# The Language Barrier and its Implications for HQ-Subsidiary Relationships

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**ABSTRACT**

With this paper we intend to open up the debate on the influence of language on the way multinational companies (MNCs) manage. We explain the importance of the field and expose a dearth of prior research. Subsequently, we define the "language barrier" and elaborate on the causes underlying this barrier. Finally, eight propositions are formulated with regard to the implications of the language barrier for a core aspect of the HQ-subsidiary relationship: the type of control mechanisms applied by HQ towards its subsidiaries.

## INTRODUCTION

Communication is essential to management. Yet communication relies upon a shared language, a pre-requisite that does not exist in many international business situations, and that is when the problems start. Indeed, more than a decade ago, Percy Barnevik, then CEO of ABB, identified communicating across the language barrier as his company's single most severe operational problem (Barnevik and Taylor 1991). In this paper, we attempt to provide a more comprehensive and systematic discussion of the effects and implications of the language barrier. Our intention is to open up the debate on the way that language influences the way multinational companies (MNCs) manage their subsidiary operations.

Multinational companies and their subsidiaries are an increasingly important part of the global business landscape. In 2002, the sales of foreign subsidiaries of multinationals were more than twice as high as world exports, while in 1990 both were roughly equal. Some 870,000 foreign subsidiaries of about 64,000 parent firms contributed approximately $18 trillion to world sales in 2002, while the number of employees in foreign affiliates has more than doubled in the last decade (UNCTAD, 2003). However, even these impressive statistics do not convey the full picture in terms of language impact. First, we must realize that the majority of multinational parent companies are not domiciled in English-speaking countries. Second, the geographic (and implicitly the linguistic) spread of their networks is widening as the larger multinationals are now present in 20 or more countries. Finally, the host countries being targeted for future investments are increasingly in developing areas of the world, characterized by a shortage of parent company language skills (John, Grimwade and Cox, 1997).

One cannot escape the conclusion that in some way these problems of increasing communication intensity, increasing linguistic diversity, and increasing scale of operations must aggravate the problems presented by the language barrier. This being the case, these problems should be manifested in distinguishable patterns in the way multinational companies adjust strategy, structure, and systems in order to cope. Unfortunately, as we will demonstrate in the following section, the international management research community has so far done little to identify and study these patterns.

## RESEARCH INTO THE IMPACT OF LANGUAGE ON MULTINATIONAL MANAGEMENT

The notion that cultural differences can be a significant barrier to doing business is now commonly accepted. However, this commonplace acceptance might have blinded researchers to a more basic country characteristic with the same impact: language. Very little research has investigated the impact of language diversity on management. Some fifteen years ago Holden published an analysis of 463 English-language management texts, concluding that *"only a small number of the authors treat language issues at all "* and where language topics were addressed, *"these issues are handled with perfunctory brevity….*" (Holden 1987:233). In the intervening decade and a half, little has changed, with contemporary management scholars variously describing the problem of managing businesses across the language barrier as "*the forgotten factor*" (Marschan-Piekkari, Welch & Welch, 1997), "*the management orphan*" (Verrept, 2000) and "*the most neglected field in management*" (Reeves & Wright, 1996). Linguistic scholars for their part are claimed to *"be suffering from a reluctance, an aversion it almost seems, to study language behaviour in organisational and occupational settings"* (Holden, 1987:243). A chapter on Communication in Organizations was not included in the Handbook of Language and Social Psychology until 2001 (Gardner, Paulsen, Gallois, Callan & Monaghan, 2001) and even then did not in any way discuss the importance of differences in natural languages.

