

**Conflict in Foreign Subsidiaries of Japanese and Western Multinational
Corporations: The Impact of Cultural Distance and Differences
in Home-Host Country Combinations**

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Conflict in Foreign Subsidiaries of Japanese and Western Multinational Corporations: The Impact of Cultural Distance and Differences in Home-Host Country Combinations

Abstract

This article investigates the degree of conflict between different groups of employees in MNC subsidiaries in relation to different home-host country combinations. More specifically, we compared the degree of conflict of Western subsidiaries in Japan and Japanese subsidiaries in the West. We based our comprehensive investigation on data from 617 US and German subsidiaries in Japan as well as Japanese subsidiaries in the USA and Germany (and, for comparative reasons, US subsidiaries in Germany and German subsidiaries in the US). Possibly rather surprisingly, our results indicate that different degrees of cultural distance between home and host country do not lead to different degrees of conflict in MNC subsidiaries. We suggest that *expected* conflicts, due to substantial cultural differences, induce employees to actively counteract such problems, leading ultimately to a reduction of *real* conflicts. Furthermore, while previous literature suggested that in particular Japanese subsidiaries in the West are prone to a high degree of conflicts, our findings suggest that Western subsidiaries in Japan are even more conflict-laden. This should caution Western companies against complacency when operating in Japan.

Keywords: conflict – cultural distance – multinational corporation – subsidiary – Japan

JEL Classification: M12 – M16

1 Introduction

Multinational corporations (MNCs) increasingly integrate their operations globally in order to enhance global efficiency and worldwide learning. To do so, they assign expatriates to coordinate and control their foreign subsidiaries and to promote knowledge transfer between headquarters (HQ) and regional sub-units. While close collaboration between HQ management, expatriates and local employees is essential for organizational development, it is frequently impeded by friction. Given the increasing importance of global integration of MNC operations and, subsequently, HQ-subsidiary relations and subsidiary management, conflicts at subsidiary level become more and more of relevance, as they can impair efficiency and performance of the entire organization.

We argue that previous MNC research on conflicts has not adequately differentiated among the various sub-groups between which conflicts can arise. An important contribution of our study lies therefore in disentangling the concept of subsidiary conflict into the following categories: conflicts between expatriate managers from the parent country and local managers; conflicts between expatriate managers from the parent country and the local labour force; conflicts between local managers and the local labour force; and conflicts between the subsidiary management and HQ management. For each of those categories, we have measured conflict separately, providing a more detailed and nuanced picture than previous studies were able to produce.

Many researchers and practitioners attribute conflicts in foreign subsidiaries to cultural differences (see, for example, David/Singh 1993, Ayoko et al. 2002, Chevrier 2003, Vaara 2003). While our literature review will confirm their importance, we will show that cross-cultural conflicts are too complex a concept for more cultural distance leading automatically to more conflicts. To do so, we employed a large, carefully balanced and controlled sample, allowing us to disentangle the degree of conflict between employees from countries with different degrees of cultural distance, covering six home-host country combinations: subsidiaries of German and US companies located in Japan; subsidiaries of Japanese and German MNCs in the USA; and subsidiaries of Japanese and US MNCs in Germany. This research design allowed us to assess the conflict-generating effect of cultural distance in greater detail than previous studies were able to do. In addition, we could determine the relation between subsidiary conflict and various home and host countries.

In our study we come to the possibly rather surprising conclusion that more cultural distance between home and host country does *not* lead to more subsidiary conflict. We suggest that

apparent cultural differences lead employees to *expect* conflicts, helping them to actively counteract potential problems and thereby ultimately reducing the amount of *real* conflicts. Ultimately, our study allows us to comment on the ability of Western (here: American and German) MNCs to deal with conflicts in their subsidiaries in Japan, in comparison to Japanese MNCs operating in the West. We found, against our expectations, more conflicts in subsidiaries of Western MNCs in Japan than in Japanese subsidiaries in the West. This result should motivate Western multinationals to improve their inner-subsidiary relations in Japan. In the remainder of this paper, we will first identify gaps in MNC research related to subsidiary conflicts; review different ways to operationalize cultural distance; and discuss our rationale for comparing the degrees of conflict encountered by Western MNCs in Japan and by Japanese MNCs in the West. Subsequently, we will describe our methodology, present our findings and discuss their implications for research and practice. We will conclude with the limitations of our study.

2 Theoretical framework

2.1 Conflict in MNCs

Avruch (2002, p. 1) defined conflict as “competition by groups or individuals over incompatible goals, scarce resources, or the sources of power needed to acquire them.” At the workplace, such competition is unavoidable. Different groups of employees will always pursue different goals, interfere with each other’s work and compete for promotion. Bollen et al. (2008) therefore recognized that conflict is “an inevitable part of organizational life”. For most employees, it is also an unwelcomed part of their professional life, since it can negatively impact their well-being (De Dreu et al. 2004) and is frequently seen as detrimental to performance (Pondy 1967). Organizational conflicts are heightened by the increasing complexity, interdependence and rapid change in today’s business environment (De Dreu/Beersma 2005, Deutsch et al. 2006, Bollen et al. 2008). As MNCs are characterized by exceptional complexity, they are especially prone to organizational conflict (Sharpe 2001). It is frequently argued that irreconcilable beliefs, norms and practices render the management of MNCs more complex than that of domestic companies (Olie 1994, Schraeder/Self 2003). Many researchers and practitioners believe that cultural differences between parent and host countries complicate interaction and, thus, increase the likelihood of conflicts in MNCs (e.g., Tsui et al. 1992, Armstrong/Cole 1996, Ayoko et al. 2002, Joshi et al. 2002, Chevrier 2003). Differences contribute to imperfectly shared understandings between employees, causing ambiguity and uncertainty (David/Singh 1993). International business researchers therefore

