

**Cultural and Institutional Sources of Conflict
in Foreign Subsidiaries of Multinational Corporations**

Markus Pudelko

Department of International Business
Tübingen University
Melanchthonstraße 30
72074 Tübingen
Germany
Tel: +49 7071 2974150
Fax: +49 7071 295534
markus.pudelko@uni-tuebingen.de

Helene Tenzer

Department of International Business
Tübingen University
Melanchthonstraße 30
72074 Tübingen
Germany
Tel: +49 7071 2975437
Fax: +49 7071 295534
helene.tenzer@uni-tuebingen.de

Version December 2010

Accepted for Schmalenbach Business Review

Copyright © 2010 Markus Pudelko, Helene Tenzer. All rights reserved.

Cultural and Institutional Sources of Conflict in Foreign Subsidiaries of Multinational Corporations

Abstract

This paper investigates the importance of two distinctly different sources of conflicts in foreign subsidiaries of MNCs: sources of conflicts that are culture- and institutionally induced. Our comprehensive investigation of 617 foreign subsidiaries of US, Japanese and German multinationals firstly demonstrates that subsidiary managers attribute inner-subsidiary conflict to a substantial amount to both cultural and institutional sources of conflict. Secondly, we find that regarding the *relative* importance of cultural compared to institutional sources of conflict in foreign subsidiaries, the former have a higher conflict potential than the latter. Thirdly, we are able to demonstrate that with increasing cultural and institutional distance between home and host countries, culture-induced conflicts become relative to institutionally induced conflicts more important. These results indicate that while institutional differences matter as sources of conflicts between home and host country nationals in foreign subsidiaries, cultural differences matter somewhat more. Nevertheless, the paper stresses that both, cultural and institutional sources of conflicts should be considered in conjunction and in an integrative way.

JEL Classification: M12 - M16 - M54

Keywords: cultural distance – institutional distance – conflict – subsidiary

1 Introduction

Multinational corporations (MNCs) are characterized by a high degree of complexity of their operations (Doz and Prahalad (1987); Olie (1994); Schraeder and Self (2003)). A multicultural workforce in geographically dispersed locations needs to be coordinated in order to ensure that all units of the organization strive towards common organizational goals (Harzing 2004). While the internal diversity of an MNC bears great potential for creativity and innovation, this complexity frequently gives rise to conflicts in MNC subsidiaries (Sharpe (2001)). It is important to address these conflicts, since they can impair the performance and efficiency of the entire organization. As Joshi et al. (2002, p. 277) emphasize, “understanding these conflicts deeply is a necessary first step to managing their impact.”

Two quite different streams of the literature have attributed subsidiary conflicts to rather distinct sources: cross-cultural management researchers mostly hold values and norms between home and host country accountable for the increased level of conflict in foreign subsidiaries (see e.g. Tsui et al. (1992); Ayoko et al. (2002); Chevrier (2003)); by contrast, the institutional research stream emphasizes the conflict potential of differences on the regulatory level (see e.g. Henisz (2003); Peng (2003); Ionascu et al. (2004)). We argue that it is important to better understand the origins of subsidiary conflict, as this knowledge will assist MNC managers in defining ways to counter-act them. While both streams of research have separately proved their *overall* relevance, the *relative* importance of cultural and institutional sources of conflict has so far received hardly any scholarly attention. Our study builds on both streams of literature and strives to integrate them. We do so by investigating and subsequently directly comparing the importance of various possible sources of subsidiary conflict which can be attributed to either the cultural or institutional context.

Furthermore, if we wish to fully comprehend to what extent culture and / or institutions matter for subsidiary conflict, we should also know about the effects that increasing cultural and institutional distance between the home and host countries of foreign subsidiaries have. Consequently, we investigated cultural and institutional sources of conflict in foreign subsidiaries of different home-host country combinations to examine how their relative importance varies in accordance to varying degrees of cultural and institutional distance between home and host country. This additional information will provide us with much more detailed insights regarding the relative importance of cultural versus institutional sources of subsidiary conflict. Ultimately, a

better knowledge about this issue will also provide important insights for the more general debate regarding the validity of the cultural versus institutional research stream.

To obtain the necessary information, we surveyed 617 HR managers from a perfectly matched sample of home-host country combinations that allowed us to differentiate between varying degrees of cultural and institutional distance. More specifically, we investigated 1. subsidiaries of Japanese and German MNCs in the US; 2. subsidiaries of US and German MNCs located in Japan; and 3. subsidiaries of US and Japanese MNCs in Germany.