This lack of research is very unfortunate as work by some pioneers in the field clearly shows that language is a very important issue in MNC management. SanAntonio's (1988) study on language use in one American company in Japan appears to be the first to investigate the role of language in MNCs. She focused on the importance of language as a source of power and advancement for Japanese employees with English-language fluency as well as on the significance of language as a marker of group identity. The latter was also highlighted in an analysis of the GEC ALHSTOM merger (Kingston, 1996). This study further described the many communication difficulties between the French and English speakers as well as the frustration and exclusion felt by English speakers when their French colleagues spoke among themselves in French. Language as a source of power was again a key theme of case studies conducted by Marschan-Piekkari et. al (1997; 1999a/b) in several Finnish companies. In addition, these authors illustrated the difficulty of diffusing company information and achieving a common corporate culture. Based on extensive interviews with foreign parent-company managers working in UK subsidiaries, Neal (1998) identified language problems as the major source of frustration, dissatisfaction and friction between them and their UK colleagues. He noted that for many of these managers, the language barrier compounded their sense of being “outsiders”. Parallel research highlighted the importance of language issues to Japanese MNCs describing the two pillars of their international HRM strategy as “Management by Japanese” and “Management in the Japanese language” (Yoshihara, 1999). Finally, Feely and Harzing (2003) review the solutions open to multinational companies in terms of management of language differences, ranging from interpreters to machine-translation and from corporate languages to expatriation.

Regrettably however, the contributions of these pioneers can in no way be claimed to represent a cohesive or comprehensive body of research. The impact of language on management remains an almost completely ignored research field. Part of the reason may be that management researchers and linguists alike have been deterred by the cross-disciplinary nature of the subject. Another factor may be the pre-eminence of American researchers who, because of the dominance of the English language, have a reduced perception of the importance of language. A third factor might be the enormous influence of Hofstede (1980). His work has dominated cultural research for the past decades and has been developed into a system for measuring cultural distance (Kogut and Singh, 1988) thereby providing researchers with a practical, easy to use and "reliable" measure of culture. This measure, however, has received a lot of criticism lately (Shenkar, 2001) and it has been argued that the exclusion of language differences is particularly inappropriate (Harzing, 2003).

However, perhaps the most serious barrier to language research in business has been the absence of a systematic analysis of the problems associated with language differences. It is facile to state that language is a problem to multinational business, but researchers will not be able to dissect the nature and implications of these problems until they have an answer to the question "what exactly is it about language that creates the problem?". An answer to this question will be the theme for our next section.

## THE LANGUAGE BARRIER

Social psychology teaches us that individuals use social categories to order their social environment and reduce the complexities of the world (Gudykunst and Smith, 1988). They derive part of their individual identity from the social groups of which they form a part. Social identity is defined as *"that part of an individual's self-concept which derives from his [or her] knowledge of his [or her] membership in a social group (or groups) together with the values and emotional significance attached to that membership"* (Tajfel, 1978, p. 63). Linguists Giles and Johnson (1981) assert that language is one of the major factors used to categorize others, possibly more important than ethnicity as it is an acquired characteristic and hence provides a more powerful indication of a person's identity. They are joined by Jean-Claude Usunier, one of the most prominent French writers in intercultural communication, who 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)

The use of social categories and the importance of social identity has clear implications for intergroup relationships. Tajfel and Turner (1986) indicate that even trivial, ad hoc intergroup categorization leads to in-group favoritism and discrimination against the out-group. However, strong attachment to the in-group, combined with current conflicts and/or a history of conflicts between the groups will intensify this behaviour. When social identities are salient, groups are likely to interact with each other in terms of stereotypes and are less likely to be tolerant of mistakes or violations of their social rules (Gallois and Callan, 1995). According to Gudykunst's Anxiety and Uncertainty Management theory (1995) the degree of uncertainty in interpersonal interaction will be inversely correlated with language competence and will increase the tendency to over-estimate the importance of group membership on behavior. He further argues that this uncertainty leads to a lack of trust and to increased anxiety, which in turn leads to avoiding interaction with members from different groups.

Language barriers are therefore likely to play a key role in any multilingual group relationship. However, perhaps the most pronounced manifestation of the language barrier at work can be found in the relationship between a multinational parent company and its network of international subsidiaries, a relationship characterized by several distinguishing features:

- 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 the section below, the causes and nature of the problems are outlined in more detail.

## Elements of the language barrier in MNCs

MNCs are routinely characterized by the interaction between managers belonging to different language groups. Even if the managers in question are relatively competent in the language of the other party *loss of rhetorical skills* is always present as the use of humor, symbolism, sensitivity, negotiation, persuasion and motivation requires a very high level of fluency. Misunderstandings are therefore easily caused, resulting in uncertainty and anxiety (Gudykunst, 1995; SanAntonio, 1988). This problem is particularly pertinent to the HQ-subsidiary relationship. If it is the subsidiary management working without rhetorical skills, they will fail to impress their senior colleagues and their skills will be undervalued. Where the parent company managers are working without the ability to communicate fluently, they will be seen as lacking charisma, confidence and leadership skills and the subsidiary management may then choose to ignore their direction.