hold cultural differences accountable for a wide range of problems: resistance to change (Cartwright/Cooper 1996); increased employee or management turnover (Canella/Hambrick 1993); and miscommunication, frustration, lower productivity and even lawsuits (Clarke/Lipp 1998). Clarke and Lipp (*ibid*, p. xi) concluded that “cross-cultural conflicts constitute a relatively serious threat to successful corporate operations”.

Conflicts in MNCs have so far been frequently analyzed by two distinct streams of the literature: the international strategy literature (e.g., Doz/Prahalad 1981, Hamel/Prahalad 1983, Prahalad/Doz 1987, Gupta/Cao 2005), focusing on conflicts between HQ and subsidiaries; and the international HRM literature (e.g., Holliday 1992, Tung 1993, Aycan 1997, Jassawalla et al. 2004), concentrating on the relations between expatriates and their local colleagues. According to Bartlett and Ghoshal (1986, p. 88) HQ-subsidiary relationships often become “strained or even adversarial” because subsidiaries are interdependent with the parent company and simultaneously have to respond to the local context. Roth and Nigh (1992, p. 285) believed that “some degree of conflict inevitably accompanies the HQ-subsidiary relationship”. Regarding expatriation related conflicts Jassawalla et al. (2004, p. 838) found, for example, that interpersonal conflicts with co-workers in host countries are “inherent to cross-cultural experiences of expatriates” and frequently cause high stress and discomfort. Accordingly, Aycan (1997) posits that tensions and conflict in interpersonal relations lead to reduced expatriate effectiveness.

We argue that extant research does not adequately reflect and integrate the complexity of different sources of conflict in MNCs. Blazejewski (2005, p. 8) rightly demanded that international business research should make more efforts to address the “multi-level complexity of MNC conflict contexts”. Our study builds on both previously mentioned streams of the literature, international strategy and international HRM, and strives to address this “multi-level complexity of MNC conflict contexts”, by investigating and integrating two key sources of conflicts: conflicts between HQ and subsidiary and conflicts within a subsidiary. To the best of our knowledge this is the first large-scale empirical study to do so in a systematic way and, in addition, across several home-host country combinations. Moreover, we break down inner-subsidiary conflicts into several conflict categories: conflicts between local subsidiary managers and local labour force (mono-cultural level across hierarchical boundaries); conflicts between parent country subsidiary managers and the local labour force (cross-cultural level across hierarchical boundaries); and conflicts between parent company subsidiary managers and local subsidiary managers (cross-cultural level within hierarchical boundaries).

2.2 Cultural distance

Much of the extant conflict research in MNCs has focused on the impact of cultural differences on HQ-subsidary relations. While cultural differences lie in many ways at the core of conflicts within MNCs, an important question becomes how to evaluate varying degrees of cultural differences. The key concept of operationalizing varying degrees of cultural differences is that of cultural distance, introduced by Kogut and Singh (1988) and based on Hofstede's (2001) cultural dimensions. Many subsequent studies used this measure to calculate cultural distance (e.g. Gomez-Mejia/Palich 1997, Morosini et al. 1998). The underlying idea of the concept is simple: if countries attain very different scores on individual scales measuring cultural dimensions, the aggregate cultural distance between them is considered large.

Based on the four original dimensions of Hofstede's seminal work Kogut and Singh (1988) developed a formula to calculate a composite measure of cultural distance (excluding long-term orientation):

$$CD_j = \sum_{i=1}^4 \{(I_{ij} - I_{iu})^2 / V_i\} / 4 ,$$

CD_j stands for the cultural distance of the j th country from the United States, I_{ij} represents the index of the i th cultural dimension and the j th country, u stands for the United States and V_i is the variance of the index of the i th dimension. This formula calculates a country's cultural distance relative to the United States. According to this formula, Germany attains a moderate distance score of 0.412, while Japan reaches a much higher distance value of 2.670. Based on this formula, together with the knowledge from Hofstede's cultural dimension scores that the US and Japan form opposite poles with Germany in between, we can conclude that cultural distance between the US and Germany is lowest; between Japan and Germany it is significantly larger; and between the US and Japan it is by far the largest. For the purpose of this study we will simplify this detailed differentiation by stating that cultural distance between the US and Germany (i.e. "the West") is low compared to the cultural distance between either the US and Japan or Germany and Japan.

