DRP to an extent though we're not calling it that".* [Supply Chain Manager: Text Unit 38].
- The physical linkage of all computer networks across the group has provided the technical foundation for a system of direct communication and information dissemination. *"The webcasts? I watch them and on the whole I think they're a good idea. In the old days we didn't get anything like that. We got team briefs, but the webcasts, actually seeing the CEO in front of the cameras telling you what's happening or why we're doing this, is quite good".* [Purchasing Manager: Text Unit 100].
- A major push is underway to introduce Six Sigma (an evolved version of Total Quality) right across the group, even though it is far more appropriate methodology in manufacturing as opposed to service organisations. *"Six Sigma is coming in but we're struggling to understand how to apply in the Aftermarket. When there is a clear process it's easy to put structured analysis in but for Aftermarket common sense is as good. But as another process to get resources into the business it's as good as any".* [Logistics Director: Text Unit 22].
- The creation of a single international treasury system *"Now there is a single International Banking System and it is better that borrowing is controlled centrally. Even though I became an experienced Finance Director I got less and less involved in treasury. It just wasn't necessary".* [Finance Director: Text Unit 117].

Alongside the functional integration there has been a firm strategy of convergence at the management development level. As with the first case study, there has been a programme of inpatriation into the parent company hierarchy, but the UK managers in this case, and certainly aided by their immediate fluency in the parent company language, have been thrust into direct line positions at a senior level. *"They appointed several of our best managers to senior appointments within the Group, Mr*

X being the principal example he's now the boss of Automotive. He's got this giant operation and the biggest job in the group". [Finance Director: Text Unit 91]

Unlike the expatriates in the first case study these managers have been able to establish positions of power and have been able to influence the overall style of the combined company. *"Ultimately it's a bit difficult to decide whose culture has been imposed on whom because the people who have had the most effect on Aftermarket and what has happened to it are Mr X and the group of managers around him and almost to a man they are ex-UK Company". [IT Director: Text Unit 63].* The extent of this UK influence has not been a surprise to everyone. *"I have heard it said that the UK Company was bought for its management rather than for its products. And that seems to be being borne out. At the top you have two Brits, Mr Y with a strong English accent and Mr X who is a little more refined. They've obviously succeeded without having an American accent". [Project Manager: Text Unit 39].* It is arguable however, that they would have enjoyed the same success and advancement if their problem had been not only accent, but also a limited capability to communicate in the parent company language.

At strategy level too the UK has been allowed an integrated role in the evolution of its local development plans, although the process was anything but rubber-stamping. *"When we needed to make strategic moves there was a rigorous process but a very responsive one". [Finance Director: Text Unit 37].* The point is illustrated by reference to the acquisition of a brake fixing company in Spain. *"At the time of the takeover we were in the middle of a very protracted negotiation for this business. We'd already sold the idea to the UK board, now we had to re-sell the project to the Americans. And they were very rigorous. Very perceptive questions came back on the papers but once they were answered, they were 100% supportive". [Finance Director: Text Unit 39].* This strategic responsiveness is attributed to the very direct communications that existed between the UK management and the senior American decision makers. *"In reviewing strategy and in reviewing major investment proposals they responded directly. Typically if you put forward a large investment proposal an analyst or a group of analysts will go through it to find all the reasons 'why not' before it ever gets to the boss's desk. But the Finance Director and the Chief Operations Officer in the US did not have analysts, they did it themselves and they responded themselves". [Finance Director: Text Unit 105].* This observation begs the question of whether the same directness and responsiveness could have been achieved in the first case company where language was such an impediment to subsidiary / parent communications.

The final manifestation of integration that was largely missing from case study 1 has been the propensity of the US parent company to adopt UK solutions. *"The Americans were actually quite good they took quite a lot of the old UK company in terms of some of the tools of the trade, but they put an entirely different sort of culture on it"*. [IT Director: Text Unit 96]. Specific examples include:

- The way the American parent has revised its strategy on Aftermarket distribution to take advantage of the UK company expertise in this field. *"They think our model for managing the Aftermarket is the right one and the fact that they're increasing the role to add their own range of products and to take responsibility for Vehicle Manufacturer service is a reflection of that"*. [Logistics Director: Text Unit 18].
- The adoption by the group of the UK system for managing New Product Introduction. *"I spent three years working on our new product introduction system called PIN and when we were taken over we thought, 'that's it, it's gone'. The Americans had their system called GDP and I was summoned in and a project was set up to look at the best of the two. I was shocked because when a company buys you, you don't expect to be asked. We put the two models together and it is essentially the PIN system that is being used. So PIN has survived which is kind of nice"*. [Project Manager: Text Units 31 to 33 and 45].

On all fronts, functional, management development, strategic and knowledge transfer the acquired UK business has been successfully integrated into the group operation. There can be no question that in part this was due to the strength of management intent. *"The Senior team thought, ate and slept the way they were going to integrate these two businesses"*. [Finance Director: Text Unit 29]. Nevertheless, it is equally indisputable that the integration has been aided by the ease and directness of communication, something denied to the first case company.

On the issue of strategic role, case company 1 provided two contrasting opinions. One group felt that there had been an initial strategy to fully integrate the UK division, and that this had been progressively eroded due to various problems. Others expressed the view that the parent company had always planned to pillage the UK subsidiary, in-patriate its best talents and progressively centralise its functions. The preponderance of opinion rests with the first interpretation. However, there is no such polarisation when it comes to appraising the current status of the division. Instead there is unanimous, and regretful, acceptance that whether by design or by simple erosion, the UK subsidiary had now been reduced to a manufacturing satellite with almost no input to its own strategic future.

No equivalent separation of views was found in case company 2. There was universal pride that some of the senior UK managers were now in positions of high authority in the parent company structure and also that so much of the best of UK management practice had been absorbed into the management practices of the group as a whole. The very rigorous strategy filtering demanded by the US management was seen as challenging rather than limiting and there was a widespread optimism that the future would only get better. Had the interviewing net been cast more widely, it is probable that some dissenting voices could have been found but there can be no doubting that the views expressed in the interviews were representative of the company views at large.

5.8. The Impact of the Language Barrier on Expatriate Employment

Proposition 5

The existence of a language barrier between the parent company and its subsidiary will serve to increase the reliance of the parent company upon expatriate managers. Specifically where a language barrier exists the parent company will:

- *Employ a greater number of expatriates.*
- *Employ those expatriates in key line roles rather than in advisory roles.*
- *Depend on those expatriates as means of exerting control over the subsidiary operation.*
- *Depend on those expatriates as a channel of communications that's helps to circumvent the language barrier.*

Moreover, where there is a language barrier the expatriates so employed will be less well liked and respected and will integrate less well into the subsidiary management team

Researchers in multinational management recognise a variety of roles played by expatriates when working in a subsidiary of the parent company (Harzing 1999). The principal roles include:

- To exert direct Expatriate Control
- To transfer and disseminate the corporate culture
- To improve information and communication channels
- To aid knowledge transfer
- To fill positions for which local candidates are not available
- To develop management experience

There would appear to be some obvious linkages between these expatriate roles and the theme of this thesis, the language barrier:

- Where language is a barrier to information flow from the subsidiary, expatriates are likely to act as channels of communication.
- Where trust has eroded due to communication problems, there is likely to be use of expatriates as a vehicle of corporate control.
- Where language is a barrier to the flow of knowledge or corporate culture into the subsidiary, then expatriates will be deployed to aid this inflow.

Therefore, we would expect to see some evidence of this in the first case study where communication is a problem and where trust is at a low ebb. For some years this was not the case as the then Managing Director fought to retain autonomous control of the UK business, but then we see evidence of the deployment of expatriates for control. *"The MD was able to sidestep most things and for many years he was extremely successful at it, but eventually they overwhelmed him by putting more and more people in to get under your feet and create more and more obstacles"*. [Production Director: Text Unit 88].

Following the enforced retirement of the UK Managing Director in 1999, the usage of expatriates at senior level gained pace. *"They brought in an expat. to manage the business: Finance, Purchasing, though he's gone back, a Quality Engineer. Now they've sent another one so we've got two expatriate MDs"*. [HR Manager: Text Unit 126]. Not all adapted quickly to working in the UK. *"Some struggled linguistically - a lot of it was confidence. After that they start to come out as a person rather than as an Italian. You start to get the personality coming out and quite a good sense of humour. On the whole they did quite well even the one's you didn't like"*. [HR Manager: Text Units 140 and 141]. And in the cosy atmosphere of a UK business that until recently had enjoyed long-term management stability, these arrivals have not been universally welcomed. *"Regarding expatriate managers, we have several at the moment and over the years we've had visitors - predominantly Italian managers. The relationships have varied. When an expatriate senior manager comes in the feeling of the general people is 'why do we need this strange person here? This is England!'"* [Marketing Manager: Text Units 53 and 54]. Even those better informed about the value of expatriate placements were resentful at the spiralling cost. *"It's demoralising. You're being battered to reduce costs and you're sitting there thinking, 'We're carrying all these expats. Do it with UK managers and we'd cut the costs'1"* [HR Manager: Text Unit 127].

Costly and unwelcome as they were in the UK, however, the expatriates provided several things the Italian management sought and which they believed UK Managers either could not or would not do:

- They provided control. *"There is always a relationship on Human Resources and a relationship from the financial point of view with the centre. For all the other activities I am representing the centre"*. [Managing Director: Text Unit 32].
- They provided reassurance. *"They employ them because they feel more comfortable with them. It's based on trust. It's more difficult for them to trust someone from the UK as opposed to someone from Italy. It's fairly evident in my book"*. [Production Director: Text Unit 80].
- They provide insider information that the UK management may have preferred to keep quiet *"You know they'll be on the phone to Italy if something happens that you don't want people to know"*. [HR Manager: Text Unit 136].
- They bring specialist know-how to key positions *"Finance is controlled very, very rigorously from Italy. With very few exceptions every Finance Controller we've had in recent years has been Italian. The exceptions have found it very difficult to survive. Whether that is the language barrier, or the accounting practice barrier, or just the national barrier would be very difficult to define"*. [Production Director: Text Units 19 and 20].
- They provide understanding of the parent company its people and culture. *"It has its advantages because they know the people. The perceived advantage is that they come from the same culture"* [Marketing Manager: Text Unit 100]. It is notable, however, that there is no testimony to the effect that they have in any explicit way attempted to disseminate these contacts and this cultural awareness.
- They facilitate easy communication *"It must be difficult to communicate (for the Italians) when you have to say exactly what you want in English. They've got a language they feel comfortable with so they are tempted to put an Italian in, who at least will understand how they want it done. Most of the communication is in Italian. We all sit in the same corner of the office downstairs now and the whole thing is a succession of by the minute different phone calls to different members of the outfit and it is totally in Italian"*. [Production Director: Text Units 92 and 93].
- They provide a channel for transferring knowledge and technology. *"I ask for a specialist to come from Italy. He stays here for a couple of months to exchange the experience he has had in Mexico. He understands all the technicalities due to his great experience in the field"* [Managing Director: Text Unit 30].

So the first case study exhibits many of the characteristics forecast in the proposition, but how does the second case study compare?

One immediately apparent difference is the number of expatriate managers employed. In case company 2 with a management team at least twice the size of case company 1, there has been only a single expatriate appointed. *"There was no helicoptering in of a management team. At that time we had a hole for a Logistics Director and a young guy who was seen as an up-and-coming star in the US and who had worked on the integration team was taken in"*. [Finance Director: Text Units 87 to 89].

Admittedly there were also expatriates used in other European subsidiaries, but those questioned were insistent that the justification was a blend of position filling and management development. *"It was a mix of the right person for the job but also the company trying to establish a cadre of young managers with international experience. So there was some career development. It was definitely not overt corporate development. I can't remember any instance where the local General Manager would have felt he had a spy in his midst"*. [IT Director: Text Units 87 to 89].

Returning to the UK, it is fairly clear that the appointment of the expatriate Logistics Director was yet another example of management development. *"He was a youngish man who was on a fairly rapid development and promotion. He was desperate to make a name for himself. He was desperate to pursue change and he certainly imposed a lot of change"*. [Supply Chain Manager: Text Unit 96]. The majority of UK Managers did not appreciate the urgency he generated. *"Most people thought that few of those changes were successful. He was trying to do the right things but he was too keen to do it quickly"*. [Supply Chain Manager: Text Unit 97]. And although there was no language barrier there certainly appeared to be a sizeable cultural divide *"Changing things like that may be an American way of doing things but it's not a European way"*. [Supply Chain Manager: Text Unit 99]. Clearly there was the same potential for friction that was seen with the expatriates in case company 1, but due to the interpersonal skills of the individual, which rely heavily on the ability to communicate, friction was avoided *"He was a very bright, very energetic, very capable and very personable bloke. I liked him a lot. He was always very friendly and approachable"*. [Supply Chain Manager: Text Unit 98]. A far cry then from the attitude of the UK management in the first case study who generally resented the presence of Italian expatriates.

The crucial points concerning expatriation were not opinion based and cannot be challenged:

- Case company 1 employed expatriates in most key roles. Case company 2 had appointed only a single expatriate in 5 years and even he had now been

repatriated leaving the UK management team composed exclusively of locally recruited managers.

- The principal purpose of expatriates employed in case company 1 was that of organisational development; communication and control. The justification of the single expatriation in case company 2 was management development of the individual.

In both companies there was a spectrum of opinion concerning the value of expatriates. Though none considered expatriates to be important to the organisation views did range from the highly negative "*parasites draining the finances of the local operation*" though to the more pragmatic "*a necessary evil in any large multinational operation*", with the former view dominating in case company 1 and the latter in case company 2. Despite this diversity however, there should be no question that those interviewed represented the overwhelming opinions in the companies studied.

5.9. The Impact of the Language Barrier on Control

Proposition 6

The existence of a language barrier between the parent company and it's subsidiary will serve to increase the aggregate level of control exerted by the parent company over it's subsidiary. Within this aggregate imposition the affect will be to avoid those styles of control that are "communications intensive" (Bureaucracy and Socialisation) and to emphasise those styles of control that demand less communication "communications independent" (Centralisation and Output Reporting).

The Harzing Matrix discussed in Chapter 2 (Harzing 1999) classifies control styles into 4 approaches:

- Centralisation (of functions and decision-making authority)
- Socialisation (both interpersonal and through corporate culture dissemination)
- Bureaucracy (corporate policies, procedures and systems)
- Output Control (monitoring through budgets and performance reporting procedures)

She also recognises that "indirect centralisation" can be exerted by the presence of expatriates (discussed in the previous chapter) and goes on to give consideration to "control intensity" represented by the aggregate loading of all 5 control styles.

IA later work (Feely and Harzing 2004) suggested that Socialisation and Bureaucracy will rely heavily on communication and that consequently Centralisation and Output Reporting will be the preferred control solutions where communication is difficult.

Relating this to the first case company where the language barrier puts a strain on parent/subsidiary contact and where trust is in short supply, it is logical to anticipate a preference for "communications independent" control styles i.e. Centralisation and Output Reporting and an overall high level of Control Intensity. The testimony bears out this expectation.

In terms of functional centralisation, there has already been some discussion of the closure and transfer to HQ of the UK R&D function "*Design control is now centralised, in Germany and Italy. Before, we would have taken over the product complete. All the interfacing with the customer, all the design work, specified all the photometrics and put the product into production. Now we would only be able to do a very small part of that, in a very limited way*". [Production Director: Text Units 8 and 9]. And also of the Sales and Marketing function "*There was a completely different structure whereby the commercial operation was driven centrally, not from each individual manufacturing site*". [Marketing Manager: Text Unit 6]. However, even the support functions were functionally centralised with the "solid line" relationship to the parent company and only a "dotted line" link to the UK Managing Director. "*Every function had a representative on the management team. Finance, Purchasing, Quality, Technology, Systems all reported directly to Italy*". [HR Manager: Text Unit 34].

Moving on to decision-making autonomy, the view of these managers is that they had little latitude for local initiative. In Human Resources "*You thought perhaps they have a big plan where perhaps purchasing is to be done centrally; perhaps HRM will disappear to Italy. It might as well have been, we were only yes people*". [HR Manager: Text Unit 34]. In Production Engineering when selecting manufacturing equipment for a new contract "*The Italians questioned our right and authority to make those investment decisions. A little Italian came over and made us buy from another company. The machines were substandard and arrived late. But it was a policy decision taken centrally and a lot of compensation had to be paid (to our customer)*" [Production Engineering Manager: Text Units 8 and 9]. Even in IT where, due mainly to indifference, there has been little input from Italy, there remains the threat of centralised control when it comes to significant decisions like renewing the central computer which is now technically obsolete "*I've got enough money (in my budget) to do it, but my worry is that if I went out on my own to do it then I'd come under some possible criticism*". [IT Manager: Text Unit 32].

The frustration of working within these straightjackets is particularly evident in the manufacturing area which now represents the core business of the UK operation:

- In terms of recruitment the rules are rigid *"Even on direct operators you can't recruit without approval"*. [Production Director: Text Unit 31]. And that approval can only come from Italy *"It was basically said to me, that you don't do anything unless we say you can"*. [HR Manager: Text Unit 23].
- And the problem is compounded by not having direct contact with the decision makers. *"You can't get a decision! In HR we're very limited in terms of what decisions we can take on site, without recourse to Italy. So you then have to track down the man who can say yes or no. And he's never available or he's gone to another country or whatever"*. [Production Director: Text Unit 28].

So rigid is the control that the "yes man" mentality has now been transferred to those with decades of experience at the highest levels. *"Now someone telephones the MD from Italy and tells us what to do basically"* [Production Director: Text Unit 49].

Moving on to socialisation the opposite picture emerges. At an interpersonal level there appears to be very little effort made by the Italian management. *"There was never any socialisation. It was just business."* [HR Manager: Text Unit 28]. And even when circumstances demanded some social contact there was little effort at intermingling. *"If they're around in the UK when it comes to Christmas then they feel a commitment to take the managers and wives out to dinner, but it's seen as a chore! They don't act as if they're in the same party"*. [Production Director: Text Unit 64]. Lunchtimes too were an opportunity for social contact that the Italians preferred to ignore. *"We used to have a table set aside in the factory restaurant. You could sit there if you liked but they'd sit there together and talk to one another. And you'd think, 'if only they would make an effort even just at lunchtime'."* [HR Manager: Text Units 57 and 58]. And visitors to Italy were unlikely to get the red carpet treatment when it came to socialising. *"You were more likely to socialise with other people who are out there in a hotel than you were with your (Italian) colleagues"*. [Technology Manager: Text Unit 53].

Socialisation, however, does not rely wholly on interpersonal contacts. Company wide initiatives play a key part in disseminating a common culture, vision and mission. Here too the Italian company has not fared well. *"When we existed as a UK entity being able to have common visions and missions was awfully simple compared with today. We all sat down as a management team once a week and we could talk about things in an orderly way and put things down in writing that were published around the factory. Although we still do that corporately we've lost our way there probably"*. [Marketing Manager: Text Unit 91 and 92]. The corporate culture documentation issued from the centre is regarded as a formality *"They issued*

mission statements and vision statements and company objectives.....but it was just something they sent through that you just stuck up on the wall". [HR Manager: Text Unit 110]. Even the corporate development training programmes were treated with incredulity "We had to do a 2 to 3 hour training session to all staff on what the company values were. The company values its people and all that but it just goes over everybody's head because it's just words. 'We value our people. We value their opinion. We value team working. We strive to work together'. But they don't!" [HR Manager: Text Units 112 and 113]. Unsurprisingly, the overall assessment is negative. "From the financial and technical perspective most of the contact is very professional. In terms of encouragement, team building, communication it's amongst the worst I've ever worked with". [Production Director: Text Unit 61].

In terms of bureaucracy the picture is slightly less clear. Certainly an attempt was made to standardise policies and procedures but they met with little success. "There were many handbooks in English but they were never adopted. The only one that took off was financial accounting (attributed to the fact that the Financial Controller in the UK was invariably Italian)". [Production Engineering Manager: Text Unit 127]. The reason why these policies and procedures failed to make an impact is variously explained as token management, dishonesty and unfairness and is best illustrated with examples:

- Despite the effort put into producing translated policy documents, there was never any real commitment to see through the implementation. "We had instructions on how bonuses had to be paid, on how each factory would be monitored with certain statistics. But nothing ever became of it. They tried to impose these things but it was more a case of producing documents rather than real management". [Production Engineering Manager: Text Unit 105].
- Another factor that undermined the group policies was that they were seen as "do as we say not as we do". The New Products Policy was a case in point "A lot of paperwork and systems were introduced. Commesse and Iniziative were needed to create a complete dossier for new business. You had to do complete financial justifications". [Production Engineering Manager: Text Unit 12]. However, this formality and financial prudence did not appear to apply if it was the Italians seeking new contracts "The Italian way was to get business by hook or by crook. They had these very aggressive techniques of getting the sales, at whatever cost". [Production Engineering Manager: Text Unit 15].
- Finally, and most importantly, the group policies and procedures were seen as flawed and unfair. "The Italians came here to expound the economics of another

factory but it was a totally unfair comparison. All the overheads were carried by HQ, and the only thing the factory did was to assemble. In those circumstances it was easy to achieve good economic performance. But that didn't stop the Italians using it as a benchmark for other businesses". [Production Engineering Manager: Text Unit 106].

Tokenism is also the best word to explain why the UK did not adopt the corporate information systems in any real sense. Against the desire of the UK management a common group-wide system was forced through, but then the Italians allowed it to be cannibalised and modified to such an extent that it can never be upgraded in line with the parent system nor can it easily be integrated to share data and access with other factories. At the end it was bureaucratic alignment in only the most superficial of senses.

The final and arguably the most profoundly significant control style used in the UK was Output Reporting, which has grown ever more onerous as the years have progressed. *"We've changed in terms of reporting systems. We now have a Europe-wide computer system into which I have to put in every nut bolt and washer and to find ways of accounting for it".* [Production Director: Text Unit 113]. This reporting system has extended way beyond the normal boundaries of financial performance. *"It happened in Finance a long time ago but it's happening throughout the factory now".* [Production Director: Text Unit 116]. And even information that is not included in the reporting system is sought by other means. *"Constant phone calls and requests for data. They were complete data freaks. Everything you did it was reported to Italy".* [HR Manager: Text Unit 22]. So why this insatiable hunger for information on every aspect of the subsidiary activity? For some observers it came down to a question of trust. *"They knew everything - they went into everything. Which I don't know they did in so much detail in the past. I think there was more trust in the past".* [HR Manager: Text Unit 65].

Table 5.1, below, sums up the control styles employed in case company 1, using a scale from very low to very high:

Table 5.1 – The Control Styles Employed in Case Company 1

Control Style	Intensity
Indirect Centralisation using Expatriates	Very High
Direct Centralisation of functions and decision making	Very High
Socialisation both interpersonal and corporate culture development	Low
Bureaucratic Control; Policies, Procedures and Systems	Medium
Output Control	Very High

It is reasonable to classify the overall control intensity for case company 1 as “High” bordering on “Very High”.

Predictably the situation in the second case company is somewhat different. In terms of functional centralisation, the only changes have been Treasury (discussed earlier) and Legal. And even the second of these is considered a retrograde step in the UK *“Previously there was no corporate legal department at all. Each division had its own lawyer to do it. We had a very good young commercially orientated lawyer working with us as an integral part of our management team. Suddenly, when the Americans took over they had a corporate legal department of 50, and if you have 50 lawyers you have to keep them busy and the way they do that is by arguing with one another”*. [IT Director: Text Unit 56]. In all other areas of the business however, Purchasing, Supply Chain, Distribution, Packaging, Human Resources and Information Systems, the UK Business continues to operate locally.

It is in decision-making autonomy that the greatest contrast emerges, however. Several interviewees stressed that the key was being responsible for delivering an agreed profit, and that having agreed that level the UK division had to have the autonomy to decide how to reach it. *“The ultimate is that we’re still responsible for our own P&L. So someone may be telling me that I have to sign in to a corporate contract, but if it’s not right for this business I have to say ‘Hang on a minute, we can’t go for this.’”* [Purchasing Manager: Text Unit 41]. And the parent company in the US shared this view *“The Aftermarket company was given a degree of autonomy*

it had never had. If we met our targets we could do what we wanted was the essential philosophy". [IT Director: Text Unit 25].

And this autonomy was reflected across the operational areas of the business:

- In Purchasing *"Regarding the raising of new suppliers we can do that locally. We can decide price increases because it affects our own bottom line"*. [Purchasing Manager: Text Unit 112]
- In Sales *"Commercially we are totally independent. We decide who we want to sell to, at what price levels and what products"*. [Logistics Director: Text Unit 27]
- In Distribution *"The strategic decision makers (in the US) are working at the level of a \$17bn business. They're not worried about how to get parts from A to B - that's all decided in the UK"*. [Distribution Manager: Text Unit 45]

This freedom of action was appreciated by the UK management and helped to forge a closer relationship between the parent and subsidiary companies. *"They trusted you if you performed and allowed you flexibility to manage the business and so you definitely felt part of the family"*. [Finance Director: Text Unit 84]

The mention of "family" leads in to the discussion of the second control style, Socialisation. At an interpersonal level the level of social contact depended on the role of the individual and their level of contact. Some had very close links with the US. *"I've been so many times. In the past five years we're probably talking fifty times! So therefore, I'm very much left to my own devices. Whereas when they come here it tends to be only their first or second time to the UK. So we put a lot more effort into socialising and educating - taking them to Warwick Castle and Stratford. It's very much appreciated by them"*. [Project Manager: Text Units 64 and 65]. Others have more contact with the European HQ. *"I have a dotted line through to the European Purchasing Manager in Germany. When I'm over there, we'll go out to dinner - it's quite a good contact between us"*. [Purchasing Manager: Text Unit 67]. However, it would seem that this interpersonal contact was due more to design than to chance. *"Social contact? Yes, because by definition someone was off their patch, there were the usual opportunities to socialise over a meal. In the American environment that was seen as so much more an important part of the culture of the business"*. [Finance Director: Text Unit 75]

At the corporate development level too there was a strong emphasis on socialisation initiatives although with mixed results:

- For the senior levels there were the global jamborees. *"They were very definitely setting out to create a senior management cadre. Within 18 months we had had*

two big conferences, the first in London, the second in Beijing so they'd taken the whole hundred senior managers off for a massive, massive event. They were definitely pushing shared values and the like". [IT Director: Text Units 92 to 94]

- For the rest there were the normal symbols of corporate posters, mugs, mouse mats and the like, though these were seen as replacements for what had been there previously *"You would have had mugs, posters up, etc. I don't think there are any new signs, they are just red American replacements of the old UK green ones". [Project Manager: Text Unit 52]*
- The training programmes though were better received *"We are becoming more parent company definitely. Through Total Quality the people had to look at those values and think about where they fitted in the workplace. It was part of the TQ Training to challenge them to put those values in place". [Purchasing Manager: Text Unit 129]*
- And then as if addressing some of the problems of the language and culture barrier there has been a new initiative on relationships *"One thing that is new is that they have pushed behaviours, trust, teamwork, ethics, empower, energise. Very American and it might work here but it's treated with some scorn in the rest of the world". [Project Manager: Text Unit 53]*

Most people had at least some reservations about this very American management style *"I felt that there was a business with a clear leadership, realism and an aggressive style. Not necessarily all things you would have agreed with. For example we didn't like the obsession with the Far East and China but because of the senior team's effectiveness and their intent to bring through and develop people we went along". [Finance Director: Text Unit 83]. Nevertheless, the overall assessment remains positive "I do believe they did a very effective job in creating a new culture for the business". [Finance Director: Text Unit 85]*

In terms of the Bureaucratic control style the position appears to have changed considerably. In the period immediately after, there was very little in the way of bureaucracy and it was appreciated *"They had decimated the corporate bureaucracy. For aftermarket operations it was actually very liberating in the short term". [IT Director: Text Units 38 and 39]* And the involvement of Corporate HQ was focused on strategy rather than bureaucratic detail. *"They saw the global HQ as purely being there to develop strategy and to manage the financial re-engineering of the business". [Logistics Director: Text Unit 26]. However, Enron, Personnel Discrimination and Harassment cases and Product Liability claims have combined to*

make American corporations much more risk averse in recent years and this is reflected in the current experience of the case company. *"What makes that worse is the US regulatory system, the Stock Exchange and US regulations in terms of ethics etc. There's an enormous burden on US corporations to comply with. And the only way the corporate teams can think of to do this is to give you an annual list of what you may not do. And that of course is absolutely classic! It directs operational managers to the wrong things because everyone is preoccupied with regulations about trading or discrimination. In our company with its aerospace and defence divisions it has become obsessed with the need to tick every box with regard to government regulations, being seen to have done things and having the right paper trails and that sort of thing"*. [Finance Director: Text Units 98 to 108]. Bit by bit the bureaucrats appear to be increasing their influence extending the policies even in to subsidiaries that are not involved in sensitive markets and not subject to US legislation. *"They run these rules right across the business whether the individual businesses need them or not"*. [Finance Director: Text Unit 109] .

