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Foreign subsidiary top manager nationality and language policy: The moderating effects of subsidiary age and size

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ABSTRACT

Despite their alleged communication, control, coordination, and learning-related benefits, little is known of factors that affect language policies in multinational corporations (MNCs). In this paper, I draw on agency theory to focus on the effect of MNC subsidiary top manager nationality on subsidiary language policy. Specifically, I hypothesize that subsidiaries with expatriate top managers have more language policies than subsidiaries with host country national top managers. In addition, I hypothesize that subsidiary age and size moderate the effect between subsidiary top manager nationality and language policy, such that older and larger subsidiaries with expatriate top managers have more language policies than younger and smaller subsidiaries. Survey data from 547 subsidiaries in Japan provide support for these hypotheses. Theoretical implications and suggestions for future research are provided.

1. Introduction

As companies expand internationally and their foreign operations become more dispersed, language differences start to affect interactions within and beyond their boundaries (Peltokorpi & Vaara, 2012). To cope with these challenges, MNCs have implicit or explicit language policies for corporate communication, documentation, and interaction (Marschan-Piekkari, Welch, & Welch, 1999a). Language policies are alleged to provide important benefits in MNCs, such as improved control, coordination, monitoring (Luo & Shenkar, 2006), collective identity, communication, knowledge transfer, learning, mutual understanding, and reporting (Tietze, 2008). Yet, little focused research on language policies is conducted in MNCs. In particular, there is a paucity of knowledge of the factors affecting language policies in MNC subsidiaries (Peltokorpi & Vaara, 2012).

This paper, by focusing on the effect of subsidiary top manager nationality on subsidiary language policy, contributes to international business (IB) research in three ways. First, although previous qualitative case studies suggest that language policy implementation in subsidiaries is to a large extent subject to the subsidiary top manager discretion (Harzing, Köster, & Magner, 2011; Peltokorpi, 2007; Peltokorpi & Vaara, 2012; SanAntonio, 1987), this case-based evidence is thinly scattered in studies on general effects of language in MNCs. Surprisingly, to date only two papers have focused on factors that affect subsidiary-level language policies (Luo & Shenkar, 2006; Peltokorpi & Vaara, 2012). Taking account that subsidiary top managers can have strong roles in subsidiary language policy implementation and the alleged benefits of language policies in MNCs, a focused study on this topic is warranted.

Second, this paper answers to calls for a stronger theoretical grounding to IB research on language in MNCs (Luo & Shenkar, 2006; Piekkari & Tieze, 2006) by drawing on agency theory. Agency theory describes the principal-agent relationship, in which agents and principals have divergent interests (Jensen & Meckling, 1976). In MNC subsidiaries, expatriate and host country national (HCN) top managers act as principles and HCN employees as agents (Brock, Shenkar, Shoham, & Siscovick, 2008). Because language differences enable agents to escape monitoring by principals (Luo & Shenkar, 2006), I expect that expatriate top managers are more likely to implement language policies in MNC subsidiaries. In addition, I draw on agency theory and research to argue subsidiary age and size have moderating effects between top manager nationality and language policy such that older and larger subsidiaries with expatriate top managers have more language policies than younger and smaller subsidiaries.

Third, to the best of my knowledge, this paper breaks new ground by providing the first quantitative study of language policies in MNCs. To date, the bulk of research on language in MNCs is based on qualitative case studies conducted in one or a few MNCs and/or their subsidiaries (Harzing & Pudelko, 2013). While

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qualitative case studies are well suited to explore novel areas of research (Eisenhardt, 1989b), they are less efficient to validate previous research findings and provide more generalizable findings of language in MNCs (Harzing & Pudelko, 2013). Consequently, scholars have called for more quantitative research on language in MNCs (Barner-Rasmussen & Aarnio, 2011; Harzing & Pudelko, 2013). In this paper, I draw on survey data derived from 547 subsidiaries in Japan.

The rest of this paper is organized as follows. The following, second section provides a literature review on MNC and subsidiary-level language policies. The third section draws on agency theory for hypotheses on the direct effect of subsidiary top manager nationality on language policy, and the moderating effects of subsidiary age and size between subsidiary top manager nationality and language policy. The fourth section discusses the study sample and methods. The fifth section presents the findings. The sixth section discusses the theoretical and practical implications, limitations and suggestions for future research.

2. Literature review

2.1. MNC and subsidiary-level language policies

MNCs consist of "diverse and geographically dispersed subunits, which encounter language barriers when communicating with their local business community and within their global network" (Luo & Shenkar, 2006: 321). To reduce these barriers, MNCs have implicit or explicit language policies, defined as "rules and regulations that govern language use in MNCs" (Peltokorpi & Vaara, 2012: 809). Through language policies, top managers instill an official language for corporate communication, documentation, and reporting in MNCs. Language management practices, including language-sensitive recruitment and language training, are the concrete means through which language policies are implemented and enacted in MNCs and their subsidiaries (Feely & Harzing, 2003).