Misunderstandings are aggravated by the need to avoid a *loss of face*. The concept of “face” is much used when discussing Japanese or Chinese 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. As a consequence such managers can find themselves signing up to agreements they've barely comprehended. 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 (see e.g. Kingston, 1996). In a developing HQ-subsidiary relationship, such behaviour can be interpreted as inconsistent, mercurial and even devious. This undermines credibility and trust, and the second language user in particular gains an unmerited reputation of being fickle, unreliable and deceitful.

In the adversarial climate caused by these communication failures, language becomes an increasingly likely candidate for the definition of group boundaries. However, given the natural tension, divergent goals and resource asymmetries that characterize many HQ-subsidiary relationships, communication failure might not even be necessary for *group identities* to polarize. Having activated the group identities, *attribution* takes a leading role in further distorting the communications process (Gallois et al., 1995). Those involved will attribute negative intentions to the words and acts of out-group members and attitudes will be based on stereotypical perceptions rather than reality (Kingston, 1996). Attribution will affect both groups involved in the communication, but will be felt more keenly by second language users for whom uncertainty and suspicion, due to imperfect understanding, will add further stress to the relationship. The overall result is a polarization of the *cognitive schema* of the two parties, which in turn reinforce and sustain the stereotypes that are the foundation of group identities and the fuel for attribution

The risk of affective conflict and a further polarization of group identities intensifies as factors such as parallel information networks, code switching and power-authority distortions compound the sense of suspicion and friction. *Parallel information networks* develop when communication channels are determined by language capabilities rather than formal position in the organization. The employees with language skills develop as information gatekeepers, filtering, delaying and distorting the communications flow to their own advantage, while those having the formal responsibility feel that the chain of command has been undermined (Marschan-Piekkari et. al 1997;

1999a, SanAntonio, 1988). The consequential uncertainty, suspicion, mistrust and friction serve to impose limitations on the quality, openness and stability of the HQ-subsidiary relationship.

*Code switching* is present when 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. 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-group 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 (e.g. Kingston, 1996). Sensitively managed there is no reason why code switching should impair the relationship between a HQ and its subsidiaries. If meeting pauses were called, if the reasons for the pause were explained, then problems could be avoided. However, in reality code switching tends to occur spontaneously and without explanation, leading to feelings of exclusion and suspicion that can easily boil over into hostility.

*Power-authority distortion* is a key issue for parent companies domiciled in countries with a minority language. In meetings with a subsidiary team with a majority language they will often be forced to use that language. 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 (Gallois and Callan, 1995). 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-subsidiary 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.

We do not claim that with these eight elements of the language barrier we have offered an exhaustive treatment of language issues in MNCs. Grounded empirical research in MNCs might reveal yet other elements of the language barrier in MNCs and might be able to assess the importance of each of these elements in different circumstances (e.g. different host countries or functional areas). However, we do believe it is a credible model, grounded in socio-linguistics and the social psychology of language, and we hope it will provide a foundation for future empirical research. In that light, researchers in the area of international management will be particularly interested in how the language barrier may impact on the management of the HQ-subsidiary relationship and that is to which we will turn in the final part of this paper.

## IMPACT OF THE LANGUAGE BARRIER ON THE MANAGEMENT OF THE HQ-SUBSIDIARY RELATIONSHIP

It is tautological to state that the language barrier impedes successful communication. However, we believe that the foregoing section has provided the basis for a structure and sequence to explain the way that the barrier exerts its influence. The simplistic definition of the language barrier as a problem of "miscommunication" becomes replaced by a cycle of effects that explain not only how the miscommunication occurs but also how it can escalate. This model of the language barrier explains why language difference was such an important element in the definition and operationalisation of Psychic Distance (Johanson and Vahlne 1977). 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 generalized as "*factors preventing firms learning about and understanding a foreign environment*" (Nordström and Vahlne 1992). Extracting elements from both definitions it is clear that where language is a barrier between a parent and subsidiary, the communications process would be severely disturbed, the flow of information impeded and understanding would be difficult to achieve.