The data gathered from our carefully balanced and controlled sample enabled us to demonstrate that subsidiary managers attribute substantial conflict potential to both cultural and institutional sources of conflict. This finding implies that the culture- and the institution-oriented streams of conflict research are both justified. Regarding the *relative* importance of cultural compared to institutional sources of conflict in foreign subsidiaries, we find that cultural differences have a higher conflict potential than institutional differences. Furthermore, we can provide evidence that with increasing cultural and institutional distance between home and host countries, culture-induced conflicts rise in their importance more than institutionally-induced conflicts. These findings suggest that while differences on the institutional level matter as sources of conflicts between home and host country nationals in foreign subsidiaries, differences at the cultural level matter somewhat more.

In the remainder of this paper, we will briefly summarize the literature relating to conflicts between home and host country nationals of foreign subsidiaries, before reviewing more specifically the literature regarding cultural and institutional sources of conflict. Subsequently, we examine the extant literature in view of the relative importance of cultural versus institutional sources of conflicts. Next we discuss the consequences of varying degrees of cultural and institutional distance on conflicts in foreign subsidiaries based on the literature. An overview of relevant distance measures completes our theory section. Subsequently, we will explain our methodology, present our results and discuss their implications for research and managerial practice. The paper concludes with the limitations of our study.

2 Theoretical framework

2.1 Conflicts in foreign subsidiaries

If conflict is defined as “competition by groups or individuals over incompatible goals, scarce resources, or the sources of power needed to acquire them” (Avruch (2002), p. 1), such competition seems unavoidable in complex organizations. Bollen et al. (2008, p. 4) therefore acknowledge that conflict is “an inevitable part of organizational life”. For most employees, it is also an unwelcome part of their professional life, as it can negatively impact their well-being (De Dreu et al. (2004); de Dreu and Beersma (2005)) and is often deemed detrimental to performance (Pondy (1967)). In particularly complex and diverse organizations such as MNCs, employees of different hierarchical levels, functional and national backgrounds, locations and institutional levels (headquarters versus subsidiaries) will always pursue different goals and interfere with each other’s work, thus creating conflict (Sharpe (2001)).

Two rather different streams of the literature have attributed conflicts in foreign subsidiaries to quite distinct sources: cross-cultural management researchers mostly hold differences in values and norms between home and host country nationals accountable for the increased level of conflict in foreign subsidiaries (see e.g. Tsui et al. (1992); Ayoko et al. (2002); Chevrier (2003)); by contrast, the institutional research stream emphasizes the conflict potential of differences in the institutional environment of home and host country (see e.g. Henisz (2003); Peng (2003); Ionascu et al. (2004)).

2.2 Culture-induced conflicts in foreign subsidiaries

Cross-cultural management researchers stipulate that cultural differences increase the likelihood of conflicts at the workplace (Armstrong and Cole (1996); Joshi et al. (2002)). More specifically, they argue that in foreign subsidiaries cultural differences between home and host country cause ambiguity and uncertainty in communication and contribute to imperfectly shared understandings between subsidiary employees (David and Singh (1993)). This increased complexity of communication renders cross-cultural cooperation at the workplace more conflict-prone than mono-cultural cooperation (Condon und Yousef (1975)). Cultural differences are also known to exacerbate conflicts arising from other sources (Avruch (2002)). This additional conflict potential can be explained with social attraction theory, which posits that employees of multinational organizations tend to develop stereotypical and negative attitudes toward

colleagues whom they perceive to be culturally different (Cartwright and McCarthy (2005)). In extreme cases, conflicts based on differing national identities have been shown to produce xenophobia within the workforce of an MNC (Olie (1994); Vaara (2003)). Clarke and Lipp (1998, p. xi) therefore conclude that “cross-cultural conflicts constitute a relatively serious threat to successful corporate operations”.

2.3 Institutionally induced conflicts in foreign subsidiaries

Many scholars argue that the factor “culture” is not sufficient in explaining the whole range of national differences in management and, more specifically, in fully illuminating the origins of conflicts in foreign subsidiaries. They therefore investigate, either in addition or alternatively, country-specific institutional factors such as political, legal and educational systems, capital markets, industrial relations, and corporate governance systems (e.g., Jackson and Schuler (1995); Sparrow and Hiltrop (1997); Whitley (2000)). The various forms these institutions take are considered to result in different national business systems (Whitley (1992)). It is generally assumed that organizations have to follow the formal and informal rules of these business systems to gain legitimacy and recognition from their environment (Björkman (2006)). According to Kostova and Roth (2002), foreign subsidiaries of multinational corporations face the double pressure of gaining legitimacy in the local environment and in the worldwide organization, which exposes them to ‘institutional dualism’. These contradictory pressures increase the complexity of subsidiary operations and inhibit interaction of the foreign home and the local affiliate (Xu and Shenkar (2002); Ionascu (2004)), thereby increasing the conflict potential in foreign subsidiaries.