The evidence concerning the final control style, Output Control, suggests that there was initially a reduction in the amount of reporting undertaken. *"In the UK because of our long history there tended to be an accumulation of data that was always at handed. The takeover was an opportunity to do a major rationalisation so that was good"*. [Finance Director: Text Unit 129]. Following this rationalisation, upwards reporting to the HQ was kept very strategically focused *"The reporting from the Division was two things. It was a stream standardised financial numbers that every division had to produce and it was a strategic and operational commentary from the Divisional Managing Director. And that was all that the Americans had on a monthly basis"* [IT Director: Text Unit 85]. There is now evidence that the level of reporting has grown but this appears to be for internal use rather than to meet corporate demands. *"We do monitor a lot of operational data but that's our performance monitoring. We report availability numbers upwards. But it's more us explaining where we are rather than Corporate wanting to know where we are. I think they're only really interested in the financial numbers"*. [Logistics Director: Text Units 24 and 25].

Summarising all of this evidence from case company 2 into the table format introduced earlier (table 5.2), it is clear that, compared to the first case company, there is not only a very different pattern of control styles employed, but overall there is a much lower control intensity.

Table 5.2 Control Styles used in Case Company 2

Control Style	Intensity
Indirect Centralisation using Expatriates	Low
Direct Centralisation	Low
Socialisation both interpersonal and corporate culture development	High
Bureaucratic Control; Policies, Procedures and Systems	High
Output Control	Low

The overall control intensity must be considered "Low" to "Medium".

Little disparity of opinion emerged concerning either the style of control employed or the effectiveness of those controls:

- Case company 1 was unanimous that socialisation did not exist in the control repertoire of the Italian parent. Case company 2 was equally clear that socialisation was the key control style employed, though there was widespread scepticism about its effectiveness.
- Case company 1 unanimously recognised that there had been an effort to impose Italian bureaucracy, but were equally convinced that it had failed in almost every area. The case company 2 interviewees by contrast consistently stressed the absence of parent company bureaucracy.
- Case company 1 interviewees all bemoaned the centralisation of functions and decision-making, and in particular the use of expatriates as representatives of the centre to apply direct control. The exact opposite emerged as the strong consensus in case company 2. There had been no centralisation of functions or decision-making and there were no expatriates to provide direct central control.
- Case company 1 were unanimously critical of the welter of reporting requirements from the HQ, while case company 2 interviewees all observed how light the reporting requirements were from the US parent.

The solidarity of the opinions expressed, strongly attests to the views presented being typical of the organisations as a whole.

5.10. Review of the Case Study Findings

Although other researchers have published exploratory studies of the impact of language difference (Marschan-Piekkari, Welch et al. 1997; Marschan-Piekkari, Welch et al. 1999; Marschan-Piekkari, Welch et al. 1999 a), this study is the first in this field to test explanatory propositions. As such the importance of the findings of these case studies and the linked survey, should not be under-estimated. If the propositions find persuasive support, then this research will open up language difference as a new cultural variable which would need to be considered in all future studies that attempt to explain the subsidiary management policies and strategies of multinational companies. By extension language difference would also emerge as a variable to be considered in researching other international relationships such as Client/Supplier and Joint Venture partners.

Given this potential significance, it is important to undertake a thorough review of the evidence relating to the six individual propositions. This is summarised in the following subsections:

The Impact of the Language Barrier on the Parent Subsidiary Relationship

The proposition derives from the body of literature related to sociolinguistics, trust, conflict and decision-making. It anticipates that a language difference between parent and subsidiary will have a detrimental impact on relationship building and that this will be manifested in a stream of downstream problems including dislike, lack of respect, polarisation, secrecy and dishonesty, lack of recognition, an absence of teamwork and ultimately autonomous actions. By implication these problems would be absent or much reduced where language was not a barrier to relationship building.

The two cases gave an excellent opportunity to explore this proposition. Case 2 offered clear evidence of cultural differences between parent and subsidiary, but language was never an issue that could impair communication. As the Finance Director observed, they shared a common language but the way they viewed the running of successful businesses was very different.

In case 1, however, there was a clear evidence of a language barrier, as well as cultural barriers at work. The Italian parent company management had poorly developed English skills and the UK management team responded with Italian skills that ranged from zero to barely proficient. Neither group had a command of the other's language that would have allowed the barriers to be broken down by social contact, humour, shared interests or motivational leadership. The Production Director who, together with the HRM Manager achieved the highest level of competence in the Italian Language explains in his testimony that it was difficult for the Italians to

explain exactly what they wanted in English, but if they talked in Italian then the UK Management would not understand and were in many cases totally mystified.

In these circumstances, the proposition predicts a range of undesirable consequences and the evidence bears out these predictions fully:

- The relationship that built up was superficial to say the least. The UK management referred to the "once a month visit" looking only at the accounts. They believed that the Divisional General Manager based in Italy, didn't understand the problems, didn't know the operation in detail and had no real relationship with his UK Management Team.
- There was a complete absence of trust in both directions. There were direct allegations that the Italians did not trust the UK team at all, and at the same time they made clear that they had almost no faith in any pronouncements made by the Italians.
- There was a wide polarisation between the two groups with all social contact minimised, a point that will be amplified in the subsection on control below.
- There were numerous examples of UK management being exposed to shoddy and disrespectful treatment and the UK managers, who regarded the Italian management style as characterised by an enormous amount of management deceit, reciprocated in like manner to their Italian colleagues.
- There was a total absence of honesty in the interchange of information, with the Italians giving out little and the UK managers going so far as to have two sets of books; the one they worked with and the one they showed the Italians.
- And there were inevitably attempts to subvert the relationship. The successful, but covert, operation to gain business in the US, may have gained the UK management some short-term plaudits, but subsequently it led to the complete demise of any trust the Italians had in the local management. This led to a blame culture and ultimately brought about the sacking or demotion of the key personnel in the UK.

This unhappy state of affairs contrasts starkly with the relatively rosy picture emerging from case company 1. Not that theirs was an entirely happy marriage. The early stages of the takeover were variously described as brutal, painful and traumatic, but notwithstanding there is plentiful evidence that the relationship that emerged avoided the pitfalls of case company 1:

- The senior American managers were not liked. They were described as tough, ruthless and self-serving. But despite that they gained the respect of the UK team who regarded them also as decisive, confident, open to local ideas and criticisms, and very professional in all that they did.
- There was a bidirectional trust that placed demanding targets on the local operation but allowed them the freedom to manage the delivery in their own way. And the UK management could count on the fact that having agreed a plan of action they would get support from the Americans.
- There was no sense of polarisation. Despite the geographic separation the whole American management team were regular visitors in the UK and they made a point of social contact with all levels of the host organisation.
- Not that the circumstances warranted it, but secrecy and dishonesty were never options for the UK management. The intense probing of local strategies at the meetings of the two management teams, and the clever use of informal triangulation to verify information, would soon have exposed any mendacity.

This climate of trust, mutual respect, openness and relaxed contacts at multiple levels, is a far cry from the situation in case company 1. However, it is clear that the tools used by the American management to create this favourable climate, clarity of objectives, decisiveness, in-depth probing of the local situation, triangulation and, most importantly, informal and social contact, all depend on communications capability. Had the language barrier hampered them, the management teams in case company 2 might easily have developed a very different, and more problematic, relationship.

Concluding, there is ample evidence to support the opening proposition. The existence of a language barrier will impair the development of a healthy relationship and will lead to undesirable consequences ranging from mistrust and dishonesty to a lack of respect and a polarisation of the interpersonal contacts. Although only a single case was studied of the language barrier at work, it is logical to presume that similar problems would exist in all companies where there was a genuine difficulty in achieving open and problem free communication due to language differences between parent and subsidiary.

The proposition will, therefore, be carried forward to the survey phase of the research programme.

The Impact of the Language Barrier on Language Awareness

Chapter 2 exposed the absence of a body of literature focused on language awareness. However, the work on linguistic auditing (Reeves and Wright 1996) does provide a framework for identifying the characteristics of a "language aware" company. The proposition anticipates that a language difference between parent and subsidiary would promote the raising of language awareness and would encourage the development and implementation of language related strategies.

The case study comparison is less than ideal to test this proposition for two reasons. Firstly there is a level of analysis mismatch. The comparison is of two subsidiaries, but many language strategies are formulated and implemented at the corporate level on behalf of all subsidiaries worldwide. Also the comparison includes an Italian parent company, a nation whose companies are lagging well behind Germany, Holland and Scandinavia in their management of language issues. Nevertheless, there is still ample evidence to weigh up when comparing the two cases:

- In case company 1 a corporate language policy has been formalised. In company 2 it has not.
- Company 1 has had all of its policies and procedures painstakingly into English. Company 2 already had its procedures in English, but to the best understanding of the UK management they have not been translated into any other language.
- Case company 1 had invested heavily in Italian language training for UK managers, albeit with very limited success, and were currently engaged in extensive English language training for its Italian and German managers. In case company 2 all non-essential training, including languages, had been wiped out.
- The website for case company 1 was presented with 3 different language interfaces. The website for case company 2 was available only in English.

The proposition expounded at the beginning of this section might suggest a more profound difference in the two cases than was actually encountered. Nevertheless, the evidence does certainly endorse the underlying theme that language difference makes companies more language aware and stimulates the adoption of more formalised and concerted strategies for the management of language, whilst the absence of a language difference leads companies to be language complacent.

This proposition will therefore, be carried forward into the survey stage of the research programme.

The Impact of the Language Barrier on Parent Company Confidence

This proposition is grounded in the classical internationalisation theories (Johanson and Wiedersheim-Paul 1975) (Johanson and Vahlne 1977) that predict that where there are barriers to learning about and understanding foreign markets, barriers such as language, then the internationalising company will proceed much more cautiously, than where no such barriers exist.

Again it would have been ideal to study this with a comparison at the corporate rather than subsidiary level, but as previously the case studies have thrown up a wealth of information that provides meaningful insights into the psychology and confidence level of the acquiring companies.

Looking first at case company 1:

- The acquisition of the UK subsidiary showed no signs of caution. It was an outright purchase of a division of a large international competitor. However, the UK management were insistent that following the problems encountered here, and apparently also in France, later market entries were much more diffident. Minority joint ventures and modest Greenfield operations characterised the entry method adopted thereafter.
- Once the UK subsidiary had been acquired it was clear that there was no clear integration plan. No integration teams were formed and there was little early evidence of the two businesses coming together. Allegedly it was almost two years before the name changed on the company sign outside the factory.
- There was little too in the way of decisive changes imposed by the Italians. The UK management team were allowed to continue unchanged for several years, and the organisation left unchanged for almost a decade.
- And once integration did get underway, the acquired company lost rather than gained strategic status being reduced to what one manager describes as a remote satellite somewhere in England.

Case company 2 provides a total contrast:

- The acquisition was that most rare of entry methods, the reverse take-over, with the smaller company taking control by dint of aggression and preparation.
- The acquiring company then made integration its number one objective with functional integration teams being formed and, in the words of one observer, the senior management "living, eating and sleeping integration".

- The rate of change immediately following the acquisition was frenetic and punishing for the UK management. Each person had to re-apply for his or her jobs and many were either made redundant or redeployed. Large chunks of the UK role were transferred to a new European headquarters in Germany. The flagship component of the business, Diesel, was sold off, to help finance the reverse acquisition and substantial parts of the business were outsourced to external providers. Within two years of the takeover, the UK operation was barely recognisable.
- However, it was not all bad news. Once the mayhem of the initial period was over the UK management found themselves with a stable business, that was encouraged and supported to seek out expansion opportunities and that, in time, would benefit considerably from the integration of American-company products into the UK supply chain. The net strategic status of the European subsidiaries had been significantly enhanced and the UK subsidiary, despite losing part of its role to Germany was on a rapid status growth path.

From the evidence there are clearly differences in the strategic preparation of the management teams of the two acquiring companies, and assuredly there would have been a contrast in the degree of confidence shown during the take-over, the urgency of the post-acquisition action plan and the scale and tempo of the of the strategic reconfiguration of the subsidiary role, regardless of language. However, it is equally indisputable that case company 2 had benefited greatly from the ease and directness of communication, something denied to the first case company. As a consequence case company 2 enjoyed an acquisition process that despite being harrowing was quick, professional and ultimately successful. The opposite is true of case company 1 where language acted as a barrier to communication and collaboration and where consequently there was uncertainty during and following the acquisition. This resulted in a widespread failure to define the role of the subsidiary in the strategic composition of the acquiring group.

The proposition anticipating that language and communication barriers would reduce confidence levels and lead to a more cautious and diffident approach has, therefore found ample support to allow it to be carried forward into the survey stage of the research programme.

The Impact of the Language Barrier on Subsidiary Integration

The proposition that the language barrier could hamper or even negate attempts to integrate a subsidiary into the operational, strategic and knowledge flows of the

acquiring Group is founded on the work of a wide range of researchers active in the field. Prominent amongst them are Zander and Lerpold, (2003), Barner-Rasmussen (2003) and Birkinshaw (Birkinshaw and Hood 1998; Birkinshaw 1999; Birkinshaw, Bresman et al. 1999; Birkinshaw 2001). Specifically the proposition predicts that where language is a barrier to communication and trust development this will be manifested in terms of:

- A limited involvement of the subsidiary in internal group supply chains.
- Restricted involvement of the subsidiary in strategic decisions.
- A low level of knowledge transfer between the two.

The case study companies provide an excellent sample against which to explore these predictions. At the time of the takeovers both acquired companies were strategically important to the groups that acquired them, both possessed major manufacturing and distribution resources that were important to the acquiring group and both had experienced and able management teams holding banks of knowledge that strategically complimented the capabilities of the acquirer. However, despite the strong similarities the integration programmes of these two companies have followed very different paths.

In terms of supply chain integration case company 1 found itself compartmentalised into a specific field of manufacture in such a way that need for interchange of materials, suppliers, components and technology with the parent company was minimised. Supply chain management took on the shape of segregation not integration.

It is a similar story in terms of other fields of integration. There was little activity in the early stages on the integration of R&D, Marketing and IT, but when it did happen it was an imposed decision from Italy and in no way to the benefit of the UK business. And this characterised almost all strategic and decision-making processes in the merged company. UK managers complained of a "master plan" that they were never allowed to see or to which they were never allowed to contribute. It is little wonder that in frustration they sometimes took strategy into their own hands excluding parent company input.

Knowledge transfer in company 1 was also handled with little attention to the needs of the UK operation. Instead of developing mechanisms for bi-directional knowledge transfer, the parent group adopted the brain-drain route and in-patriated several key members of the UK management team. However, in most cases these in-patriates were not given line roles where they could develop their talents.

Instead they were sidelined into consultancy jobs where their knowledge was absorbed by the parent company staff: And once their value was exhausted, their services were dispensed with.

All of these actions were destined to reduce the strategic role of the UK subsidiary from a key hub in the group's world-wide production and service network (it is worth recalling that prior to the takeover it had dominated the UK, US and German markets) to that of a manufacturing satellite whose remit declined rapidly once the parent-subsidiary relationship became fraught.

The contrast with case company 2 could hardly be more profound. The UK company's distribution expertise is now being extensively employed to the benefit of both companies, and not just in the UK but across the world. Supply chains have been rationalised and parent company product is now being channelled through the acquired company's service network.

Strategic decision-making has been established as a shared process. The parent company management are far from an "easy sell" but they encourage the UK subsidiary to be pro-active in formulating strategic proposals and once they have been dissected and agreed, then the UK management are allowed the freedom to implement the strategies in their own way.

There were decisive integration actions on other fronts too. Information systems, employment contracts, pension arrangements, suppliers, treasury etc. were all subject to group standardisation. In most cases the UK management felt that these changes worked to the benefit of the local operation.

Arguably, the starkest contrast came in the field of knowledge transfer. Case company 2 also used inpatriation as a vehicle for transferring knowledge but here the inpatriates were placed into authoritative, line management positions. The goal was not simply to soak up the knowledge until the individual had nothing more to offer, but to apply the knowledge in a way that would benefit both parent and subsidiary companies.

It must be admitted that in losing its HQ role the UK operation did see a reduction in its strategic status. However, this was a redistribution of roles within the European division to reflect the relative vitality of the German car market compared to the UK. Subsequently the UK has been compensated by a major expansion of its sales portfolio to include the American parent product.

So overall there can be no question that the case study evidence has supported the proposition. Where language has acted as a barrier to communication and relationship building it has also impeded the goal of subsidiary integration and long term has encouraged the parent company to sideline the subsidiary into a satellite role. The proposition therefore, will be carried forward to the next stage of the research, the survey.

The Impact of the Language Barrier on Expatriate Employment

The proposition that the presence of a language barrier would increase the reliance on expatriate managers, is largely based on the theoretical framework provided by Edstrom and Galbraith (1977) and the empirical research of Tung (1987). It is entirely logical to expect that where language is a barrier, there will be an increased demand for expatriate managers to serve as communications channels between the parent and subsidiary and as a layer of control to ensure that the subsidiary is operating in line with group policy, and that in performing these roles they will inevitably find a level of resistance from the local management. However, despite its plausibility this proposition has not previously been researched and the evidence from these two case studies is therefore, of considerable significance. It is also wholly unequivocal.

In case company 1 there can be no doubt that the expatriates were widely resented. They were variously described as:

- Those "strange people" who nobody knows why they're here
- A punitive drain on the UK company finances
- Somebody just to get under the feet of the UK management
- Spies for the Italian HQ

They have been put in place essentially to provide a chain of communication between the parent and the UK companies. Almost all of the communication, telephone, videoconference and email, is conducted in Italian, and the UK management would have been wholly ill equipped to cope without the presence of these communications interfaces. However, the resentment comes not from this but from their secondary roles as obstrucater, stoolpigeon and controller:

- The appointment of an Italian Finance Manager was, in particular, seen as an attempt to manacle the UK management team and to block any attempts at local initiatives.

- There was barely concealed anger amongst those interviewed that the Italian parent company held so little trust in the UK team that they had introduced expatriates to spy on their work. The idea that the expatriates were itching after every meeting to get on the phone to Italy and dish the dirt on their UK colleagues, may have been misguided or exaggerated but it was indisputably a widely held opinion.
- And there was no questioning who held sway. The latest expatriate made clear that he spoke with the authority of the centre and that key decisions would be for him, not the local managers, to take.

With so little love lost between the two groups it was inevitable that there was little integration of the expatriates into the social environment of the company.

The comparison with the second case company speaks volumes. In the 5 years since acquisition only one expatriate had been appointed and in his case it was very much a case of an appointment for reasons of management development rather than organisational control. Inserted as the Logistics Director, the young man concerned quickly became an integral part of the management team. He was not seen as a spy from HQ and he did not abuse his contacts at HQ to coerce other managers to do as he wanted. On the contrary he was accepted and integrated into the life of the business and was widely liked and respected. The general view was that he was an able, energetic, though impetuous, young manager who was destined for greater things.

Once again the case study evidence has robustly supported the proposition. Where language has created a barrier to the creation of a relationship built on mutual trust and respect, the parent company to reduce uncertainty will flood the subsidiary with expatriates. These expatriates will be there to serve three goals. They will provide a communications channel enabling the parent company management to work principally in their own language. They will ensure that the subsidiary activity is closely monitored and will feed back information to the centre; information that in many cases the subsidiary would have preferred to retain locally. And they will serve as a mechanism of control, either by directly passing on directions from HQ or, more surreptitiously, by simply blocking the potential for subsidiary initiatives. Given this largely negative remit, it was wholly predictable that the expatriates would be unwelcomed and un-respected.

The proposition will therefore, be carried forward to the survey.

The Impact of the Language Barrier on Control

The proposition anticipates two impacts caused by the language barrier. It anticipates that the overall intensity of control exercised by the parent company would be greater and that the style of control would favour those methods that did not rely on frequent and intensive levels of communication. Both of these elements derive from the work of Harzing (1999)

Once again the case studies provide a fascinating and insightful comparison against which to test the propositions.

Case company 1 displays exactly the profile expected of a control relationship constrained by the language barrier.

- There is a costly but doomed attempt by the parent company to impose their bureaucratic procedures and systems. Large tomes of translated policies go left ignored by the UK management and corporate information systems are re-written to the point that there is no longer any possibility of data integration with the group. This confirms that the real barrier is not merely the translation of the materials but the failure of the parent management to provide the leadership necessary to gain subsidiary compliance.
- There is virtually no attempt to exert control through socialisation. Social contact is kept to an absolute minimum and the lame gestures of mission and values statements that stress the value of respecting all employees contrast so vividly with the reality that they are dismissed as laughable gimmicks.
- The principal method of control exercised therefore, is that of centralisation, either directly or through expatriate managers. All of the key decisions concerning R&D, Marketing and HRM are centralised into Italy. Finance and Purchasing, decisions are taken locally but by expatriate managers briefed to impose Italian guidelines. This leaves the local management a degree of autonomy only in the areas of Engineering, Manufacturing and IT and even here with Finance controlling investment and HRM controlling payroll numbers, there is precious little freedom to manage.
- This centralisation approach is vigorously backed-up by an intensive, not to say intrusive, system of output reporting. The quest for data is insatiable, even to a level that cannot possibly be managed remotely from Italy. It is impossible to escape the conclusion that the primary purpose of the reporting system is not to inform the Italian directors, but to constrain and oppress the local management.

Case company 2, the UK division of an American corporation, offers a complete mirror-image comparison:

- Bureaucracy was kept to a minimum, although where there was a benefit to be gained from worldwide synergies e.g. on credit cards and travel arrangements, these were decisively and quickly standardised. . Emphasis instead was placed on strategic goals and, provided they were met, the US directors were happy to allow the UK management to do things their own way. Even where group procedures were imposed they were, often as not, hybrids embodying the best of the UK principles alongside the American ones.
- Socialisation was the key control mode adopted. There was heavy emphasis on social contact, global gatherings of managers, and formalised missions, values and behaviour statements. Even the monthly webcasts from the CEO, thought to be a little "American" for UK tastes, were appreciated as a genuine attempt to build a sense of identity and unity.
- Apart from approval of the strategy statements and budgets, almost all decision-making was left in the hands of the local managers. There was no centralisation of functions and instead a programme was underway to decentralise control of the parent company sales and distribution, down to the host country management.
- And reporting was wholly focused on financial performance and advancement on strategic projects. Operational level data was contained at the local level.

On both counts the case study evidence decisively endorses the proposition. Case company 1 is characterised by an oppressive level of control, focused on centralisation and output reporting. Those modes of control reliant upon communications, socialisation and bureaucracy, are notable by their absence from the case findings. Case company 2 enjoys a hands-off level of control, with emphasis by the parent company on socialisation to achieve its subsidiary goals. The proposition will therefore, be carried forward into the survey stage of the research.

Overall Conclusions

All six propositions were supported by the case study research, and as a consequence all six will be carried forward into the survey. This is the topic for the next section.

However, it would be remiss not to highlight the crucial point emerging from the case study findings. Language difference between parent and subsidiary companies has been shown to be a variable influencing the policies and strategies of multinational

companies. It influences the level of trust, respect and liking underpinning the relationship and this in turn influences:

- The language management policies adopted
- The entry mode adopted and the post entry actions
- The level of subsidiary integration sought
- The policies on expatriation and inpatriation
- The methods and styles used to exercise subsidiary control.

Based on the extensive literature review undertaken, it is reasonable to conclude that no previous researcher has ever established the language barrier as a predictable influence on International Business. The findings of these case studies have done just that. They have supported the prosaic but nevertheless fundamental assertion that "Language is a variable in International Business Research"!

Expressed in this way it seems no more than a truism, but after decades of international cultural research in which language has not been considered as a potential variable to explain research findings, it is important to acknowledge finally that a new dimension of culture has been added to the I.B. portfolio.

5.11. Carrying the Case Study Findings forward into the Survey

Despite this encouraging support for the theoretical model, it would be inappropriate to advance any extravagant claims generalising the impact of the language barrier on the way that subsidiaries are managed.

The research and subsequent analysis have demonstrated some of the problems and limitations of the case study method, and as such it would be prudent to regard any conclusions reached to date as "requiring corroboration". For the reasons already expounded in Chapters 3 and developed in Chapter 4, the route chosen for this corroboration is to undertake a survey. Before undertaking such a survey however, it is necessary to address two fundamental problems.

The first problem is the absence of a scale or system for the measurement of the language barrier. A framework for the development of such a measure has been proposed (Feely and Harzing 2002) but the operationalisation of such a scale would be too ambitious for a programme of doctoral research.

So as an alternative two surrogate measures have been employed which have the twin benefits of being easy to collect and indisputable:

- The first is simply whether or not there is a national language difference between the parent company and its subsidiary. It does not measure the scale of the language barrier but there can be little question that where there is a language difference there will be a higher barrier than where no difference exists.
- The second relies on the fact that English is predominantly the world's leading business language (refer to the discussion of Global Language Influence in Chapter 2). By a very considerable margin there are more second language speakers of English than any other language. Consequently the scale of the language barrier will be lower in English-speaking (Anglo) Corporations than in multinationals with other parent languages. Thus "Parent Company Anglo or Non-Anglo" will serve as the second surrogate measure in the Survey.

The substitution of a scale with two dichotomous variables will inevitably bring about a loss of sensitivity in the analysis of the survey data. However, if it can be shown that these two fields are linked to the practices and policies of multinational companies then it will pave the way for a subsequent operationalisation of the language barrier scale.

