Images of the HQ-subsidiary relationship: Has the country-of-origin effect disappeared?

Anne-Wil Harzing
Niels Noorderhaven

Version September 2006

Accepted for *Images of the Multinational Firm*

Dr. Anne-Wil Harzing
University of Melbourne
Department of Management
Faculty of Economics & Commerce
Parkville Campus
Melbourne, VIC 3010
Australia

Email: anne-wil@harzing.com
Web: www.harzing.com

IMAGES OF THE HQ-SUBSIDIARY RELATIONSHIP: HAS THE COUNTRY-OF-ORIGIN EFFECT DISAPPEARED?

Anne-Wil Harzing
Department of Management
University of Melbourne
Parkville 3010, AUSTRALIA
Tel: +61 3 8344 3724
Fax +61 3 9349 4293
Email: harzing@unimelb.edu.au

Niels Noorderhaven
Tilburg University
Department of Organization & Strategy
Tilburg, the Netherlands
Tel: +31 13 4662315
Fax: +31 13 4668354
Email: n.g.noorderhaven@uvt.nl

Globalization is assumed to bring about a process of convergence of cultural, political and economic aspects of life (Giddens, 1999). In the globalization debate the multinational corporation (MNC) is often presented as a harbinger of global practices (Dicken, 1998). As knowledge is thought to move more easily within than across organizational boundaries (Buckley & Casson 1985; Bartlett & Ghoshal 1989), MNCs operating in many different countries can be expected to speed up the international harmonization of technologies and organizational practices (Mueller 1994). While practices rooted in local idiosyncrasies may survive in local firms, within MNCs international 'best practices' are expected to disseminate more quickly. However, even though business may become increasingly global in many respects, the MNC remains dependent upon certain local environments for its competitive advantages and renewal thereof (Sölvell & Zander 1995). This view of the MNC casts doubt on the presumed role of these firms in the globalization process as far as the international transfer and harmonization of technologies and practices is concerned. Moreover, the view that whatever is transferred by the MNC to its subsidiaries can indeed be assumed to be international 'best practice' is increasingly questioned. Far from being 'nationless' organizations, as suggested by Ohmae (1990), even the most global MNCs in many respects still appear to be strongly rooted in their country-of-origin (Hu 1992; Ruigrok & Van Tulder 1995).

A small but growing body of literature discusses this 'country-of-origin' effect in MNCs (for overviews, see Ferner, 1997 and Harzing and Sorge, 2003). Pauly and Reich (1997), looking at MNCs from the United States, Japan, and Germany, conclude that the behavior of the firms studied divides into three distinct 'syndromes', typical of the respective national origins; and that these 'syndromes are durably nested in broader domestic institutional and ideological structures' (Pauly & Reich 1997, p. 24). Ngo, Turban, Lau & Lui (1998) studied the effect of the nationality of the parent company on human resource practices of subsidiaries operating in Hong Kong. Comparing these practices for subsidiaries with parent firms from the United States, Great Britain, Japan, and Hong Kong itself, they find strong support for the hypothesis that country-of-origin influences the firms' human resource management practices. Lubatkin, Calori, Very & Veiga (1998) focus on the administrative approach used by headquarters in recently acquired subsidiaries in Britain and France. During the transition period following an acquisition, the initial control strategies employed by the parent firm are seen as reflecting the acquiring firm's beliefs about 'how things ought to be done' (Lubatkin et al.

1998, p. 671). They conclude that British and French parent firms tend to establish different headquarters-subsidiary relationships. Most recently, based on data on 287 subsidiaries from 104 MNCs, Harzing & Sorge (2003) conclude that country-of-origin comes forward as one of the most important predictors of the control mechanisms used by MNCs, while also influencing their overall internationalization strategy to some extent.

On the other hand, not all the evidence points in the same direction. Tregaskis (1998) conducted an analysis comparable to that of Ngo et al. (1998) for firms operating in Britain, comparing nationally owned companies with subsidiaries of MNCs from continental Europe, the United States, and Japan. But in contrast with Ngo et al. (1998), she found only limited differences in human resource development practices associated with the parent company's national origin. Likewise, Lindholm (1999-2000) found that the European MNC he studied adopted standardized performance management policies and practices both in its home country and in overseas subsidiaries, and that these policies and practices had a broadly similar impact on the job satisfaction of host-country employees in different subsidiaries. Hayden & Edwards (2001), although stating that 'MNCs continue to be firmly embedded in, and strongly influenced by, their country of origin' (p. 132), nevertheless observed that the country-of-origin effect in a large Swedish MNC eroded as foreign, mainly Anglo-American, practices were adopted. In a comparison of HRM practices in subsidiaries US, Japanese and German MNCs Pudelko & Harzing (2006) find that Japanese and German subsidiaries are increasingly adopting US "best practices", while US subsidiaries themselves show a mix of country-of-origin and localization effects. With regard to German MNCs in particular, Lane (2000, 2001) suggests that they might have deviated from established societal patterns in the second part of the nineties and that their practices have become more similar to those of British and US American MNCs.

While all of these studies provide useful information, it is difficult to compare them systematically as they were conducted in different time periods and focus on very different organisational practices. This chapter therefore attempts to provide a comparison of country-of-origin effects for a very wide range of aspects of the HQ-subsidiary relationship and for two time periods: 1995 and 2002. In the remainder of this chapter we will first discuss the sources and mechanisms of operation of the country-of-origin effect. Subsequently, we will explain our choice of organisational practices and countries. We then provide an overview of our methods and the results of our empirical investigation. A short discussion and conclusion section concludes the chapter.

SOURCES AND MECHANISMS OF THE COUNTRY-OF-ORIGIN EFFECT

Sethi & Elango's (1999) conceptual paper about country-of-origin effects puts forward a concept of country-of-origin effects comprising three elements: '(1) economic and physical resources and industrial capabilities; (2) cultural values and institutional norms; and (3) national government's economic and industrial policies' (Sethi & Elango 1999, p. 287). To combine three so radically different factors in a single concept of 'country-of-origin effects' seems counterproductive. This effect should rather be isolated from contingency effects and policies of national governments (the first and third categories mentioned by Sethi and Elango), in order to more accurately explore its workings. Meshing factors that are subject to deliberate decision-making and choice and factors that are not, Sethi and Elango come to talk not only about 'a firm's choice of international competitive strategies and operational modes', but also of a firm that 'takes cognizance of .... cultural values and norms and patterns its organizational structure and operational practices so as to maximize the beneficial aspects of these norms' (Sethi & Elango 1999, p. 287 and p. 291, respectively). In our view, the second quote is symptomatic of a view in which culture and institutions are just another set of factors the MNC will have to take into consideration in determining its policy. In contrast, we adhere to the view that culture and (to a lesser extent) national institutions influence MNC behavior not primarily because they are deliberately factored into a decision equation, but rather through tacit beliefs and implicit values of its key decision makers.

Differences between countries that can give rise to country-of-origin effects are well-documented in the international comparative management literature. The literature can be divided into two schools of thought: the culturalist and the institutionalist orientation. The culturalist tradition leans heavily on the work of Geert Hofstede, and in particular the indices of national value dimensions he developed (Hofstede 1980; 2001). The underlying assumption is that individuals become 'mentally programmed' by the way they are raised by their parents and peers and by the institutions (in particular the educational institutions) in the country in which they grow up. This makes them adopt broad preferences for certain states of affairs that they share, to a certain extent, with other people that have grown up under comparable circumstances. The institutionalist school sees the institutional environment as the key determinant of organizational characteristics (DiMaggio & Powell 1991; Scott 1995). Three aspects of institutions are distinguished, regulative aspects, as institutions set, monitor and enforce rules; normative aspects, as institutions prescribe desirable goals and the appropriate means of attaining them; and cognitive aspects, as institutions influence the beliefs of actors (Scott 1995). In the field of international comparative management the institutionalist approach is exemplified by, among others, the 'business systems' approach (Whitley 1992a; Whitley & Kristensen, 1996). This approach is based on the conviction that differences in the structure and operations of firms from different countries 'clearly stem from variations in dominant social institutions such as the state and the financial systems' (Whitley 1992b, p. 1). In later work, Whitley expanded the range of institutions considered with 'cultural conventions' and the 'labour system' (Whitley 1996, p. 51). Variations in the institutional features of countries are linked to characteristics of economic actors in complex ways, spelled out in many examples in this strongly descriptive literature. A school of thought related to the business systems approach, and chronologically preceding it, is the societal effect approach (Maurice 1979; Maurice, Sorge & Warner 1980; Sorge & Warner 1986). While focussing on a narrower range of countries in its empirical applications (most studies compare France, Germany and Great Britain), the societal effect approach studies the mechanisms through which institutions imprint the firms operating in a country in more detail.