Based on the information we gathered in the previous two sections, we formulate the following, somewhat introductory hypothesis:

H1: Both cultural and institutional differences are relevant sources of conflict between home and host country nationals in foreign subsidiaries.

2.4 The relative importance of culture- and institutionally induced conflicts in foreign subsidiaries

Both the cross-cultural and the institutional management literature on MNCs are concerned with differences between home and host countries. However, they operate with divergent basic assumptions. While cross-cultural researchers tend to focus exclusively on differing values (Harrison and McKinnon (1999)) and often disregard

regulatory and normative differences altogether, institutional theorists either neglect culture or claim to work with a wider framework, of which culture is only a sub-aspect (see e.g. Kostova (1999); Xu and Shenkar (2002); Gaur and Lu (2007); Gaur et al. (2007)). According to Child (2002a) there is still no adequate theoretical framework which determines the relevance of cultural compared to institutional influences on organizations. Furthermore, Earley and Singh (1995, p. 337) demand that the field should “integrate its working definitions of nation and culture and create an understanding based on various facets of nations and cultures, including economic, legal, cultural, and political systems”.

Child (2002b) takes an important step in this direction by proposing that a society’s values and norms are expressed in its social institutions. In his view cultural values and norms impact organizations both directly and through the medium of institutions. In this framework, culture structures the systems of meaning and shapes the rationales that give rise to institutions. Similarly, Pudelko (2006) distinguishes between the cultural, socio-political, economic and ultimately management system, with the former always largely determining the latter, allowing, however, for feed-back influences. Consequently, Child’s and Pudelko’s concepts both account for a dynamic interplay between cultures and institutions, but agree in assigning culture the ultimate and consequently more profound influence on management compared to institutions. Following this proposition, cultural differences can be assumed to have stronger repercussions regarding subsidiary conflict than institutional differences. We therefore hypothesize:

H2: Cultural differences are more important sources of conflicts between home and host country nationals in foreign subsidiaries than institutional differences.

2.5 The consequences of cultural and institutional distance between home and host countries on conflicts in foreign subsidiaries

Our second hypothesis has been designed to investigate the relative importance of cultural and institutional sources of conflict in foreign subsidiaries. H2 needs to be supplemented, however, since it is not sensitive to the cultural and institutional closeness or distance between the respective home and host countries. Several scholars have shown that the conflict potential in MNCs rises with increasing cultural and institutional distance between home and host country (Morosini et al. (1998); Thomas (1999); Manev and Stevenson (2001)). A subsequent study by Pudelko and Haas (2010) indicated, however, that this is not necessarily the case. This rather counter-intuitive

finding was explained by the assumption that substantial cultural differences lead to the expectation of conflicts which, in turn, will motivate subsidiary employees to actively counteract such conflicts, leading ultimately to their reduction. This argumentation finds support by Harzing (2003) and Shenkar (2001) who posited that with cultural distance cultural awareness and sensitivity also increases. It is furthermore in line with findings by Peterson et al. (1996), Forster (1997) and Selmer (2007) who all established that expatriates did not have necessarily more difficulties in adjusting to culturally more distant countries compared to less distant countries.

While the above mentioned studies on subsidiary conflict differed in their conclusions regarding the relative importance of cultural versus institutional factors in explaining inner-subsiary conflicts, their research design had one common characteristic: it did not consider the effect of increasing cultural and institutional distance on the relative importance of sources of inner-subsiary conflicts. Consequently, the present study takes one step further: what interests us here is the still unanswered question whether increasing cultural and institutional distance between home and host country has a stronger influence on cultural or on institutional sources of conflict.

Based on our previous assumptions regarding the ultimately higher relevance of cultural factors we hypothesize:

H3a: With increasing cultural and institutional distance between home and host country the relative importance of culture- compared to institutionally induced sources of conflict in foreign subsidiaries rises.