The underlying models of cultural dimensions such as the one by Hofstede or others like Trompenaars (Trompenaars/Hampden-Turner 2001), Schwarz (1992, 2004, Sagiv/Schwartz 2007), Inglehart and Wenzel (2005) or the authors of the GLOBE study (House et al. 2004, Chhokar et al. 2007) are frequently criticized for being deterministic, assuming national homogeneity, neglecting change and reducing the complexity of culture to a set of numerical

values (e.g. Harrison/McKinnon 1999, Williamson 2002, McSweeney 2002). The way Kogut and Singh have operationalized their computation of cultural distance has also been subject to strong criticism. This “seemingly simple and standardized measure of cultural difference” (Shenkar 2001, p. 519) has been criticized for inducing researchers to bypass the “complexities and intricacies of national culture“ (Kim/Gray 2009, p. 55; also see Harzing/Noorderhaven 2006) and to “neglect (...) the impact of sample idiosyncracies” (Harzing 2003, p. 76). According to Harzing (ibid) this “almost blind confidence in one specific measurement of cultural distance” has led scholars to “systematically overestimate the impact of culture.”

These are all valid objections and we acknowledge that the models mentioned above cannot fully do justice to the rich and complex cultures of Japan, Germany and the United States. However, this section is not aiming at rich descriptions of specific cultures, but at highlighting different degrees of cultural distance. In this context we can report that the above mentioned models indicate the same pattern, in that the US and Japan form opposites, with Germany positioned in between and significantly closer to the US than to Japan.

A study that sought not to bypass the above cited “complexities and intricacies of national culture” with regards to the US, Japan and Germany was a comprehensive study of three volumes (Pudelko 2000 a, b, c), analyzing the HRM practices of companies from these three countries and their respective socio-cultural context. In order to summarize the findings for the socio-cultural contexts of the three country models and make direct country comparisons possible, 284 opposing statements were generated, in between which the three countries were rated. Results indicated that in 73 percent of the cases the US were rated at one pole, Japan at the other, and Germany was rated in between. The same pattern was subsequently reflected to an even stronger degree for the HRM practices, with Germany located in between the US and Japan and closer to the US than Japan (see also Pudelko 2006b).

Based on the above cited studies that generated cultural dimensions, the study by Kogut and Singh and the study by Pudelko, all coming to the same conclusions, we can be fairly confident to perceive the US and Japan as standing culturally the furthest away, with Germany being located in between and significantly closer to the US than to Japan. Our approach of opposing the culturally “related” Western countries USA and Germany to culturally more distant Japan is thereby justified. Connecting the above arguments on conflicts in MNCs with the arguments on cultural distance, we formulate the following hypothesis:

H1: More cultural distance between parent and host country leads to more conflicts in MNC subsidiaries.

2.3 Conflicts in Western subsidiaries versus conflicts in Japanese subsidiaries

The management related implications of cultural differences between the US and Japan have been subject to much research (e.g. Pascale/Athos 1981, Tung 1982, Black 1988, Beecheler/Yang 1994, Yoshimura/Anderson 1997, Bird et al. 1998, Okabe 2002, Debroux 2003, Haak/Pudelko 2005, Pudelko/Mendenhall 2007, Pudelko 2009). These cultural differences have the potential to create conflict through mutual misunderstanding (Clarke/Lipp 1998) and to impede the smooth resolution of extant conflicts between US and Japanese managers (Morris et al. 1998). Consequently, Clarke and Lipp (1998, p. xii) see “a mandate for lasting, effective resolution of cultural conflicts” in Japanese-American business interaction. Our study is designed to make a contribution to this stream of research.

However, in order to go beyond the frequently studied dichotomy USA versus Japan and include a country that allows us to distinguish between varying degrees of cultural distance, we incorporated also German multinationals in our comparative design. Other studies, investigating the management of US, Japanese and German companies, have been undertaken by Garten (1993) and Dore (2000). Although different measures of cultural distance found Germany to be somewhat closer to the Japanese culture than the US, Japan is still known to be a very challenging market for German firms (Bebenroth et al. 2007). The inclusion of Germany permitted us to compare the conflicts encountered in the subsidiaries of US and German MNCs in Japan with the problems experienced in subsidiaries of Japanese MNCs located in the USA and Germany. This juxtaposition enabled us to answer the following additional research question: do Western MNCs encounter fewer conflicts in their subsidiaries in Japan than Japanese MNCs in their subsidiaries in the West?

The literature suggests that this should be the case. Japanese MNCs are known to fill key positions in their subsidiaries abroad mainly with expatriates, while US organizations usually have very low levels of expatriates in their overseas operations. European MNCs are ranging between those two extremes (Tung 1982, Young et al. 1985, Harzing 1999, Collings/Scullion 2006). With this staffing practice Japanese firms shift culture-induced conflicts from the HQ-subsidiary level down to the subsidiary level. This effect is especially strong since Japanese multinationals were found to send their expatriates mainly on control and co-ordination-

driven assignments (Harzing 2001, Collings/Scullion 2006). Such tight control of overseas operations impedes local responsiveness and may thereby increase conflict potential on the subsidiary level. Moreover, Clarke and Lipp (1998, p. 5) severely criticized the neglect of cultural issues in Japanese subsidiaries located in the West: “Very few (if any) companies are doing anything about managing culture, about examining the impact of culture-based attitudes and behaviours in workplace relationships and processes.” This neglect substantially increases conflict between Japanese expatriates and American locals: “Both often end up frustrated and angry, and the consequences range from mutual Japan/America bashing and the erection of defensive communication barriers to high turnover and, in the end, lawsuits” (ibid). Based on these reflections, we therefore assume that:

H2: Japanese MNCs encounter more cross-cultural conflicts in their subsidiaries in the West than Western MNCs in their Japanese subsidiaries.