The second problem is that the way the propositions have been expressed to date has been imprecise and has linked multiple constructs within a single statement. For these propositions to be tested in a survey they must be redefined in terms of the two dichotomous language variables discussed above and must be made more precise with each hypothesis dealing with a single correlation that can be tested using quantitative techniques. This redefinition is summarised in table 5.3 on the pages that follow:

Table 5.3 The Evolution from Propositions to Hypotheses

Proposition	Resultant Hypotheses to be Tested in the Analysis of the Survey Data
	<p><i>1. The existence of a language barrier between the parent company and it's subsidiary will have a detrimental effect on the relationship between the two parties:</i></p> <ul style="list-style-type: none"> - <i>There will be unsatisfactory interpersonal relationships with a lack of liking, respect, honesty, openness and trust</i> - <i>There will be an emphasis on blame assignment with negativity, polarisation, criticism and friction.</i> - <i>There will be a lack of appreciation, and recognition of the qualities of the "outgroup" members</i> <p><i>There will be an absence of teamwork and collaboration and on the part of the subsidiary there will be a tendency to autonomous strategic behaviours.</i></p>
	<p>Hypothesis 1: Where there is a language difference between a subsidiary and it's parent company it will be a source of misunderstanding and mistrust leading to internal friction".</p>
	<p>Hypothesis 2: Multinational Parent Companies domiciled in English-speaking countries will encounter fewer communications problems and a lower level of language-induced friction, than multinationals who have other parent languages".</p>
	<p><i>2. The existence of a language barrier between the parent company and it's subsidiary will help to focus awareness on the importance of language as a management issue. Language aware companies will:</i></p> <ul style="list-style-type: none"> - <i>Be more likely to formalise a corporate language policy or at least a protocol for the use of language in parent subsidiary communications.</i> - <i>Be more ready to spend on language training for those involved in international communications</i> - <i>Be more alert to the need to provide multiple language options in publicity materials, technical literature and brochures.</i> - <i>Be more likely to adopt multiple language interfaces in their IT Systems, their Website and their Intranet</i>
	<p>Hypothesis 3: Multinational Parent Companies domiciled in English-speaking countries will be less likely to develop strategies for the management of language than multinationals who have other parent languages".</p>

Proposition	Resultant Hypotheses to be Tested in the Analysis of the Survey Data
	<p>3. <i>The existence of a language barrier between the parent company and the host country where it proposes to establish a subsidiary will impair information flow and will undermine the parent company's confidence that they have fully understood and evaluated the target market.</i></p> <p>As a consequence:</p> <ul style="list-style-type: none"> - <i>They will be more likely to adopt a low risk entry method i.e. A Joint Venture or a modest Green Field site acquisition</i> - <i>They will be less likely to take decisive actions in the short-term e.g. large investments, wholesale changes in management structure etc.</i> - <i>They will be less likely to accord the newly acquired /created subsidiary a strategically important role in the Group operation.</i>
	<p>Hypothesis 4: Multinational Parent Companies domiciled in English-speaking countries will be more likely to adopt high risk entry methods than multinationals who have other parent languages”.</p>
	<p>4. <i>The existence of a language barrier between the parent company and it's subsidiary will have a detrimental effect on the degree to which the subsidiary becomes integrated in the Group organisation. This low level of integration will be manifested itself in:</i></p> <ul style="list-style-type: none"> - <i>A limited involvement of the subsidiary in internal group supply chains (purchasing from or selling to other group operations)</i> - <i>Restricted involvement of the subsidiary in strategic decisions relating to their field of operation.</i> - <i>A low level of knowledge transfer between the two especially from the subsidiary to the parent company</i> - <i>Ineffective use of the skills of the subsidiary personnel within the wider group operation.</i>
	<p>Hypothesis 5: Multinational Parent Companies domiciled in English-speaking countries will be more likely to adopt global and transnational configurations than multinationals who have other parent languages, who will prefer the multi-domestic model”.</p>

Proposition	Resultant Hypotheses to be Tested in the Analysis of the Survey Data
	<p>Hypothesis 6: Where there is a language difference between a subsidiary and its parent company it will act as a barrier to the achievement of integration of the subsidiary into the group organisation”.</p>
	<p>Hypothesis 7: Subsidiaries of multinational Parent Companies domiciled in English-speaking countries will be more likely to integrate into the group organisation than subsidiaries of multinationals who have other parent languages”.</p>
	<p>5. <i>The existence of a language barrier between the parent company and its subsidiary will serve to increase the reliance of the parent company upon expatriate managers. Specifically where a language barrier exists the parent company will:</i></p> <ul style="list-style-type: none"> - <i>Employ a greater number of expatriates</i> - <i>Employ those expatriates in key line roles rather than in advisory roles</i> - <i>Depend on those expatriates as means of exerting control over the subsidiary operation</i> - <i>Depend on those expatriates as a channel of communications that's helps to circumvent the language barrier.</i> <p><i>Moreover, where there is a language barrier the expatriates so employed will be less well liked and respected and will integrate less well into the subsidiary management team</i></p>
	<p>Hypothesis 8: There will be increased reliance on expatriate employees where there is a language difference between the parent company and its subsidiaries”.</p>
	<p>Hypothesis 9: Multinational Parent Companies domiciled in English-speaking countries will be less likely to employ expatriate managers than multinationals who have other parent languages”.</p>

Proposition	Resultant Hypotheses to be Tested in the Analysis of the Survey Data
	<p>6. <i>The existence of a language barrier between the parent company and its subsidiary will serve to increase the aggregate level of control exerted by the parent company over its subsidiary. Within this aggregate imposition the affect will be to avoid those styles of control that are "communications intensive" (bureaucracy and Socialisation) and to emphasise those styles of control that demand less communication "communications independent" (Centralisation and Output Reporting).</i></p>
	<p>Hypothesis 10: Where there is a language difference between a subsidiary and its parent company it will act to increase the extent to which functions and decision making authority are centralised".</p>
	<p>Hypothesis 11: Multinational Parent Companies domiciled in English-speaking countries will be less likely to impose control by centralisation of functions and decision-making than multinationals that have other parent languages.</p>
	<p>Hypothesis 12: Where there is a language difference between a subsidiary and its parent company it will act to reduce the exercise of control through socialisation".</p>
	<p>Hypothesis 13: Multinational Parent Companies domiciled in English-speaking countries will be more likely to exercise control through socialisation than multinationals who have other parent languages".</p>
	<p>Hypothesis 14: Where there is a language difference between a subsidiary and its parent company it will act to reduce the exercise of control through bureaucratic means".</p>
	<p>Hypothesis 15: Multinational Parent Companies domiciled in English-speaking countries will be more likely to exercise control through bureaucratic means than multinationals who have other parent languages".</p>
	<p>Hypothesis 16: Where there is a language difference between a subsidiary and its parent company it will act to increase the extent to which the parent company manages by controlling the outputs of its subsidiaries".</p>
	<p>Hypothesis 17: Multinational Parent Companies domiciled in English-speaking countries will be less likely to exercise control through the measurement of the outputs of its subsidiaries, than multinationals who have other parent languages".</p>

Proposition	Resultant Hypotheses to be Tested in the Analysis of the Survey Data
	<p>6.cont. <i>The existence of a language barrier between the parent company and it's subsidiary will serve to increase the aggregate level of control exerted by the parent company over it's subsidiary. Within this aggregate imposition the affect will be to avoid those styles of control that are "communications intensive" (bureaucracy and Socialisation) and to emphasise those styles of control that demand less communication "communications independent" (Centralisation and Output Reporting).</i></p>
	<p>Hypothesis 18: Where there is a language difference between a subsidiary and it's parent company it will increase the overall control intensity exerted by the parent company.</p>
	<p>Hypothesis 19: Multinational Parent Companies domiciled in English-speaking countries will exert an overall lower level of control intensity relative to multinationals who have other parent languages".</p>

It will be immediately noted that the hypotheses are not evenly distributed relative to the original propositions and that some aspects of some propositions have not been carried forward for testing in the survey. There are essentially three explanations for this.

- Firstly for reasons already explained in Chapter 4, other researchers managed the survey and hence I enjoyed only partial control over the questionnaire contents. The slightly different emphasis imposed by my research colleagues resulted for example in the disproportionate bias in favour of control issues.
- Secondly the target respondents for the survey were all from subsidiary organisations and it would have been inappropriate to demand too many judgements from them concerning group-wide strategies. Accordingly the number of hypotheses developed out of propositions 2, and 3 has been kept to a minimum.
- Finally, in survey approaches it is risky to place too much emphasis on sensitive topics such as trust, liking, respect and honesty. At best it invites "stock answers" at worst it discourages potential respondents from participating. As a consequence there are only two hypotheses developed out of the first proposition dealing with the parent / subsidiary relationship.

Nevertheless with 19 hypotheses to be tested there remains more than enough material to address the question "*Does the language barrier affect the strategies, structures, systems, policies and practices of multinational companies*"? The answer to this question is the theme for Chapter 6 the Quantitative Analysis.

The survey has now generated 194 useable responses although only 171 of these were available at the time of the quantitative data analysis reported in this chapter. The analysed data embrace subsidiary companies across 37 countries spread across all 6 continents. The parent companies of these subsidiaries are domiciled in 16 different countries across 5 continents, there being no African-based multinational companies amongst the respondents.

In terms of language the responding subsidiaries speak a range of 20 different national languages, whilst the parent companies span only 8 international languages of which English is the dominant one with slightly over 50% of the sample. Two thirds of the subsidiaries responding had a different national language to that of the parent company although in a very high percentage of cases, more than 77%, those differences were in part addressed by the formalisation of a Corporate Language. The research did not explore whether the Corporate Language was for the entire corporation or just for the region or division in which the subsidiary operated, nor did it explore if there was a single or multiple Corporate Language. Given the examples of Ricoh (Japanese as a Global Language, but English in Europe) and BMW (a twin Corporate Language German/English interchangeable), this must be considered an oversight in the survey design. However, it is clear from the sample that English is the dominant choice for Corporate Language in over 70% of the cases with over 30% of the subsidiaries confirming that English had been chosen in preference to the parent company national language. It is also clear, that a corporate language alone has not entirely resolved the problem of language diversity with approximately 70% of the respondents confirming that their subsidiary had to regularly communicate in two or more languages.

Subsidiaries of English-speaking parent companies were linguistically distinctive in several significant respects:

- Even where the local language was not English they displayed on average a much higher capability level in the parent language than did subsidiaries of other, non-Anglo, companies.
- They typically communicated externally in a narrower range of languages than did subsidiaries of non-Anglo companies.
- Though they typically had more functions devolved, fewer of these functions were involved in foreign language usage.

For each of the 171 survey respondents there is a wealth of data with almost 150 fields of data taken directly from the questionnaire.

The information embraces data concerning:

- The subsidiary and its functions (8 fields)
- The entry of the parent company into subsidiary (3 fields)
- The Parent Company (8 fields)
- The degree of internal trading involving the subsidiary (20 fields)
- The Responsiveness to local market needs (4 fields)
- The capabilities of the subsidiary (9 fields)
- The involvement of the subsidiary in knowledge and skills flows (16 fields)
- The degree of autonomy enjoyed by the subsidiary (10 fields)
- The style of control exercised (8 fields)
- The employment and function of expatriates employed
- The usage and impact of languages within the Subsidiary (22 fields)
- The subsidiary and group performance (10 fields)

Additionally, a number of other fields derived from these data elements were added as discussed and defined in Appendix A.

Reviewing the survey, a larger sample size would, of course, always have been welcome. However, in terms of size, variety and depth the survey data is a more than adequate basis for testing the research hypotheses developed in Chapter 5 and which for ease of reference have been summarised graphically in the correlation diagram below (fig 48):

Research Hypotheses

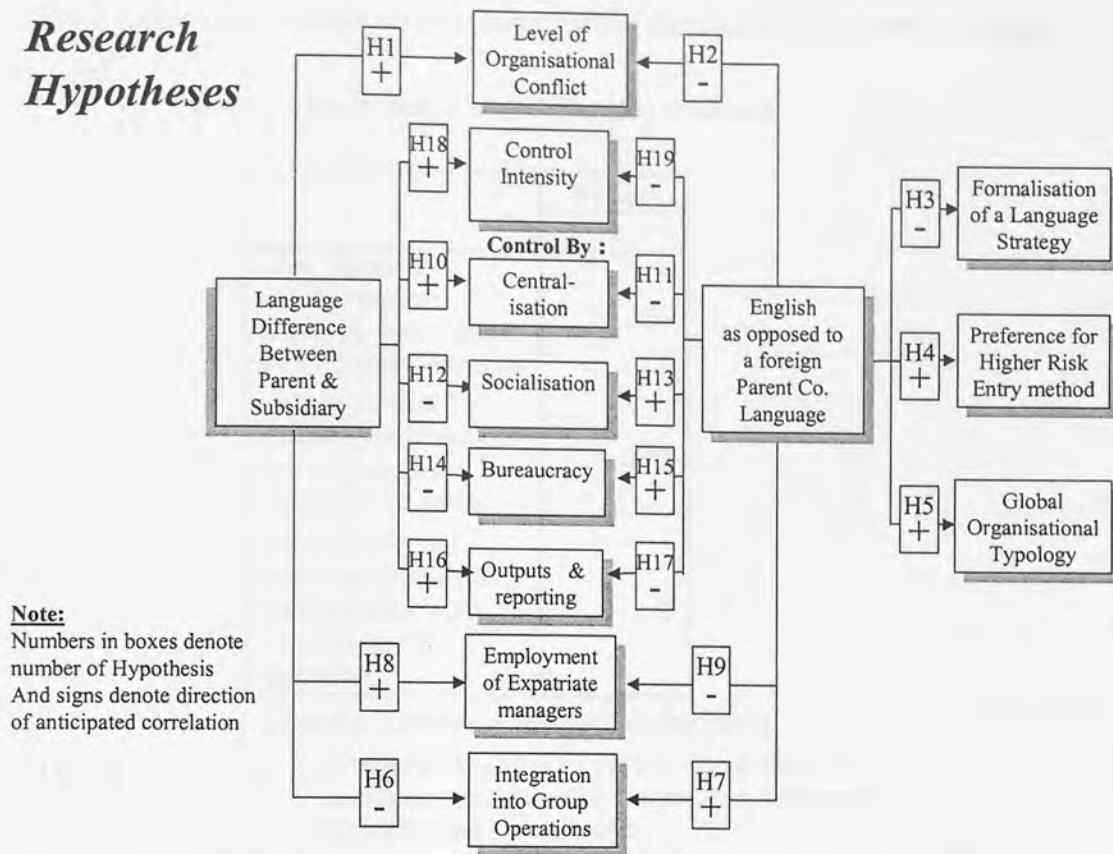


Figure 48 – The Correlation Diagram of Research Hypotheses

The remaining sections of this chapter are dedicated to testing the hypotheses individually, using the statistical techniques discussed in Chapter 4.6.

6.2. The Impact of Language Difference on Internal Friction

The hypothesis states “*Hypothesis 1: Where there is a language difference between a subsidiary and its parent company it will be a source of misunderstanding and mistrust leading to internal friction*”.

To avoid deterring would-be respondents the survey questionnaire did not directly address the question of friction but instead probed three language-related topics that are known to be sources of friction, notably:

- Communication difficulties and Misunderstandings
- Parallel Information Networks by-passing formal reporting structures
- Language as a source of power within the company

To ensure that these do all relate to a “friction” scale, a factor analysis was undertaken. They were not strongly correlated but the majority of the cross-correlations did achieve the minimum 0.3 level, and the Kaiser-Meyer-Olkin measure of sampling adequacy was also acceptable at 0.55. Using the Principal Axis Factoring Extraction Method, only one factor achieved an Eigen value of more than

1.00 and following 25 iterations the factor matrix summarised in table 6.2 below emerged.

Table 6.2 – Factor Matrix for Relationship Questions

	Factor
	1
LAN: Agreement communication channels determined by language capability	.830
LAN: Agreement speaking corporate or HQ language is important for power	.373
LAN: Agreement misunderstanding & conflict result from communication difficulties	.346

Extraction Method: Principal Axis Factoring.

- a. Attempted to extract 1 factors. More than 25 iterations required. (Convergence=4.699E-03). Extraction was terminated.

The evidence does indicate one single underlying factor at work, but it is not strongly persuasive and so for the remainder of this section the three questions will be analysed separately rather than as a single scale.

The analysis begins with simple frequency distributions of the responses.

Examining “communication problems and misunderstandings”, first the simple table 6.3 below explores the language capability of the subsidiary staff where the subsidiary does not share the parent language:

6.3 Skill Level of Subsidiary Personnel in Parent Language			
	Poor or Very Poor	More or less Average	Good or Excellent
% of Responses	41.7	32.4	25.9

With only just over a quarter of respondents classifying their subsidiaries as good or excellent in the parent language, it would seem that language difference has to be a source of potential communication difficulties leading to misunderstanding, mistrust and friction. However, this is not borne out by the responses to the direct question about the effect of communication difficulties in creating misunderstanding and friction.

The frequency analysis (table 6.4) showed a tendency to be evasive.

Table 6.4 Misunderstanding and Conflict result from Communication Difficulties			
	Disagree	Neutral	Agree
% of Responses	36.0	49.4	14.6

And this is reaffirmed by the non-parametric correlation statistic (Spearman's Rho .012, $p=.439$ 1-tailed). Clearly this finding is counter-logical and at odds with the case study and the literature review, but is a practical demonstration of the power of qualitative methods over quantitative ones when it comes to probing sensitive issues.

Another perspective comes from examining the languages actually used. From the table below it is clear that where there is a language difference the subsidiary language is little used in either verbal or written communication (table 6.5 below):

Table 6.5 - % of Time Communicating in the Subsidiary Language			
	20% or less	21% - 80%	More than 80%
Verbal	67.6	23.3	9.1
Written	69.6	21.3	9.1

This must imply that communications get channelled through the people in the organisation that have fluency in the parent company language, regardless of their formal position in the reporting structure. And this is reflected in the question whether communications channels are determined by language capability. A non-parametric bivariate analysis confirmed that, where there is a language difference, parallel information networks will prevail (Spearman's Rho .220, $p=.002$ 1-tailed).

The final language issue that is believed to trigger friction is where language is seen as a source of power within the organisation. This is strongly borne out by the frequency analysis of the responses to the survey question, table (6.6) below:

Table 6.6 Speaking the HQ Language is considered Important for Power			
	Disagree	Neutral	Agree
% of Responses	10.9	29.0	60.1

Clearly the majority of respondents feel quite strongly about the subject of language as a source of power in a multilingual environment, and this is reflected in the correlation analysis (Spearman's Rho .166, $p=.018$ 1-tailed).

Although these analyses do not specifically address friction, but only the antecedents to friction, there is sufficient evidence to support the hypothesis.

6.3. The Impact of Country of Origin on Internal Friction

The hypothesis states "*Hypothesis 2: Multinational Parent Companies domiciled in English-speaking countries will encounter fewer communications problems and a lower level of language-induced friction, than multinationals who have other parent languages*".

An analysis of subsidiary staff capability in the parent language against the parent country is quite revealing, see the table (6.7) below:

Table 6.7: Subsidiary Skill Level in the Parent Language by Country	% Rating Subsidiary Capability in the Parent Language as Good or Excellent
English Speaking Parent Countries	
USA	79.1
UK	87.5
Australia	57.2
Canada	100.0
Non English Speaking Countries	
France	50.0
Germany	20.0
Japan	5.6
Netherlands	30.8
Belgium	75.0
Sweden	33.3
Switzerland	60.0

This indication, that subsidiaries of English speaking multinationals will enjoy a higher level of capability in the parent language than those of other multinationals, is unsurprising given the global popularity of the English Language (Graddol 1997), and is reaffirmed by the correlation coefficient between English speaking corporations and subsidiary language capability (Spearman's Rho .572, $p=.000$ 1-tailed). From this one should be able to infer that subsidiaries of English speaking multinationals will experience fewer problems communications problems, fewer misunderstandings and as a consequence will encounter less mistrust and friction in their relationship with the parent organisation. An analysis of the responses to the direct question about miscommunication, misunderstanding, mistrust and friction against the parent company language however, wholly fails to confirm this prediction (Spearman's Rho -.006, $p=.468$ 1-tailed).

A similar pattern emerges in looking at the other two potential sources of friction examined in the survey. Analysed against the English speaking / Non English speaking classification of the parent companies, both "parallel information networks" (Spearman's Rho -.090, $p=.126$ 1-tailed) and "language as a source of power" (Spearman's Rho -.038, $p=.317$ 1-tailed) showed negative correlations, but neither approached statistical significance.

The hypothesis therefore, must again be considered unproven.

6.4 The Impact of Country of Origin on Language Policies

The hypothesis states "*Hypothesis 3: Multinational Parent Companies domiciled in English-speaking countries will be less likely to develop strategies for the management of language than multinationals who have other parent languages*".

The data from the survey sadly provides only a rudimentary opportunity to explore this proposition. Of the issues that make up a language strategy "Corporate Language Policy", "Linguistic Auditing Programme", "Language Mapping and Inventories", "Multilingual Web Site and Publications Policies etc" only the first was included in the survey, due to space constraints. Despite this limitation however, the data does afford some useful scope to explore whether non-English speaking companies are more likely to be "language-aware" than their English-speaking competitors. It is arguable that the formalisation of a Corporate Language is the first and most fundamental illustration that a company is aware of language as a strategic issue. For any company there are essentially four options:

- Confirm the Parent Company language as the Corporate Language (e.g. Peugeot has French as its Corporate Language)

- As an alternative to the Parent Language, select another more international language (e.g. Nokia a Finnish Company has English as its Corporate Language).
- Define a twin-Corporate Language Policy, almost invariably this would mean the Parent Language plus English (e.g. Ricoh has both Japanese and English as Corporate Languages)
- Refrain from fixing a Corporate Language (e.g. Fiat has no formal Corporate Language)

The survey did not explore the twin Corporate Language option, but nevertheless provided some telling insights. Of the 167 respondents 133 had a Corporate Language. English dominated but there were cases of French, German and Japanese being used as Corporate Languages too. It is notable that less “International” languages i.e. languages with a low Global Language Influence factor (Graddol 1997) appear not to be adopted as Corporate Languages.

An initial nonparametric bivariate analysis appears to confirm the hypothesis. The correlation between English speaking / Non English speaking parent company and Corporate Language suggests a strong and statistically significant relationship (Spearman’s Rho $-.386$, $p=.000$). However, further probing exposes the fact that this is due principally to the tendency of non English-speaking companies to adopt the third option of a Corporate Language that is not the parent language.

The cross tabulation (table 6.8) reproduced below shows a distinct pattern:

Table 6.8 Cross tabulation Parent Language against Use of Corporate Language		Is there a Corporate language?			Total
		No	Yes HQ Language	Yes – Other Language	
Parent Company Language	English	18	68	3	89
	French	2	1	8	11
	German	5	4	22	31
	Dutch	1		7	8
	Japanese	7	6	10	23
	Swedish			2	2
	Czech			1	1
	Danish	1			1
Total		34	79	53	166

Three discrete groupings emerge:

- English-speaking companies may or may not adopt a Corporate language but where they do it is invariably English.
- The German, Japanese and French companies are faced with a difficult quandary. Their parent language is of international importance but not on the same scale as English. Thus they may opt for anyone of the three options. Most likely is that they will adopt English as the Corporate Language, but some will adopt the parent language and others will avoid the issue and refrain from nominating a single Corporate Language.
- Those companies controlled from Sweden, Czechoslovakia, Denmark and Holland do not enjoy the option of building a global empire on the back of a parent company language that is little used outside of the Headquarters country. This group almost invariably adopts English as the Corporate Language.

It is logical to think that the presence of a corporate language will influence training policies and that this would be reflected in the capability of the subsidiary staff in that language. A non-parametric bivariate analysis instead suggests a weak negative correlation (Spearman's Rho $-.082$, $p=.173$) but this is not statistically significant. Instead the capability of the subsidiary in the parent language is predictably driven by the international popularity of English. Analysing English speaking / Non English speaking parent companies against the subsidiary capability in the parent language shows a very strong correlation (Spearman's Rho $.572$, $p=.000$). This underlines the advantage that English-speaking corporations enjoy in being able to work globally in their preferred language.

From the foregoing analysis it is clear that Country of Origin (Parent Company Language) does influence the language policies adopted by the group. However, given the sparseness of the data and the fact that only a single indicator of language policy was measured in the survey, the hypothesis should be considered unproven.

6.5. The Impact of Country of Origin on Entry Method

The hypothesis states "*Hypothesis 4: Multinational Parent Companies domiciled in English-speaking countries will be more likely to adopt high risk entry methods than multinationals who have other parent languages*".

Classical internationalisation theory based on the Uppsala Model predicts that internationalising companies will progress from a very cautious, risk-averse approach at the outset to a more adventurous strategy once they've gained more international experience. The hypothesis is based on the idea that English-speaking companies

will be able to use the international popularity of the English language to short-circuit the learning curve and that they will therefore progress more quickly to the higher risk options. The survey provides data to explore this hypothesis along three axes of the risk model i.e.

- Ownership: A fully owned subsidiary as opposed to a joint venture
- Entry mode: Acquisition as opposed to green field entry.
- Decentralisation: A complete range of business functions devolved to the host country as opposed to a minimal configuration

Of the subsidiaries surveyed 93 were Greenfield entry and 75 were acquisitions. The survey sample is less evenly distributed when it comes to ownership. Ten of the subsidiaries were Joint Ventures with minority ownership on the part of the foreign partner, 14 were Joint Ventures with majority ownership and 143 were wholly owned subsidiaries. Regarding the range of business functions the distribution is normal peaking at 2 functions (typical Sales and Service) but with 32 subsidiaries with 4 or 5 functions.

The analysis began looking at the impact of cultural difference, as measured by the perceptions survey questions, on the Entry Method. Despite earlier research indicating that companies would be more cautious in markets where there was a cultural difference, this was not borne out by the results. None of the correlations with Cultural Difference indicated any statistically significant relationships: With Ownership % (Spearman's Rho .074, $p=.172$), with entry mode (Spearman's Rho .007, $p=.465$) and with the total number of functions (Spearman's Rho .089, $p=.126$). Clearly the evidence suggests that Cultural difference between parent country and host country has no bearing on the entry method adopted.

Despite the fact that culture per se apparently has no impact on entry method, a more precise analysis does indicate that language does have an impact at least in one area – the range of functions devolved to the subsidiary..

Bivariate correlations with entry mode failed to find any statistically significant correlation with either language difference (Spearman's Rho.095, $p=.112$) or with English speaking / Non-English speaking parent company (Spearman's Rho-.092, $p=.119$). However, an analysis of entry mode against capability of the parent company in the subsidiary language does show a correlation in the expected direction that falls only marginally short of statistical significance (Spearman's Rho - .131, $p=.051$). Though not statistically significant this does provide some support for the proposition that where HQ personnel do not have a strong capability in the subsidiary language they will err towards a more cautious mode of entry. The

strongest correlation with high risk entry was the number of previous subsidiaries established in the host country (Spearman's Rho .165, $p=.019$) confirming the fundamental premise of internationalisation theory that where companies understand well the host country market they will be more inclined to accept higher risks.

Similar analyses using % of Ownership as the dependent variable failed to find any significant correlations with language issues or indeed with any other variable. Given the overwhelming preponderance of wholly owned subsidiaries within the survey sample, this was to be expected.