2.6 The measurement of cultural and institutional distance

To determine the cultural distance between two countries, Kogut and Singh (1988) developed a much referred to formula, calculating a composite measure on the basis of Hofstede's (2001) cultural dimensions. The underlying idea of the concept is simple: if countries attain very different scores on the various scales measuring cultural dimensions, the aggregate cultural distance between them has to be considered large. Referring to the three countries that will be analyzed in this study, Kogut and Singh's formula suggests that cultural distance between the US and Germany is lowest (0.412); between Japan and Germany it is clearly higher (1.328); and between the US and Japan it is still significantly higher (2.670). Based on this formula, the American and Japanese

cultures can be interpreted as furthest apart, with Germany positioned in between both poles.

The degree of institutional difference between countries has been operationalized in a very similar way. The concept of institutional distance (see e.g. Kostova (1999); Xu and Shenkar (2002); Gaur and Lu (2007); Gaur et al. (2007)) has been developed to capture differences between countries in the regulative, normative and cognitive aspects of the institutional environment as defined by Scott (1995). The regulative distance refers to the formal rules and regulations as sanctioned by a state, while the normative distance reflects the legitimate means to pursue goals (Scott (1995); Xu and Shenkar (2002); Gaur and Lu (2007)). The cognitive distance includes the beliefs and value system of a society (DiMaggio and Powell (1991)) and is mostly operationalized with the above described distance measure proposed by Kogut and Singh. Proponents of institutional distance thereby classify cultural aspects as a sub-aspect of a country's wider institutional environment.

Gaur et al. (2007) calculated institutional distance relative to Japan. They based their calculations on selected items from the 2001 edition of the World Competitiveness Yearbook (IMD World Competitiveness Center 2001) as well as Euromoney (2001). The authors found both the regulative and normative distance between the US and Japan (-1.10 and 3.42, respectively) to be larger than the distance between Japan and Germany (-0.58 and 2.48, respectively). The results by Gaur et al. therefore suggest that institutional distance between the US, Japan and Germany follow the same pattern as the cultural distance between these three countries.

The concepts of how to calculate cultural and institutional distance are, however, far from undisputed. Kogut and Singh's formula has been frequently criticized for inducing researchers to bypass the "complexities and intricacies of national culture" (Kim and Gray (2009), p. 55) and to "systematically overestimate the impact of culture" (Harzing (2003), p. 76). The concept of institutional distance can be accused of the same shortcomings.

More concrete information, specifically with regards to the three country models under consideration here, is offered by Pudelko (2000a, b, c). Given that his research was directed at the specific analysis of these three management systems in their respective cultural and institutional context, this study can much less be accused of neglecting the complexities and intricacies of national culture or institutions as the previous cited analyses. This study found that in terms of cultural, socio-political,

economic and management factors, the US and Japan are at opposite ends of the spectrum, with Germany in between. Consequently, this country-specific analysis leads us to similar results as the much more generic studies by Kogut and Singh (1988) and Gaur et al. (2007). We can therefore assume that for both cultural and institutional distance, the US and Germany are closest; Germany and Japan are further apart; and the US and Japan are the furthest apart.

Based on these country-specific relations, we can now specify H3a, which was formulated in general terms, and provide a modified, country-specific version:

H3b: The relative importance of culture- compared to institutionally induced sources of conflict in foreign subsidiaries is lowest for home-host country combinations between the US and Germany; higher for country combinations between Germany and Japan; and is highest for country combinations between the US and Japan.

3 Methodology

3.1 Data collection and sample

The present study is designed to test the above hypotheses by measuring the conflict potential of cultural and institutional differences between home and host country in subsidiaries of US, Japanese and German multinationals. We chose these countries for two key reasons: First, they constitute the leading economies of the triad of North America, East Asia, and Europe (Ohmae (1985); Thurow (1992)). Second, they show markedly different degrees of cultural (Kogut and Singh (1988)) and institutional distance (Gaur et al. (2007)).

Our study provides a perfectly balanced and controlled sample that compares managers' perception of conflict sources in six different groups of companies: subsidiaries of Japanese and German MNCs in the US; subsidiaries of US and German MNCs in Japan; and subsidiaries of US and Japanese MNCs in Germany. This carefully matched research design enables us to relate the relative importance of culture- and institutionally induced sources of conflict to the cultural and institutional distance between the respective home and host countries.

To obtain a sufficiently large sample and to ensure representativeness across industries and subsidiary sizes, we chose to collect our data through a large-scale quantitative mail survey. The questionnaire was developed on the basis of an extensive literature review. A pilot-test was conducted to increase content validity and to minimize the potential for misunderstanding. Our focus group consisted of three

German HR managers, who had been working in MNCs between 5 and 25 years. This pre-test resulted in some changes in questionnaire content and design.