Both the culturalist and the institutionalist approach have tended to focus on the cross-national comparison of purely local or domestic firms, thereby limiting their relevance for cross-national management issues. The pertinent question in the context of this chapter is how local culture and institutions of the country of origin impact on MNC policies. Through what mechanisms could these sources of local idiosyncrasy exert influence on the MNC? First of all, as indicated above, almost all MNCs can be associated with one particular country of origin that influenced them during the period that they were not yet extensively internationalized. In these early years, the MNC may be assumed to have been influenced in a way and to an extent comparable to a purely domestic firm. However, in order for a country-of-origin effect to be present, we need to assume this influence is lasting. One approach would be to assume 'hysteresis', or 'a lagging effect after a causal force has been removed' (Pauly & Reich 1997, p. 5). Corporate inertia could cause MNCs to continue behave in ways that were attuned to their cultural and institutional environment as long as they were operating within their country of origin, but that are not necessarily so when operating in an international environment. Although corporate inertia is an important element in any explanation of consistency in firm behavior, a satisfactory explanation of the country-of-origin effect has to go beyond that.

As stated earlier, we focus on country-of-origin effects working through subconscious choices influenced by cultural and institutional characteristics of the country in which the decision makers grew up. In doing so we subscribe, with Ghoshal & Nohria, (1989) to the view that the cognitive orientations of senior managers are key to understanding the organizational processes through which MNCs adapt themselves to their environment. After all, cultural and institutional elements enter organizations through the people working in them (Kostova & Roth 2002). However, in contrast to Ghoshal & Nohria (1989), we also explicitly focus on non-rational influences. Managers may seek to adapt the MNC to its environment, but their view as to how this should be done is colored by the cultural and institutional characteristics of the society in which they were raised. In this we follow Calori et al. (1997). According to these authors, the 'administrative heritage' of a country is historically influenced by the industrialization process, the system of government, dominant philosophies and religions, and geographic and demographic conditions. Historical events and processes give shape to institutions, which in turn influence the national culture. Building on the business systems approach Calori et al. (1997) distinguish between 'proximate institutions' which tend to have a coercive influence on management practices, such as legal regulations regarding corporate governance, and 'background institutions' such as the family, schools, and religious organizations.

While endorsing this approach, we believe that an explanation on the basis of values instilled by institutions such as the family, schools, and religion, melts into the culturalist approach. The culturalist and the institutionalist approach seem to be complementary, as neither the concept of culture nor that of institutions alone captures the full spectrum of national differences that are important for the MNC (Xu & Shenkar 2002). However, we prefer to reserve the term 'institution' for more formal arrangements, such as legislation, and the term 'culture' for informal institutions and forms of influence, such as typical child-raising practices and typical career patterns. Obviously there is overlap between the two concepts, but the influence of the 'background institutions' described by Calori et al. (1997) can be effectively gauged with previously identified dimensions of culture, whereas that of the 'proximate institutions' appears to be less susceptible to this type of measurement.

Given that the country-of-origin effect is assumed to work through the administrative behavior of country-of-origin nationals working for the MNC, a prime mechanism for a permanent (or at least durable) country-of-origin effect is the continued hiring of country-of-origin nationals, even when the firm is operating internationally. Of course, it is not necessary – and not very well conceivable – that the MNC exclusively hires nationals from its country of origin. It suffices if key management positions are dominated by home-country natives. Secondly, the administrative preferences of the home-country nationals that traditionally have shaped the MNC - and still in many cases dominate top management – will become embedded in organizational structures, procedures, and processes. Organizational structure can be seen as the crystallization of the power relations within the corporation (Pfeffer & Salancik 1978). Both organizational structure and culture embody strategies of the past, and are very difficult to change (Johnson, 1988). When the company starts to expand abroad it will tend to use the same structures, etc., in managing its foreign activities; MNCs may be fairly 'ethnocentric' in this regard (Jain, Lawler & Morishima 1998, p. 566). The international application of nationally-inherited administrative approaches can be effected both through formal and informal procedures and through the influence of expatriates (Tregaskis 1998). Presumably, the tendency to use home-grown administrative practices for international operations will to a certain extent be counterbalanced by other forces, calling for either more diversity of practices or for a dominant practice that is different from that of the country-of-origin (Ghoshal & Nohria 1989; Kostova & Roth 2002). So increasing internationalization of the firm will be likely to lead to some extent of adaptation of the way in which it is managed. In this sense the country-of-origin effect as it can be found in a truly international MNC can be seen as a residual of its history. But, assuming continued hiring of home-country nationals for key management positions and embedding of administrative preferences in organizational structures, procedures and processes, this may be expected to be a particularly persistent residual, and hence the country-of-origin effect should be given due attention in studying the management of MNCs.

One final issue needs clarification: what country can be assumed to be the 'country of origin' of an MNC? This is not necessarily given by the location of MNC headquarters, as this may be relocated for, for instance, tax reasons at a moment at which the internationalization strategy and international control strategy are already formed. Rather, the country-of-origin is determined by its 'historical experience and the institutional and ideological legacies of that experience' (Pauly & Reich 1997, p. 4), i.e., the country in which the MNC 'grew up' is important. As most MNCs have initially started to operate within national borders, this criterion should not pose too many problems. The only exceptions would be MNCs that at an early stage acquired a bi-national status (e.g., Shell), MNCs that are the result of an international merger and have since developed into a new entity (e.g., ABB) or MNCs that could be classified as born global firms (Bell, McNaughton & Young 2001). Our reasoning applies to those MNCs that have a clear single country of origin.

CHOICE OF CONCEPTS AND COUNTRIES

In this chapter we look at differences in the headquarters-subsidiary relationship between MNCs from different countries of origin. This relationship can be seen as a classic control problem, whose attributes are similar to principal-agent relationships (Nohria & Ghoshal, 1994). Headquarters, the principal, cannot make all decisions because it does not possess all the necessary knowledge or resources, but it cannot leave all decisions to subsidiaries because the interests of subsidiaries might be different from that of headquarters or the MNC as a whole. Therefore, the key aspect of the headquarters-subsidiary relationship is the way in which headquarters ensures that subsidiaries are working towards common organizational goals. The different types of **control mechanisms** are the tools that headquarters have to achieve this alignment. Hence, the level of control exercised by headquarters by means of the different types of control mechanisms is the first element of the HQ-subsidiary relationship that we will investigate. As we will see below, there is a range of control mechanisms available that goes beyond the level of autonomy granted to subsidiaries. The second element that we will look at is the level of **expatriate presence** in subsidiaries. Expatriates can perform many roles in the headquarters-subsidiary relationship, among them control and knowledge transfer. The **level of interdependence** between headquarters and subsidiaries in comparison to the level of interdependence *between* subsidiaries is a third important element of the HQ-subsidiary relationship. Another element that we will study is the **level of local responsiveness** – in terms of local production, local R&D and adaptation of products and marketing to local conditions – that headquarters allows to the subsidiary. On all these aspects we will compare data from a survey conducted in 1995 with data from a survey conducted in 2002. In addition, we will use 2002 data to look at country-of-origin effects for another aspect of the HQ-relationship that has been almost neglected so far: the existence of **language barriers** between HQ and subsidiaries and the **language policies** applied by HQ. Finally, as performance is a major outcome variable in most management studies, we will also look for country-of-origin effects in relative **performance**.