The third and final component of entry method (the number of functions devolved to the subsidiary) is however, influenced by language issues. A correlation with language difference between parent and subsidiary (Spearman's Rho $-.181$, $p=.009$ 1-tailed) confirms that where there is a language difference parent companies will be less willing, more reluctant, to devolve functions. And equally pertinent to the proposition, a correlation of the total number of functions devolved against the provenance of the parent company (Spearman's Rho .155, $p=.022$) does confirm that English-speaking parent companies will be more willing to devolve functions to their overseas subsidiaries than Non-English Speaking parent companies.

In summary two of the three indicators of entry method have not been proven to be influenced by language issues, but the third has been shown to be influenced both by the language difference between parent and subsidiary and by the language of the parent company. Thy hypotheses can be considered proven in part.

6.6. The Impact of Country of Origin on Strategic Configuration

The hypothesis states "*Hypothesis 5: Multinational Parent Companies domiciled in English-speaking countries will be more likely to adopt global and transnational configurations than multinationals who have other parent languages, who will prefer the multi-domestic model*".

An earlier study by Harzing (Harzing 1999) explored the influences on the strategic configurations adopted by multinational corporations. For her study and this one, the typology was based upon the Integration-Responsiveness Matrix (Prahalad and Doz 1987). Harzing's study identified correlations between Strategic Configuration and Industry and to a lesser extent Country of Origin. In terms of the latter there appeared to be a suggestion of language being the underlying influence. English speaking countries such as the USA and linguistically skilled countries such as the Netherlands and Switzerland preferred the global and transnational model reliant upon central co-ordination of key strategies, while non English Speaking countries

such as France, Finland and Germany were more receptive to the multi-domestic model.

Harzing's study had constructed the three configurations using a factor analysis of 9 separate measures collected as part of the 1997 survey and the results of the study revealed a fairly balanced population of all three strategic configurations. In the survey for this thesis, the issue of strategic configuration had been distilled down to a single question with four options to choose from (the "International" Configuration having been added for completeness). Although this simplification was necessary to avoid the questionnaire becoming untenably long, it has failed to provide useful data. From the 165 companies that responded to this question 89 defined their company's strategic model as transnational. It is the preferred strategic model for every industry, even industries such as food and drink which require such high levels of local responsiveness that a multi-domestic strategy might appear much more appropriate. The transnational configuration also emerges as the preferred model for every parent country except for the Czech Republic and China (in both cases the sample was so small as to be impossible to interpret).

Inevitably with such a skewed sample no significant correlations could be extracted. Bivariate analyses of strategic configuration against Country of Origin (Spearman's $Rho = .065$, $p = .206$) and against English Speaking / Non English speaking parent company (Spearman's $Rho = .049$, $p = .268$) both failed to show any hint of a correlation.

The evidence can be interpreted in one of two ways. One possibility is that over the past five years there has been a wholesale strategic shift amongst the world's Multinationals and that they now all conform to a transnational configuration. Much more probable however, is that the question design for this survey was insufficiently probing to tease out the actual strategic configuration operated, and instead encouraged respondents to proffer the strategic configuration their company might one day aspire to.

Either way the hypothesis must be considered unproven

6.7. The Impact of Language Difference on Subsidiary Integration

The hypothesis states "states *Hypothesis 6: Where there is a language difference between a subsidiary and its parent company it will act as a barrier to the achievement of integration of the subsidiary into the group organisation*".

The survey data clearly demonstrates that language difference between parent and subsidiary is a key factor in the reducing the perception of cultural similarity (Spearman's Rho -0.321 , $p=0.000$ 1 tailed), but is this reflected in a reduced level of integration? The survey provides the means to explore this question from four perspectives:

- The level of operational integration with the parent company (i.e. the scale of interchange of components and products between the subsidiary and its parent company)
- The level of operational integration between the subsidiary and other foreign subsidiaries within the group.
- The level of knowledge and skills integration with the parent company (i.e. the scale of interchange of knowledge and skills with the parent company)
- The level of knowledge and skills integration between the subsidiary and other foreign subsidiaries within the group.

The level of operational integration between subsidiary and parent company was evaluated using the % of Product Inputs Received from the Parent Company and the % of Product Outputs going to the Parent Company. These were analysed against language difference using bivariate non-parametric methods. The results did not indicate any statistically significant correlations and further probing using other variables such as Capability of Headquarters Staff in the Subsidiary Language or Capability of the Subsidiary Staff in the Parent Language failed to uncover any relationship between language and the level of inter-trading between a parent company and its subsidiaries. The only statistically significant finding is that where there is a language difference the subsidiary outputs will contain a lower percentage of R&D performed by the subsidiary (Spearman's Rho -0.183 , $p=0.015$ 1 tailed)

It was a very similar situation when the focus was shifted to operational integration with other foreign subsidiaries. Predictably the existence of a language difference between parent and subsidiary has no effect on the level of inter-trading between that subsidiary and others in the group. Knowledge and Skills integration with the parent company also showed little influence by language. Analysing R&D and Marketing knowledge flows, the scale of the knowledge and skills received by the subsidiary from HQ and the corresponding flow of knowledge and skills from the subsidiary back to HQ were all negatively correlated to language difference. However, although this provides encouraging support for the hypothesis, none reached statistical significance.

Perhaps more surprisingly neither the capability of the subsidiary staff to speak the parent language nor the capability of HQ staff to speak the subsidiary language could be correlated with the transfer of Knowledge and Skills between HQ and subsidiary.

It is the last of the four categories of integration that demonstrates a correlation with language difference. The scale of knowledge flows from the subsidiary to other group subsidiaries is shown to be negatively correlated with language difference: On both Marketing Information (Spearman's Rho $-.157$, $p=.024$ 1-tailed) and Product Design Information (Spearman's Rho $-.136$, $p=.056$) it would appear that subsidiaries that do not share the parent company language, struggle to integrate into group knowledge transfer flows, even though the latter correlation marginally falls short of the criterion for statistical significance. This is borne out by a further correlation between the scale of the product design data flow and the capability of the subsidiary personnel in the parent company language (Spearman's Rho $.189$, $p=.014$) which, as predicted demonstrates that subsidiary integration in group knowledge flows, increases with their capability in parent company language.

Overall, the evidence is not wholly convincing. From the first two measures of operational integration it would appear that global supply chain design within Multinationals is managed at a strategic level and is not influenced by practical issues such as difficulty of communication between supplier and customer.

For knowledge integration however, the indications are much more promising. There is a consistent suggestion, though not statistically significant, that language difference impairs knowledge flows between parent and subsidiary. This is then supported by statistically significant analyses that language difference between subsidiary and parent impair the flow of knowledge between that subsidiary and others within the group and that this is ameliorated and information flows improve as the capability of the subsidiary staff in the parent language improves.

In summary, the hypothesis should be considered proven in part.

6.8. The Impact of Country of Origin on Subsidiary Integration

The hypothesis states "*Hypothesis 7: Subsidiaries of multinational Parent Companies domiciled in English-speaking countries will be more likely to integrate into the group organisation than subsidiaries of multinationals who have other parent languages*".

Using the same four measures of integration the analysis was able to demonstrate that Anglo Multinationals were able to employ the international popularity of the English language as a vehicle for achieving greater levels of subsidiary integration.

At first sight, the level of operational integration with the parent company appears to suggest that subsidiaries of English-speaking parent companies are less integrated receiving lower levels of inputs from the parent company (Spearman's Rho $-.307$, $p=.000$ 1-tailed), but this belies a wider form of operational integration. An analysis of the operational integration with other group operations shows that subsidiaries of English speaking corporations will supply more to other group operations than their Non English speaking equivalents (Spearman's Rho $.149$, $p=.036$ 1-tailed)

For subsidiaries of English Speaking Corporations, this high level of integration with other group operations is also demonstrated by the knowledge flows. Analysing the knowledge flows to and from subsidiaries, against the English speaking / Non English speaking status of the parent companies we find a consistent correlation as predicted by the hypothesis:

- Product Design Knowledge provided to other group subsidiaries (Spearman's Rho $.188$, $p=.013$ 1-tailed)
- Product Design Knowledge received from other group subsidiaries (Spearman's Rho $.262$, $p=.001$ 1-tailed)
- Marketing Knowledge provided to other subsidiaries (Spearman's Rho $.162$, $p=.021$ 1-tailed)

For the final measure, the operational integration with the parent company there is evidence to suggest that English speaking parent companies are less receptive to "bottom up" knowledge flows and suggestions from their subsidiaries. Although this does no impact upon Marketing and Product Design, on both Distribution/Supply Chain issues (Spearman's Rho $-.161$, $p=.026$ 1-tailed) and Management Systems & Practices (Spearman's Rho $-.142$, $p=.040$ 1-tailed) there is a clear indication that English-speaking parent companies are more prescriptive, less amenable to bottom-up input, than Non English speaking ones. This is in keeping with the tenet of the unproven Hypothesis 5 that predicted English-speaking companies to be more inclined to adopt a global strategic configuration, in which co-ordination from the centre would be a key component of the management approach.

Overall, it is clear that the parent company language does have a profound impact on the degree and style of the integration of subsidiary operations into the group, and that in large measure the hypothesis has been proven. However, for total accuracy it would be more correct to subdivide the hypothesis according to the four measures of integration. If this were done there would be a mix of positive and negative correlations.

6.9. The Impact of Language Difference on Expatriation Policies

The Hypothesis states "*Hypothesis 8: There will be increased reliance on expatriate employees where there is a language difference between the parent company and its subsidiaries*".

Again the data from the survey provides a range of alternative perspectives from which to test the proposition. The subsidiaries surveyed have a range of 20 different national languages and the parent companies 8 different languages. In both cases English is the dominant language but nevertheless 113 of the 170 relationships analysed reported a language difference between parent and subsidiary. Further data concerning levels of perceived cultural difference and perceived levels of language capability across the divide enabled the hypothesis to be probed further.

A nonparametric bivariate analysis confirmed a correlation (Spearman's Rho .168, $p=.015$) between the number of expatriates employed and the existence of a language difference between parent and subsidiary. Although weak the correlation was in the expected direction and was significant at the .05 level (1-tailed).

Converting the absolute number of expatriates to a percentage of expatriates in the subsidiary organisation confirmed the correlation but did not enhance either the strength or the statistical significance (Spearman's Rho .165, $p=.016$).

Further exploration revealed that language difference between parent and subsidiary also influenced the way that expatriates were used. In line with expectations where there was a language difference then expatriates were perceived to be more involved in the functions of "improving communication to HQ" (Spearman's Rho .187, $p=.019$) and "controlling subsidiary operations in line with HQ policies" (Spearman's Rho .262, $p=.002$). And as such communications would predictably be channelled through the formal reporting structure, the analysis confirmed that where there was a language difference it was more probable that the expatriates would be used in senior management positions (Spearman's Rho .140, $p=.034$). Whilst this correlation is not strong it is in the expected direction and is statistically significant at the .05 level (1-tailed).

However, while the above analysis has confirmed that language difference is an influence both on the numbers and roles of expatriate managers there is one issue that needs to be explored further. The correlation between perceived cultural difference and expatriate numbers (Spearman's Rho .289, $p=.000$) is both stronger and more statistically significant than the correlations we have seen with language difference.

Given that language is one of the most apparent and debilitating cultural barriers, and

is confirmed as such in the survey (Spearman's Rho $-.321$, $p=.000$ 1 tailed), it is necessary to try to understand why it has less of an impact on staffing policies than other perceived components of cultural difference. The level of parent company language skills amongst subsidiary employees explains the difference. Nearly 30% of the respondents rated the language skills of the subsidiary employees in the parent language as "excellent" and a further 20% as "very good". So in line with the hypothesis we can state that where the local workforce are fluent in the parent language then the effect of the language difference on staffing policies is diminished. This is borne out by the correlation between the percentage of expatriates employed and the capability of the subsidiary staff in the parent language (Spearman's Rho $-.223$, $p=.002$). This correlation which is strongly in the expected direction and statistically significant at the .01 level (1-tailed) firmly establishes that the need for expatriates diminishes as the level of capability of the subsidiary personnel in the parent language increases.

6.10 The Impact of Country of Origin on Expatriation Policies

The hypothesis reproduced from Chapter 9 states "*Hypothesis 1: Multinational Parent Companies domiciled in English-speaking countries will be less likely to employ expatriate managers than multinationals who have other parent languages*".

The data from the survey gives ample opportunity to explore this hypothesis from multiple perspectives. Of the subsidiaries surveyed 75 had parent companies domiciled in English-speaking countries and 95 had parent companies with other national languages. Between them the survey respondents employed over 124,000 employees of whom 674 were expatriates. In addition to this global data the survey also provided an insight into what positions the expatriates held within the subsidiary and what were the perceived reasons for their employment. Moreover, the data also furnished information on in-patriate employment policies within the companies surveyed.

A nonparametric bivariate analysis revealed a correlation between the "Anglo" (Parent Company English speaking) / "Non Anglo" (Parent Company non-English-speaking) classification and the number of expatriates employed in the subsidiaries (Spearman's Rho $-.153$, $p=.024$). Although weak the correlation was in the expected direction and was significant at the 0.5 level (1-tailed).

The correlation is slightly stronger and more significant (Spearman's Rho $-.219$, $p=.002$) when the absolute number of expatriates is replaced by the percentage of expatriates (i.e. the number of expatriates*100/ The total number of subsidiary

employees). This result was significant at the 0.01 level (1-tailed) and in the expected direction indicating strongly that language is a factor in the deployment of expatriate managers. As predicted in the hypothesis companies which cannot rely upon the international popularity of the English language as the basis for staffing their subsidiaries are more likely to man them with expatriate managers.

In exploring how the expatriates are deployed it was surprising to find that less than one in three, only 198 out of 674, were in senior management positions (Managing Director or first line Managers). The most likely positions to be held by an expatriate were predictably the Managing Director (61 out of 164 such positions surveyed) and Finance Manager (34 out of 169 positions) whilst the least likely to be filled with expatriates were HRM Manager (8 out of 165) reflecting the need for intimate local knowledge in the position and Logistics Manager (7 out of 162) perhaps reflecting the need to work closely with local suppliers and transport services.

In line with the hypothesis that predicts that "Anglo" Companies will be more reluctant to use expatriates per se, it follows that where they do use them it will be more often in temporary support roles rather than insertions into the management structure. In this way withdrawal will be easier with less disruption to the subsidiary operation. This prediction is borne out by a further analysis which shows a weak negative correlation between English speaking companies and the number of expatriates in senior management positions (Spearman's Rho $-.137$, $p=.037$) A similar analysis focused purely on the Managing Director position shows a stronger, more significant, negative correlation (Spearman's Rho $-.197$, $p=.006$).

These relationships though weak are in the expected direction and are significant (at the 0.05 and 0.01 levels respectively 1-tailed) and together indicate that language also influences how expatriates are deployed. In subsidiaries of English-speaking companies they are more likely to adopt technical support roles outside of the senior management team whereas in subsidiaries of non-English speaking companies they are more likely to be inserted into the company structure.

Based in the findings concerning the deployment of expatriates, it is logical to expect that this will be further reflected in the perception concerning the function these expatriates are expected to perform. Using the functional classifications proposed by Harzing it is to be expected that in subsidiaries of English speaking companies the principal functions of expatriates are to do with communication and assistance and in non English-speaking companies they will be more focused on direction and control. For three of the functional classifications "position filling", "management development" and "corporate culture diffusion" there are no statistically significant

correlations.

However for “*improving communication to other subsidiaries*” (Spearman’s Rho .152, $p=.048$) and “*knowledge transfer from other subsidiaries*” (Spearman’s Rho .193, $p=.017$) there are statistically significant positive correlations (1-tailed) indicating that these functions are more typically the remit of expatriates in Anglo companies rather than in non-English speaking ones. Conversely, for another expatriate function “*ensuring subsidiary operations are run in accordance with HQ policies*”, a function demanding executive authority, the correlation (Spearman’s Rho $-.177$, $p=.024$) suggests that this function is less employed in Anglo as opposed to Non-English speaking companies.

6.11. The Impact of Language Difference on Centralisation

The hypothesis states “*Hypothesis 10: Where there is a language difference between a subsidiary and it’s parent company it will act to increase the extent to which functions and decision making authority are centralised*”.

The following eight sections deal with the analysis of control styles using the framework of the Harzing Matrix reproduced (fig 6.9) below:

Table 6.9 The Harzing Matrix of Control Styles		
	Personal / Cultural Control (Founded on Social Interaction)	Impersonal / Bureaucratic Control (Founded on Instrumental Artefacts)
Direct / Explicit Control	CENTRALISATION	BUREAUCRACY
Indirect / Implicit Control	SOCIALISATION	OUTPUT CONTROL

We begin with Centralisation a style that merges elements of personal control with direct, hands-on control.

From the case study analysis it was clear that there were counter-balancing influences at work. The existence of a language difference is likely to reduce the level of trust in the relationship and in turn this is likely to encourage the parent company to retain as much control centrally as possible. By dint of the same language difference it was however, more probable that the parent company would have difficulty exercising tight control. In this circumstance, centralisation of both functions and decision making autonomy will be one of the principal tools of control employed. The evidence from the survey confirms this expectation. A bivariate non-parametric analysis of Language Difference against the number of functions decentralised to the

subsidiary confirmed the expected relationship (Spearman's Rho $-.181$, $p=.009$ 1-tailed). As predicted where language is a barrier to trust, parent companies will respond by investing fewer physical and management assets into their overseas subsidiaries.

The same is true of decision-making autonomy. An analysis of language difference against the overall decision making autonomy (a scale developed from 7 questions and scaled from 1 total autonomy to 7 total centralisation) demonstrated a statistically significant positive correlation (Spearman's Rho $.177$, $p=.019$ 1-tailed).

Quite clearly the effect of language difference on subsidiary autonomy is profound. The language barrier impairs communication, retards the development of the relationship and makes the parent company less inclined to invest resources in making the subsidiary autonomous. At the same time the language barrier impedes the establishment of trust in local decision-making and thus encourages centralisation of decisions. On both counts, the original hypothesis can be considered supported.

6.12. The Impact of Country of Origin on Centralisation

The hypothesis states "*Hypothesis 11: Multinational Parent Companies domiciled in English-speaking countries will be less likely to impose control by centralisation of functions and decision-making than multinationals who have other parent languages.*"

The same two constructs of physical autonomy and decision-making autonomy were used to evaluate the impact of parent country language on subsidiary autonomy. Again a conceptual dilemma exists. From one perspective the international popularity of the English language is likely to aid communication and hence promote the development of trust between parent and subsidiary. Countering this argument, the international popularity of the English language makes information flow and hence decision centralisation, much more feasible. However, if the hypothesis is to be supported then trust must emerge as the dominant factor in which case we should see a mirror-image result to that uncovered in section 6.11 for the impact of Language Difference. This is in fact exactly what emerges.

A bivariate non-parametric analysis of the number of functions decentralised to the subsidiary against the English-speaking / Non-English speaking classification of the parent company confirms the hypothesis (Spearman's Rho $.155$, $p=.022$ 1-tailed). Clearly then global presence of its language endows English-speaking corporations with the confidence to de-centralise more resources and functions to their local subsidiaries.

And so it proves with decision-making autonomy. Analysing decision-making centralisation for the subsidiary against the English-speaking / Non English speaking classification of the parent company shows a strong negative correlation (Spearman's Rho $-.195$, $p=.011$ 1-tailed). For operational-level, decision-making autonomy then we can infer that the driver is desirability not feasibility. If communications allow the development of high levels of trust, then decisions will be delegated even though it would be relatively easy to centralise them.

Overall, it is abundantly clear that the linguistic provenance of the parent company does have an effect on the centralisation policies adopted and the hypothesis can be considered supported by the evidence collected.

6.13. The Impact of Language Difference on Socialisation

The hypothesis states "*Hypothesis 12: Where there is a language difference between a subsidiary and its parent company it will act to reduce the exercise of control through socialisation*".

The survey provides insights into four individual components of socialisation and these have also been compiled into a composite scale of social control (see Appendix A). The table 6.10 (below) summarises the correlations between the individual elements of socialisation and against the composite scale (Note: The codes are merely the field names used in the SPSS Analysis).

Table 6.10 Correlation Matrix for Components of the Socialisation Scale					
	International Task Forces COINTASK	International Training COINTRAI	Informal Communication COINFCOM	Shared Values COVALUES	Socialisation Scale COINFMGT
COINTASK	1.0000				
COINTRAI	.4785	1.0000			
COINFCOM	.3179	.3721	1.0000		
COVALUES	.1241	.3527	.2498	1.0000	
CONFMGT	.7232	.8055	.6960	.5880	1.0000

As can be seen the four elements are all well correlated with the overall Socialisation Scale and fairly well correlated with each other.

The hypothesis predicts that language difference between parent and subsidiary will impair communication and will act to reduce the potential for control through socialisation. Bivariate non-parametric analyses of language difference against the four individual measures confirms that expectation:

- Against International Task Forces (Spearman's Rho $-.107$, $p=.083$ 1-tailed) the correlation is in the expected direction but not statistically significant. This is to be expected as the strategy of mobilising International Task Forces is likely to reflect an overall company strategy rather than depending upon the relationship of the parent company with a specific subsidiary.
- Against International Training (Spearman's Rho $-.179$, $p=.010$ 1-tailed) the correlation is again in the expected direction and is statistically significant at the $.01$ level. This is to be expected as the subsidiary's perception of international training is driven by the training they receive, and this may be significantly reduced if they are unable to work fluently in the parent company language.
- Against Informal Communication (Spearman's Rho $-.211$, $p=.003$ 1-tailed) the negative correlation again affirms the hypothesis that language difference will reduce informal communication as a tool of management control.
- Against Shared Values (Spearman's Rho $-.121$, $p=.057$ 1-tailed) the correlation is yet again in the expected direction and narrowly misses statistical significance.

Clearly language difference does act to reduce management by socialisation and this is confirmed by the correlation against the overall Socialisation Scale (Spearman's Rho $-.215$, $p=.002$ 1-tailed). Overall, it can be concluded that the hypothesis has been supported, and that control through socialisation will be most prevalent where there is no language difference between parent and subsidiary.

6.14. The Impact of Country of Origin on Socialisation

The hypothesis states "*Hypothesis 13: Multinational Parent Companies domiciled in English-speaking countries will be more likely to exercise control through socialisation than multinationals who have other parent languages*".

This section repeats the analysis described in section 6.13 but using parent company language as the independent variable. The expectation of the hypothesis is that English speaking parent companies will be able to build upon the international popularity of the English language to achieve management control through social means such as international task forces, international training programmes, shared visions, missions and through informal communications channels.

Bivariate non-parametric analyses of parent company language against the four individual measures confirms that expectation:

- Against International Task Forces (Spearman's Rho .075, $p=.167$ 1-tailed) the correlation is in the expected direction but is very weak and not statistically significant. This probably reflects the current popularity of international task forces as a management device regardless of the linguistic provenance of the parent company.
- Against International Training (Spearman's Rho .157, $p=.021$ 1-tailed) the correlation is again in the expected direction and is statistically significant at the .05 level. This suggests that English speaking parent companies are more readily able to establish international training programmes because the global dissemination of the material will always be done in the language of the parent company.
- Against Informal Communication (Spearman's Rho .021, $p=.395$ 1-tailed) the correlation is again in the right direction but not statistically significant. This anomalous result is hard to understand until the survey question is re-read. The phrasing of the question focuses not on the general scale of informal communication that would be facilitated by the English language but on the specific phenomenon of parallel information networks, which are more common in Non English speaking corporations.
- Against Shared Values (Spearman's Rho .146, $p=.029$ 1-tailed) the correlation is yet again in the expected direction and is statistically significant.

From the foregoing it is clear that English-speaking multinationals are more likely to manage through socialisation than equivalent companies with other parent languages. This is reaffirmed by the correlation between the English speaking / Non English speaking classification of parent companies and the Socialisation Scale value (Spearman's Rho .150, $p=.025$ 1-tailed). It can be concluded that the hypothesis is supported and that English-speaking multinationals will exercise a higher level of control through socialisation.

6.15. The Impact of Language Difference on Bureaucratic Control

The hypothesis states "*Hypothesis 14: Where there is a language difference between a subsidiary and its parent company, it will act to reduce the exercise of control through bureaucratic means*".

Bureaucratic control within the survey is measured with two questions, once focused on the level of strategic and operational planning and budgeting, and a second examining the level of formality in terms the parent/subsidiary relationship as reflected in policies, rules, procedures and systems handed down from the centre. Responses to the two questions are closely correlated (Spearman's Rho .491, $p=.000$ 1-tailed) and so there was no problem in merging the two into a single scale of Bureaucratic Control.

The thrust of the hypothesis is that where language is a barrier it will stilt the ability of the parent company to engage in detailed planning and to impose officious policies and procedures. Bivariate non-parametric analyses of language difference against the four individual measures confirms that expectation:

- Against the level of Planning operated (Spearman's Rho $-.148$, $p=.027$ 1-tailed) the correlation is in the expected direction and is statistically significant at the .05 level. This provides evidence that where there is a language difference between parent and subsidiary it will act to discourage detailed, collaborative planning at the operational and budgetary level (where in-depth communication is a pre-requisite).
- Against the indicator of bureaucratic policies and procedures (Spearman's Rho $-.163$, $p=.017$ 1-tailed) the correlation is again in the expected direction and statistically significant at the .05 level). This underpins the prediction that language difference will also prejudice the capability of the parent company to disseminate its policies, procedures and systems.

The correlation between parent/subsidiary language difference and the composite bureaucratic control scale (Spearman's Rho $-.165$, $p=.016$ 1-tailed) merely goes to confirm the findings above. However, if language is indeed seen as the barrier to bureaucratic control then it is to be expected that it will be less of a barrier where either:

- The parent company personnel have high levels of capability in the subsidiary language or
- The subsidiary personnel have a high level of capability in the parent language.

Further analysis demonstrates this to be the case. Increasing capability of HQ personnel is positively correlated with the application of bureaucratic procedures (Spearman's Rho $.169$, $p=.025$ 1-tailed), in the expected direction and statistically significant. The same factor is also positively correlated with both planning and with

the composite bureaucratic control scale though neither achieves statistically significance.

A similar analysis using the increasing capability of subsidiary personnel in the HQ language is even more revealing. It is strongly positively correlated with both planning (Spearman's $Rho.262$, $p=.000$ 1-tailed), with the indicator of bureaucratic policies and procedures (Spearman's $Rho.279$, $p=.000$ 1-tailed) and with the composite bureaucratic control scale (Spearman's $Rho .262$, $p=.000$ 1-tailed).

The hypothesis can be considered supported and as demonstrated by the second part of the analysis, it is clearly language that is the variable at work and not some other underlying cultural influence.

6.16. The Impact of Country of Origin on Bureaucratic Control

The hypothesis states "*Hypothesis 15: Multinational Parent Companies domiciled in English-speaking countries will be more likely to exercise control through bureaucratic means than multinationals who have other parent languages*".