3 Methodology

3.1 Data Collection and Sample

We chose to investigate conflict in MNC subsidiaries across the various home-host country combinations by means of a large-scale quantitative survey, since this approach achieves best the required representativeness across national boundaries, industries and company sizes. While all cross-cultural surveys somehow have to reduce the complexity of the phenomena under study, they yield parsimonious and generalizable findings. Data for this paper was collected in the context of an extensive mail survey about HR management of subsidiaries of US, Japanese and German MNCs in the two respective other countries. This carefully matched research design resulted in data from six groups of subsidiaries, allowing for in-depth comparison and analysis. The heads of subsidiary HR departments were targeted as respondents, since they were presumed to be the persons most knowledgeable about conflicts among their staff. The questionnaire was developed on the basis of a broad literature review. To augment content validity and minimize the potential for misinterpretations, the instrument was pilot-tested in a focus group with three German HR managers, who had been working in MNCs between 5 and 25 years. This pre-test led to some changes in questionnaire content and design. The complete questionnaire contained 67 items, but only data relevant to subsidiary conflict are discussed here.

To reach both expatriate and local respondents, two questionnaire versions for each of the six groups of subsidiaries were provided – one in the parent-country language and one in the host-country language. Consequently, a total of twelve questionnaire versions in English, German and Japanese were sent out. To ensure equivalence of meaning between all of them, the translation and back-translation procedure recommended by Brislin (1970, also see Smith 2004) was employed. Overall, 617 subsidiary HR managers returned the questionnaires. Table 1 contains detailed information on the number of respondents and the response rates in all six subsidiaries groups. We tested our sample for non-response bias by comparing responding and non-responding firms on industry and size (number of employees). Since no significant differences were found on these variables, we are confident that our results are not distorted by non-response bias.

Insert Table 1 about here

3.2 Control variables

A range of different control variables were taken into account. First, our sample comprised a large spread in *subsidiary sizes*. No correlation between size and degrees of conflict for any of our conflict categories was found, so we conclude that subsidiary size had no effect on our results.

Second, our sample included a variety of *industries*. A comparison of manufacturing and service companies for the overall sample showed that when analyzed on the aggregate level for all six country combinations taken together, service companies experienced statistically significantly more conflicts in all four categories than manufacturing companies. This may be explained by the need for local presence and local knowledge that characterizes in particular service industries and puts additional stress on expatriates, who simultaneously have the mandate to advance the global integration of MNCs. However, when disaggregated for the various home-host country combinations, the disruptive effect of these contradictory pressures in the service industries did not prove very strong for most cases. When we compared manufacturing with service companies in all six country combinations for all four conflict categories individually, only 6 out of 24 tests yielded statistically significant differences in conflict ratings. Therefore, we can be reasonably confident that the bias introduced by this variable is only valid for a few combinations of conflict categories and home-host country combinations.

Third, we compared results by *entry mode* (greenfields versus acquisitions). No effect of entry mode was found for conflicts between local managers and the local labour force and between

subsidiary and HQ managers. Results concerning conflicts between parent country subsidiary managers and local labour force as well as between parent country subsidiary managers and local subsidiary managers were more complex. In these two categories, acquired subsidiaries experienced statistically significantly more conflicts than greenfields across the overall sample. This result appears perfectly plausible: acquired sites already have functioning structures and organizational cultures in place, which are disrupted by the entry of expatriates from the new parent company, while greenfield subsidiaries provide a clean slate. However, when comparisons between greenfields and acquisitions were broken down into individual home-host country combinations, the differences only attained statistical significance in 3 out of 12 tests.

Fourth, our controls for the *nationality of respondents* yielded a rather incoherent picture. Parent country respondents rated conflicts between local managers and their local subordinates statistically significantly higher than local respondents, while the latter rated conflicts between parent country subsidiary managers and local employees as well as between parent country and local subsidiary managers significantly higher than respondents from the parent country. While the possibility that respondent nationality influenced conflict ratings cannot be completely ruled out, this control variable did not distort our results in any specific direction. Consequently, we are confident that none of our control variables introduced systematic bias into our findings.

3.3 Measures and Analysis

The heads of HR departments were presented across the six respective subsidiary groups with a set of four five-point bipolar scales and asked to indicate the degree of conflict between different groups of employees. As an illustration, the English version of our items from the questionnaire for US subsidiaries in Japan is replicated in the appendix. We were very careful not to impose our understanding of conflict on the respondents, so we neither defined the term in the questionnaire nor specified which types of conflict respondents should include. Any definition of the construct might have excluded culture-specific concepts of conflict and thereby introduced researcher bias. Our scale anchors “few conflicts” and “many conflicts” do not require respondents to express agreement or disagreement, so they are not susceptible to the acquiescence effect. This is crucial for our study, since Japanese respondents are known to show response effects that differ from those of Western subjects (Chen et al. 1995, Harzing 2006, Pudelko/Harzing 2007).

In the first item we asked respondents to rate the degree of conflict between local managers and the local labour force in their subsidiary. Apart from personal conflicts arising from individual differences (Robbins 1974), labour relations and hierarchical differences are assumed to be the most salient factors creating conflict between these two groups (Xin/Pelled 2002, Bollen et al. 2008). While such a monocultural combination is of less relevance in the context of our cross-cultural study, this measure provided us with a comparative basis for the following conflict category.