In order to ensure a large enough sample size for individual countries, we chose to focus our analysis on four MNC headquarter countries: the US, the UK, Germany and Japan. A focus on these four countries is very appropriate for several reasons. First, they are the four most highly ranked developed countries in terms of their GDP (Worldbank, 2004). Second, they all host a very significant number of MNCs. And third the four countries differ significantly in both their culture and business system. Ronen & Shenkar (1985) discussed 9 different studies that investigated cultural differences and identified clusters of countries. In seven of these studies the UK was included and in all studies it was classified in the Anglo cluster, together with the U.S. Although Germany and Japan show significant cultural differences and were always classified in different clusters, in some respects Germany takes a middle position between Japan and the UK and the US. In terms of Hofstede's dimensions, Germany scores similar to the US and the UK on masculinity and power distance, but it scores mid-way between the US, UK and Japan on uncertainty avoidance and individualism.

Looking at their business systems, the four countries also differ dramatically. Britain shares with the US an adherence to consumer capitalism, which is in strong contradiction to the producer capitalism more typical of both Germany and Japan. With the first comes a focus on marketing excellence, while the second is characterized by manufacturing excellence. There are also major differences between Germany/Japan and UK/USA with regard to capital structure and the importance of stock markets. British and American companies raise their funds mainly by selling stock (are equity-based), while German and Japanese companies are mainly credit-based (Prowse, 1994). These different capital structures are also reflected in different philosophies about the management of companies. While Anglo-American companies are mainly managed in the interest of shareholders and focus on the maximization of short-term profits, German and Japanese companies are more concerned about long-term viability and stability. This phenomenon is reinforced by the fact that in the Anglo-American countries, around 80% or more of the shares are held for trading purposes, while in Germany and Japan the overwhelming majority of shares are held for control purposes (Prowse, 1994: 24, table 3). Obviously, investors holding shares for trading purposes are more likely to focus on short-term returns than on long-term stability.

The consequence of these differences might be that the product and its production and development being more important for the corporate identity of a multinational from Germany and Japan. As a result, it will be more likely to promote an international strategy in the process of going international. This means it will attempt to perform on the basis of an existing product template and its advantages, it will try to replicate this product template abroad and emphasize interdependencies or identity of the country-of-origin template and the subsidiary template, and it will not go for multi-domestic or other locally responsive strategies abroad. The British and US multinationals on the other hand will see the enterprise as hanging together around financial flows and measures and encourage marketing postures, which are more multi-domestic or locally responsive. In this way, internationalization strategies are likely to be the consequence of deeply rooted, societally embedded, strategies in the country-of-origin. We would therefore expect MNCs from Germany/Japan and USA/Britain to differ in the way they internationalized and hence in their HQ-subsidiary relationships.

Several studies have indicated that German MNCs display a lesser geographical reach than British MNCs, until recently relied more heavily on export than on FDI, and are deeply embedded into their domestic business system, producing far more value from their domestic base than in their foreign affiliates (Ruigrok & van Tulder, 1995; Dörre 1996; Hirst & Thompson, 1996; Lane 1998; Whitley, 1998). According to Lane (1998) the foreign affiliates of German MNCs are replicas of their parent company, rather than adapting to host country features, while British MNCs tend to follow more of a conglomerate strategy with a lot of subsidiaries resulting from acquisitions. These differences would point into the direction of a lower local responsiveness and higher dependence on headquarters for German subsidiaries, while the reverse would be true for British subsidiaries. Whitley (1999) discusses this even more directly. He describes German MNCs as co-operative hierarchies, in which most foreign subsidiaries of any significance will be quite closely supervised and integrated into parent activities and where the integration of foreign subsidiaries into host economies is limited. Whitley sees the isolated firm type as more typical of American and British companies. In this type of firm subsidiaries are managed at a distance and provided the formal procedures and targets are followed, units will be allowed some local adaptation and will not be as fully integrated into their parents' operations as is the case with co-operative firms. The result may be more integration into host economies with local sourcing and adaptation of products to local markets. Subsidiaries from co-operative hierarchies will rely more on products and technologies from the parent.

We could of course wonder to what extent country-of-origin effects are enduring and hence whether convergence might become more important in the 21st century. Germany in particular has recently experienced more rapid changes in ownership and governance moving more towards Anglo-American models, although the question is to what extent conversion to promoting shareholder value is just lip service (Lane, 2000; Morgan & Kristensen, 2005). This might also impact on the way German MNCs structure their HQ subsidiary relationships. Lane (2000, 2001) suggests that German multinationals might have deviated from established societal patterns in the second part of the nineties. She mentions that subsidiaries of German multinationals have been allocated more resources and granted more autonomy, with the organizations moving towards a decentralized network structure and subsidiaries becoming more embedded in the local environment, through outsourcing and local reruitment of managers. However, her study is based on public company documents and secondary data and covers only seven of the most internationalised German MNCs and she calls for "more and better data" (2001: 93). Our study uses primary data collected at some 30-50 subsidiaries from MNCs headquarted in four different countries and compares two distinct time periods. By comparing MNCs from the same countries across two different time periods, we should be able to give a more comprehensive picture of possible changes in country of origin effects.

METHODS

Data were collected by means of two large-scale international mail surveys. In both cases the questionnaire was developed after an extensive review of the relevant literature on headquarters-subsidiary relationships and was pilot-tested with academics in the area, managers, and international students. The first study was conduced in 1995/1996 by mailing questionnaires to the managing directors of wholly owned subsidiaries of 122 multinationals in 22 different countries, representing eight manufacturing industries. The second study was conducted in 2002 by mailing questionnaires to the managing directors of wholly owned subsidiaries of 82 MNCs headquartered in the USA, Japan, Germany, the UK, France and the Netherlands. Subsidiaries were located in more than 50 different countries and four very different manufacturing industries were represented. Disregarding undeliverable questionnaires, the overall response rate in the first study was 20%. The total number of 287 subsidiary responses represented 104 different headquarters (85% of our population). In the second study the response rate was 8%. The resulting sample of 169 subsidiaries represented nearly 50 different MNCs (61% of our population). Although the response rate in the second study was much lower than for the first study, it is not unusual for multi-country studies with high-level executives as respondents. Harzing (1997) reported that response rates for international mail surveys typically varied between 6% and 16% and key studies in the field (e.g. Ghoshal & Nohria, 1989) have been based on response rates of 15%. Ghoshal & Nohria's data were collected nearly twenty years ago. Intensification of the pace of business as well as the increasing use of mail surveys are likely to have led to a substantial decline in willingness to respond to mail surveys. In this chapter we only use the data for subsidiaries of MNCs headquartered in the USA, Japan, Germany or the UK, which resulted in a sample size of 149 for 1995 and 145 for 2002.

Non-response bias was evaluated in a number of ways. First, we tested whether responses on the key variables in this study differed systematically between respondents in the original mailing and respondents in the reminder. In this procedure late respondents are treated as a proxy for non-respondents. No significant differences were found for any of the key variables in our study. Secondly, we compared responding and non-responding firms on size (number of employees), age, industry and country of headquarters. No significant differences were found on any of the variables. We can therefore be reasonably confident that non-response bias is not a problem in our study.

Measures for the key concepts in our study were based on a combination of existing and newly created scales. Full details can be found in Appendix 1. Our surveys used a key-informant approach and our results are therefore based on the information of a single respondent in each organization. This is a limitation that this study shares with virtually all large-scale studies of multinationals. The prevalent response rates in international mail surveys make another approach practically infeasible. Second, although every care was taken to formulate questions as unambiguously as possible, our study used perceptual measures to operationalise some of the constructs. This was done first because of the not immediately quantifiable nature of concepts such as control mechanisms. The result is that the answers to our questions might contain an element of perception, which might reduce the validity of our findings. However, questions elicited information on actual practices and policies, rather than opinions on such practices that might be personally colored and depend on the person of the respondent instead of on the organization.