However, the communications process does not exist in a vacuum. Indeed many would argue that communication, knowledge flow and understanding are pre-requisites of decision making. The cognitive schema mentioned previously are key to that process, whether the decisions be taken jointly or individually by the HQ and subsidiary management teams. They act as a map to simplify complex decision criteria (Schwenk 1984) and they provide the repository of knowledge and experience upon which the key actors base their judgments (Dubin 1978). And clearly where the language barrier has distorted the input to the schema, then that will be reflected in the actual decisions arrived at. It would be helpful at this stage to illustrate the point with examples showing how strategies and policies have been influenced by the language barrier, but in the absence of reliable empirical research, we can only offer some propositions that have yet to be tested. In doing so, we will focus on one of the key areas of the HQ-subsidiary relationship: the type of control mechanisms used by HQ towards its subsidiaries.

Control mechanisms can be defined as the instruments that are used to make sure that all units of the organization strive towards common organizational goals. Numerous control mechanisms have been identified. However, an extensive literature review (Harzing, 1999), resulted in a synthesis of four major types of control mechanisms as summarized in Table 1.

*Table 1: Classification of control mechanisms on two dimensions*

| | **Personal/Cultural (founded on social interaction)** | **Impersonal/Bureaucratic/Technocratic (founded on instrumental artifacts)** |
|---|---|---|
| **Direct/Explicit** | Category 1: Personal centralized control | Category 2: Bureaucratic formalized control |
| **Indirect/Implicit** | Category 3: Control by socialization & networks | Category 4: Output control |

Personal centralized control denotes the idea of some kind of hierarchy, of decisions being taken at the top level of the organization and personal surveillance of their execution. The terms used by various authors to describe this control mechanism are: centralization, hierarchy and a direct personal kind of control. Bureaucratic formalized control aims at pre-specifying, mostly in a written form, the behaviour that is expected from employees. In this way, control can be impersonal because employees can and should refer to the "manual" instead of directly being told what to do. The terms used by various authors to describe this type of control are: bureaucratic control, formalization, rules, regulations, paper system and programs. Compared to the other categories control by socialization and networks is rather informal and subtle. We can distinguish three main sub-categories in this broad category. The first is socialization, which can be defined as ensuring that employees share organizational values and goals, that is are socialized into a common organization culture. Another frequently used term is cultural control. The second, informal, lateral or horizontal exchange of information, uses non-hierarchical communication as a control mechanism. Terms often used are: mutual adjustment, direct (managerial) contract, informal communication and coordination by feedback. The third, formalized lateral or cross-departmental relations, has the same objectives as the second, increasing the amount of (non-hierarchical) information processing, with the difference that in this case the relationships are (temporarily) formalized within the organizational structure. Examples are task forces, cross-functional teams and integrative departments. Finally, the main characteristic of output control is that it focuses on the outputs realized instead of on behaviour (as the other three control mechanisms do). These outputs are usually generated by the use of reporting or monitoring systems and can take any form from rather general aggregated financial data to detailed figures regarding sales, production levels, productivity, investments, etc. The terms used by various authors to describe type of control are: result control, plans, output control, goal setting.

Using the four control categorizations above, we assert that when a parent company faces a language barrier with a particular subsidiary, it will typically adopt centralization strategies restricting the devolution of strategic functions to their subsidiaries and constraining local decision-making autonomy. As explained above, the language barrier 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. Hence:

*P1: The higher the language barrier between HQ and the subsidiary in question, the lower the level of the subsidiary decision-making autonomy.*

One way to implement personal centralized control in MNCs is to use parent company expatriate managers to ensure subsidiary operations are in accordance with the decisions made by HQ centrally. In this way MNCs can create mini-headquarters within their subsidiaries. Harzing (2001a) coined this the “bear” function of expatriation and found that using a trusted parent company employee was an often-used way to control subsidiaries. Hence:

*P2: The higher the language barrier between HQ and the subsidiary in question, the higher the percentage of expatriates in the subsidiary workforce.*