In item two respondents were asked to gauge the degree of conflict between parent country subsidiary managers and the local labour force. If we had asked only for an answer to this second conflict category, we would not have known to which degree we had measured the cross-cultural effect we are interested in and to which degree we had measured the labour relations / hierarchical differences effect. Item one provided us here with a base line, helping us to disentangle both effects. Mean conflict ratings in item two (both effects in aggregation) are therefore expected to be significantly higher than in item one (only one effect).

Consequently, the difference between the results of both items enabled us to assess the disruptive potential of cultural distance in foreign affiliates of MNCs.

A third conflict category was investigated by item three. Here, we asked the respondents to rate the degree of conflict between parent country subsidiary managers and local subsidiary managers. Parent country and local managers were assumed to be on relatively similar hierarchical levels, with possible differences equalling each other out, so we could assume that cultural differences are the main factor generating conflict between these groups of employees.

In the fourth and last item respondents were asked to rate the degree of conflict between the subsidiary management and the superior management of the parent company.

To test our hypotheses across our four conflict categories and six subsidiary groups, degrees of conflicts were measured and subsequently compared using independent samples t-tests. To assess the influence of cultural distance on conflict, mean conflict ratings in subsidiary groups with high cultural distance between home and host country (i.e. German and US subsidiaries in Japan and Japanese subsidiaries in Germany and the US) were compared with mean scores in subsidiaries with low cultural distance (i.e. German subsidiaries in the US and US subsidiaries in Germany). Hypothesis 1 would be supported if respondents in the former settings reported significantly higher conflicts than in the latter. Hypothesis 2 would be supported if mean conflict ratings in Japanese subsidiaries in Germany and the US were significantly higher than mean scores for US and German subsidiaries in Japan.

4 Results

The mean conflict ratings for the four items in all six subsidiary groups are presented in Table 2. High mean scores indicate a high degree of conflict. The middle option on our five-point Likert scale was 3, so means below that value represent moderate conflict ratings.

Insert Table 2 about here

4.1 Conflicts between local managers and the local labour force

The means of the first column of Table 2 indicate that the relations between local managers and local labour force are not without conflicts (>1) but conflicts can be judged as moderate (<3). Since local managers and their local subordinates are from the same culture, cross-cultural implications cannot be deduced from the first conflict category. However, item one provides a comparative basis for item two, enabling us to isolate the disruptive potential of cultural distance.

4.2 Conflicts between parent country subsidiary managers and the local labour force

Comparing the means of column 2 and column 1 in Table 2, we observe that for all six subsidiary groups conflicts between parent country managers and local labour force (column 2) are higher than conflicts between local managers and local labour force (column 1). Table 3 provides, in addition, the statistical significance of these differences.

Insert Table 3 about here

The paired samples t-tests showed that in five out of six cases the differences were highly significant ($<.01$). This strongly confirmed expected results (cross-cultural conflicts are higher than mono-cultural conflicts), providing further evidence for the credibility of our data. Subsequently, we compared in additional t-tests the different means for conflict between parent country managers and the local labour force according to the various home-host country combinations (see Table 4).

Insert Table 4 about here

While six out of the eight comparisons went in the expected direction, i.e. subsidiary groups with higher cultural distance between home and host country experienced more conflicts in this conflict category than those with lower cultural distance, possibly rather surprisingly, only one out of these six cases was statistically significant. German expatriates reported significantly ($.042^{**}$) more conflicts with the local labour force in Japan than in the US. However, this may be due to the especially high degree of conflict German MNCs encounter

in their Japanese subsidiaries in general. Consequently, Hypothesis 1 has to be rejected for this conflict category.

Regarding our second hypothesis, the comparison of conflict rating differences in the subsidiaries of US and German MNCs in Japan versus Japanese subsidiaries located in the West did not show any statistical significance. The (non-significant) mean differences were even contrary to initial expectations, with higher means for the former and lower means for the latter. Consequently, Hypothesis 2 has to be rejected for this conflict category as well.

4.3 Conflicts between parent country subsidiary managers and local subsidiary managers

Regarding conflicts between parent country managers and local managers, the means for subsidiary groups with higher cultural distance between parent and host country are, as expected, in all eight tests higher than those with lower cultural distance as can be seen from Table 5.

Insert Table 5 about here

However, only half of those mean differences proved to be statistically significant. Therefore, these mixed results yield for Hypothesis 1 only limited support for this conflict category. Our findings with respect to Hypothesis 2 mirror the results of the previous conflict category.

Again, against our initial expectations, parent country subsidiary managers of German multinationals encountered significantly (.015**) more conflicts with their local colleagues in Japan than parent country managers from Japanese MNCs with local managers in Germany. Also the means for parent country managers from US firms experiencing conflicts with their local colleagues in Japan are higher than the means for Japanese parent country managers experiencing conflicts with local managers in the US. However, the difference did not reach statistical significance. Consequently, Hypothesis 2 has to be clearly rejected for this conflict category.

Insert Table 6 about here

4.4 Conflicts between subsidiary management and the superior HQ management

The first three items were designed to measure conflicts among different groups of subsidiary employees. Our last survey item adds another important conflict category to the picture, i.e. conflicts between the subsidiary management and the HQ management. Results are provided in Table 6.