RESULTS

Table 1 compares the sample for the four different countries on basic descriptives. Our sample sizes are very similar for the two periods and although for the individual countries they are not very large, they are large enough for basic statistical comparisons. On average subsidiaries from Japanese MNCs are clearly younger than subsidiaries from other MNCs, reflecting Japan's shorter history of internationalisation. Although in 1995 German and US subsidiaries are substantially larger than British and

Japanese subsidiaries, these differences are not significant and mostly caused by a small number of outliers. In 2002 our subsidiaries are very similar in size.

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Table 1 about here
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Table 2 first looks at the type of control mechanisms that HQs in the four different countries apply towards their subsidiaries. Our 1995 data show that impersonal control is the most favoured means of control in subsidiaries of all four countries, while direct personal control (centralisation and direct supervision) is the least favoured means of control. There are, however, some differences between countries, with Japanese subsidiaries showing particularly low level of impersonal control mechanisms and also slightly lower levels of control by socialisation and networks (shared values, international training & task-forces and informal communication), while both Japanese and German MNCs show higher levels of direct personal control. The 2002 data confirm this picture with Japanese subsidiaries again showing lower levels of impersonal control and indirect personal control. The 2002 data, however, measured centralisation (one aspect of direct personal control) in a more direct way by asking subsidiaries about their level of autonomy in a range of areas. Although MNCs in the four countries do not differ in the extent of autonomy they grant their subsidiaries for downstream activities (marketing, finance & HRM), Japanese subsidiaries have a significantly lower level of autonomy than subsidiaries from all other countries for upstream activities (product development and modification, selection of and negotiation with suppliers). Both Japanese and German MNCs seem to differentiate the level of autonomy they grant to subsidiaries depending on the type of activities (less for upstream than for downstream), while for British and US MNCs the level of autonomy for both type of activities is virtually identical.

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Table 2 about here
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One aspect of control is the presence of expatriates in subsidiaries. Table 3 shows that in 1995 there was a clear distinction between German and Japanese subsidiaries on the one hand and British and US subsidiaries on the other. The former had a higher proportion of expatriates in top-5 functions and in particular had an expatriate as managing director in more than half of the subsidiaries. Our 2002 data show that this picture has not changed at all for Japanese subsidiaries. The percentage of expatriate managing director is virtually identical to that in 1995. And although the percentage of expatriates in top functions is lower, the number of functions included has been expanded to 10 and hence the actual *number* of expatriates in top functions is virtually identical to 1995 numbers as well. In contrast, German MNCs seem to have localised considerably in the timespan of 7 years, reducing the number of expatriates employed in subsidiaries, to the extent that these numbers now resemble those of British and US MNCs rather than Japanese MNCs.

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Table 3 about here
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In terms of the functions that expatriates fulfil within the subsidiaries, there are some substantive differences between countries. Starting with the functions related to control, our 1995 data show that expatriates in subsidiaries of Japanese MNCs are more likely to fulfil the "bear" role of expatriation (i.e., ensuring HQ policies are implemented), while to a lesser extent this is also true for German MNCs (see also Harzing, 2001b). In 2002 this is still true for Japanese MNCs, but again German MNCs seem to have moved to Anglo-American practices in this respect. The most important function of expatriates in Japanese MNCs is improving communication to HQs (the "spider" role) and this function is more important for Japanese MNCs than for MNCs from any of the other three countries, but most particularly US MNCs. This is true in both 1995 and 2002. Our 2002 data show that it is communication to HQs that is most important for Japanese MNCs as the use of expatriates to improve communication to other subsidiaries is much less important. The same is true for German MNCs, while for British and US MNCs communication to HQs and subsidiaries seems to be almost equally important. Japanese and German MNCs seem to be more HQ-centred, while for British and US MNCs there is considerable interaction between subsidiaries. No significant differences are apparent between countries for the "bumble-bee" role of international transfers (i.e., ensuring a homogenous corporate culture), neither for 1995 nor for 2002.

Knowledge transfer from HQ seems to be one of the most important functions of expatriates. In all four countries and for both time periods, it is indicated to be the first or second most important function of expatriation. As a result there are few significant differences between countries. Our 2002 data, however, included information on both knowledge transfer from HQ and knowledge transfer from other subsidiaries. And consistent with the observation above for British and US MNCs the knowledge function from subsidiaries is nearly as important as the knowledge transfer function from HQ, while for Japanese and German MNCs knowledge transfer from subsidiaries is much less important. Using expatriation as management development seems to be less important for Japanese MNCs than for MNCs from the other countries. This is true for both 1995 and 2002. Again, though, the 2002 data show the more HQ-centric nature of Japanese and German MNCs, with training for future positions at HQ to be more important than training for future positions at other subsidiaries, while for British and US MNCs these two functions are not substantively different.

Table 4 provides an overview of the extent of interdependence in the subsidiaries in our two samples, measured in terms of their level of intra-company purchases and knowledge flows. In 1995, German and Japanese subsidiaries were clearly different from British and American subsidiaries. The former showed a significantly higher dependence on HQ, while for the latter the dominant trading partners were other subsidiaries and external suppliers. While subsidiaries of German and Japanese MNCs tended to function mostly as pipelines for their HQs, subsidiaries of British and American MNCs could be seen as important nodes in the corporate network. In 2002, both German and Japanese subsidiaries seem to have moved away slightly from the dominant orientation to HQ, although this move was more pronounced for German subsidiaries than for Japanese subsidiaries. However, the main patterns are still similar: Japanese and German subsidiaries are more dependent on HQ and less dependent on external suppliers than British and American subsidiaries. We should note here though that the data for 1995 are only a rough estimate of actual intra-company purchases as we only asked respondents to tick rather broad categories, that were subsequently converted into percentages by taking the mid-point of each category. Hence data for 2002, where we asked for the actual percentage, are likely to be more reliable.

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Table 4 about here

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In the context of the continuing differences between German and Japanese MNCs on the one hand and British and American MNCs on the other hand, it is also illuminative to look at the *median* values for purchases from HQ and from external suppliers. For German and Japanese MNCs these are 30% and 17.5/5% respectively, indicating a clear dominance of intra-company purchases. For British and American MNCs, the median value for purchases from HQ is 0%, while for external purchases it is 35% indicating a very clear dominance of external suppliers. Japanese and German MNCs are more tightly integrated, conducting core functions within the corporate network, while British and American MNCs have outsourced those functions to a larger extent. In terms of knowledge flows differences between the four countries are generally small. However, while for British and American MNCs flows with HQ and subsidiaries are of nearly equal importance, for Japanese and German MNCs flows with HQ are more important than flows with other subsidiaries, which confirms the more HQ-centric nature of MNCs from the latter countries.

While the level of intra-company sales measures the extent to which subsidiaries are integrated with the rest of the MNC network, Table 5 shows the extent to which they are locally responsive. Our data for 1995 show that, overall, marketing shows the highest level of local responsiveness with around half of the marketing being adapted to local circumstances. Product modification occurs mainly within British subsidiairies, while these subsidiaries also show the highest proportion of local manufacturing and local R&D. Overall, localisation of manufacturing is more common than localisation of R&D. German subsidiaries in particular show a rather low level of local responsivess. We should note here that the data for 1995 are only a rough estimate of actual level of local responsiveness as we only asked respondents to tick rather broad categories, which were subsequently converted into percentages by taking the mid-point of each category. Hence these data might not be completely accurate and can only be compared with 2002 on a general level. Our data for 2002 again show that marketing modification is more common than product modification and that local manufacturing is more likely than local R&D. British subsidiaries remain the ones that are most locally responsive, including with respect to two new measures of local responsiveness: collaboration with local suppliers and customers. However, in comparison to 1995, German subsidiaries seem to have increased their level of local manufacturing and R&D to such an extent that it is now no longer significantly different from British and American subsidiaries. In 2002, it is Japanese subsidiaries that show the lowest level of local responsiveness.

