



# Language competencies, policies and practices in multinational corporations: A comprehensive review and comparison of Anglophone, Asian, Continental European and Nordic MNCs

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## ABSTRACT

The importance of language differences in multinational companies (MNCs) can hardly be overlooked. This paper therefore provides the first large-scale quantitative overview of language competencies, policies and practices in MNCs. It is based on data from more than 800 subsidiaries, located in thirteen different countries with headquarters in more than 25 different countries, which were aggregated into four distinct home country clusters. This comprehensive study allows us to differentiate prior conceptual or case-based findings according to home, host and corporate languages and to develop managerial implications which vary according to the different country clusters.

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## 1. Introduction

Every company will experience a language barrier when expanding into countries that do not share its home country language. MNCs are therefore multi-lingual almost by definition (Luo & Shenkar, 2006). Consequently, the importance of language differences in MNCs can hardly be overlooked. This explains why language difference was such an important element in the original definition and operationalization of psychic distance (Johanson & Vahlne, 1977). It is therefore rather surprising that in the following decades, international business researchers largely ignored language or subsumed it under cultural differences, rather than investigated it in its own right.

Since the pioneering work of Rebecca Piekkari (see Marschan, Welch, & Welch, 1997; Marschan-Piekkari, Welch, & Welch, 1999a, 199b), a budding literature on the role of language in MNCs has emerged. These studies have typically focused on a rather small number of companies in a limited number of home and host countries. In fact, most of these studies were in-depth case studies of only one or two MNCs. Although the case study research method is ideally suited to explore new areas of research, it is less suitable to provide a comprehensive overview of the importance or occurrence of certain phenomena in a wider setting. In addition, most previous studies that looked at the role of language in MNCs

focused on a limited number of languages only. They typically studied interactions that included one native English-speaking party (e.g. Harzing & Feely, 2008; Luring, 2008; SanAntonio, 1987; Wright, Kumagai, & Bonney, 2001) or dealt with the overseas operations or subsidiaries of Nordic companies (Andersen & Rasmussen, 2004; Barner-Rasmussen & Björkman, 2005, 2007; Luring, 2008). Even the rare studies that reported on a larger number of MNCs (e.g. Harzing, Köster, & Magner, 2011) focused on specific language pairs only.

As Barner-Rasmussen and Aarnio (2011: p. 288) indicate: “[...] large-scale quantitative studies would at this point provide useful descriptive information that has not been available before, and confer empirical stability upon the diverse claims that are being made.” Furthermore, the inclusion of a wider variety of languages for both home and host countries is likely to result in a much more differentiated picture than previous studies were able to portray. Ten years ago Welch, Welch, and Marschan-Piekkari (2001) already advocated comparing firms from different language backgrounds as the MNC country-of-origin matters with regard to language and language choice.

We decided that rather than adding another in-depth case study, exploring new aspects of the role of language in MNCs, we would follow the above cited calls for more wide-ranging quantitative studies. The present article provides the first comprehensive review of language competencies, policies and practices in MNCs. Although previous, case based research ventured into new territories, highlighting the relevance of language for international business, we do not know to what extent their findings were based on idiosyncrasies of the languages involved. A key contribution of our study is therefore to compare

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and contrast the role of language in MNCs headquartered in a series of different countries, which we aggregated into four very distinct language based country clusters: Anglophone, Asian, Continental European and Nordic. This also allows us to present a far more differentiated set of managerial implications than previous studies were able to generate.

More specifically, we discuss the languages in use between local managers, between local managers and expatriates managers, and between local managers and HQ managers. Subsequently, we review the respective language capabilities of both HQ and subsidiary managers in the corporate language as well as in the HQ and subsidiary country language. Finally, we discuss the choice of corporate language, as well as the possible implications of this choice for power–authority distortion. Power–authority distortion occurs when HQ managers (who have formal authority in the relationship) have to relinquish part of their power to subsidiary managers who have better language skills in the corporate language (Harzing & Feely, 2008). In doing so, we draw on data from more than 800 subsidiaries, operating in a range of different industries, and located in no less than thirteen different host countries. Headquarters in our study are located in more than 25 different countries.

The remainder of this article is structured as follows. First, we review the literature on the role of language in MNCs. Then we describe our sample and data collection as well as the questionnaire development and measures, after which the major part of the article is devoted to presenting our results. We conclude by placing our results in a broader context and drawing out the implications for MNCs in Section 5.