This section repeats the analysis described in section 6.15 but using parent company language as the independent variable. The expectation of the hypothesis is that English-speaking parent companies will be exercise greater control over their subsidiaries through bureaucratic means than their Non English-speaking competitors. This may appear to run contrary to the conclusions of Hofstede. In general English-speaking countries are lower on Uncertainty Avoidance and lower on Power Distance than most other nations and that this might suggest a control style that is low on prescription. However, the thrust of the hypothesis endorsed in part by the case study is that English-speaking companies adopt bureaucratic planning and control methods not because they are culturally predisposed to this style of global management, but because the English language facilitates it. And so the evidence proves. The English Speaking/Non English speaking classification of the parent company positively correlates with:

- The level of strategic, operational and budgetary control (Spearman's $Rho .089$, $p=.125$). This is clearly not statistically significant but it is in the expected direction.
- The burden of policies, procedures, rules and systems handed down from HQ (Spearman's $Rho .155$, $p=.022$ 1-tailed)
- The composite scale of bureaucratic control $.129$, $p=.048$ 1-tailed).

Admittedly none of the correlations are strong, nor are they strongly statistically significant. However, overall there is sufficient evidence to consider the hypothesis

supported.

6.17. The Impact of Language Difference on Output Control

The hypothesis states "*Hypothesis 16: Where there is a language difference between a subsidiary and its parent company it will act to increase the extent to which the parent company manages by controlling the outputs of its subsidiaries*".

The evidence from the case study was very clear on this point. Where the parent company had difficulty communicating with its subsidiary, it would rely heavily upon the use of onerous reporting procedures in all areas of the business to keep track of the situation.

However, the survey provides only a limited opportunity to explore this proposition. In designing the survey, two questions were intended to address the output control construct, one, dealing with reporting, and the other with performance measurement. However, the phrasing of the second question caused most respondents to interpret it as a question about autonomy rather than control, and as a consequence the responses to the two questions were negatively correlated. In addressing this hypothesis therefore, it was possible to use data only about the intensity of reporting procedures.

Sadly the responses to this question were severely skewed with 60% of respondents responding with scores of 5 or more on a 7-point Likert scale. Interestingly the responses were negatively correlated with the nationality of the respondent (Spearman's Rho -0.177 , $p=0.011$ 1-tailed) suggesting that where the respondent was an expatriate representative of the parent company they did not find the reporting procedures onerous, but where the respondent was a local national they did regard them as an imposition.

Inevitably with such a skewed response it has proved impossible to adequately test the hypothesis. An analysis of language difference between parent and subsidiary found no correlation with the intensity of reporting procedures (Spearman's Rho -0.025 , $p=0.375$ 1-tailed). The hypothesis therefore, should be considered unproven.

6.18. The Impact of Country of Origin on Output Control

The hypothesis states "*Hypothesis 17: Multinational Parent Companies domiciled in English-speaking countries will be less likely to exercise control through the measurement of the outputs of its subsidiaries, than multinationals who have other parent languages*".

This section repeats the analysis described in section 6.17 but using parent company

language as the independent variable. The skewness of the distribution has already been referred to but it is nevertheless interesting to compare the respondents by parent company, Country of Origin. The table 6.11 (below) compares the percentage of responses that received marks of 6 (high intensity of reporting) and 7 (very high intensity of reporting):

6.11 Reporting Intensity by Parent Nationality	
Parent Company Country of Origin	Subsidiary Responses Classifying Reporting as Intense or Very Intense
France	80.0%
Germany	70.0%
Japan	47.7%
Netherlands	64.3%
UK	55.6%
USA	52.2%
Belgium	75.0%
Australia	57.2%
China	100%
Sweden	66.6%

With the exception of Japan who, according to Harzing, often use direct-expatriate control as a substitute for other styles, there does appear to be a division by language. As predicted in the hypothesis, multinational companies domiciled in English speaking countries UK, US and Australia, do appear to depend less on intensive output reporting than do multinationals in other countries. However, when expressed as a correlation coefficient the relationship between English speaking/Non English speaking and the intensity of control falls well short of statistical significance and is not even in the expected direction (Spearman's Rho .028, $p = .359$ 1-tailed). The data were re-analysed excluding the anomalous Japanese responses but this

made little difference. So overall, whilst there is some supporting evidence for the proposition, it must be concluded that the hypothesis has not been supported.

6.19. The Impact of Language Difference on Control Intensity

The hypothesis states “*Hypothesis 18: Where there is a language difference between a subsidiary and its parent company it will increase the overall control intensity exerted by the parent company*”.

Two methods were considered for measuring the Overall Control Intensity.

The first method was based on aggregating all of the control and coordination factors into a single scale. However, as predicted they do not relate to a single scale. The underlying control issues that promote one style of control may discourage another control mode. As illustrated in the correlation matrix below, the majority of correlations do not achieve the minimum 0.3 level necessary to make the matrix factorable.

Table 6.12 – Correlation Matrix for the Control & Coordination Factors

	COOR: International task forces	COOR: International training	COOR: Informal communication	COOR: Shared values	COOR: Informal Management Scale	COOR: Planning	COOR: Formalisation	COOR: Formal Management Scale	COOR: Reporting and ERP	COOR: Performance-based
COOR: International task forces	1.000	.497	.324	.132	.731	.239	.116	.205	-.074	.001
COOR: International training	.497	1.000	.376	.351	.810	.440	.211	.376	.107	-.074
COOR: Informal communication	.324	.376	1.000	.259	.669	.252	.073	.188	.027	.020
COOR: Shared values	.132	.351	.259	1.000	.592	.415	.396	.468	.091	-.048
COOR: Informal Management Scale	.731	.810	.669	.592	1.000	.476	.278	.435	.050	-.037
COOR: Planning	.239	.440	.252	.415	.476	1.000	.501	.867	.308	-.159
COOR: Formalisation	.116	.211	.073	.396	.278	.501	1.000	.866	.435	-.163
COOR: Formal Management Scale	.205	.376	.188	.468	.435	.867	.866	1.000	.428	-.185
COOR: Reporting and ERP	-.074	.107	.027	.091	.050	.308	.435	.428	1.000	-.140
COOR: Performance-based	.001	-.074	.020	-.048	-.037	-.159	-.163	-.185	-.140	1.000

As an alternative it was decided to interpret Control Intensity as the corollary of Autonomy. The various questions related to subsidiary autonomy were therefore, tested using a factor analysis. The initial analysis indicated that the vast majority of the cross-correlations met the minimum 0.3 level necessary for factoring, and the Kaiser-Meyer-Olkin measure of sampling adequacy at 0.73, comfortably surpassed the required level.

Accordingly a factor analysis was performed using the Principal Axis Extraction Method and this confirmed that most of the variance could be explained by a single underlying factor, see table 6.13 below:

Table 6.13 – Factor Matrix for the Autonomy Factors

	Factor	
	1	2
AUT: HQ influence on customisation of products	.784	.404
AUT: HQ influence on accepting price increase from suppliers	.738	-.478
AUT: HQ influence on selection of suppliers	.703	-.413
AUT: HQ influence on development of new products	.676	
AUT: HQ influence on pricing of products for local market	.577	
AUT: HQ influence on design of advertising for local market	.482	
AUT: HQ influence on formulation of subsidiary's annual budget	.316	

Extraction Method: Principal Axis Factoring.

- a. Attempted to extract 2 factors. More than 25 iterations required. (Convergence=2.019E-03). Extraction was terminated.

As the Autonomy / Control scale runs from 0 (Total Subsidiary Autonomy) to 7 (Total Parent Control) the hypotheses would expect to find a positive correlation between language difference and overall control. This expectation has been borne out by earlier analyses that have shown language difference to be positively correlated with Direct Expatriate Control, Functional Centralisation and Decision-making Centralisation, but inversely correlated with Socialisation and Networks and with Bureaucracy. And this is confirmed by the correlation against the composite autonomy/control scale (Spearman's Rho $-.215$, $p=.003$).

This implies that language difference is more powerful as a source of mistrust and hence a stimulant to control, than it is as a barrier to communication and the exercise of control. Such a finding is strongly supportive of the findings of the case study.

6.20. The Impact of Country of Origin on Control Intensity

The hypothesis states *Hypothesis 19: Multinational Parent Companies domiciled in English-speaking countries will exert an overall lower level of control intensity relative to multinationals who have other parent languages*".

Anglo multinationals have already been positively correlated with control by

Socialisation and Networks, but negatively associated with Expatriation and Centralisation. This has led to an expectation of a neutral or slightly negative association with overall Control Intensity. As it turns out the correlation, is quite strong, in the expected direction and statistically significant (Spearman's Rho -0.195 , $p=0.011$ 1-tailed). This emphatically supports the evidence of the case study suggesting that although Anglo companies have the luxury of using the popularity of the English language to impose strict control, they prefer instead to use soft, non-onerous control styles and to manage at arms length, confident that the subsidiary more-or-less will do what is expected of it.

6.21 Further Analysis

Overview

Thus far the survey analysis has focused exclusively on the two independent variables defined in the hypotheses:

- The Anglo/Non-Anglo classification of the parent language.
- The existence or otherwise of a difference in language between the parent and subsidiary languages.

However, underpinning these two variables are a couple of key assumptions. Firstly, that the language barrier will be least where there is no difference in language between parent and subsidiary companies; this is so tautological that it requires no defending. Secondly, that where there is a difference in language between parent and subsidiary language, then its impact will be less severe where the parent company speaks English. This is less obvious but, as previous analysis has shown, subsidiaries of English-speaking parent companies:

- Have a much greater average competence in the parent company language.
- Have fewer functions involved in multi-lingual interactions.
- Face a lower level of language diversity in their international contacts.

This suggests that the two variables can be combined to create a very simple language barrier scale:

- 0 – The lowest level of the language barrier occurs where there is no language difference between parent and subsidiary.
- 1 – The next level of the language barrier occurs where there is a language difference, but where the parent company is English-speaking.
- 2 – The most severe level of the language barrier is to be found where there is a

language difference and where the parent company is non English-speaking. The next sub-section analysing the correlations against this composite language barrier scale does not directly reflect on the hypotheses being tested. Nevertheless, the results do appear to support persuasively the base conclusion that the language barrier does affect the management of multinational companies.

Associations with the Language Barrier Scale

Analysis of the data using the composite scale demonstrates that the severity of the language barrier is positively correlated with the following:

- The employment of expatriates as a percentage of the subsidiary workforce (Spearman's Rho .202, $p=.009$ 1-tailed).
- Expatriates in the top 9 senior management positions (Spearman's Rho .164, $p=.016$ 1-tailed).
- The overall level of centralised control (Spearman's Rho -.145, $p=.045$ 1-tailed).
- The use of expatriates to aid HQ communications (Spearman's Rho .214, $p=.009$ 1-tailed).
- The use of expatriates to aid the transfer of knowledge from HQ (Spearman's Rho .159, $p=.039$ 1-tailed).
- The use of expatriates to ensure the subsidiary is working in accordance with HQ policies i.e. Direct Expatriate Control. (Spearman's Rho .262, $p=.002$ 1-tailed).
- Communication channels being dictated by language capability i.e. Parallel information networks (Spearman's Rho .173, $p=.013$ 1-tailed).

And is negatively correlated with the following:

- The use of Socialisation (informal management) to control subsidiaries (Spearman's Rho -.253, $p=.000$ 1-tailed).
- The use of bureaucracy and output control to control subsidiaries (Spearman's Rho -.202, $p=.009$ 1-tailed).
- The overall control intensity (Spearman's Rho -.253, $p=.001$ 1-tailed).
- The decentralisation of functions (Spearman's Rho -.159, $p=.040$ 1-tailed).
- The overall level of centralised control (Spearman's Rho -.145, $p=.045$ 1-tailed).
- The financial performance of the subsidiary arguably reflecting the Fishman-Poole effect discussed in section 2.6. (Spearman's Rho -.189, $p=.016$ 1-tailed).

- The subsidiary's HRM performance (Spearman's Rho $-.301$, $p=.000$ 1-tailed).

These correlations strongly support the conclusions drawn in sections 6.2 to 6.20, and reinforce the need to develop a more sophisticated measure of the language barrier scale so that wider associations can be explored.

6.22 Testing for Spurious Relationships

The evidence presented above has unequivocally demonstrated some fascinating correlations reflecting the influence of some variable on multinational strategy, integration, employment and control styles. However, there is still one question to be confronted. Is that variable really language or could it be some other cultural influence at work?

The recognised variable most akin to the language barrier would be cultural distance, normally calculated by summing the differences between the Hofstede Dimensions of the parent and host countries. However, the planned survey would embrace many countries for which Hofstede values are not available. For this reason the questionnaire included a question (No. 7 on page 3) asking for a subjective assessment of the cultural distance existing between the parent and the subsidiary. This was then balanced with a similar question (No.4 on page 9) asking for an assessment of the linguistic distance separating the parent and subsidiary. These two were then correlated, using the Spearman's Rho test, against the key dependent variables tested previously. The results are summarised in the table 6.14 below:

Table 6.14 Comparison of Linguistic and Cultural Distance Correlations	Spearman's Rho Correlation against Linguistic Distance	Spearman's Rho Correlation against Cultural Distance
Dependent Variable	Note: All values are 1-tailed and statistically significant correlations are in bold	
International Training	Rho .228, $p=.002$	Rho .083, $p=.145$
Informal Communications	Rho .254, $p=.001$	Rho .098, $p=.103$
Shared Values	Rho .221, $p=.003$	Rho .108, $p=.082$
Involvement in Planning	Rho .201, $p=.006$	Rho .096, $p=.108$
Bureaucratic Control	Rho .184, $p=.002$	Rho .126, $p=.053$
Language source of Power	Rho $-.160$, $p=.026$	Rho .137, $p=.042$
Informal Management Scale	Rho .272, $p=.002$	Rho .121, $p=.060$
Formal management Scale	Rho .214, $p=.002$	Rho .116, $p=.069$

Expatriates in top positions	Rho -.232, p=.002	Rho -.220, p=.002
Expatriate integration	Rho .282, p=.002	Rho .200, p=.016
Expatriate Role: Control	Rho -.367, p=.000	Rho .329, p=.000
Overall Control Intensity	Rho .158, p=.037	Rho .178, p=.019

The preponderance of bold, statistically significant correlations in the left-hand, “linguistic-distance”, column demonstrates that the variation of the dependent variables is due to language and not culture. The language correlations are consistently stronger and more significant than the corresponding cultural relationships. Admittedly, both linguistic and cultural distance will impair trust and fuel uncertainties, and will, therefore, trigger the same type of strategic and operational responses. Nevertheless, this analysis should dispel any remaining doubts that in this research it is language and not culture that is the primary independent variable at work.

The other, even more persuasive argument supporting a language influence is to relate the survey findings back to the case studies. There we find that the problems encountered such as mistrust, dislike, uncertainty and suspicion, and the downstream responses in the form of caution, lack of integration, centralisation, expatriation policies and intrusive control systems, can all be traced back to language and communications difficulties. The close mirroring of these self-same findings in the survey, strongly support the belief that the explanation is the language barrier, and not some more esoteric cultural influence.

This theme of reinforcement through methodological triangulation is considered by some researchers (Bryman 2001) to be the most effective and reliable way to facilitate interpretation of the relationship between variables.

6.23 Quantitative Data Analysis Summary

The results of the quantitative analysis are mixed. In bald terms, of the 19 original hypotheses 12 found support, wholly or partially, from the survey evidence: Seven did not. However, this unadorned statement of fact belies the value and subtlety of the quantitative findings, some of which had to be teased out at a level beneath the original hypotheses. The subsections below expound on the significance and interpretation of these findings:

The Evidence that supports the Hypotheses

The simplest to explain of the findings, but also the most telling, come from those hypotheses that find convincing support in the statistical analysis. These come

principally in the areas of relationships and integration, expatriate management and control, but also reflect key areas of performance and are summarised below:

Anglophone (English Speaking) Parent Companies are positively correlated with:

- Operational Integration of their subsidiaries into the group supply chains.
- Knowledge transfer with HQ and also with other group subsidiaries.
- International Training Programmes involving subsidiary personnel.
- Shared Values between parent and subsidiary companies.
- Control using bureaucratic measures.
- Control through socialisation.

They are negatively correlated with:

- Expatriate employment in their subsidiary network.
- Corporate Language adoption.
- The centralisation of functions and decision-making.
- Overall Control Intensity.

Parent / Subsidiary Language Difference, as predicted, is positively correlated with:

- Expatriate employment within the subsidiary.
- Functional centralisation.
- Decision-making centralisation.
- Overall Control Intensity.

It is negatively correlated with:

- Knowledge transfer, both with the parent HQ and with other group subsidiaries.
- Informal Parent / Subsidiary Communications.
- International Training Programmes involving subsidiary personnel.
- Control using bureaucratic measures.
- Control through Socialisation.

And the simple language barrier scale, discussed in section 6.21, is positively correlated with:

- The employment of expatriates; both as a percentage of the subsidiary workforce and in the top 9 senior management positions.

- The overall level of centralised control.
- The use of expatriates to aid HQ communications, to manage the transfer of knowledge and to ensure the subsidiary is working in accordance with HQ policies i.e. Direct Expatriate Control.
- Communication channels being dictated by language capability.

And is negatively correlated with the following:

- The use of Socialisation (informal management) to control subsidiaries.
- The use of bureaucracy and output control to control subsidiaries.
- The overall control intensity.
- The decentralisation of functions to the subsidiary.
- The overall level of centralised control.
- The financial performance of the subsidiary.
- The HRM performance of the subsidiary.

The purpose of repeating this litany of findings is to underwrite the breadth and diversity of the "language impact". The evidence unequivocally supports the assertion stated in the first paragraph of the Thesis. "Language is a significant variable in International Business, influencing the policies, strategies and practices of multinational companies". Quite clearly this research has not teased out all of the likely correlations and assuredly there is to improve upon the simplistic operationalisation of the language barrier construct. Nevertheless, it would be churlish to deny that these findings have added a new cultural dimension to the range employed in international business research.

The Hypotheses that find no support in the Statistical Evidence

Seven of the predicted correlations were not borne out in any satisfactory way by the survey. These unsupported hypotheses were largely to be found in the areas of relationships, internationalisation strategy and control:

No statistically significant correlations were found between Anglophile parent companies and:

- Reduced communications problems leading to a lower level of language-induced friction between parent and subsidiary.
- The degree to which language management strategies have been adopted
- The preference for one style of strategic configuration over another

- The adoption of output reporting as a preferred method of control

And in the same context no statistically significant correlation was found linking language difference between parent and subsidiary to:

- A preference for control though output reporting.
- Knowledge flows between parent and subsidiary.

Whilst there can be no denying that the statistical evidence wholly failed to substantiate these predictions, it is important to reflect upon the possible reasons. The limitations of the survey method, and of this survey in particular, suggest that future researchers in this field would be well advised to question whether the failure was in the method rather than in the hypotheses. Looking back it is easy to identify the following defects of the survey conducted:

- The field of interpersonal problems and friction is notoriously difficult to probe through surveys. The questions asked in this survey may not have had the subtlety or sensitivity to tease out such problems as may have existed.
- The questions on language management were simply insufficient to establish the respondents' level of commitment to a language management strategy.
- The single question on strategic configuration, as previously discussed in section 6.6, was oversimplified and invited a "socially desirable" response.
- The questions on output control were poorly expressed and, in the minds of many respondents, became synonymous with bureaucratic control.

It goes without saying that a re-test of the hypotheses using more sensitive, probing and insightful survey questions, might simply re-affirm that no correlations exist. However, the inadequacies of the survey questionnaire, which now, with the benefit of hindsight, stand out in stark relief, are such that it would be justified to write off this part of the analysis as "due to methodological error".

Quantitative Data Analysis Conclusions

In the light of the above, in which some of the findings have been shown to be equivocal, unsatisfactory or, in some cases, wholly contradictory, it would be easy to dismiss the survey as deeply flawed. However, in the context of a doctoral programme, which is a learning process in itself, and given the complete absence of prior research in the field, this survey can be can be applauded for finding statistically significant support for so many of the predicted correlations.

It has at the same time however, clearly demonstrated the risks of relying wholly on quantitative data collection methods.

In particular:

- The tendency of respondents, knowing there will be no probing follow-up, to give answers that are socially desirable or reflect well on them or their company (as in the case of the overwhelming number of respondents who classified their companies as having a Transnational Strategic Configuration)
- The crucial importance of the exact wording of the question that must allow no scope for misinterpretation and must focus precisely on the issue being tested (as exemplified by the question on performance based control which was intended to focus on control style but was interpreted by most as a question on bureaucracy or autonomy).
- The difficulty of obtaining any insights into sensitive topics by use of a survey (as in the case of the questions on sources of friction, that failed to tease out useful information)
- The problems of aggregating scales, notable the control intensity scale where the different control styles may have equal arithmetic values but may be perceived by the respondents as having different intensities of awareness of being controlled.

Fortunately, this thesis does not rest wholly on the survey method and is supported also by the evidence of the literature review and the case studies. The marrying of these triangulated sources forms a key part of the next chapter.

Chapter 7 Discussion

This final chapter draws together the various strands that have emerged earlier in the thesis.

The first section reviews the key conclusions to be extracted from the library and empirical research and spells out the nature of the contribution to knowledge made by this research.

Then attention shifts to the practical value of the research findings and considers how they might be useful to international businesses and their advisors.

Section 3 then outlines the programme for future research in the field and the final section is given over to some personal observations.

7.1. Review of Conclusions and Contribution to Theory

Introduction

This thesis began with a clear statement of intent *“To demonstrate that language is a significant variable in International Business, influencing the policies, strategies and practices of multinational companies”* and with a conceptual model reproduced in figure 49 below:

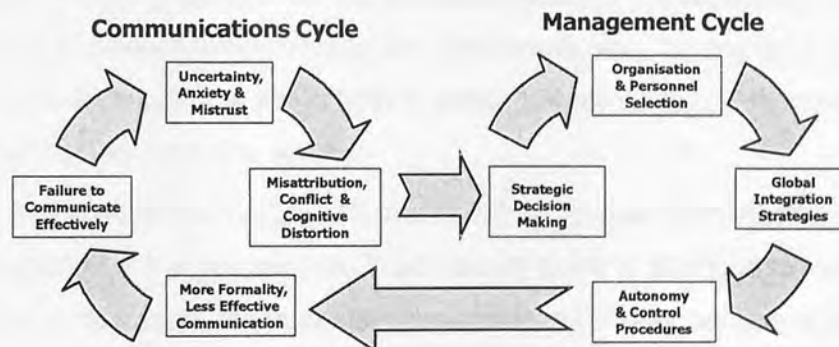


Figure 49 – The Twin Vicious Circle Model

It is opportune to return to these foundations and to evaluate the extent to which they have been borne out by the combination of evidence coming from the literature, the case studies and the survey. The paragraphs below review the evidence supporting the model.

The initial linkage on the far left of the model has been robustly supported by both the literature review and the case study. Section 2.3 of the thesis provided a wealth of sociolinguistic theory that miscommunication would create uncertainty and suspicion, that a language difference would reinforce group polarisation, and that the scale of the language barrier would create anxiety especially for those working in their second language. In the specific context of a parent subsidiary relationship, all of these

assertions are fully illustrated by the case testimony in section 5.4. Regrettably for case company 1, the language barrier became the source of mistrust, progressively souring the relationship and leading to a strained separation of the parent and subsidiary. The survey, section 6.2, provides only weak corroboration but there is, nevertheless, ample evidence to support this link of the model.

In similar vein, the second linkage suggested that the uncertainty and anxiety would strengthen stereotypes and negatively influence cognitive schemas causing each party to attribute malevolent intentions to the words and actions of the other. This is also well supported by the literature reviewed in sections 2.3 and 2.4. The case study again provided persuasive empirical support for the theory. The interviews in case company 1 evidenced the existence of very negative and disparaging stereotypes. The UK management regarded the Italians as dishonest, with dual standards and characterised them as control freaks. Contrarily, the Italians saw the UK managers as difficult to control "cowboys" who need to be constantly monitored or they would go off the rails. Compare this to the bizarre situation in case company 2, where the UK managers had been exposed to the most traumatic of entries, having to re-apply for their own jobs, with many not gaining selection. Despite this there was, nevertheless, grudging respect for the professionalism of the American parent company and this was reciprocated by the Americans who, having destroyed the prevailing culture, could now place faith in those that remained. This relationship element was not tested in the survey.

Moving on to the decision making link, the literature reveals both theoretical and empirical support for the proposition. Theoretically there is strong endorsement for the influence of cognition, mistrust and uncertainty, all consequences of language difference, on decision-making. Empirically these same elements are carried through into international business research, with market selection and entry method both being explained by the need to manage uncertainty. These specific fields of language management strategy have not been well researched, but such literature as exists points strongly to the contention that those organisations confronted by language difference and diversity will be more aware and will adopt more focused language management strategies. These conclusions are amply corroborated by the case study research. From case company 1 there is strong evidence of the disparate cognitions prompting widely differing and divisive decisions, which were poorly understood by the other party. The local management pursued the ill-fated American strategy, which had severe consequences for the relationship, and the Italian managers adopted centralisation strategies, which left the UK management feeling

abandoned and undervalued. No such misunderstanding and divergence was permitted in case company 2 where communications from the parent company were uncompromisingly clear and explicit. In terms of market entry too, a clear picture of confidence and decisiveness emerges from case company 2 that contrasts starkly with the cautious and seemingly directionless management of case company 1. Finally, the language management prediction was also well supported. Case company 1, where language was a problem, did formalise a language strategy, did invest heavily, albeit unwisely, in language training and did attempt to establish multilingual computer systems, unlike case company 2 where language was not a problem. The survey focused little on exploring these issues, but those correlations that were statistically significant, did confirm support for the decision-making propositions.

The organisation and personnel issues were very well documented in the literature. There was considerable research on both the deployment and roles of expatriate managers, with uncertainty, communications problems and mistrust emerging as constant themes. These same themes are fully reflected in the case studies particularly in case company 1 where language was a barrier. There, expatriates are employed liberally and always in organisational development roles, controlling and constraining the local managers and providing an easy communications channel back to HQ. Used in this way the presence of the expatriates is resented. By contrast case company 2 only uses expatriates for management development, i.e. giving international management experience to the individual. Used in this way numbers of expatriate deployments are kept very low and the individuals are welcomed into the structure of the host country operation. The survey too also provides strong statistical support for the same conclusions. Language difference is found to have a significant bearing on both the levels and roles of expatriate employment.

The next link examines the role assignment of the subsidiary and the degree to which it is integrated into the group operation. The literature review specifically addresses the sub-issues of Strategic Configuration, Subsidiary Role, Subsidiary Choice and Knowledge Transfer. In all of these areas, communications capability, relationship management and levels of shared trust emerge as key factors influencing the parent company strategies for the subsidiary. Case company 1 provides a telling illustration of these concepts at work. Initially pursuing a goal of subsidiary integration and a global configuration, the Italian parent company found that its aspirations were defeated by communication difficulties. Integration plans were severely delayed or abandoned altogether and the anticipated key role for the UK was progressively

watered down until the local operation was reduced to no more than a manufacturing satellite. By the same token, knowledge flow mechanisms were never effectively established and by the time of the interviews the UK managers felt that they were totally excluded from information about the group activity and plans. Predictably, the survey faithfully mirrors the same findings. The existence of a language difference is a barrier to both subsidiary integration and to knowledge flows.