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Table 5 about here
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One aspect of the HQ-subsidiary relationship that has received very little attention so far is the existence of a language barrier between HQs and subsidiaries and policies that are in operation to overcome this barrier (see also, Feely & Harzing, 2003; 2004). This variable was not included in our 1995 survey and hence we can only discuss the most recent data. As Table 6 shows German and Japanese MNCs are far more likely to experience a language difference between HQ and subsidiaries (i.e. HQs and subsidiary managers having a different native language) than British and US MNCs. Of course this is not surprising given the larger number of countries that have English as their native language and the tendency of US and British MNCs to direct a large part of their foreign direct investment to countries that have English as their native language. And given the widespread use of English as a second language it is also to be expected that the capability of subsidiary staff in the HQ language for British and US MNCs is very high (around 6 on a 7 point scale). Conversely, the capability of subsidiary managers in Japanese and German is rather low (2 and 3.6 on a 7-point scale).

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Table 6 about here
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As a result, while British and US MNCs select their HQ language as the corporate language in all cases, German and Japanese MNCs can usually not afford to do so. Even so, 28% of the Japanese MNCs still insist on Japanese as their corporate language, while another 28% do not have a corporate language at all. As a result only 44% of the Japanese MNCs has selected another language (i.e. English) as their corporate language, while this is the case for 66% of the German MNCs. It is hence not surprising that one of the key functions of expatriates in Japanese MNCs is to improve communication to HQ. The capability of subsidiary staff in the corporate language in German and Japanese MNCs is lower than that of subsidiary staff in British and US MNCs (around 5 on a 7 point scale). However, we should not forget that the former includes subsidiaries where the corporate language is German or Japanese rather than English. The lower level of language difference between HQ and subsidiaries for British and US MNCs and the widespread use of English as a corporate language does not mean that British and US MNCs do not have to cope with language differences at all. In fact, when asked which functions, out of a list of eight, were involved in cross-lingual communications, British and US MNCs listed nearly as many as German and Japanese MNCs. Hence it appears that the role of language in HQ-subsidiary relationships is well worth further study.

A final comparison looks at performance differences between subsidiaries (see Table 7). This variable was not included in our 1995 survey and hence we can only discuss the most recent data. Each subsidiary was asked to rate its performance in comparison to other companies operating in the same industry. We looked at three different aspects of performance: market performance (profitability, sales growth and market share), process performance (product quality, innovation and productivity) and HRM performance (employee development and staff retention). Not surprisingly, most subsidiaries showed an acquiescence bias in this question. Very few subsidiaries claimed they performed worse than average. However, interesting differences are still apparent. Subsidiaries from the four different HQ countries differ in what they see as their best area of performance. For German and Japanese subsidiaries process performance rates highest, while for British and US subsidiaries this is HRM performance. Japanese and US subsidiaries rate their performance on market indicators as lowest, although in a cross-country comparison this performance is significantly higher for the US than for Japan. German subsidiaries feel their lowest relative performance is in HRM, while for British subsidiaries this is in process performance. The largest differences *between* countries are in HRM performance with German and Japanese subsidiaries scoring significantly lower than British and US subsidiaries.

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Table 7 about here
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DISCUSSION AND CONCLUSION

This study used primary data collected at some 30-50 subsidiaries from MNCs headquarted in four different countries and compared HQ-subsidiary relationships for two distinct time periods. By comparing MNCs from the same countries across two different time periods, we have been able to give a more comprehensive picture of possible changes in country of origin effects than earlier studies. Our results provide further support for the existence of unique country patterns, even for the most internationalized companies in the world. We therefore find a strong counter-argument against Ohmae's (1990) suggestion of nationless corporations. Following Hu (1992) we think it would be better to describe MNCs as national firms with international operations instead.

A clear conclusion of our study is that there are large differences in nearly all aspects of the HQ-subsidiary relationship between US and Japanese MNCs. These differences are persistent in that there are as many differences between MNCs from these two countries in 2002 as there were in 1995. British and US MNCs on the other hand are very similar in terms of their HQ-subsidiary relationships. In fact our 2002 survey shows even fewer differences than our 1995 survey. The lack of differences between US and British MNCs might seem surprising in the context of previous literature and recent studies conducted by Ferner et al. (see e.g. Ferner, Almond, Clark, Colling, Edwards, Holden & Muller-Camen, 2004) which show that US MNCs are more centralized, standardized and formalized in their HR practices than British MNCs. The tendency of US MNCs to favour transfer of their home country HR practices more so than Japanese and German MNCs was certainly confirmed in a recent study by Pudelko & Harzing (2006) that showed that subsidiaries of Japanese and German MNCs adopted US practices, while US subsidiaries showed a mix of localization and country-of-origin effect. However, we should note that all of these studies have focused only on human resource management and industrial relations practices, while our current study takes a much broader perspective. As Pudelko and Harzing (2006) suggested MNCs might limit transfer of practices to their areas of core competence.

A comparison of German MNCs with their British and Japanese counterparts provides a more mixed picture. Although German MNCs are different from both British and Japanese MNCs, they show a larger number of significant differences with their British than with their Japanese counterparts. This is almost as true in 2002 as it was in 1995. In addition, even where differences were not statistically significant, we discovered an overall pattern where Japanese and German MNCs clustered together, being quite distinct from their British and US counterparts. However, in terms of localisation of subsidiary management (i.e. the reduction of expatriates in subsidiary top management) and the localisation of production and R&D German MNCs do seem to have adapted to the Anglo-American practices of higher levels of localisation.

Overall, however, we can still find a broad pattern in which German companies resemble Japanese companies most closely, while British companies are very similar to their American counterparts. Although Europe becomes economically and politically more integrated this has not resulted in a similarity of management practices, not even for the most internationalized companies. It would therefore seem inappropriate to generalize results from a small number of European countries to a European pattern as is done for instance by Bartlett & Ghoshal (1989) who investigated three European MNCs, of which one was Dutch, one Dutch/English and one Swedish. Their conclusions about European companies might have been substantially different if they had investigated German, French and Spanish MNCs instead. Equally inappropriate would be to generalize to a European pattern from a very unbalanced European sample where one or two countries make up a large part or even a majority of the sample, as is done by Kopp (1994), Peterson, Sargent, Napier & Shim (1996) and Yip, Johansson & Roos (1997) However, even having a balanced sample could present problems, since the overall mean might hide large underlying differences. Picard (1977), Haar (1989) and Swamidas (1993) for instance draw conclusions from samples including a comparable number of German and British MNCs and given the differences described above their results might have been very different had one of these countries not been included. Unfortunately, in many studies samples for individual countries are too small to permit a country-by-country analysis for European MNCs. However, even if this is the case, researchers could at least try to exclude countries such as Germany and Britain from their European sample to see whether this has a significant effect on the overall mean.

We could of course wonder to what extent the differences uncovered in this chapter are enduring and hence whether convergence might become more important in the 21st century. Lane (2000, 2001) suggested that German multinationals might have deviated from established societal patterns in the second part of the nineties. She mentioned that subsidiaries of German multinationals have been allocated more resources and granted more autonomy, with the organizations moving towards a decentralized network structure and subsidiaries becoming more embedded in the local environment through outsourcing and local recruitment of management. This certainly resonates with some of the findings in our 2002 study. However, we still find many differences between British and German MNCs and even more differences between US and Japanese MNCs. This finding suggests long-lasting stability of comparative differences over time. These differences clearly appear to be rooted in different postures and strategies, which have remained rather stable throughout an extensive period of industrialization and post-industrialization. They are the consequence of different conceptions of what the identity and comparative advantage of the firm should be built on: the product and engineering template in Germany and Japan, and differentiated marketing plus integrated financial management in Britain and the USA. Such postures and strategies lead to different paths of internationalisation, and they are not necessarily specific for historically successive phases of internationalisation. The British and US MNCs will therefore almost always seek to make the best profit in a conglomerate, which is more locally responsive, whereas the German and Japanese MNCs will strive towards a specialist technical template that can be implemented across locations.