Insert Table 6 about here

Rather surprisingly, the conflicts between HQ and subsidiary managers were very similar across all six subsidiary groups. No significant differences were found between the various home-host country combinations. This suggests that neither cultural distance between home and host country (Hypothesis 1) nor the specific MNCs' home country or host country (Hypothesis 2) influenced the degree of conflict between HQ and subsidiaries. Both hypotheses have therefore to be rejected for this last conflict category.

5 Discussion and conclusion

5.1 Moderate effects of cultural distance

Our accurately matched sample of home-host country combinations allowed us to address the complexity of subsidiary conflict across different degrees of cultural distance, while our differentiation in various conflict categories enabled us to break the concept of subsidiary conflict down to different dimensions. In our first hypothesis we assumed that more cultural distance between home and host country leads to more conflict in MNC subsidiaries. Possibly rather surprisingly, this proposition received only partial support for conflicts between parent country subsidiary managers and local subsidiary managers, but was completely rejected for the remaining two cross-cultural conflict categories. These counter-intuitive findings contradict a basic assumption of the cross-cultural and international strategy literature, which persistently claims that cultural differences complicate interaction and, thus, increase the likelihood of conflict.

However, our results are in line with recent findings from the adjustment literature. Peterson et al. (1996), Forster (1997) and Selmer (2007) all detected no significant differences in adjustment between expatriates assigned to culturally similar and less similar countries. These results can be explained with the influence of cultural awareness and sensitivity on employees' behavior (Harzing 2004, Shenkar 2001). When cultural distance between home and host country is small, subsidiary employees fail to identify subtle but important differences or underestimate their relevance. Once conflict arises, they often do not recognize its cultural sources (Vaara 2000) and wrongly attribute it to their counterparts' personal deficits. This leads to further antagonism and conflicts (Selmer/Shiu 1999).

Conversely, when cultural distance between home and host country is high and salient, executives from HQ, expatriate managers, their local colleagues and local subordinates all tend to be more sensitive to differences and expect culture-induced conflicts to arise. This awareness enables them to actively counteract and ultimately reduce culture-induced conflicts. Moreover, employees who are prepared for culture-induced conflicts do not assess

them as important as those who are taken by surprise. According to Vaara (2000), it is often the unanticipated and undetected cultural differences that cause the gravest problems. Clarke and Lipp (1998, p. xii) therefore highlight the importance of cultural awareness: “The greatest danger lies in simply ignoring the profound differences between (...) cultures.”

5.2 Conflicts in Western subsidiaries in Japan

Our second hypothesis assumed that Japanese MNCs encounter more conflicts in their subsidiaries in the West than their Western counterparts in their subsidiaries located in Japan. Based on our findings, this proposition had to be rejected throughout. In fact, the opposite was found to be true in most of our tests: by far the highest degrees of conflict between parent company subsidiary managers and the local labour force as well as between parent company subsidiary and local subsidiary managers were reported in subsidiaries of US and German MNCs in Japan. German multinationals operating in Japan seemed to be especially troubled: they reported the highest scores in three out of our four conflict categories. Only with respect to conflicts between parent country subsidiary managers and the local labour force were they slightly “surpassed” by US subsidiaries in Japan.

These possibly surprising findings should caution Western firms against being too complacent about their operations in Japan. In particular since Japan’s economic crisis in the 1990s and the ensuing changes in the Japanese management practices (Beechler 2005, Pudelko/Mendenhall 2007, Pudelko 2009), Western managers might consider their own management model superior to the Japanese one and act less sensitive towards Japanese particularities as they might otherwise have done. Regarding HQ-subsidiary relations and, more specifically, subsidiary management, Westerners might also judge the Japanese approach as ethnocentric and more conflict-prone than their own style. Japanese MNCs are frequently criticized for exerting tight control on subsidiary management and for relying on a comparatively high ratio of expatriates in the upper echelon of their foreign subsidiaries. While traditional Japanese HR practices are currently undergoing significant change (Matanle 2003, Pudelko 2005, 2006a, 2009, Pudelko/Mendenhall 2007), Japanese MNCs continue to fill significantly more positions in subsidiary management with expatriates than Western multinationals. Contrary to Western assumptions, however, our results suggest that this practice does not necessarily increase subsidiary conflict. This finding sheds a very different light on previously held assumptions on “best practices” in subsidiary management and should stimulate further research, investigating in particular the connection between conflicts and performance in more detail.

5.3 Managerial Implications

Our findings also have important practical implications. As an abundant amount of expatriation literature has shown over and over again, MNCs frequently underestimate the impact cross-cultural differences can have on the effectiveness of HQ-subsidiary relations and subsidiary management. How flawed such a neglect is, is particularly obvious for home-host country combinations, characterized by high cultural distance. However, our findings suggest somewhat counter-intuitively that even in cases of lower cultural distance, MNCs need to be to the same degree concerned about detrimental effects of cross-cultural conflicts. As our findings indicate, small cultural differences can create considerable conflict when they are not anticipated. If cultural pitfalls, for example during the expatriation process, are not recognized as such, a problem particularly difficult to detect if cultural distance is low, misunderstandings are often wrongly attributed to personal deficits of colleagues, subordinates or superiors. These misattributions complicate teamwork and give rise to further conflicts.