The final link refers to the control systems employed by the parent. To date, the literature has focused on parent company culture, relationship age, subsidiary size and cultural distance as the probable explanations for control mode choice. However, as all of these can be traced back to trust and uncertainty as the underlying variables, it is probable that language difference too, would be a factor influencing both the preference for and the feasibility of, the control modes selected. This is abundantly demonstrated in case company 1. The evidence suggests that the relationship began with a preference for a blend of socialisation and bureaucratic controls. However, both of these rely heavily upon clear and effective communications channels and the language difference made this impossible for the Italian management to sustain. Consequently as the level of trust diminished the overall control level intensified and the preferred control modes changed to centralisation, direct expatriate control and output reporting, all of which were perceived by the local management as excessive and inappropriate. The survey duplicates the same findings. Language difference is directly correlated with the total level of control exercised and inversely correlated with socialisation and bureaucracy. Returning now to the opening assertions of this chapter, this triangulation of evidence using the literature, the case studies and the survey has provided robust support for the twin vicious circle model of the impact of the language barrier. Having done so it has also demonstrated unequivocally that *"Language is a significant variable in International Business, influencing the policies, strategies and practices of multinational companies"*.

Using the guidelines provided by Philips and Pugh (2000) this thesis can, therefore, justifiably claim to have furnished an original contribution to knowledge.

7.2. Value to Management

Another criterion by which this thesis should be judged is its value as an aid to multinational corporations and the managers who work in them. With a background firmly rooted in International Business, it was a personal objective of the researcher to ensure that in addition to any contribution to knowledge there would also be some tangible benefits for practising managers. The research has achieved that goal in several key areas:

Language Check Up

One of the earliest and most practical outputs from the research was the Language Check Up Methodology based upon a simplified version of Linguistic Auditing (Reeves and Wright 1996). After analysing why there were so few linguistic audits undertaken, the following points were identified:

- The linguistic audit method, though logical and rigorous, was onerous, time consuming and costly to implement.
- Too few companies really understood the cost of inadequate language skills and hence most were easily deterred by the potential size and cost of an audit.
- The audit methodology focused too exclusively on language skills and consequently omitted other areas of language usage (systems, websites, brochures etc) that also needed to be evaluated.

The framework for addressing these problems was contained in a working paper developed at Aston (Reeves and Feely 2001). The Language Check Up Methodology pursued similar aims to the Linguistic Audit but was markedly different in three distinct ways:

- It was based on self-assessment by postholders and their colleagues, and as such could be implemented more quickly and at a much lower cost than the externally managed audit which relies upon job shadowing using highly trained language professionals.
- The check-up was much more computer aided. Automated techniques for assessing needs requirements, for preparing communication maps and for graphic representations of needs/capability comparisons would greatly simplify the paper-based administration demanded in a full audit.
- The check-up extended well beyond the assessment of language skills at the level of individual postholders. It provided aggregate level summaries of capabilities by department, site and language and it extended into other areas

such as the evaluation of the company's usage of external language services, the company's IT and web systems and the company's technical and commercial literature.

The working paper has not been presented for external publication but instead is the subject of an ongoing discussion with the British Chamber of Commerce. The BCC through their network of Export Communications Specialists conduct some 200 language reviews a year but are concerned about the variable methodology used by their specialists and the consequential variability of the outputs achieved. It is hoped that during 2004/5 there will be an agreement with the British Chambers to standardise using the Language Check Up Method.

Options for Managing Language Diversity

Another early conclusion drawn from the Literature Review is that there was a dearth of information about how multinational companies manage language diversity. This is a serious omission in an area that is quite clearly a very practical problem for almost all multinational companies. Ideally this would have been the focus of a doctoral research project in its own right, but in the context of this investigation it was possible only to publish a paper summarising the key choices facing multinationals. The paper (Feely and Harzing 2003) discusses the options for managing language and the key implication of each one. In particular it reviews:

- The adoption of Corporate Languages, standardising on a single language for international meetings and communications across the group. By reference to examples it illustrates the difficulties and lead-times of making such a policy work. In the majority of cases corporate language policies are poorly implemented and the final results are unsatisfactory.
- The use of training to overcome language barrier problems. Once again examples taken from German industry show that although this can be a very effective solution it is valid only as a long-term strategy and not as a tactical quick-fix. To reach basic business competence from scratch is considered by companies such as Siemens and Volkswagen as a 3-year endeavour for typical working managers.
- The recruitment of language skilled personnel to meet specific language needs. This is increasingly becoming the preferred solution for many organisations, but in some countries, notably the English-speaking world, the strategy may be limited by the availability of the required language skills. This in turn may prompt businesses to import those language skills from abroad.

- The employment of specialist translators and interpreters to bridge between users of different languages. This strategy is particularly popular amongst professional service companies, but has a very high cost and demands that the companies relinquish a degree of control over their core business. Only translators and interpreters of the very highest calibre and with a considerable body of specialist company knowledge can ensure hi-fidelity translations of the type required by professional services such as legal, medical, consultancy and IT companies.
- The employment of expatriate managers to serve as communications interfaces with the parent company. As this research has indicated, this is still a preferred option for many non-English speaking corporations. However, the costs can be punitive and the damage to the parent / subsidiary relationship can be irreparable. It is an option to be minimised in the interests of corporate cohesion.
- The use of machine translation to automatically translate documents from one language to another. Attractive though this option sounds, the reality is that at this time the industry is not sufficiently mature to offer reliable products to business. With considerable up-front training to would-be users and a similar effort invested in establishing a company-specific glossary, then Machine Translation can work reliably at the level of gisting (conveying meaning). However, at any higher level of communication - persuasion, motivation, humour, symbolism etc. it is no competition to human translators.
- The adoption of a Controlled Language (invariably simplified English) as a means of reducing communication to its most basic level. Given the work involved in developing, disseminating and managing the controlled language this is an option open only to the very largest multinationals. Nevertheless, it has been adopted by several companies and has produced very satisfactory results.

The paper only scratches the surface of what is a highly pragmatic, very business focused topic. Nevertheless, this modest contribution plugs a yawning gap in the literature and will hopefully stimulate other researchers to undertake a more thorough study of the ways multinationals manage languages.

Due Diligence Checklist

Many international corporations now employ formal checklists to manage the evaluation of potential takeover or merger targets. Against these checklists, product, market, manpower and financial profiles are matched to ensure business compatibility, and legal and economic issues are explored in considerable depth.

Recent innovations have included the addition of cultural matching to the checklist (Marks 1999) but this has been firmly entrenched in the use of conventional measures such as cultural distance, thus excluding language.

The evidence from the case studies clearly illustrates the need for would-be acquirers to add language issues to their due diligence checklists. Case study 1, in particular, provides pointers to the sorts of issues that ought to be evaluated before proceeding with the acquisition:

- Corporate Language: Does the acquiring company have a clear language policy? How fully has it been implemented and what does this imply in terms of expectations for any subsidiary? Does the target company understand this policy and how do they propose to meet their obligations to this policy?
- Parent Company Language Skills: What is the proficiency level of senior acquiring company management in the preferred language of the target company? How are they going to ensure knowledge and technology flow, corporate culture dissemination and subsidiary integration across any language barrier?
- Subsidiary Company Language Skills: What is the proficiency level of the senior target company management in the preferred language of the acquiring company? What does this imply for the career development and the participation of target company personnel in international project teams, group-wide training initiatives and the strategic planning cycle? What steps can be taken to minimise the sense of exclusion that will be felt due to the language barrier? What is the age and educational profile of the target company senior management and what does this imply in terms of the willingness and capability of those managers to acquire new language skills?
- Local Recruitment: What scope is there for recruiting any required language skills locally? Does the right blend of professional and language skills exist in sufficient numbers to ensure that key personnel can be sourced from the local community? What information and assistance is forthcoming from the Regional Development Agency?
- Computer Systems: Are there group wide standards for application systems? Are they readily available with user interfaces in the language of the target company and, if so, will the supplier guarantee to maintain those interfaces synchronised with all future releases for the parent company?

- Integration Teams: In the short term are there sufficient numbers of language-skilled managers in both the target and acquiring companies to be assigned to the integration project?
- Expatriation: In the longer term are there sufficient numbers of language skilled middle managers to support any planned expatriation and inpatriation strategies? Does the timescale for such strategies allow key personnel to be fully groomed in language skills before they are given international assignments?

Armed with a checklist along these lines there is no doubt that case company 1 (described in Chapter 5) would not have blundered into the language barrier impasse that it found in the UK. The fact that more than a decade after the acquisition the majority of the Italian personnel had little capability in English, the official Corporate Language, and the majority of the UK subsidiary management had no proficiency in Italian, the default language of the group, suggests that even now the company has failed to confront the language issue.

Use of a pre-acquisition language checklist will enable other companies to avoid or minimise the same trauma.

Corporate Language Usage

The survey supporting this thesis provides the first quantitative data concerning the use of Corporate Language policies within multinational companies. Although the survey sample is small, it is nevertheless based on a global data collection programme and can be considered a practical insight into the choices being made. The two most telling conclusions are:

- Three-quarters of all multinationals surveyed reported a Corporate Language policy, suggesting that such a strategy should now be considered essential for companies operating across language boundaries. Those corporations that had yet to formalise a policy should, as a matter of urgency, reconsider their options.
- Of those corporations with language policies 30% had selected a language other than English as the corporate language. This means that those companies will be seeking personnel skilled in the corporate language as a prerequisite of establishing subsidiary operations in any new host country.

This information is highly important to learning and skills strategists and regional development agencies throughout the world. Those companies adopting a corporate language policy will expect host regions to provide a ready-made workforce already competent in the corporate language. It is the role of the learning and skills planners to anticipate those requirements in developing curriculum strategies and it is the role

of the regional development agency to collate labour market intelligence on language skills to be able to promote the region to would-be inward investors. Both groups armed with the knowledge from the survey will be better able to focus their efforts. For the companies themselves, too, there is valuable information from the case studies to guide them in the implementation of a corporate language policy. It is patently insufficient to merely announce the policy and leave it at that, as the company in case study 1 found to its cost. Instead, a structured and comprehensive implementation plan is needed to ensure the company achieves the potential benefits of working internally in a single language. The key elements of such a plan emerge clearly from an analysis of case study 1 and include:

- A clear and unambiguous statement of the Corporate Language policy explaining exactly how and when the corporate language is to be used in meetings, minutes, communications, emails, brochures, IT systems and websites.
- A linguistic audit or language check-up, within each site, to evaluate the preparedness of that site, and its key personnel, to work in the corporate language. This would be backed-up by a strategy and timing programme to achieve the required level of capability.
- Based on the audit, a phased plan in which usage of the corporate language is extended progressively throughout the group. This should be supported, by independent monitoring, to oversee and measure the degree of advancement against plan.

This contribution with its value to educationalists, regional development agencies and multinational business, is a key output of the research and one that will certainly serve as the trigger for further research. At this time, discussions are ongoing with the UK Trade and Investment arm of the DTI to organise a much wider survey of the use of corporate language within European multinationals.

Language in Questionnaires

Another early deliverable from the research project was the work on the effect of language on international questionnaire responses. The project directed by The University of Melbourne was initially a modest affair across seven countries. (Harzing, Feely et al. 2001). Since then, however, it has extended to 32 countries and has been presented at numerous conferences across the world, most recently in New Zealand (Harzing, Feely et al. 2003).

The essence of the research was to test the proposition that *"when conducting surveys with bilingual or multilingual populations, the choice of questionnaire language would influence the responses received"*. The literature review identified several language factors that could have such an impact and the data collection was designed to test one of those factors, cultural accommodation.

By comparing the results of the UK control sample, approximately 250 native English speakers, against the responses from bilinguals in other countries where 50% had responded in their native language and 50% in English, it was possible to test the influence of cultural accommodation.

The research provided strong support for the assertion that respondents using the English language questionnaire subconsciously adjusted their answers towards the UK profile. Their responses to general, but more specifically to culturally sensitive, questions indicated that the presentation of the questions in English had triggered a thought pattern that was more akin to UK/US cultural norms than it was to the native culture of the country in which the research was being conducted.

The message to cross cultural surveyors, academics or international marketers, is clear and very practical "When seeking to explore issues from the perspective of the national culture there can be no substitute for a high-fidelity translation of the questionnaire tested by means of a back translation into the source language". This is a costly option and one that then brings into question the equivalence of questionnaires presented in different languages in different countries. However, the alternative is to conduct cross-cultural surveys solely in English, only to find that the responses all tend towards a watered-down version of Anglo-American culture.

Although genuinely original, practical and useful, none of the above implications for management can be considered definitive and fully rounded. All would benefit from more intensive and focused research to explore the implications in more depth. To aid this exploration the concluding section of the thesis lays down the framework for a programme of follow-up research.

7.4 Agenda for Future Research

Overview

Having established the bridgehead principle that "Language Is Important To Business" then the options for further research are legion. Indeed this multidimensionality was one of the few issues that had been clear from the outset of the research. The "Language Star" diagram reproduced below in fig 50 is taken from a preliminary paper produced before the research questions had been refined:

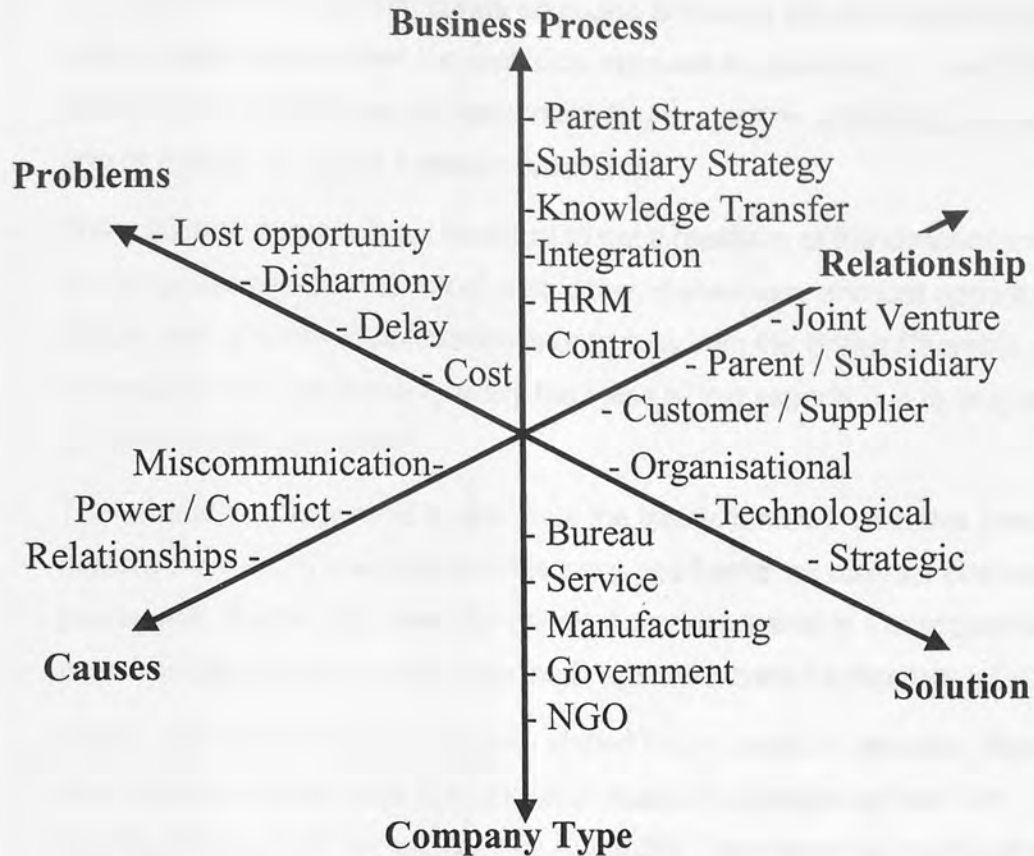


Figure 50 – Star Diagram of the Dimensions of Language in Business

Naïve, it, nevertheless, shows many of the perspectives that would need to be considered in formulating an in-depth research agenda to explore the issue of language in business. Future researchers will need to consider:

- The issue of language will vary according to company type. Manufacturing companies characterised by very large numbers of employees and generally modest educational levels, may suffer more than service organisations such as international banking or IT corporations where numbers are lower but educational standards on the whole will be higher. Language Service Bureaus will obviously encounter unique management issues as will Non Government Organisations with their focus on global coordination but with a reliance on volunteer staff. Government, again, will see language issues differently due to the need for precision and nuance in international communications.
- Within the business sector there are also three distinct relationship issues to be examined. Will the impact of language cause more severe problems in intimate relationships such as Joint Ventures than in the arms length relationship of Customer/Supplier?

- The causal influences that create language problems will also require a much closer examination. Were the problems exposed in case study 1 due principally to miscommunication and misunderstanding or was the underlying problem more one of inability to create a close relationship?
- From another perspective it is critical to get a measure of the consequences of the language barrier in terms of cost, delay, disharmony and lost opportunities. On the last of these, collaboration is underway with the British Chamber of Commerce on a project to quantify the value of lost exports due to language and communication problems.
- Then there is a clear need to delineate the issues touched on in this thesis and to explore individually the impact of the language barrier on discrete business processes. Control has been the principal process tested in this research but it would be opportune to extend the focus to other parent / subsidiary interactions.
- Finally, attention should be urgently shifted to the solutions adopted. Ranging from methodological tools like Linguistic Audits to strategic options like Configurations, from technology like Automatic Translation to organisational supports such as Expatriation, businesses have a myriad of solutions from which to choose. But which solutions work? What are the criteria for selection?

All of the above pose fascinating and as yet unanswered research questions. However, it would be a fruitless endeavour to attempt to define a comprehensive research agenda embracing all of the dimensions discussed previously. Instead it is suggested that attention be focused on two specific projects that would be manageable as post-doctorate research projects. Both examine language issues from the standpoint of multinational manufacturing companies.

Project 1: The impact of language differences on strategy, structure and management in multinationals.

In this project collaboration would be continued with Associate Professor Harzing in Melbourne. The project is intended to build upon the two preparatory projects already close to completion i.e.

- The role of language in questionnaire research (Harzing, Feely et al. 2003)
- The investigation of language differences in multinational companies which has been the focal point of this thesis and which is close to publication. (Feely and Harzing 2002)

And will itself consist of two discrete sub-projects:

- The role of language in management
- The impact of language differences on strategy, structure and processes in multinational companies.

A diagram showing the interrelationships between projects is shown below (fig. 51).

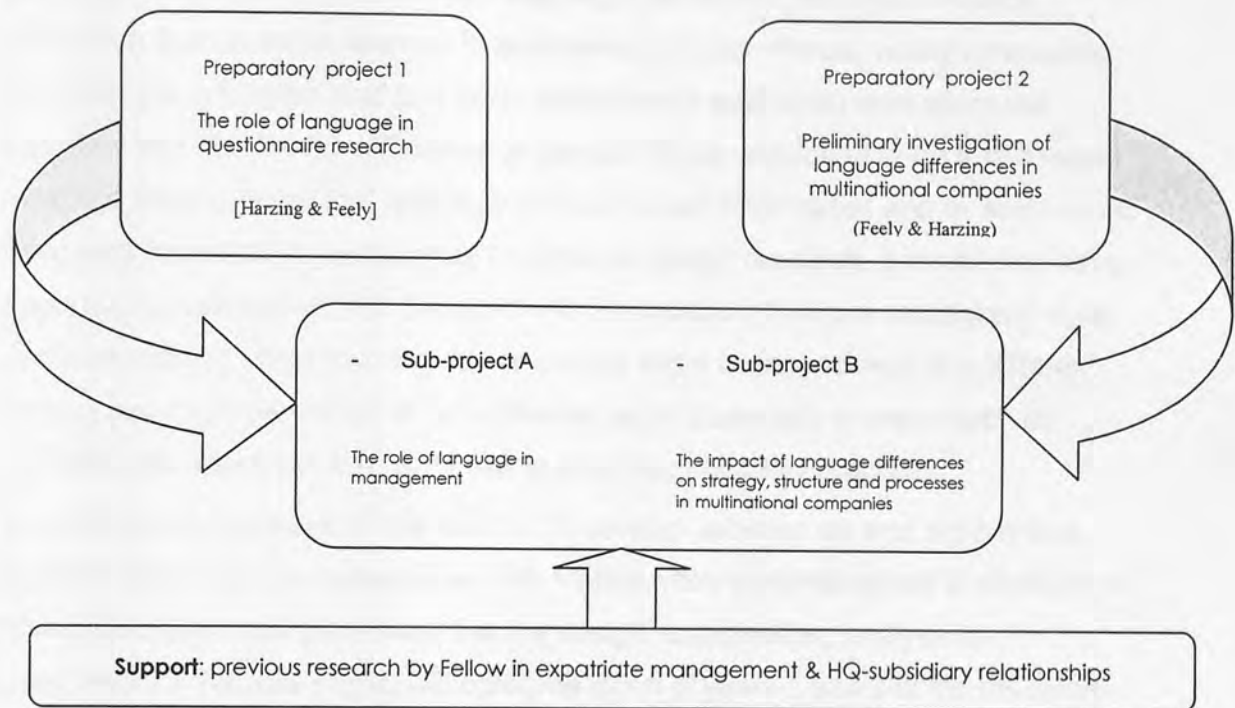


Figure 51 - Interrelationships between Future Projects

A formal 5-year research programme has been presented to the Australian Research Council, a summary of which is provided below.

The first part of the proposed two-part project will investigate the impact of language on management practices. This represents a logical progression from Preparatory Project 1 which questioned *“Do respondents (subconsciously) adjust their responses in a way that reflects the cultural values associated with the language of the questionnaire?”* to a more business focused question *“Do managers (subconsciously) adjust their management style in a way that reflects the cultural values associated with the language in which they manage?”* As in the first preparatory project, the research will investigate whether cultural accommodation takes place. Two matched groups of managers will be presented with critical incidents discussing key managerial problems and proposed solutions in either English or their native language. If cultural accommodation is a factor then we should see evidence that when managers are confronted with critical incidents in English

they will use methods and solutions that are more closely aligned with Anglophone culture and management techniques than when they are confronted with the same critical incidents in their native language. Let's take the example of a performance evaluation interview with an employee who is very modest about his/her own performance and emphasises the importance of his/her workgroup in realising results. In Anglophone countries – that are generally characterised by individualistic and performance-oriented cultures – this might result in a lower performance evaluation than in some Asian or Scandinavian cultures. Hence, would conducting the interview in English lead to a lower performance evaluation than when the interview was conducted in Chinese or Danish? If this was found to be true it would reinforce the argument that language and culture are interrelated and as such would have very important consequences for cross-language research. It would also have important consequences for management. If language influences managerial style, decision-making within multilingual companies might be inconsistent and different employees might be treated in very different ways. Especially in areas such as performance appraisal, this might well lead to discriminatory practices.

In undertaking the research the intent is to develop between six and eight critical incident scenarios and to test these with mature MBA students across a minimum of fifteen countries. It is anticipated that the design, coordination, analysis and publication of this sub-project will consume much of years 1 and 2 of the research. The second part of the proposed research agenda is more closely aligned with this thesis and will investigate the impact of language differences on strategy, structure and processes in multinationals. The key focus of the second sub-project will be to further develop and empirically test the conceptual models developed in this research. It will employ a mixed-method approach combining a large-scale mail survey with qualitative interviews. The questionnaire for the mail survey will be developed using the experience from Harzing's earlier research projects on HQ-subsidiary relationships (Harzing 1999) and the outputs of this thesis. It is proposed to send questionnaires to around 1,000 subsidiaries of MNCs domiciled in each of the following four host countries: Australia, the UK, Italy and the Netherlands. The survey will focus on subsidiaries of MNCs headquartered in these four countries as well as the USA, Japan, France and Germany.

The four host countries have been purposefully chosen to provide some informative contrasts. The Netherlands and Italy share the challenge of doing business in a minority language; one that is spoken by very few people outside their country, but differ considerably in their English language skills.

Within Europe the Dutch share the top position with the Swedes and Danes in terms of English language skills, with 78-80% claiming to know English, while Italians share the bottom position with the Spaniards and Portuguese, with only 36-39% claiming to know English (INRA, 2001). Australia and the UK share the advantage of being able to do business in their native language and also share a general lack of foreign language skills. However, even though the UK is "at the bottom of the language class" in Europe, 34% of the British have some knowledge of a foreign language (The Guardian, February 20, 2001), while the Australian Department of Immigration & Multicultural & Indigenous Affairs claims that 90% of the Australian adult population speaks only English and that less than 20% of school children study a language other than English.

Using the survey data, supported by analysis of the qualitative interview responses it is the intention to test out many more dimensions of the "Language Star" than has been possible in this thesis. In particular, it will be looking to provide answers for multinational manufacturing companies along three of the axes:

- The Business Processes: Strategy, Structure, Systems and Policies
- The Solutions Adopted: Organisational, Methodological, Technological and Strategic
- The Causes of Language Barrier Problems: Miscommunication, Power Authority Distortions, or Impediments to Relationship Building

The literature review and the design and preparation of the survey and interviews will take place in years 1 and 2. The conduct of the survey will dominate year 3 and the interviews will take place in years 3 and 4 with publications emerging progressively from year 2 onwards.

Project 2: The Adoption and Implementation of Corporate Languages in multinationals.

The second project to be undertaken here in the UK addresses one of the most glaring gaps in our knowledge about multinational companies. From the thesis survey we know that approximately 70% of multinationals have a Corporate Language Policy in place, but what languages, why they have them, how they chose them, how they were implemented and what, if any, benefits they've derived, are all questions we are unable to answer. The pursuit of these answers will be the focus of Project 2.

The project structure and its relationship to the research already conducted for this thesis is illustrated in fig. 52 below:

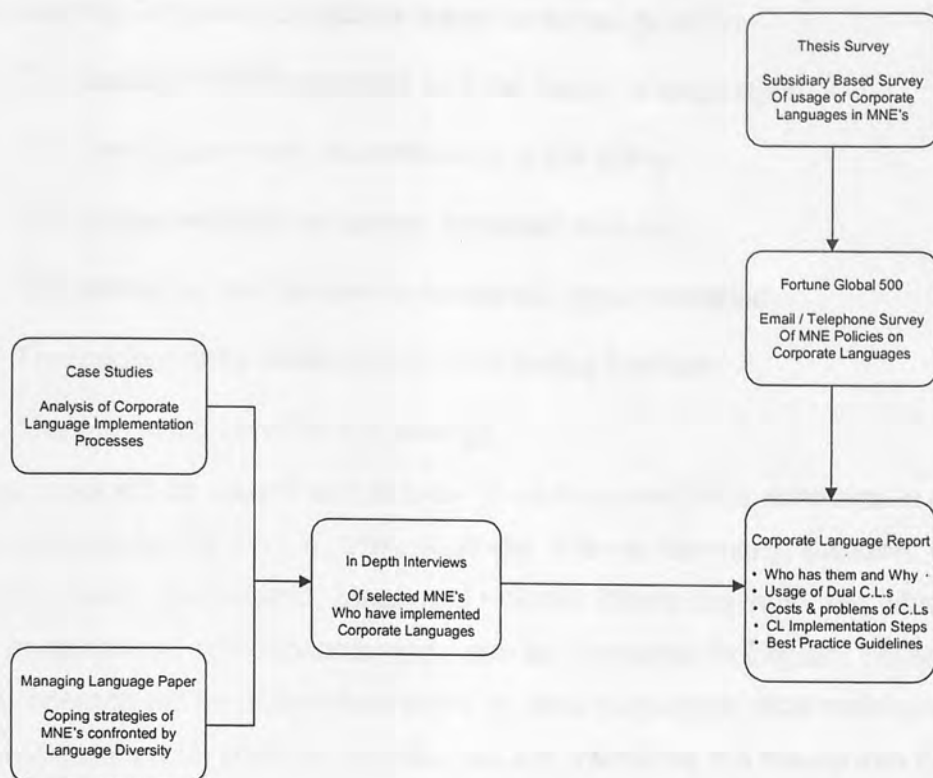


Figure 52 – Framework for Corporate Language Research

The first stage of the research, which is the subject of funding discussions with UK Trade and Investment (an arm of the DTI), will consist of a survey that will be principally conducted by telephone and email. The survey will focus on Fortune Global 500 Companies and will seek to establish:

- Whether there is a formal Corporate Language Policy (copies will be requested).
- When, how and by whom the Corporate Language was chosen and whether there was any research or consultation undertaken prior to the decision.
- Whether the Corporate Language Policy was considered fully implemented, partially implemented or still in the planning phase. In the latter situations, also, the target date for full implementation.