Consequently, we extend a strong plea for more empirical research into the country of origin effect for MNCs in general and the study of previously neglected MNCs of European origin in particular. As we have argued in earlier publications (Harzing, 1995, 1997, 2002) a lack of empirical research in international business and management in general and a lack of non-US research in particular has created several myths. Too often, MNCs have been presented as members of a species of their own. It is time to recognize that MNCs are, after all, firms, just like companies operating within the borders of a single state, and that they are susceptible to the same social influences as other firms. From some perspectives MNC can certainly be considered "harbingers of globalization" (Dicken, 1998), but from another perspective, the perspective maintained in this chapter, they are also products of the "administrative heritage" (Lubatkin, Calori, Very & Veiga, 1998) of their country of origin. Hence the image of the MNC arising from studies into the country-of-origin effect is a necessary complement of other images of the MNC, which tend to depict this type of company as *sui generis*. Just like other companies, MNCs are after all products of the human mind.

CASE STUDY

Fuji in Tilburg

Fujifim is a Japanese MNC operating in over one hundred countries with over two hundred subsidiaries. Fujifilm originally was a producer of photographic film, but over the years the company has diversified into other businesses, like medical imaging and information systems and office equipment. In 2006 Fujifilm employed 75.000 employees worldwide and had revenues of close to 28 billion US dollars (Fujifilm Annual Report 2006).

In 1982 Fujifim started a production plant in Tilburg, the Netherlands. At that time this was the largest investment of the company outside Japan. Almost twenty years later the two founding fathers of Fuji Tilburg, Kenzo Tatsuuma and Joop van Lier, looked back upon their experiences (see the contributions of Tatsuuma and Van Lier in Benders et al 2000). Their stories illustrate the difficulties of an MNC originating in Japan to get to grips with the Dutch environment.

In this chapter we concentrate on country-of-origin effects working through subconscious choices influenced by the cultural and institutional environment of the home country of the MNC. The founding years of Fuji Tilburg provide examples of these country-of-origin effects. Regarding culture, Tatsuuma in his account emphasizes the importance of the Fujifilm company slogan at that time: *Quality First, Family Way*. For Tatsuuma the meaning of this slogan was self-evident, the second part of it expressing 'the necessity of family-like friendly and strongly tied groups'. However, it proved to be very difficult to make this understandable and acceptable to the Dutch employees. Only after initial failure Fuji Tilburg succeeded in introducing some group activities that were standard in Japan, however, only with modifications. Van Lier, a Dutchman who was hired as the first personnel manager of Fuji Tilburg, also had difficulty understanding the meaning of 'family way', and asked Tatsuuma for an explanation. After some pressing, Tatsuuma answered: 'that is very difficult to explain, you have to feel it'. Only later, when visiting Fujifilm in Japan Van Lier began to understand what the company slogan meant, and then he only partly liked it and decided the concept had to be adapted to be palatable to the Dutch.

With regard to the institutional environment, the Japanese managers of Fujifim were used to a system in which employees have no, or only very vague job descriptions, and wanted to extend this practice to Fuji Tilburg. 'They were convinced that people would do what is "obviously" required from them in a given situation'. Dutch employees however are used to rather detailed job descriptions, and to restrict their activities largely to what is described as part of their job. Negative effects of this can be disputes over areas of responsibilities (if job descriptions overlap) and gaps in the accomplishments of tasks (when employees keep to strictly to the formal limits of their jobs). When Van Lier asked the Japanese technical manager of Fuji Tilburg job descriptions for the engineers to be hired, he at first was puzzled, and after some pressing came up with one-page job descriptions specifying, e.g., that a maintenance operator 'has to maintain the machine', and a quality assurance manager 'makes the quality standards'. Short as they were, these job descriptions did list the desired personal qualities of the job incumbents: 'person should be an honest person', 'person should be a good member of his team', or 'person should be loyal to the company'.

The experiences of Fujifilm in setting up the Tilburg subsidiary exemplify the ways in which the country-of-origin effect can lead MNC managers to make decisions that are at odds with the local environment, often without even being aware that things could also be arranged differently.

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FURTHER READING

Harzing, A.-W. K., Sorge, A.M., Paauwe, J., HQ-subsidiary relationships in multinational companies: A British-German comparison, in: Geppert, M., Matten, D., Williams, K. (eds.), *Challenges for European Management in a Global Context — Experiences from Britain and Germany*, Basingstoke, London, New York: Palgrave 2002, pp. 96-118.

This chapter provides a more detailed analysis of the 1995 data presented in this chapter for the UK, USA, Germany and Japan. It shows a broad pattern in which German companies resemble Japanese companies most closely, while British companies are very similar to their American counterparts. It would therefore seem inappropriate to either generalize findings from one or two European countries to a European pattern, or to consider European countries as a homogeneous whole.

Harzing, A.-W. K; Sorge, A.M., The relative impact of country-of-origin and universal contingencies on internationalization strategies and corporate control in multinational enterprises: World-wide and European perspectives, *Organization Studies*, 24, 2003, pp. 187-214.

This empirical paper compares the impact of country-of-origin on internationalization strategies and corporate control in multinational enterprises with universal contingencies such as size and industry. It shows that organizational control practices at the international level to be more than anything else explained by their country of origin. Universal contingencies such as size and industry are on the other hand more related to internationalization strategy

Noorderhaven, N.G.; Harzing, A.W.K. (2003) "The "Country-Of-Origin Effect" In Multinational Corporations: Sources, Mechanisms And Moderating Conditions", *Management International Review*, vol. 43, Special Issue 2, pp. 47-66.

This conceptual paper argues that the sources of the county of origin effect lie in the culture and institutions of the home country of the MNC. The mechanisms through which the effect manifests itself are the (continued) hiring of home-country nationals by the MNC, and the embeddedness of the administrative preferences of these home-country nationals in the organizational structures, procedures and processes of the MNC. The homogeneity of the home culture, substantive characteristics of the home-country culture, the size and openness of the home-country economy, the cultural and institutional diversity of the environments in which the MNC operates, and the international growth path of the MNC are proposed to impact on the strength of the country-of-origin effect.

Sorge, A.M. (2005) *The Global and the Local. Understanding the Dialectics of Business Systems*, Oxford: Oxford University Press.

This book presents a sociological theory of the development of human societies to explain how business systems evolve and change, and how internationalization works to specify and change societal identities within nations. Examining changes in work, organization, corporate governance, and human resources, Sorge shows how this interaction is a pattern that has been followed over centuries. The author concentrates on the example of Germany, a supposedly highly homogeneous and closed society, as evidence for the universality of shifting borders, expanding horizons, local adoption and adaptation of global practices, and the hybridization of systems and standards, as the normal course of social evolution.

DISCUSSION QUESTIONS

1. To what extent do you think the strength of the country-of-origin effect within an MNC will depend on the internationalization strategy of that MNC (in terms of Bartlett and Ghoshal's concepts of the 'international', 'multidomestic', 'global' and 'transnational' MNC)?
2. What can MNCs do to learn about their own country-of-origin effects, and to avoid overly ethnocentric management?
3. Overall, should the country-of-origin effect be seen as something negative (e.g., because management styles may be employed that do not fit well with local environments) or as something positive (e.g., because proven management approaches are 'exported' to other countries)?
4. The empirical results discussed in this chapter show that for MNCs from some countries the country-of-origin effect is stronger and more persistant than for MNCs from other countries. Could you think of other countries (not included in the studies discussed) for which you would expect a particularly strong/persistent country-of-origin effect? Why?

APPENDIX 1: MEASURES USED IN THE STUDY

Control mechanisms can be defined as the instruments that are used to ensure that all units of the organization strive towards common organizational goals. Numerous control mechanisms have been identified. But following a synthesis of authors such as March & Simon (1958), Lawrence & Lorsch (1967), Child (1984), Galbraith (1973), Ouchi (1980), Mintzberg (1983), Bartlett & Ghoshal (1989), Martinez & Jarillo (1991) and Hennart (1991), the concept of control is mainly structured along two dimensions: directness and explicitness of control on the one axis, and impersonality of control on the other. This allows us to identify four major types of control mechanisms as summarized in Table 8. Based on the literature review, several constituent elements were defined for each of the four control mechanisms.