The MNC-level official corporate language is not always the home country language. For example, several MNCs in non-English-speaking European countries, such as Asea Brown Boveri (ABB), Avensis, Grundfos, Kone, Nokia, Phillips, and Vivendi, have opted for English as the official corporate language (Kingsley, 2010; Marschan-Piekkari et al., 1999a). A study at Germany-based Siemens further shows that MNCs can use two languages in corporate communication and leave the issue of official corporate language ambiguous to avoid negative reactions from dominant language groups (Fredriksson, Barner-Rasmussen, & Piekkari, 2006). At the subsidiary-level, language policies can be designed in three ways (Luo & Shenkar, 2006). First, the official language is the parent country language, such as Japan-based Panasonic's subsidiary in the USA, which uses Japanese. Second, the official language is the host country language, such as Germany-based Siemens' subsidiary in the USA, which uses English. Third, the official language is a third language, such as France-based Schlumberger in Saudi Arabia, which uses English. Despite the possible differences in MNC-level and subsidiary-level language policies, case studies suggest that the subsidiary and MNC-level official corporate languages are often aligned (Blazejewski, 2006; Ehrenreich, 2010; Harzing et al., 2011; Marschan-Piekkari et al., 1999a). For example, a Germany-based MNC is found to require its subsidiaries to conduct all internal meetings, management training, and interunit communication in the MNC-level corporate language, English (Blazejewski, 2006).

IB scholars have conceptualized MNC-level language policies as a part of the MNC strategic orientation and advocated top-down language standardization (Dhir & Goke-Pariola, 2002; Luo & Shenkar, 2006; Maclean, 2006; Sharp, 2010). In MNCs, top managers have also linked language policies to company strategies. For example, a Japan-based Rakuten Inc. CEO, Mr. Mikitani reasoned that the implementation of English as an official language would help to increase company's global competitiveness, and attract and retain global talent (Asahi Shinbun, 2010). In subsidiaries, MNC-level language policy implementation is also conceptualized as a top-down, step-like process that influences organizational practices (linguistic reality) (Sharp, 2010). For scholars advocating language standardization, MNC-level language policies are underpinned by top management economic and strategic rationality. However, case studies suggest that MNC-level language policies can face considerable HCN employee resistance (Blazejewski, 2006; Peltokorpi & Vaara, 2012) and seldom provide the intended results in subsidiaries (Harzing et al., 2011; Marschan-Piekkari, Welch, & Welch, 1999b). Despite the MNC-level official language policies, case studies suggest that subsidiaries can still be managed in a linguistically constrained environment where either no shared language exists or where HCN staff has low proficiency in the MNC-level corporate language (Blazejewski, 2006; Marschan-Piekkari et al., 1999a, 1999b; Peltokorpi, 2007).

More relevant to the present concern, two papers have specifically focused on factors that affect subsidiary-level language policies. First, Luo and Shenkar (2006) developed a conceptual framework in which (1) subsidiary form, (2) subsidiary strategic roles, and (3) expatriate deployment shape subsidiary-level language policies. First, wholly owned subsidiaries and branch/representative offices have more language policies than international joint ventures (IJVs) due to a tighter headquarters (HQ) control and operational freedom without having to consult a local partner. Second, subsidiaries of MNCs with global strategies often have language policies due to the emphasis placed on standardization of organizational practices and interdependence among subsidiaries. In contrast, subsidiaries of MNCs with multi-domestic strategies seldom have language policies due to their emphasis on localization and competition in local markets. Third, expatriate deployment (as the proportion in a subsidiary top management team) affects language policies in subsidiaries. Language policies occur more often when the subsidiary top management team is dominated by expatriates rather than by HCNs.

Peltokorpi and Vaara (2012), in turn, used interviews in 101 foreign subsidiaries in Japan to distinguish four different types of language policies and practices: (1) developing/locally adaptive, (2) developing/globally integrated, (3) established/locally adaptive, and (4) established/globally integrated. In addition to the subsidiary strategic orientation, they used subsidiary age and size to distinguish developing from established subsidiaries. In contrast to developing/locally adaptive subsidiaries without language policies, HCN employee corporate language proficiency was taken into account in recruitment and promotion practices in developing/globally integrated subsidiaries. In developed/locally adaptive subsidiaries, HCN employee corporate language proficiency was taken into account in promotion practices. While Luo and Shenkar (2006) argued that subsidiary language policies were affected by the expatriate proportion in subsidiary top management and subsidiary strategic roles, Peltokorpi and Vaara's (2012) study suggests that language policies are seldom transferred as such from HQ and other MNC units but are to a large extent subject to the subsidiary top manager discretion. In particular, expatriate top managers implemented and reinforced language policies in subsidiaries.

In this paper, I focus on the effect of subsidiary top manager nationality on subsidiary language policy. In contrast to headcount measures that do not reflect power and/or functions performed by expatriate and HCN managers (Bruning, Bebenroth, & Pascha, 2011), I focus on subsidiary top managers because case studies