The Corporate PR functions will be used as the initial point of contact to obtain information and the questionnaire will be kept very short to avoid non-disclosure.

The second stage will build upon the case studies reported in this thesis and on the Managing Language Paper (Feely and Harzing 2003).

In this stage a semi-structured interview approach will be used to explore the issues concerning Corporate Language Implementation, notably:

- The decision making process and the choice of languages.
- The formalisation and dissemination of the policy.
- The implementation sequence, timescale and cost.
- The problems and barriers to successful implementation.
- The performance measures and monitoring process.
- The perceived benefits and savings.

Interviews will be sought with at least 30 multinational HQs domiciled in a range of countries including the UK, USA, Australia, France, Germany, Sweden, Finland, Italy, Spain, Brazil, Switzerland, Japan and Holland. Where the interview, which may well be by telephone or videoconference, can be conducted in English, French or Italian, the research will be undertaken alone. In other languages, local collaborators will be identified who can conduct the interview and transcribe the results into English.

The initial output from the research will be a report for UK Trade and Investment summarising the usage of Corporate Languages in large multinationals and the implications of this for the inward investment policies of potential host countries. Subsequently, the intention is to publish a book addressing the challenges of corporate language implementation amplified by the experience of the companies interviewed and providing a framework of best practice guidelines for planning and managing such an implementation.

7.5. Concluding Reflections

Reflecting back over this chapter, it is clear that the initial decision to undertake a programme of doctoral research has been largely vindicated:

- There have been numerous tribulations. The formulation of a precise research question was a struggle. There were impetuous choices of methodology that required backtracking later. The planning went awry and the project lost impetus. And yet there can be no question. It has been a worthwhile learning experience.
- The project has made a range of innovative and original contributions. Taken individually they are all modest and none will catapult this research to the pinnacle of academic prominence. Nonetheless, it set out to prove that language was a variable that influenced the way that multinationals managed their subsidiaries. And the research has done that.

- In parallel there have also been some useful contributions to the body of knowledge available to practising managers. International Marketers, Strategic Planners and HRM Directors would all benefit from reading and understanding the lessons of this thesis and its supporting papers. This too is a source of pride and satisfaction.
- And a platform has been created for continuing exploration. This research has furnished modest, but undeniable, evidence that the research field of Language in Business is emerging from its forgotten, neglected, and orphaned state. It is a privilege to know that this thesis was in the vanguard of that trend.

Whether any of this merits the award of a doctorate is for others to determine. Suffice to say that this researcher will remain forever grateful to Aston Business School and its staff for the opportunity to study, dissect and ultimately to understand a topic that to the researcher had remained nebulous and confusing during three decades of working in multinational corporations.

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Case Study Constructs

Introduction

The Impact of the Language Barrier on the

Management of Multinational Subsidiaries

Appendix A: The Reference Table of Constructs

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1. Case Study Constructs

Introduction

Following the Literature a Research Hypothesis has been formulated as six propositions. There remains however, the task of defining and operationalising the construct definitions that will be employed in testing these propositions. Critics particularly of the case method have warned that researchers "*can fail to develop a sufficiently operational set of measures and that subjective judgements are used to collect data*". (Yin 1994 p:34)

The risks of such confusion are amplified in my research for three reasons:

- Because the research topic is in a relatively arid field in which few of the constructs have been previously operationalised.
- Because several of the constructs are composites, amalgamating a number of lower-level factors into a single concept.
- Because the research design demands the collection and comparison of data from two entirely different sources, the Case Studies and the Survey. The construct definitions therefore, need to be sufficiently precise and robust to ensure that the two very different methodologies were producing comparable data..

However, having been alerted to these risks, a considerable effort was dedicated with my supervisor to understanding how the constructs were to be operationalised and how these were to be explored during the Case Study and Survey phases of the project. More details of these deliberations are to be found in two discussion papers that were prepared and reviewed during the Research Design phase of the project:

- "The Survey of the International Automotive Industry - Issues and Proposed Approaches" (Feely 2000)
- "Framework of Analysis - An Introduction and Explanatory Overview to the Issues and Questions that will provide the focus for Case Study Interviews (Feely 2001)

Copies of these two discussion papers are included in the Case Study and Survey Archives, respectively.

To minimise the risks discussed previously, for each of the constructs referred to in the Hypothesis Diagram 3.5. a concise but explicit definition was developed, which was subsequently agreed in consultation with my Supervisor. Then appropriate operational indicators were developed, based on prior research.

The distillation of this work summarising the definitions, the reference sources and the indicators is contained in the table overleaf.

TABLE OF CONSTRUCTS TO BE EXPLORED IN THE CASE STUDIES

Construct and Definition	Sources of Reference	Indicators to be Explored	Interview	Document & Artefacts	Observation
Language Usage A measure of the usage of languages within the parent subsidiary relationship.	(Graddol 1997) (Feely and Reeves 2001)	Parent Company Language Subsidiary Language Language in Which Meetings are conducted Language in written communications Language of communication with HQ in telephone and videoconference calls.	X X X X X	X X	X X
Language Problems A measure of the type and scale of problems created by the language barrier.	(Marschan-Piekkari, Welch et al. 1997) (Marschan-Piekkari, Welch et al. 1999)	Failure to communicate effectively Misunderstandings Sense of exclusion Parallel Information Networks Code Switching	X X X X X		
Language Strategies & Awareness A measure of the awareness of the company of language issues and the manifestation in appropriate language management strategies.	(Feely and Harzing 2002)	Corporate Language policies Language Training Programmes Budget control of language services Languages in IT & Websites Languages in brochures & technical literature Language in HRM policies	X X X X X X	X X X X X	X
Relationship	(Stone and Woodcock 1995)	Frequency of contact Liking Respect Trust Social Capital Friendliness	X X X X X X		

Construct and Definition	Sources of Reference	Indicators to be Explored	Interview	Document & Artefacts	Observation
Organisational Conflict A composite measure of the scale of friction, conflict, divergence, lack of confidence and mistrust between the Subsidiary and its parent company.	(Jehn 1994) (Marschan-Piekkari, Welch et al. 1997)	Quality of communications Level of mutual understanding Evidence of affective conflict Severity/frequency of disagreement Autonomous Strategic Behaviour Power & Authority	X X X X X X		
Entry Method A classification on a two-by-two matrix. Wholly owned or Joint Venture on one axis Green Field or Acquisition on the other.	(Brouthers and Brouthers 2000)	Subsidiary Age Subsidiary Ownership Green Field / Acquisition Earlier Subsidiaries in Country	X X X X	X X X X	
Acquisition Style A measure of the confidence, decisiveness and effectiveness of the acquisition process and the subsequent integration.	(Rosenbaum 1999) (Zander and Lerpold 2003)	Pre-acquisition planning Integration team activity Post acquisition changes Corporate culture End state of integration	X X X X X		
Organisational Typology A classification of the strategic configuration of the subsidiary (local responsiveness against global coordination).	(Prahalad and Doz 1987)	Degree of strategic autonomy Level of local responsiveness Decision making authority	X X X		X X X
Integration of the Subsidiary. A measure of the degree of strategic, operational and personal integration of the subsidiary into the wider group operation.	(Harzing 1999) (Pederson, Peterson et al. 2001)	Level of intra-company trading. Adoption of common methods Level of subsidiary convergence Integration of IT systems Use of subsidiary skills Knowledge/Technology Transfer	X X X X X X X		

2. Survey Constructs

Introduction

The survey directly provides some 150 fields of data directly transcribed from the questionnaire. To these a range of supplementary fields has been added, as part of the data analysis. These fields are of five distinct types:

- **Summary.** These fields are simply counts of other fields that have been collected from the survey. An example is the number of functions involved in communicating in multiple languages. The survey provides individual fields for 9 functions. The added field "*Number of Functions Total*" is merely a count of how many of those functions have been flagged as using multiple languages. Because there is no calculation or interpretation involved, the field specification forms below merely provides a full definition of the field.
- **Exploded:** These fields are simply extractions from other fields that have been collected from the survey. An example is the transnational configuration status. The survey data provides a single field summarising the strategic configuration of the group against one of four types: Transnational, Multi-domestic, International and Global. The added field "*Transnational Status*" merely extracts into a dichotomous classification those companies that are transnational and those, which are not. Because there is no calculation or interpretation involved, the field specification forms below merely provides a full definition of the field.
- **Calculated:** These too are fields simply derived from two or more of the fields of data collected from the survey. An example is the percentage of expatriates working in the subsidiary. The survey data provides the number of expatriates in the subsidiary and another provides the total subsidiary workforce. The added field "*Percentage of Expatriates*" is merely expressing one field as a percentage of the other. However, because a calculation is involved the field specification forms below includes not only a full definition but also the calculation formula.
- **Interpreted:** These fields require the application of judgement and knowledge, albeit relatively simple. An example is continent of subsidiary. The survey data gives the country of subsidiary location. The added field "*Continent of Subsidiary Location*" demands that the country be assigned to a continent. As this employs knowledge not obtained directly from the survey the field specification forms below provide not only a full definition of the field

but also a reference to other data sources used in arriving at the classification.

- **Scales:** These fields are derived from the combination of survey data fields that do not self-obviously lend themselves to combination. An example is the field social control. The survey data provides four fields that are presumed to be features of social control: The use of international training, the use of international task forces, the use of informal communications and the use of common values. The added field "*Informal Control*" is derived by totalling and averaging these four. The field specification forms below provides not only a full definition but also the calculation formula.

Construct Tables

ADDED FIELD FOR QUANTITATIVE DATA ANALYSIS	
Field Description: The Language Barrier Scale	SPSS CODE ZLANBARR
Acceptable Values 0, 1 or 2	Measure Scale
Summary <input type="checkbox"/> Exploded <input type="checkbox"/> Calculated <input type="checkbox"/> Interpreted <input checked="" type="checkbox"/> Scale <input type="checkbox"/>	
Full Field Definition A simple scale derived from the Parent Company Anglo/Non Anglo and Language Difference Fields: Accepted Values are: <ul style="list-style-type: none"> - 0 No Language Difference between parent and subsidiary - 1 Language Difference but Anglo Parent Company - 2 Language Difference but Non-Anglo Parent Company 	
Data Sources Consulted	
Calculation: $ZLANBARR = 0$ if $ZLANDIFF = 0$ $=1$ if $ZLANDIFF =1$ and $ZHQANGLO =1$ $=2$ if $ZLANDIFF =1$ and $ZHQANGLO = 0$	

ADDED FIELD FOR QUANTITATIVE DATA ANALYSIS	
Field Description: The Percentage of Expatriates Employed	SPSS CODE ZEXPATPC
Acceptable Values 0 - 100	Measure Scale
Summary <input type="checkbox"/> Exploded <input type="checkbox"/> Calculated <input checked="" type="checkbox"/> Interpreted <input type="checkbox"/> Scale <input type="checkbox"/>	
Full Field Definition The number of expatriate personnel employed in the subsidiary expressed as a percentage of the total subsidiary workforce	
Data Sources Consulted	
Calculation: $ZEXPATPC = (EXNUMBER * 100) / SCSIZE$	

ADDED FIELD FOR QUANTITATIVE DATA ANALYSIS	
Field Description: Number of Top Position Managers	SPSS CODE ZEXPATMG
Acceptable Values 0 - 9	Measure Scale
Summary <input checked="" type="checkbox"/> Exploded <input type="checkbox"/> Calculated <input checked="" type="checkbox"/> Interpreted <input type="checkbox"/> Scale <input type="checkbox"/>	
Full Field Definition A count of the number of expatriate managers filling the top nine positions within the subsidiary organisation	
Data Sources Consulted	
Calculation: $ZEXPATMG = (EXNATMD + EXNATRD + EXNATPUR + EXNATPRO + EXNATMAR + EXNATLOG + EXNATHRM + EXNATFIN + EXNATIT)$	

ADDED FIELD FOR QUANTITATIVE DATA ANALYSIS	
Field Description: Total Number of Functions involved in Cross-Lingual Communication	SPSS CODE LAFUNTOT
Acceptable Values 0 - 9	Measure Scale
Summary <input checked="" type="checkbox"/> Exploded <input type="checkbox"/> Calculated <input type="checkbox"/> Interpreted <input type="checkbox"/> Scale <input type="checkbox"/>	
Full Field Definition A count of the number of business functions having foreign language contacts with other organisations.	
Data Sources Consulted	
Calculation: LAFUNTOT=LAFURAND+LAFULOGI+LAFUPURC+LAFUHRM+LAFUPROD+LAFUFINA+LAFUMARK+LAFUITIS	

ADDED FIELD FOR QUANTITATIVE DATA ANALYSIS	
Field Description: Total level of Local Responsiveness	SPSS CODE ZLOCRESP
Acceptable Values 0 - 7	Measure Scale
Summary <input type="checkbox"/> Exploded <input type="checkbox"/> Calculated <input checked="" type="checkbox"/> Interpreted <input type="checkbox"/> Scale <input checked="" type="checkbox"/>	
Full Field Definition A scale calculated from responsiveness factors	
Data Sources Consulted	
Calculation: ZLOCRESP=(LRPRODMO + LRMARKMO + LRCOOPSU + LRCOOPCU) / 4	

ADDED FIELD FOR QUANTITATIVE DATA ANALYSIS	
Field Description: Financial Performance Scale	SPSS CODE ZPERFIN
Acceptable Values 0 - 7	Measure Scale
Summary <input type="checkbox"/> Exploded <input type="checkbox"/> Calculated <input type="checkbox"/> Interpreted <input type="checkbox"/> Scale <input checked="" type="checkbox"/> X	
Full Field Definition A scale derived from the various indicators of subsidiary financial performance	
Data Sources Consulted	
Calculation: $ZPERFIN = (PERFMARSH + PERFSALGR + PERPROFI) / 3$	

ADDED FIELD FOR QUANTITATIVE DATA ANALYSIS	
Field Description: HRM and Image Scale	SPSS CODE ZPERHRM
Acceptable Values 0 - 7	Measure Scale
Summary <input type="checkbox"/> Exploded <input type="checkbox"/> Calculated <input type="checkbox"/> Interpreted <input type="checkbox"/> Scale <input checked="" type="checkbox"/> X	
Full Field Definition A scale derived from the various indicators of subsidiary HRM performance	
Data Sources Consulted	
Calculation: $ZPERFHRM = (PEREMDEV + PERSTARET + ZPERCOIM) / 3$	

ADDED FIELD FOR QUANTITATIVE DATA ANALYSIS	
Field Description: Production Performance Scale	SPSS CODE ZPERPROD
Acceptable Values 0 - 7	Measure Scale
Summary <input type="checkbox"/> Exploded <input type="checkbox"/> Calculated <input type="checkbox"/> Interpreted <input type="checkbox"/> Scale <input checked="" type="checkbox"/> X	
Full Field Definition A scale derived from the various indicators of subsidiary production performance	
Data Sources Consulted	
Calculation: $ZPERPROD = (ZPERPROQU + ZPERINNOV + ZPERPRODU) / 3$	

ADDED FIELD FOR QUANTITATIVE DATA ANALYSIS	
Field Description: Headquarters Anglo Country of HQ	SPSS CODE ZHQANGLO
Acceptable Values 0 – HQ Language is not English 1 – HQ Language is English	Measure Scale
Summary <input type="checkbox"/> Exploded <input type="checkbox"/> Calculated <input type="checkbox"/> Interpreted <input checked="" type="checkbox"/> X Scale <input type="checkbox"/>	
Full Field Definition A dichotomous coding, based on whether the Parent Company HQ Language is English or not English	
Data Sources Consulted - Only the Questionnaire	
Calculation:	

ADDED FIELD FOR QUANTITATIVE DATA ANALYSIS	
Field Description: Headquarters Continent	SPSS CODE ZHQCONT
Acceptable Values 1 – Europe 2 – North America 3 – Africa 4 – Asia 5 – South America 6 – Australasia	Measure Scale
Summary <input type="checkbox"/> Exploded <input type="checkbox"/> Calculated <input type="checkbox"/> Interpreted <input checked="" type="checkbox"/> Scale <input type="checkbox"/>	
Full Field Definition A code indicating the continent in which the parent company is domiciled.	
Data Sources Consulted CIA World Fact book	
Calculation:	

ADDED FIELD FOR QUANTITATIVE DATA ANALYSIS	
Field Description: Language Difference	SPSS CODE ZLANDIFF
Acceptable Values 0 – No Language Difference 1 – Language Difference	Measure Nominal
Summary <input type="checkbox"/> Exploded <input type="checkbox"/> Calculated <input type="checkbox"/> Interpreted <input checked="" type="checkbox"/> Scale <input type="checkbox"/>	
Full Field Definition A dichotomous code indicating whether there is or is not a difference in national language between the parent and the subsidiary companies.	
Data Sources Consulted	
Calculation: ZLANDIFF = 0 if LASUBLAN = LAHQLAN = 1 if LASUBLAN ≠ LAHQLAN	

ADDED FIELD FOR QUANTITATIVE DATA ANALYSIS	
Field Description: Subsidiary Autonomy Level	SPSS CODE ZAUTTOTA
Acceptable Values 0 – Total Autonomy 7 – Total Centralisation	Measure Scale
Summary <input type="checkbox"/> Exploded <input type="checkbox"/> Calculated <input type="checkbox"/> Interpreted <input type="checkbox"/> Scale <input checked="" type="checkbox"/> X	
Full Field Definition A Scale calculated from the individual indicators of subsidiary autonomy	
Data Sources Consulted	
Calculation: $ZAUTTOTA = (AUTNEWPR + AUTCUSPR + AUTSELSU + AUTPRINC + AUTADVER + AUTBUDGE + AUTBORRO + AUTCEOP + AUTRECRU) / 9$	

ADDED FIELD FOR QUANTITATIVE DATA ANALYSIS	
Field Description: Informal Control Scale	SPSS CODE ZCOINF
Acceptable Values 0 – Zero Informal Control 7 – Very high Informal Control	Measure Scale
Summary <input type="checkbox"/> Exploded <input type="checkbox"/> Calculated <input type="checkbox"/> Interpreted <input type="checkbox"/> Scale <input checked="" type="checkbox"/> X	
Full Field Definition A Scale calculated from the individual indicators of control by socialisation.	
Data Sources Consulted	
Calculation: $ZCOINF = (COINTASK + COINTRAI + COINFCOM + COINVALUES) / 4$	

ADDED FIELD FOR QUANTITATIVE DATA ANALYSIS	
Field Description:	SPSS CODE
Level of Formalisation	ZCOOFORM
Acceptable Values	Measure
0 – Zero Formalisation 7 – Total Formalisation	
Summary <input checked="" type="checkbox"/> Exploded <input type="checkbox"/> Calculated <input type="checkbox"/> Interpreted <input type="checkbox"/> Scale <input type="checkbox"/>	
Full Field Definition	
A Scale calculated from the individual indicators of control by Bureaucracy.	
Data Sources Consulted	
Calculation:	
$ZCOOFORM = (COPLANN + COFORMAL) / 2$	

ADDED FIELD FOR QUANTITATIVE DATA ANALYSIS	
Field Description:	SPSS CODE
Control intensity	ZCONTINT
Acceptable Values	Measure
Summary <input checked="" type="checkbox"/> Exploded <input type="checkbox"/> Calculated <input type="checkbox"/> Interpreted <input type="checkbox"/> Scale <input type="checkbox"/>	
Full Field Definition	
A scale calculated from the individual indicators of control	
Data Sources Consulted	
Calculation:	
$ZXOINT = (ZCOOFORM + ZCOINF + [7 - ZAUTOTA]) / 3$	

ADDED FIELD FOR QUANTITATIVE DATA ANALYSIS	
Field Description: Subsidiary Continent	SPSS CODE ZSUBCONT
Acceptable Values 1 – Europe 2 – North America 3 – Africa 4 – Asia 5 – South America 6 – Australasia	Measure Scale
Summary <input type="checkbox"/> Exploded <input type="checkbox"/> Calculated <input type="checkbox"/> Interpreted <input checked="" type="checkbox"/> Scale <input type="checkbox"/>	
Full Field Definition A code indicating the continent in which the parent company is domiciled	
Data Sources Consulted CIA World Fact Book	
Calculation:	

ADDED FIELD FOR QUANTITATIVE DATA ANALYSIS	
Field Description: Continent Difference	SPSS CODE ZCONTDIFF
Acceptable Values 0 – No Continent Difference 1 – Continent Difference	Measure Nominal
Summary <input type="checkbox"/> Exploded <input type="checkbox"/> Calculated <input type="checkbox"/> Interpreted <input checked="" type="checkbox"/> Scale <input type="checkbox"/>	
Full Field Definition A dichotomous code indicating whether there is or is not a difference in continent between the parent and the subsidiary companies.	
Data Sources Consulted	
Calculation: ZCONTDIFF = 0 if ZHQCONT = ZSUBCONT = 1 if ZHQCONT ≠ ZSUBCONT	

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The Impact of the Language Barrier on the Management of Multinational Subsidiaries

Appendix B: The Case Study Protocol

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1. PROCEDURES

a. Introduction

The subject of my doctoral thesis is “The Impact of Language on the Management of Multinational Subsidiaries”. The Research Design has established that it is appropriate to adopt a Comparative case Study approach, and that the primary method of data collection will be that of structured interviews.

It is essential therefore, that these interviews are both comprehensive and time-efficient. The purpose of this protocol is three-fold:

- To define standardised procedures to allow interviews to be conducted in a way that is effective, reproducible and ethically sound.
- To establish the framework of questions that will allow the research questions to be extensively probed without becoming intrusive.
- To anticipate the way that the interview data will be analysed to ensure that key issues are not overlooked.

In this first section, the basic procedures are developed. Then section 2 draws on the key propositions to be explored as the basis for developing in section 3 a range of questions that will be probing but inoffensive and proposes a matrix examining the questions from the viewpoint of key respondents, i.e. who within each case organisation studied, would be best able to provide knowledgeable and insightful responses to each question. Section 4 then presents the diary format that will be used to track progress in the completion of the case studies. Finally, Section 5 examines the planned method of analysis and reporting.

The Case Study Goals

There is much evidence, summarised in my Literature Review Chapter, to demonstrate that English is accepted as the “Lingua Franca” of International Business. There is an equal amount of evidence however, that:

- The majority of Multinational Companies do not have English as their parent company language.
- There is a huge population of within these companies who are not proficient in English
- That the diffusion of English may have peaked, with fewer rather than more international managers learning English as a second language.

In the light of these conflicting trends, it would seem inevitable that in some way or another companies which do not have English as their parent language will find themselves disadvantaged in terms of international management. It is the purpose of this case study research to examine these areas of disadvantage and to understand both the consequences and the solutions adopted by those companies.

The Structured Interview Approach

The research topic is to a large extent “uncharted territory”. This might normally have suggested an unstructured approach to data collection with hypotheses being induced as an emergent property of the conversational and anecdotal evidence collected.

However, respondents of the status previously indicated will have neither the time nor the inclination to engage in unstructured musing. Therefore, in the interests of

time efficiency I consider it essential that my questioning of these senior managers is both focussed and succinct. To this end I have elected to begin with a series of fundamental hypotheses distilled analytically from the Literature Review, and discussed in section 2.

b. Preparations

Before initial contact is made with each case company a full web search will be conducted to obtain as much information as possible about the companies concerned.

The following search engines and sites will be employed:

- Google: <http://google/> : Will be used to collect general company news
- The Company's own web site will be accessed to get company accounts and company structure information.
- Lexus Nexus <http://web.lexis-nexis.com/executive/> : Will be used for company performance and for business news clips

Other sites will be employed wherever they provide relevant information. The accumulated data will be retained in the case company archive.

c. The Respondents

As explained in the Research Design chapter of the thesis, the respondents will be selected from the ranks of senior managers of UK subsidiaries of Multinational Companies engaged in the Automotive Industry.

The diversity of the indicators that will be examined to understand the consequences of language and the way the company manages language demands a correspondingly wide list of respondents. The list will embrace the Managing Director and senior personnel in the areas of Finance, HRM, Logistics, Manufacturing and IT, and in section 3 each question will be assigned to the most competent respondent. In general at least two respondents will be sought for each question posed.

The Gatekeeper Approach

In order to access several senior managers in the same company, it will be necessary to identify and establish gatekeepers who can assist in opening doors to other employees. Use will be made of contacts known to Aston University. They will initially be contacted by one of the faculty know to them personally, and they will then receive an overview paper on the researcher and project goals, broadly based upon the opening chapter of the thesis.

The initial meeting with the gatekeeper will be attended by both the researcher and his Supervisor. All subsequent meetings will involve the researcher alone. The initial meetings will not focus on the research issues but instead will:

- Ensure that the project and its expectations are well understood
- Confirm that in overall terms whether the company matches the criteria for selection
- Examine the company organisation chart to identify the individuals to interview and to fix an approximate schedule for conducting the interviews.

The gatekeepers will receive a single paragraph email, summarising the project that he can cut and paste into an introductory note to the colleagues identified for interview.

d. Contact Approaches

Approximately one week after the distribution of the introductory email from the gatekeeper, a formal letter will be sent formally requesting an interview. The text of the letter is as below:

“Dear XXXX,

By now you will have received an email from XXXX explaining a little about my doctoral research project. I would very much appreciate an interview to explore some of the aspects of my research in the context of your company. I am a mature researcher with many years of experience as a senior manager in the automotive industry and I understand that you may have concerns on two counts: Time and Confidentiality.

On the first of these I can confirm that you will be asked no more than 12 questions, to be provided in advance, and that the interviews will last no longer than 75 minutes. Moreover, there will be no requests for follow-up meetings unless instigated by you.

Regarding confidentiality, I can be equally reassuring. The interview transcripts will only be used to support my doctoral research. Any presentations or reports using the transcript data will be anonymous with company and personal names blotted out. Any information given or views expressed will not be referred to during interviews with other company employees. For those of you still concerned about confidentiality, interviews can be conducted “off the record” with no recording and no transcripts.