Table 8: Classification of control mechanisms on two dimensions

	Personal/Cultural (founded on social interaction)	**Impersonal/Bureaucratic/Technocratic (founded on instrumental artifacts)**
Direct/Explicit	Centralization, Direct Supervision	Standardization, Formalization
Indirect/Implicit	Socialization, Informal communication, Training & task forces	Output control, Planning

To measure the various constituent elements of the different control mechanisms, we adapted and supplemented the questions that were used by Martinez & Jarillo (1991). We decided to combine the two impersonal control mechanisms as the data showed them to load on the same factor. Cronbach's alpha reliabilities ranged from 0.68 to 0.74. In the 2002 study, we decided to differentiate the centralisation aspect of direct personal control by asking respondents to assess - on a five point scale - the influence HQ would normally have on a range of issues varying from selection of suppliers to design of advertising for the local market. This measure was adapted from Otterbeck (1981). Exploratory factor analysis resulted in two clearly separated factors that reflected centralisation of upstream activities ($\alpha = 0.81$) and centralisation of downstream activities ($\alpha = 0.67$).

Two questions were used to assess the presence of *expatriates* in a given subsidiary. These questions asked respectively for the nationality of the managing director and the number of top five (1995) or top ten (2002) jobs held by expatriates. The nationality of the managing director was recoded into 0 if the managing director was a local and 1 if the managing director was a parent country national. The small number of third country nationals was disregarded. The importance of the different functions of expatriation was probed with a series of single-item measures covering the major functions of expatriation (see also Harzing, 2001a-c). In the 2002 study, several of these functions (improving communication, knowledge transfer, training for future positions) were differentiated, looking at either interaction with headquarters or with subsidiaries.

Interdependence was operationalized using the percentage of intra-company sales. In the 1995 survey respondents were asked to differentiate between their purchases from or sales to headquarters and subsidiaries, so that we could verify the relative importance of their interdependence with both headquarters and other subsidiaries. Six answer categories were included: 0%, 1-25%, 26-50%, 51-75%, 76-99% and 100%. The percentage of purchases from external suppliers was not measured directly, but calculated as the balance. In the 2002 study we refined this measures by asking respondents to estimate the percentage of their subsidiary's input from different entities: HQ/subsidiaries in the country of HQ, other subsidiaries in the same country or abroad and external suppliers in the same country or abroad. The two measures for subsidiaries and suppliers were subsequently averaged. The 2002 study also included a second measure of interdependence focusing on knowledge flows. This measure was taken from Gupta & Govindarajan (2000). However, given the large number of constructs in our questionnaire, we decided to reduce their seven areas of knowledge flows to four: (1) product design, (2) marketing, (3) distribution, (4) management systems & practices. Following Gupta & Govindarajan (2000), the respondent was asked to indicate on a scale from 1-7 the extent to which the subsidiary engaged in the transfer of knowledge and skills to and from HQ and other subsidiaries in each of the areas above. Cronbach's α was 0.79 for both HQ flows and subsidiary flows.

In the 1995 study, *local responsiveness* was measured with four items asking for the percentage of local R&D and local production incorporated in products sold by the subsidiary and the percentage of products and marketing that was substantially modified for the local markets. As for interdependence, six answer categories were created. In the 2002 study we refined this measures by asking respondents to estimate the percentage of local manufacturing and R&D directly, distributing 100% over five categories: this subsidiary, HQ/subsidiaries in the country of HQ, other subsidiaries in the same country or abroad and external suppliers. Other aspect of local responsiveness (product/marketing modification and collaboration with local suppliers and customers) were measured with single-item measures on a 7-point Likert scale.

Measures with regard to language barriers and policies were factual questions asking for the languages spoken at HQ and the subsidiary in question, the existence of a corporate language and the number of functions that were involved in cross-lingual communication. We also asked respondents to estimate the capability that subsidiary staff had in HQ and corporate language on a 7-point scale.

With regard to performance we attempted to cover the broad spectrum of performance dimensions ranging from profitability to innovation and employee development. Eight items were included. Exploratory factor analysis separated these into three different aspects: market performance (profitability, sales growth & market share, $\alpha = 0.71$), process performance (product quality, innovation and productivity, $\alpha = 0.67$) and HRM performance (employee development & staff retention, $\alpha = 0.75$).

Table 1: Overview of differences in descriptives in 1995 and 2002

Variable	British MNCs	German MNCs	Japanese MNCs	US MNCs
	Median scores for different aspects of the HQ-subsidiary relationship in British, German, Japanese and US MNCs			
Descriptives 1995				
Sample size	25	32	38	54
Subsidiary age (years)	37	36	18	33
Subsidiary size (employees)	170	450	178	400
Descriptives 2002				
Sample size	30	36	28	51
Subsidiary age (years)	42	36	20	36
Subsidiary size (employees)	131	153	185	110

Table 2: Overview of differences in control mechanism in 1995 and 2002

	Mean scores for different aspects of the HQ-subsidiary relationship in British, German, Japanese and US MNCs				Difference between British and German MNCs		Difference between German and Japanese MNCs		Difference between British and US MNCs		Difference between Japanese and US MNCs	
Variable	**British MNCs**	**German MNCs**	**Japanese MNCs**	**US MNCs**	**Sign. level**	**Sign. at .05/.10?**	**Sign. level**	**Sign. at .05/.10?**	**Sign. level**	**Sign. at .05/.10?**	**Sign. level**	**Sign. at .05/.10?**
Control mechanisms 1995 data												
Direct personal control (1-7)	3.27	3.69	3.48	2.99	.221	No	.516	No	.353	No	.069	(Yes)
Impersonal control (1-7)	5.27	5.00	4.27	5.13	.311	No	.004	Yes	.825	No	.000	Yes
Indirect personal control (1-7)	4.53	4.53	4.26	4.77	.996	No	.280	No	.529	No	.021	Yes
Significant differences						0/3		1/3		0/3		3/3
Control mechanisms 2002 data												
Centralization upstream (1-5)	2.29	2.57	3.13	2.12	.222	No	.032	Yes	.373	No	.000	Yes
Centralization downstream (1-5)	2.24	2.11	2.06	2.13	.429	No	.763	No	.559	No	.710	No
Impersonal control (1-7)	4.83	5.07	4.08	5.09	.350	No	.001	Yes	.299	No	.000	Yes
Indirect personal control (1-7)	4.38	4.19	3.75	4.36	.394	No	.068	(Yes)	.935	No	.021	Yes
Significant differences						0/4		3/4		0/4		3/4

Table 3: Overview of differences in the presence and function of expatriates in 1995 and 2002

	Mean scores for different aspects of the HQ-subsidiary relationship in British, German, Japanese and US MNCs				Difference between British and German MNCs		Difference between German and Japanese MNCs		Difference between British and US MNCs		Difference between Japanese and US MNCs	
Variable	**British MNCs**	**German MNCs**	**Japanese MNCs**	**US MNCs**	**Sign. level**	**Sign. at .05/.10?**	**Sign. level**	**Sign. at .05/.10?**	**Sign. level**	**Sign. at .05/.10?**	**Sign. level**	**Sign. at .05/.10?**
Expatriate presence 1995 data												
Managing director PCN (%)	27%	56%	58%	19%	.049	Yes	.827	No	.453	No	.000	Yes
Number of expatriates in top-5 (0-5)	1.00	1.66	2.16	0.98	.034	Yes	.156	No	.944	No	.000	Yes
Ensuring HQ policies are implemented (1-5)	2.08	2.94	3.62	1.89	.056	(Yes)	.139	No	.609	No	.000	Yes
Improving communication to HQ & subs (1-5)	3.38	3.43	3.97	2.49	.894	No	.048	Yes	.026	Yes	.000	Yes
Ensuring homogeneous corp. culture (1-5)	3.06	2.68	2.42	2.49	.299	No	.343	No	.140	No	.815	No
Knowledge transfer from HQ (1-5)	3.25	2.93	3.71	3.23	.292	No	.009	Yes	.950	No	.110	No
Training for future positions at HQ (1-5)	2.25	3.00	2.32	2.71	.057	(Yes)	.021	Yes	.211	No	.155	No
Significant differences						4/7		3/7		1/7		4/7
Expatriate presence 2002 data												
Managing director PCN (%)	17%	22%	54%	14%	.579	No	.009	Yes	.723	No	.000	Yes
Percentage of expatriates in top functions	12%	12%	22%	6%	.869	No	.036	Yes	.110	No	.000	Yes
Ensuring HQ policies are implemented (1-7)	4.05	4.19	4.91	3.94	.799	No	.178	No	.830	No	.045	Yes
Improving communication to HQ (1-7)	4.75	4.65	5.73	4.34	.866	No	.056	(Yes)	.420	No	.006	Yes
Improving communication to other subs (1-7)	4.15	3.23	3.57	4.06	.091	(Yes)	.525	No	.862	No	.352	No
Ensuring homogeneous corp. culture (1-7)	4.00	3.70	4.27	4.11	.572	No	.279	No	.820	No	.739	No
Knowledge transfer from HQ (1-7)	5.29	4.85	5.43	4.51	.393	No	.246	No	.110	No	.047	Yes
Knowledge transfer from other subs (1-7)	4.71	3.69	3.57	4.24	.040	Yes	.810	No	.318	No	.170	No
Training for future positions at HQ (1-7)	4.84	4.80	4.42	4.53	.920	No	.412	No	.489	No	.821	No
Training for future positions at other subs (1-7)	4.58	4.00	3.58	4.53	.294	No	.437	No	.925	No	.056	(Yes)
Significant differences						2/10		3/10		0/10		6/10