However, as Edström and Galbraith (1977) and Harzing (2001b) have indicated expatriation can fulfill a multitude of functions, including knowledge transfer, position filling and management development. Hence more specifically we argue that:

*P3: The higher the language barrier between HQ and the subsidiary in question, the more important is direct control as a function of expatriation.*

Companies for which language is a serious barrier will be unlikely to be able to globalize their bureaucratic formalized control systems. The language of the policies, procedures and systems developed in the parent language will be a serious impediment to their use in subsidiaries. If they remain untranslated, lack of understanding at subsidiary level will limit effective application of the detailed guidelines. On the other hand, translation of a detailed set of policies and procedures is a time-intensive and costly affair, especially in MNCs operating in a multitude of languages and hence will be infeasible for most MNCs. Hence:

*P4: The higher the language barrier between HQ and a subsidiary, the lower the level of bureaucratic formalized control used towards that subsidiary.*

The communication intensity that is needed to implement control by socialization and networks makes it an unlikely choice when language barriers between HQ and a subsidiary are high (Marschan-Piekkari et al. 1997, 1999a). The language barrier will impede the diffusion of visions, missions, values and shared understandings that are fundamental to control through socialization and neither informal exchange of information nor formalized lateral relations are likely to work without a shared language. Hence:

*P5: The higher the language barrier between HQ and the subsidiary in question, the lower the level of control by socialization and networks used towards that subsidiary.*

One way to effectuate control by socialization and networks in spite of a language barrier is the use of language-skilled expatriates, operating as "language nodes" (Marschan-Piekkari et al. 1999a/b, Feely and Harzing, 2003). Harzing (2001a) coined this the "bumble-bee" (socialization) and "spider" (informal communication network) roles of expatriation. Subsidiaries with a larger proportion of expatriates have been shown to display higher levels of shared values and informal communication (Harzing, 2001a). However, this role can be expected to be more important in subsidiaries that are separated from HQ by a language barrier. Hence:

*P6: The higher the language barrier between HQ and the subsidiary in question, the more important is transfer of corporate culture as a function of expatriation.*

*P7: The higher the language barrier between HQ and the subsidiary in question, the more important is informal communication as a function of expatriation.*

In comparison to the other control mechanisms, output control is much less demanding in terms of communication intensity. Most of the output information requested takes the form of financial data and figures regarding sales, production levels, productivity, investments, etc. Therefore, a shared language is available in spite of the difference in natural languages. Consequently, we would expect this type of control mechanism to be a popular choice when language barriers prevent the application of many other types of control mechanisms. Hence:

*P8: The higher the language barrier between HQ and the subsidiary in question, the higher the level of output control used towards that subsidiary.*

## CONCLUSION

In this paper we have introduced the construct of the Language Barrier, a construct which we believe will be helpful in furthering research on the impact of language on the management of MNCs. We have discussed the elements of the language barrier in more detail pertaining to one specific area, that of HQ-relationships. Subsequently, we have advanced eight propositions that link the language barrier to a core aspect of the HQ-subsidiary relationship: the type of control mechanisms HQ uses towards a specific subsidiary. In this paper we have chosen to focus on **one** aspect of the HQ-subsidiary relationships. However, it is important to note that many other aspects of this relationship, such as for example the level of integration in terms of intra-company sales and purchases, the level of knowledge transfer, and the level of local responsiveness towards the local market that HQ allows the subsidiary in question, might be influenced by the existence of a language barrier.

This contribution to an otherwise ignored field of business study should be considered only a modest step in opening up a new research agenda. Socio-linguists could improve greatly upon our "layman explanation" of the operation of the language barrier, though in doing so they should take care to retain the accessibility to non-specialists that we believe is a key feature of our paper. Empirical researchers in international management also have a role of paramount importance. Noorderhaven (1999) referring to the parallel field of culture and trust appealed for *"more data and less theory"*. Whilst echoing his sentiments, we hope that in the specific case of language and management, a field devoid of both theory and data, our conceptual paper will provide a good starting point. However, we freely accept that this contribution will count for little unless it acts as a catalyst to inspire a program of empirical research. It is our hope that the research community will indeed take up this challenge and that a few years down the line the topic of language as a variable in multinational management will be considered neglected, orphaned and forgotten no longer.

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