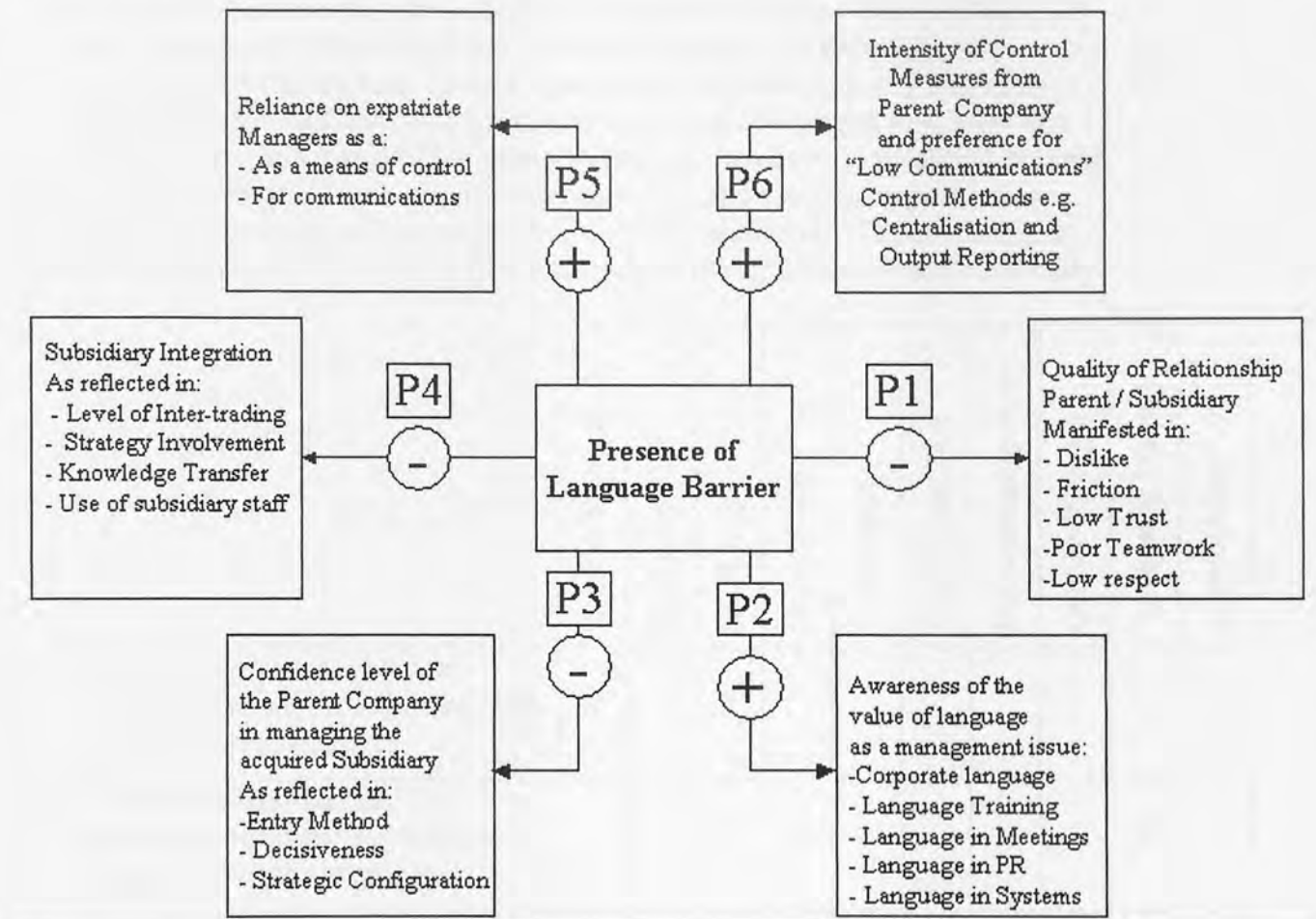
I hope the above has convinced you that this research programme is a serious undertaking that will be conducted professionally in a way that respects the interests of both you and the company you work for.

I shall telephone during the next day or so to fix an appointment .I would prefer to provide the question list ‘fresh’ at the start of the interview. However, if requested I will provide them in advance.

The telephone calls will follow almost immediately after the receipt of the letter.

2. THE ISSUES TO BE EXPLORED

The propositions to be explored through the case studies are summarised in the correlation diagram below fig B1.



Each of the proposition constructs will be explored through a range of indicators specified in the construct definition (now published as Appendix A of the Thesis)

Protocol Questions

Under certain circumstances, particularly where factual information is being sought, the protocol questions form the very heart of the Case Study Protocol. They serve as self-prompts to the researcher defining what information is to be obtained and what sources explored. However, in these Case Studies the issues being explored are very sensitive. The parent subsidiary relationship, the style of control, the roles of expatriates, the level of awareness of language, are not going to exist as policy documents, computer printouts or artefacts. The dominant source of data will be probing interviews where the interviewees will be encouraged to relax and to chat around a theme.

The Protocol Questions, therefore, will for this research be represented by the table of questions (next section), and the table of construct indicators published separately.

3. THE QUESTIONS TO BE DISCUSSED

Approach

In considering the conduct of the case study interviews I have been mindful of two guidelines suggested by my Supervisor Dr. Paul Forrester:

- To limit the duration of each interview to approximately one hour, certainly less than 90 minutes, with a maximum of twelve questions for each interview.
- To triangulate the response to each topic with at least two (ideally 3 or more) respondents for each question, using a mix of those best placed to answer and those who are less involved but who will nevertheless have an informed opinion.

To this end I present below a matrix of questions against a typical organisation showing which answers will be sought from which respondents. This is of course only a start point that will be modified according to the structure of each case study.

		General Manager	Marketing Mgr	HRM Mgr	Finance Mgr	IT Manager	Engineering Mgr	Manufacturing Mgr	Quality Manager	Purchasing Manager	Logistics Mgr
1	Can you explain the company organisation and the subsidiary link to the parent company?	X		X							
2	What functions does the UK subsidiary perform? Have these changed since the acquisition?			X	X					X	
3	Can you explain your background and your current role. (an ice-breaker for those not responding to 1 or 2)		X			X	X	X	X	X	X
4	Can you describe the acquisition process, and what initial impressions you had of your new owners?	X			X						
5	How was the post-acquisition integration managed and what did this tell you about the parent co.?	X			X	X			X		
6	Can you describe the nature and style of the contact you have with your parent company management team?	X	X	X							
7	Can you describe your impressions of a typical meeting with the parent company managers?		X					X	X	X	

		General Manager	Marketing Mgr	HRM Mgr	Finance Mgr	IT Manager	Engineering Mgr	Manufacturing Mgr	Quality Manager	Purchasing	Logistics Mgr
8	How well does the parent company understand the business context of the British subsidiary?		X					X		X	
9	How reliably does the parent company follow up what has been agreed in meetings?.					X	X	X			
10	How would you describe the relationship between the parent management team and that of the UK managers?	X				X		X	X	X	
11	How fully do you feel the subsidiary management is consulted and informed on issues related to it?		X	X				X			
12	What are your considered impressions regarding your parent company colleagues?						X	X	X		
13	Have there been breakdowns in the relationship which you can describe to me in general terms?						X			X	X
14	To what extent has the parent company management appointed expatriates to manage in the UK?			X	X						
15	Has there also been a programme of inpatriation to expose subsidiary managers to the corporate headquarters?			X	X						
16	What are your impressions concerning the reasons why these expatriates have been used?						X		X		X
17	How well have these expatriates adapted to and integrated into the UK operation?						X		X		X
18	How important do you feel this UK subsidiary is to the overall corporate operation?		X				X	X			
19	To what extent does this subsidiary buy from and sell to other companies within the group?									X	X

		General Manager	Marketing Mgr	HRM Mgr	Finance Mgr	IT Manager	Engineering Mgr	Manufacturing Mgr	Quality Manager	Purchasing Manager	Logistics Mgr
20	In what ways has the UK subsidiary changed to integrate more fully into the group operation?	X		X							X
21	To what extent does the UK subsidiary share and copy other company subsidiaries / HQ?			X			X	X			
22	To what extent do you personally feel a sense of belonging within the corporate company?					X			X		X
23	Can you describe the nature and scale of any bureaucratic procedures you are required to comply with?				X			X	X	X	
24	To what extent is the local subsidiary allowed to manage without intervention from HQ?			X	X	X					X
25	To what extent have the corporate management team been able to get everyone sharing common visions, missions and objectives?	X		X					X		
26	Can you describe the nature, frequency and intensity of performance reporting in all areas of the business? Is it mainly bare performance statistics or does it demand explanations?		X		X	X					
27	Do you believe the subsidiary is judged purely on objective performance or are subjective factors considered too?		X		X						X
28	What is your overall assessment of the controls exerted on the subsidiary?	X		X	X				X		
29	How does the strategic planning cycle operate? Is there an explicit evaluation of constraints and is language specifically considered?		X				X	X			

		General Manager	Marketing Mgr	HRM Mgr	Finance Mgr	IT Manager	Engineering Mgr	Manufacturing Mgr	Quality Manager	Purchasing Manager	Logistics Mgr
30	To what extent are language skills considered an important factor in the management of senior staff?	X		X							
31	When buying or developing new computer systems to what extent is foreign language usage a factor?					X				X	
32	Are the key company publications and the company web site always maintained in multiple foreign languages?		X			X					
33	33. What steps have the company taken to improve the management of language within the group?			X	X	X					

The Interview Protocol

Pre-Interview

The interviewees will not be shown the diagram nor will there be any explanation of the expectations of the written propositions. However, there will be a short introduction concerning the focus of the research as follows:

“The focus of this research concerns the impact of the language barrier between parent and subsidiary companies. I shall want to look at a number of issues including:

- *The way that the takeover was managed.*
- *The ongoing relationship between the parent and subsidiary management*
- *The use of inpatriation and expatriation policies*
- *The way that the language barrier has been managed including such things as staff language training*
- *The way that the subsidiary has been managed.*

The specific questions you have on the sheet in front of you may not specifically refer to language and you should not introduce language issues into the discussion unless you feel they are relevant. However, the questions are open-ended and you should feel free to talk around the issues that you feel are significant. Between 5 and 7 minutes have been set aside for each question so you have plenty of time to reflect”.

The individual will then be given a list of 12 questions, in certain cases slightly more or less, an example of which is contained on the page overleaf. There remains only to read out the confidentially clause printed at the top of the question list and then the interview begins.

Notes to Interviewee

Any notes, recordings, documents taken during the course of this interview will be treated with total confidentiality, both professional and personal.

The material will be used solely for academic research and will be subsequently destroyed.

No identities, company names or job titles will be referred to except with the express approval of the company and individuals concerned.

QUESTIONS FOR INDIVIDUAL NAME – COMPANY NAME 18/12/01

- Q1. Can you explain the company organisation and the subsidiary link to the parent company?
- Q2. Can you explain your background and your current role.
- Q3. How was the post-acquisition integration managed and what did this tell you about the parent Co. eg. visible symbols, strategy changes, senior personnel changes etc.
- Q4. Can you describe the nature and style of the contact you have with your parent company management team. Frequency, style, individual or team, professionalism, socialisation etc?
- Q5. How well do you think the parent company understand the business context of the British subsidiary? Its problems, constraints, history and policies etc.
- Q6. How reliably does the parent company follow up what has been agreed in meetings?
- Q7. How would you describe the relationship between the parent management team and that of the UK managers? Friendliness, respect, consideration, sensitivity
- Q8. How fully do you feel the subsidiary management is consulted and informed on issues related to it? Strategic planning cycle, operational decisions, R&D projects.
- Q9. Have there been breakdowns in the relationship that you can describe to me in general terms?
- Q10. In what ways has the UK subsidiary changed to integrate more fully into the group operation and the group way of doing things? Changes of policy, strategy, manpower, remit etc.
- Q11. To what extent do you personally feel a sense of belonging within the corporate company? What has TRW done to help Lucas personnel feel part of the family?
- Q12. To what extent is the local subsidiary allowed to manage without intervention from HQ? Can you launch R&D projects, fix target costs, agree product specifications etc. independently?

Post Interview

Immediately following the interview, a database form will be created as illustrated below:

CASE STUDY INTERVIEWEE DATABASE FORM

Company	Name	Title
----------------	-------------	--------------

Contact Details		
Address	Tel. Work	Fax
	Tel. Home	Email

Interview Details		
Date / Time	Location	<u>DURATION</u>

IMPRESSIONS

The Database form will be created by hand and stored in the Case Study Archive. Within a few days a telephone call, or exceptionally an email, will thank the interviewee for their assistance.

4. THE CASE STUDY DIARY

An excel spreadsheet will be created to keep track of the key events during the course of case study. Specifically for each interviewee it will record:

- The date of the initial contact
- The date of the interview
- The date of any follow-up interview (if any)
- The date of the transcription
- The date of the insertion to NUDIST
- The date of initial coding

Additionally, the diary will record any other key dates for the case study. An illustration of the layout is shown below:

CASE STUDY DIARY FOR CASE COMPANY 1

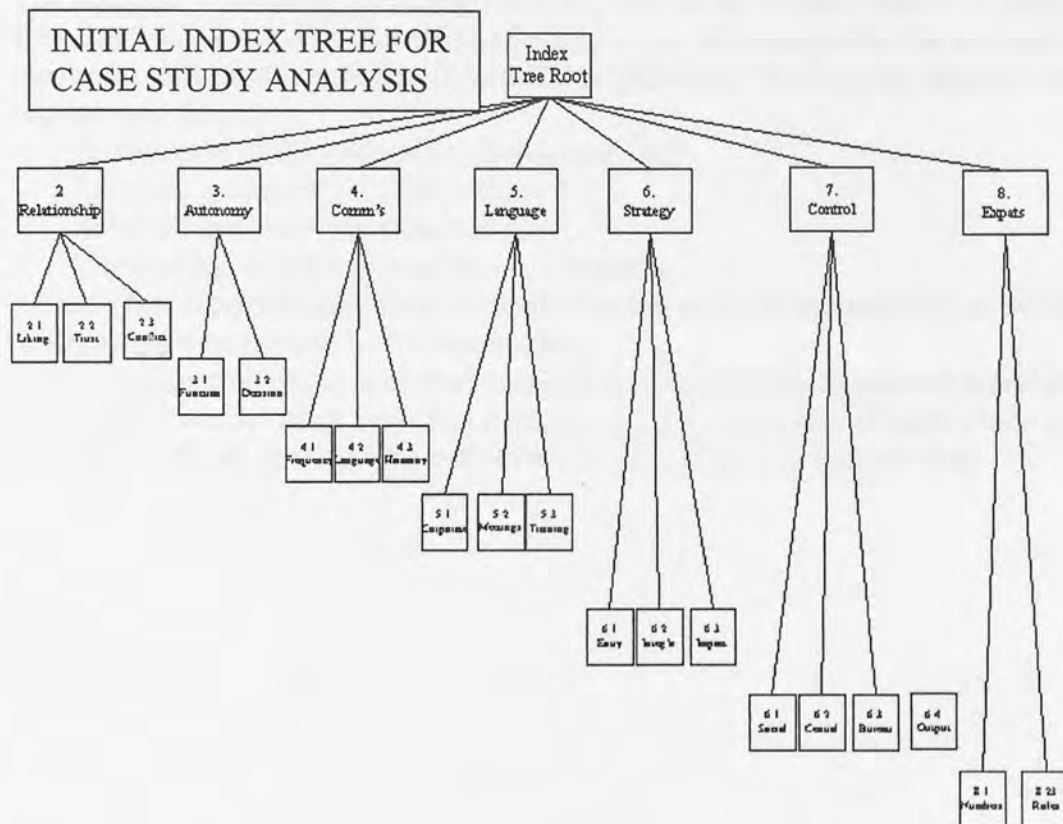
		Interviews Key Dates					
		Initial Contact	Interview	Follow-Up	Transcription	NUDIST	Coding
Mr. A	Production Director	dd/mm/yy	dd/mm/yy	dd/mm/yy	dd/mm/yy	dd/mm/yy	dd/mm/yy
Dr. B	Technology Manager	dd/mm/yy	dd/mm/yy	dd/mm/yy	dd/mm/yy	dd/mm/yy	dd/mm/yy
Mrs. C	HRM Manager	dd/mm/yy	dd/mm/yy	dd/mm/yy	dd/mm/yy	dd/mm/yy	dd/mm/yy
Mr. D	Factory Manager	dd/mm/yy	dd/mm/yy	dd/mm/yy	dd/mm/yy	dd/mm/yy	dd/mm/yy
Ing. E	Managing Director	dd/mm/yy	dd/mm/yy	dd/mm/yy	Not applicable		
Mr. F	IT Manager	dd/mm/yy	dd/mm/yy	dd/mm/yy	dd/mm/yy	dd/mm/yy	dd/mm/yy
Mr. G	Production Engineer	dd/mm/yy	dd/mm/yy	dd/mm/yy	dd/mm/yy	dd/mm/yy	dd/mm/yy
Mr. F	Personnel Director	dd/mm/yy	dd/mm/yy	dd/mm/yy	Not applicable		

Other Significant Case Study Dates			
Event Description	Involving	Date / Comment	Date / Comment

ANALYSIS & REPORTING PLAN

Data Analysis

The decision has already been taken to employ NUDIST as the computer package to be employed in analysing the interview data. NUDIST operates on the basis of a coding tree, in which each node and sub-node represents a perspective on the evidence. As the research will explore the hypotheses presented previously, the coding structure will initially focus just on those issues already identified by the hypotheses.



This tree is illustrated above. It should be considered only a start point. Once the data has been inserted into NUDIST then it is expected that new perspectives will be developed, and additionally analysis nodes added.

The numbers 2.3 (Conflict), 8.2 (Roles) etc are the codes that will be used to classify each text unit of the interview transcripts; a text unit being anything from a sentence to a large paragraph depending upon the segmentation of the conversation. Once coded the text units can be analysed according to topic and grouped at the level of individual, case or project.

Reporting Structure

It is not the intention to offer the Case Companies feedback reports. The issues being explored are likely to prompt opinions that will reflect badly on some individuals and some company policies. There is a risk that formal feedback would be used inappropriately to assign blame and in that climate it would be impossible to encourage individuals to speak openly and honestly about their experiences and their feelings.

The principal output from the case studies will, therefore, be the Case Study chapter in the thesis that will, in any case, be presented anonymously with neither companies nor individuals, being identified.

The choice of case study reporting style adopted for the thesis is that of "Theory Building" and so after an initial introduction to the two companies the remainder of the report will be structured by theoretical proposition. The internal structure of each section will then be:

- A statement of the proposition being explored
- Relevant evidence from Case Study 1
- Relevant evidence from Case Study 2
- Comparison of the evidence and conclusions.

Clearly this reporting approach demands that the same issues and similar evidence sources must be used in both Case Studies.

One common problem in case study reporting is an inability to trace observations made in the report back to evidential source. To avoid this risk all quotations cited in the report will be identified by both interviewee and by text unit number.



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The role of this subsidiary in the MNC

This section asks you for information about the role that this subsidiary plays in the multinational corporation as a whole.

Intra-company sales & purchases

- 1 Please give your best estimate of the percentage of this subsidiary's **output** (including parts & semi-manufactured articles) that is **sold to**:

HQ/subsidiaries in country of HQ	_____ Other subsidiaries _____ • In this country	_____ Abroad _____	_____ External customers _____ • In this country	_____ Abroad _____
%	%	%	%	%

- 2 Please give your best estimate of the percentage of this subsidiary's **inputs** (including parts & semi-manufactured articles) that are **received from**:

HQ/subsidiaries in country of HQ	_____ Other subsidiaries _____ • In this country	_____ Abroad _____	_____ External suppliers _____ • In this country	_____ Abroad _____
%	%	%	%	%

- 3 Please give your best estimate of the percentage of **company products sold** by this subsidiary that have been **manufactured by/in**:

This subsidiary	HQ/subsidiaries in country of HQ	_____ Other subsidiaries _____ • In this country	_____ Abroad _____	External suppliers
%	%	%	%	%

- 4 Please give your best estimate of the percentage of **Research & Development** done for products sold by this subsidiary that is **performed by/in**:

This subsidiary	HQ/subsidiaries in country of HQ	_____ Other subsidiaries _____ • In this country	_____ Abroad _____	External suppliers
%	%	%	%	%

Local responsiveness

- 1 To what extent are company **products** sold by this subsidiary created or modified for the local market? Please circle one.

⇐ Not at all							Very much ⇐
1	2	3	4	5	6	7	

- 2 To what extent are the **marketing efforts** for company products sold by this subsidiary adapted to the local market? Please circle one.

⇐ Not at all							Very much ⇐
1	2	3	4	5	6	7	

- 3 How important is the co-operation with major local **suppliers** (for example, in product development) for the success of this subsidiary? Please circle one.

⇐ Not important at all							Very important ⇐
1	2	3	4	5	6	7	

- 4 How important is the co-operation with major local **customers** (for example, in adapting your products) for the success of this subsidiary? Please circle one.

⇐ Not important at all							Very important ⇐
1	2	3	4	5	6	7	

Subsidiary capabilities

1 How would you evaluate this subsidiary's capabilities relative to other subsidiaries in the multinational corporation? Please circle one on each row.

	Far below			Average		Far above	
a. Research & Development	1	2	3	4	5	6	7
b. Purchasing	1	2	3	4	5	6	7
c. Production	1	2	3	4	5	6	7
d. Marketing & Sales	1	2	3	4	5	6	7
e. Logistics	1	2	3	4	5	6	7
f. Human resource management	1	2	3	4	5	6	7
g. Financial management	1	2	3	4	5	6	7
h. IT/Information Systems	1	2	3	4	5	6	7
i. Managing international activities	1	2	3	4	5	6	7

Knowledge flows

1 To what extent does this subsidiary engage in transfer of knowledge and skills (K & S)? Please circle one on each row.

	<input type="checkbox"/> n/a	Not at all		Average		Very much		
Product design								
a. Provides K & S to HQ		1	2	3	4	5	6	7
b. Provides K & S to other subsidiaries		1	2	3	4	5	6	7
c. Receives K & S from HQ		1	2	3	4	5	6	7
d. Receives K & S from other subsidiaries		1	2	3	4	5	6	7
Marketing know-how <input type="checkbox"/> n/a								
e. Provides K & S to HQ		1	2	3	4	5	6	7
f. Provides K & S to other subsidiaries		1	2	3	4	5	6	7
g. Receives K & S from HQ		1	2	3	4	5	6	7
h. Receives K & S from other subsidiaries		1	2	3	4	5	6	7
Distribution know-how <input type="checkbox"/> n/a								
i. Provides K & S to HQ		1	2	3	4	5	6	7
j. Provides K & S to other subsidiaries		1	2	3	4	5	6	7
k. Receives K & S from HQ		1	2	3	4	5	6	7
l. Receives K & S from other subsidiaries		1	2	3	4	5	6	7
Management systems & practices <input type="checkbox"/> n/a								
m. Provides K & S to HQ		1	2	3	4	5	6	7
n. Provides K & S to other subsidiaries		1	2	3	4	5	6	7
o. Receives K & S from HQ		1	2	3	4	5	6	7
p. Receives K & S from other subsidiaries		1	2	3	4	5	6	7



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International task forces

- 4 *Some MNCs make extensive use of committees and task forces, made up by executives from HQ and different subsidiaries. These committees deal with issues such as new products ideas, resolution of internal conflicts, etc.*

To what extent have executives in this subsidiary participated in international committees or task forces in the past three years? Please circle one.

↔ No participation at all Very high participation ↔
1 2 3 4 5 6 7

International training

- 5 *Some MNCs make extensive use of **international** management training programs in which executives from HQ and different subsidiaries follow courses that deal mostly with the transfer of company-specific knowledge.*

To what extent have executives in this subsidiary participated in international training programs in the past three years? Please circle one.

↔ No participation at all Very high participation ↔
1 2 3 4 5 6 7

Informal communication

- 6 *Some MNCs have a high degree of informal communication among executives of HQ and different subsidiaries. Such informal communication takes place through personal contacts and relationships, rather than through more formalised channels.*

What is the extent of informal communication between this subsidiary and HQ and other subsidiaries? Please circle one.

↔ Very little informal communication Very much informal communication ↔
1 2 3 4 5 6 7

Shared values

- 7 *Some MNCs attain a high degree of "corporate culture", trying to ensure that all subsidiaries know and share the main goals of the company and the values of top management, and to avoid different subsidiaries having their own sub-goals and values.*

To what extent are executives in this subsidiary aware of and act according to the goals and values of top management of your HQ? Please circle one.

↔ Few shared values and objectives Fully shared values and objectives ↔
1 2 3 4 5 6 7

Financial control

- 8 *Some MNCs rely mostly on financial control. This means that as long as subsidiaries reach certain levels of profit/sales, HQ does not interfere in any way with the operations of the subsidiaries.*

To what extent does this apply to this subsidiary? Please circle one.

↔ Not applicable at all Fully applicable ↔
1 2 3 4 5 6 7



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Language diversity

This section asks you for some information about the role of language diversity in your relationship with HQ. If you don't know the precise answer, please give your best estimate.

- 1 What is the (primary) language used by management in **this subsidiary**?

Subsidiary language:

- 2 What is the (primary) language used by management at **headquarters**?

Headquarters language:

- 3 Is there an official corporate language in the MNC?

No Yes, HQ's language Yes, other language:

- 4 How would you assess the following language capabilities? Please circle one on each row.

	Very poor		Average			Excellent	
a. Subsidiary staff in the HQ language	1	2	3	4	5	6	7
b. Subsidiary staff in the corporate language	1	2	3	4	5	6	7
c. HQ staff in the subsidiary language	1	2	3	4	5	6	7
d. HQ staff in the corporate language	1	2	3	4	5	6	7

- 5 Which of the following functions are involved in cross-lingual communications? Please tick all that apply.

R & D Purchasing Production Marketing
 Logistics Human resources Finance IT/IS

- 6 How many languages does this subsidiary have to work with in total?

Number of languages:

- 7 How much of the time are the following languages used in communication between HQ and subsidiary management?

	Phone, meetings, etc.	Fax, email, reports, etc.	
a. Subsidiary language:	% of the time
b. Headquarters language:	% of the time
c. Corporate language:	% of the time

- 8 To what extent do you agree with the following statements? Please circle one on each row.

	Strongly disagree		Neutral			Strongly agree	
a. Misunderstandings and conflict between this subsidiary and headquarters result from communication difficulties.	1	2	3	4	5	6	7
b. Speaking the corporate language or the language of headquarters is important for your power and influence in this MNC.	1	2	3	4	5	6	7
c. Communication channels are often determined by language capability rather than position in the company.	1	2	3	4	5	6	7



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Miscellaneous

This final section asks you some performance and strategy related questions. If you don't know the precise answer, please give your best estimate.

Subsidiary performance

- 1 How would you evaluate this subsidiary's performance in comparison to other companies operating in the same industry? Please circle one on each row.

	Far below		Average			Far above	
a. Corporate image	1	2	3	4	5	6	7
b. Product quality	1	2	3	4	5	6	7
c. Innovation	1	2	3	4	5	6	7
d. Productivity	1	2	3	4	5	6	7
e. Market share	1	2	3	4	5	6	7
f. Sales growth	1	2	3	4	5	6	7
g. Profitability	1	2	3	4	5	6	7

Corporate strategy

- 1 Which of the following statements best reflects how your corporate HQ achieves competitiveness in the global market? Please tick one.
- By building a strong local presence through sensitivity and responsiveness to national differences among countries.
 - By building cost advantages through global-scaled operations.
 - By exploiting headquarters' knowledge and capabilities through worldwide implementation and adaptation.
 - By building interdependent resources with specialized subsidiary roles while maintaining flexible and joint operations among countries.



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