Table 4: Overview of differences in interdependence in 1995 and 2002

	Mean scores for different aspects of the HQ-subsidiary relationship in British, German, Japanese and US MNCs				Difference between British and German MNCs		Difference between German and Japanese MNCs		Difference between British and US MNCs		Difference between Japanese and US MNCs	
Variable	**British MNCs**	**German MNCs**	**Japanese MNCs**	**US MNCs**	**Sign. level**	**Sign. at .05/.10?**	**Sign. level**	**Sign. at .05/.10?**	**Sign. level**	**Sign. at .05/.10?**	**Sign. level**	**Sign. at .05/.10?**
Interdependence 1995 data												
Purchases from HQ (%)	5%	58%	51%	14%	.000	Yes	.365	No	.084	(Yes)	.000	Yes
Purchases from subsidiaries (%)	32%	14%	24%	41%	.005	Yes	.072	(Yes)	.311	No	.013	Yes
Purchases from external suppliers (estimate) (%)	63%	28%	25%	45%	---	---	---	---	---	---	---	---
Significant differences						2/2		1/2		1/2		2/2
Interdependence 2002 data												
Purchases from HQ/sub in HQ country (%)	22%	39%	44%	16%	.050	Yes	.601	No	.432	No	.000	Yes
Purchases from other subsidiaries (%)	24%	18%	25%	28%	.734	No	.398	No	.500	No	.892	No
Purchases from external suppliers (%)	54%	41%	31%	57%	.078	(Yes)	.253	No	.983	No	.005	Yes
Knowledge flows with HQ (1-7)	3.34	3.55	3.39	3.39	.484	No	.585	No	.845	No	.974	No
Knowledge flows with subsidiaries (1-7)	3.22	2.83	2.78	3.18	.158	No	.853	No	.903	No	.059	(Yes)
Significant differences						2/5		0/5		0/5		3/5

Table 5: Overview of differences in responsiveness in 1995 and 2002

	Mean scores for different aspects of the HQ-subsidiary relationship in British, German, Japanese and US MNCs				**Difference between British and German MNCs**		**Difference between German and Japanese MNCs**		**Difference between British and US MNCs**		**Difference between Japanese and US MNCs**	
Variable	**British MNCs**	**German MNCs**	**Japanese MNCs**	**US MNCs**	**Sign. level**	**Sign. at .05/.10?**	**Sign. level**	**Sign. at .05/.10?**	**Sign. level**	**Sign. at .05/.10?**	**Sign. level**	**Sign. at .05/.10?**
Local responsiveness 1995 data												
Product modification (%)	44%	15%	26%	31%	.000	Yes	.040	Yes	.156	No	.457	No
Marketing modification (%)	55%	51%	46%	47%	.711	No	.583	No	.416	No	.869	No
Local manufacturing (%)	65%	29%	38%	43%	.000	Yes	.253	No	.020	Yes	.591	No
Local R&D (%)	26%	13%	15%	20%	.024	Yes	.584	No	.380	No	.315	No
Significant differences						3/4		1/4		1/4		0/4
Local responsiveness 2002 data												
Product modification (1-7)	4.33	3.50	3.21	4.04	.097	(Yes)	.544	No	.521	No	.064	(Yes)
Marketing modification (1-7)	5.13	4.53	5.17	5.16	.158	No	.172	No	.950	No	.958	No
Local manufacturing (%)	45%	46%	25%	49%	.944	No	.047	Yes	.665	No	.015	Yes
Local R&D (%)	39%	27%	19%	30%	.189	No	.402	No	.319	No	.199	No
Collaboration with local suppliers (1-7)	4.07	3.22	3.29	3.51	.052	(Yes)	.890	No	.200	No	.626	No
Collaboration with local customers (1-7)	5.53	4.19	4.54	4.79	.005	Yes	.521	No	.050	Yes	.590	No
Significant differences						3/6		1/6		1/6		2/6

Table 6: Overview of language policies and barriers in 2002

	Mean scores for different aspects of the HQ-subsidiary relationship in British, German, Japanese and US MNCs				Difference between British and German MNCs		Difference between German and Japanese MNCs		Difference between British and US MNCs		Difference between Japanese and US MNCs	
Variable	**British MNCs**	**German MNCs**	**Japanese MNCs**	**US MNCs**	**Sign. level**	**Sign. at .05/.10?**	**Sign. level**	**Sign. at .05/.10?**	**Sign. level**	**Sign. at .05/.10?**	**Sign. level**	**Sign. at .05/.10?**
Language 2002 data												
% of subsidiaries with language difference	46%	97%	93%	41%	.000	Yes	.416	No	.637	No	.000	Yes
Capability subs staff in HQ language (1-7)	5.79	3.60	2.00	6.27	.000	Yes	.003	Yes	.117	No	.000	Yes
Corporate language = HQ language (%)	77%	14%	28%	80%	.000	Yes	.587	No	.695	No	.000	Yes
Corporate language = other language (%)	0%	66%	44%	0%	.000	Yes	.257	No	.756	No	.000	Yes
No official corporate language (%)	23%	20%	28%	20%	.749	No	.051	(Yes)	.705	No	.526	No
Capability subs staff in corp. language (1-7)	5.67	4.79	5.06	6.19	.075	(Yes)	.680	No	.115	No	.017	Yes
% functions with cross-lingual communication	55%	59%	58%	51%	.668	No	.826	No	.607	No	.432	No
Significant differences						4/7		2/7		0/7		5/7

Table 7: Overview of differences in performance in 2002

	Mean scores for different aspects of the HQ-subsidiary relationship in British, German, Japanese and US MNCs				Difference between British and German MNCs		Difference between German and Japanese MNCs		Difference between British and US MNCs		Difference between Japanese and US MNCs	
Variable	**British MNCs**	**German MNCs**	**Japanese MNCs**	**US MNCs**		**Sign. at .05/.10?**	**Sign. level**	**Sign. at .05/.10?**	**Sign. level**	**Sign. at .05/.10?**	**Sign. level**	**Sign. at .05/.10?**
Performance 2002 data												
Market performance (1-7)	5.01	4.92	4.56	5.18	.761	No	.255	No	.446	No	.035	Yes
Process performance (1-7)	4.86	5.06	5.20	5.30	.366	No	.696	No	.010	Yes	.480	No
HRM performance (1-7)	5.07	4.51	4.67	5.40	.044	Yes	.716	No	.101	No	.001	Yes
Significant differences						1/3		0/3		1/3		2/3
Total significant differences 1995						9/16 = 56%		6/16 = 38%		3/16 = 19%		9/16 = 56%
Total significant differences 2002						12/35 = 34%		9/35 = 26%		2/35 = 6%		21/35 = 60%