This “hidden problem” of low cultural distance has consequences for a variety of aspects of HQ-subsidiary relations and subsidiary management. Relating to international strategy, the coordination and control of subsidiaries as well as knowledge transfer can all be affected by such conflicts. Regarding international HRM, practically all activities related to expatriation are equally concerned. This implies, for example, that even for home-host country combinations in which cultural differences are small, cross-cultural competencies need to be an important criterion for the selection of expatriates; that cross-cultural awareness training programmes can assist expatriates (and local staff) to build accurate expectations and thereby reduce conflicts; that expatriates should continue to receive support and assistance once abroad in order to deal with expatriation-specific problems of which cross-cultural conflicts usually rank very high; and, finally, that repatriation should not be underestimated as a critical phase either.

Our findings further imply important lessons for Western firms operating in Japan. Western managers often deem themselves to have more international experience than their Japanese counterparts, whose management practices they judge as ethnocentric. However, our findings should caution them against being too complacent about their own approaches. If Western MNCs encounter more conflicts in their subsidiaries in Japan than Japanese multinationals in the West, they cannot afford to cease working on their conflict management.

5.4 Limitations

Inevitably, our study is subject to a number of limitations. First, in terms of research design, our five-point Likert scales might be criticized for being vulnerable to the medium response effect, common to scales with a distinct midpoint. However, we consciously included a medium conflict rating, as this reflects the perceptions of many respondents. The large-scale GLOBE study of 62 societies (House et al. 2004, Chhokar et al. 2007), for example, similarly used odd-numbered Likert scales to measure cultural dimensions.

Second, even our careful back-translation procedures cannot ensure perfect equivalence of meaning in the terminology of our English, German and Japanese questionnaires. Some terms carry a broad spectrum of denotations and connotations, which are impossible to translate completely into another language. However, this error source applies to practically every cross-cultural comparative survey.

Third, we relied on a single informant for every subsidiary, a very common practice with large scale surveys such as ours. However, we specifically targeted the heads of subsidiary HR departments as respondents, because we considered them to be the key informants most knowledgeable about conflicts in their subsidiaries.

Fourth, we acknowledge that we measured with our items an element of (subjective) opinions about (objective) degrees of conflict, yet we would argue that this limitation applies to most surveys of this kind. And, as just outlined, we made sure to question those persons with the best possible professional knowledge regarding our research items.

Fifth, although our sample carefully balanced US and German subsidiaries in Japan with Japanese subsidiaries in Germany and the USA, and – for comparative reasons – German subsidiaries in the US and vice versa, the sample sizes for the different home-host country combinations varied substantially. However, to obtain for six different subsidiary groups a roughly equal amount of responses would be very difficult to realize.

Sixth, we did not study the connection between conflicts and performance. Conflict in MNC subsidiaries is usually deemed detrimental to performance, but previous research has also considered the potentially positive impact conflict can have on creativity and innovation.

Seventh, conflict levels were only investigated from the subsidiary perspective. A comparison with ratings by HQ managers might have broadened the view on our last conflict category but, as with the previous limitation, this was beyond the scope of this already extensive survey.

In spite of these limitations, we are confident that the present study has made a significant contribution to the MNC research regarding conflicts in and with subsidiaries and to the literature on international HRM, particularly with regards to Japan.

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tab. 1: Responses and response rates

Companies	Country of origin	Questionnaires mailed	Returned undeliverable	Returned responses	Response rate
Subsidiaries in Germany	USA	250	27	54	24 %
	JPN	250	19	82	35 %
	<i>Subtotal</i>	<i>500</i>	<i>46</i>	<i>136</i>	<i>30 %</i>
Subsidiaries in Japan	USA	74*	0	36	49 %
	GER	250	23	85	37 %
	<i>Subtotal</i>	<i>324</i>	<i>23</i>	<i>121</i>	<i>40 %</i>
Subsidiaries in the USA	GER	500	62	151	34 %
	JPN	600	57	209	38 %
	<i>Subtotal</i>	<i>1,100</i>	<i>119</i>	<i>360</i>	<i>37 %</i>
<i>Total</i>		<i>1,924</i>	<i>188</i>	<i>617</i>	<i>32 %</i>

*For American companies in Japan, only those companies that agreed to be approached by the researchers were contacted. This explains both the small number of questionnaires sent out and the relatively high response rate.

tab. 2: *Mean ratings of degree of conflict*

	Conflicts between local managers and local labour force	Conflicts between parent country managers and local labour force	Conflicts between parent country managers and local managers	Conflicts between subsidiary management and superior HQ management
US subsidiaries in Japan	2.25	2.91	2.91	2.64
German subsidiaries in Japan	2.62	2.89	2.99	2.68
Japanese subsidiaries in Germany	2.22	2.63	2.62	2.67
US subsidiaries in Germany	2.00	2.72	2.47	2.54
German subsidiaries in the USA	1.98	2.56	2.52	2.58
Japanese subsidiaries in the USA	2.30	2.62	2.67	2.62

Values from 1 (few conflicts) to 5 (many conflicts)

tab. 3: Comparison of mean ratings of degree of conflict in categories 1 and 2

	Conflicts between local managers and local labour force	Conflicts between parent country managers and local labour force	Difference	Levels of significance
US subsidiaries in Japan	2.30	2.91	0.61	.005***
German subsidiaries in Japan	2.75	2.89	0.14	.295
Japanese subsidiaries in Germany	2.22	2.64	0.42	.001***
US subsidiaries in Germany	2.11	2.72	0.61	.008***
German subsidiaries in the USA	2.05	2.56	0.51	.000***
Japanese subsidiaries in the USA	2.32	2.64	0.32	.000***