## 2. Literature review

Our review focuses on the literature relating to language in MNCs, rather than on the literature on language in research methods (see e.g. Harzing and collaborators, 2009; Usunier, 2011). We did draw, however, on this methods-focused literature in the development of our survey instruments.

Although the introduction of a corporate language might facilitate communication, as Fredriksson, Barner-Rasmussen, and Piekkari (2006: p. 409) indicated: “[it] will not render the firm monolingual”. Unfortunately, objective knowledge about the actual extent of language diversity in MNCs is scarce. Luo and Shenkar (2006) provided a comprehensive analysis of the factors influencing the choice of language use within an MNC, which vary from MNC strategy and structure, to subsidiary role and expatriation. Although their article provides a major step forward in the mostly a-theoretical and fragmented work in this field, it does not provide any empirical data. Barner-Rasmussen and Aarnio partly addressed this problem by looking at language use in 61 Finnish subsidiaries. They found that English was used for communication with HQ and other European subsidiaries in 90% of the cases, but Swedish was used in 28% of the cases for communication with other Nordic subsidiaries. The communication with local partners mostly took place in the host country language. Steyaert, Ostendorp, and Gaibrois (2011) study language use in two Swiss MNCs and distinguished no less than six discursive practices: adapt to the local language, adapt to your interlocutor, collective negotiation, simultaneous use of multiple languages, use of a third language (usually English), and improvisation. The two most frequently used practices, however, were adapting to the local language (French) and the use of a third language (English). Both studies only included very small samples and focused on just two countries. Hence our study will look in detail at actual language use on a much larger scale in terms of companies, industries as well as HQ and subsidiary countries involved. We investigate which languages are used for communi-

cation between local managers, between local managers and expats and between subsidiary managers and HQ managers, providing evidence for distinctly different patterns across four home country clusters.

A number of studies have investigated the role of language skills in providing career opportunities and positions of power within the HQ–subsidiary network (see e.g. Marschan-Piekkari et al., 1999a, 1999b; SanAntonio, 1987; Wright et al., 2001). However, there is very little systematic evidence of the level of language capabilities of subsidiary and HQ managers in the corporate language and the other party’s language (i.e. the HQ country language for subsidiary managers and the subsidiary country language for the HQ manager). In this study we will therefore investigate these respective language capabilities in some detail and will provide focused comparisons across our home country clusters.

The use and choice of a corporate language has been a very important theme in the literature on language in MNCs. Marschan-Piekkari et al. (1999a) reported its advantages as facilitating formal reporting, enhancing informal communication and information flow and assisting in developing a common corporate culture. Japanese MNCs have been singled out in this context with Yoshihara (1999) describing the two pillars of their international HRM strategy as “Management by Japanese” and “Management in the Japanese language”, referring to the frequent use of Japanese expatriate managers as well as the use of Japanese as a corporate language. Vaara, Tienari, Piekkari, and Säntti (2005) and Piekkari, Vaara, Tienari, and Säntti (2005) investigated the role of corporate language choice in a merger between a Swedish and a Finnish firm. Although a common corporate language was chosen to facilitate integration and communication, in reality it was interpreted as a political choice by the organization whose language was not chosen. This resulted in disintegration rather than integration. Fredriksson et al. (2006) studied the use of corporate language in three organizational units of Siemens. The authors found that although English was designated as the official corporate language, in practice both English and German were used frequently. In our study we will provide an overview of the extent to which a corporate language has been formally designated, and report on the choice of the corporate language (HQ language or other language). We will demonstrate in particular how MNCs located in the various country clusters make very different choices in this respect.

The designation of one language as the corporate language can easily lead to power imbalances in the MNC. In most cases the power of HQ is reinforced through the choice of corporate language, since HQ managers will typically have better skills in the corporate language than subsidiary managers. However, in some cases, the choice of corporate language might actually lead to a phenomenon called power–authority distortion, when non-Anglophone HQs interact with Anglophone subsidiaries using English as a corporate language (Harzing & Feely, 2008). This may even happen if the language in use is a third language (such as English) in which subsidiary managers have a greater facility than HQ managers. Lincoln, Kerbo, and Wittenhagen (1995) provided an example of this in the context of Japanese subsidiaries in Germany. In our study, we provide the first empirical assessment of the incidence of power–authority distortion across a wide range of countries. Again, we will show clear differences between Anglophone, Asian, Continental European and Nordic MNCs.

In sum, the studies described have provided us with interesting, mostly case study based or conceptual insights into the role of language in MNCs. However, what is missing so far is a *comprehensive* overview of actual language competences, policies, and practices. More specifically, the central research proposition of our article is as follows:

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