Levels of significance (two-tailed, calculated with paired samples t-tests.): ***p < 0.01; **p < 0.05; *p < 0.1

The slight differences in mean scores between tables 2 and 3 are due to missing values. Table 3 only took those cases into account, where both conflict categories were rated.

tab. 4: *Cultural distance and degree of conflict between parent country managers and the local labour force*

Hypo-thesis test	High cultural distance	Ratio of mean conflict ratings	Low cultural distance	Difference in conflict ratings	Levels of significance
H1	German subsidiaries in Japan	>	US subsidiaries in Germany	0.17	.515
	US subsidiaries in Japan	>	US subsidiaries in Germany	0.19	.518
	Japanese subsidiaries in Germany	<	US subsidiaries in Germany	0.09	.724
	Japanese subsidiaries in the US	<	US subsidiaries in Germany	0.10	.683
	German subsidiaries in Japan	>	German subsidiaries in the US	0.33	.042**
	US subsidiaries in Japan	>	German subsidiaries in the US	0.35	.109
	Japanese subsidiaries in Germany	>	German subsidiaries in the US	0.07	.636
	Japanese subsidiaries in the US	>	German subsidiaries in the US	0.06	.604
H2	High cultural distance		High cultural distance		
	German subsidiaries in Japan	>	Japanese subsidiaries in Germany	0.26	.121
	US subsidiaries in Japan	>	Japanese subsidiaries in the US	0.29	.149

Levels of significance (two-tailed, calculated with independent samples t-tests.): *** p < 0.01; **p < 0.05; *p < 0.1

tab. 5: *Cultural distance and degree of conflict between parent country managers and local managers*

Hypo-thesis test	High cultural distance	Ratio of mean conflict ratings	Low cultural distance	Difference in conflict ratings	Levels of significance
H1	German subsidiaries in Japan	>	US subsidiaries in Germany	0.52	.012**
	US subsidiaries in Japan	>	US subsidiaries in Germany	0.44	.039**
	Japanese subsidiaries in Germany	>	US subsidiaries in Germany	0.15	.413
	Japanese subsidiaries in the US	>	US subsidiaries in Germany	0.20	.262
	German subsidiaries in Japan	>	German subsidiaries in the US	0.47	.002***
H2	US subsidiaries in Japan	>	German subsidiaries in the US	0.39	.029**
	Japanese subsidiaries in Germany	>	German subsidiaries in the US	0.10	.486
	Japanese subsidiaries in the US	>	German subsidiaries in the US	0.15	.187
	High cultural distance		High cultural distance		
	German subsidiaries in Japan	>	Japanese subsidiaries in Germany	0.37	.015**
US subsidiaries in Japan	>	Japanese subsidiaries in the US	0.24	.150	

Levels of significance (two-tailed, calculated with independent samples t-tests.): *** p < 0.01; **p < 0.05; *p < 0.1

tab. 6: Cultural distance and degree of conflict between subsidiary management and HQ management

Hypo-thesis test	High cultural distance	Ratio of mean conflict ratings	Low cultural distance	Difference in conflict ratings	Levels of significance
H1	German subsidiaries in Japan	>	US subsidiaries in Germany	0.14	.396
	US subsidiaries in Japan	>	US subsidiaries in Germany	0.10	.558
	Japanese subsidiaries in Germany	>	US subsidiaries in Germany	0.13	.446
	Japanese subsidiaries in the US	>	US subsidiaries in Germany	0.08	.574
	German subsidiaries in Japan	>	German subsidiaries in the US	0.10	.503
	US subsidiaries in Japan	>	German subsidiaries in the US	0.06	.684
	Japanese subsidiaries in Germany	>	German subsidiaries in the US	0.09	.574
	Japanese subsidiaries in the US	>	German subsidiaries in the US	0.04	.741
H2	High cultural distance		High cultural distance		
	German subsidiaries in Japan	>	Japanese subsidiaries in Germany	0.01	.926
	US subsidiaries in Japan	>	Japanese subsidiaries in the US	0.02	.881

Levels of significance (two-tailed, calculated with independent samples t-tests.): ***p < 0.01; **p < 0.05; *p < 0.1

Appendix

fig.1: *Questionnaire items, exemplified by the questionnaire for subsidiaries of US companies in Japan*

Please indicate for the following oppositional statements the position which in your opinion is the most correct.

The relations between Japanese managers and the Japanese labour force in your subsidiary have *few* conflicts.

The relations between Japanese managers and the Japanese labour force in your subsidiary have *many* conflicts.

The relations between American managers and the Japanese labour force in your subsidiary have *few* conflicts.

The relations between American managers and the Japanese labour force in your subsidiary have *many* conflicts.

The relations between American and Japanese managers in your subsidiary have *few* conflicts.

The relations between American and Japanese managers in your subsidiary have *many* conflicts.

The relations between the management of the subsidiary in Japan and the superior management of the parent company in the USA have *few* conflicts.

The relations between the management of the subsidiary in Japan and the superior management of the parent company in the USA have *many* conflicts.