We targeted the heads of human resource departments at subsidiary level as respondents, since we assumed they had the most comprehensive knowledge about the relevance of different conflict factors in their subsidiaries. To facilitate participation for both local and expatriate respondents, two questionnaire versions for each of the six subsidiary groups were provided – one in the host-country and one in the home-country language. As a result, a total of twelve questionnaire versions in English, Japanese and German were sent out. We employed the translation and back-translation procedure recommended by Brislin (1970; also see Smith (2004)) to assure equivalence of meaning between all questionnaire versions. Overall, 617 heads of subsidiary HR departments completed our questionnaires. To test this sample for non-response bias, responding and non-responding companies were compared on industry and size (number of employees). No significant differences were found on these control variables, so we are confident that our results are not impaired by non-response bias. Detailed information on the sample sizes and response rates in all six subsidiaries groups is provided in Table 1.

Insert Table 1 about here

3.2 Measurement

To measure the conflict potential of cultural and institutional differences, the heads of subsidiary HR departments were presented with two sets of five-point bipolar scales. Our first scale was designed to measure the conflict potential of cultural differences between home and host country, while the second scale served to rate the conflict potential of institutional differences. The scale anchors “low potential for conflict” and “high potential for conflict” are not subject to the acquiescence effect, as respondents were not required to state their agreement or disagreement. Avoidance of acquiescence effects is pivotal for the validity of our study, since this response effect is known to distort comparisons between Japanese and Western subjects (Chen et al. (1995); Harzing (2006); Pudelko and Harzing (2007)).

To measure the conflict potential of cultural differences, we selected factors frequently put forward in the literature as highly relevant in this context. The first two items refer to conflicts that can arise due to different attitudes related to individualism

versus collectivism. The high conflict potential of this particular cultural dimension has been repeatedly described by scholars like Hofstede (2001), Trompenaars and Hampden-Turner (2002), Schwartz (2004; also see Sagiv and Schwartz (2007)) and the authors of the GLOBE study (House et al. (2004); Chhokar et al. (2007)). More specifically, Ohbuchi et al. (1999) demonstrated that differences between individualistic and collectivistic cultures are closely connected to distinctly different styles of conflict management. Our first item refers to different conceptions of individual rights versus obligations to the group; the second to different opinions about individual versus group decision making.

In our third item we asked HR managers to gauge the conflict potential of different conflict avoidance or conflict solving mechanisms. A series of authors (Ting-Toomey (1985); Jandt and Pedersen (1996); Leung and Tjosvold (1998); Avruch (2002)) noted that existing conflicts are strongly exacerbated, if culture causes employees to perceive, appraise and manage conflicts differently. In the fourth and last item on our cultural scale respondents were required to rate the conflict potential inherent in different gender roles. A broad stream of research is concerned with differing career opportunities of male and female employees in different countries and the resulting organizational conflicts (see e.g. Hofstede (2001); Davidson and Burke (2004); Duignan and Iaquinto (2005); Metcalfe (2005)). The Cronbach reliability coefficient for the four-item scale is $\alpha = .720$, suggesting that our culture related scale is reasonably consistent internally.

To measure the importance of institutional conflict sources, we presented our respondents with a similar set of bipolar scales. In the first item they were asked to evaluate the conflict potential of diverging attitudes towards the economic systems of the respective home and host country. This issue is specifically important for our choice of countries, as these countries represent three fundamentally different models of market economies: free-market economy (US), social market economy (Germany) and corporatist market economy (Japan) (Thurow (1992); Garten (1993)). To clarify the question, we indicated the type of market economy of the respective home and host country in our questionnaires.

Educational systems represent another core element of a country's institutions. Since the educational systems of the US, Germany and Japan focus on different skills (Allmendinger (1989); Collier and Millimet (2009); Hojo (2009)), we asked our respondents to rate the conflict potential stemming from different abilities of employees as a result of different school, vocational school and college systems. Our third item

measured the conflict potential of a different understanding of employer-employee relations. Since industrial relations are considered to represent an important source of conflict (Innes and Morris (1995); Edwards (2004); Hyman (2004)), we asked our respondents to give special consideration to the relations between management and the works council or unions. Somewhat related to this matter are differences in the significance of labour regulations (Muchlinski (1999); Chor and Freeman (2005); Javorcik and Spatareanu (2005)). In our fourth item we therefore asked our respondents to assess the conflict potential of the different relative importance of labour regulations. In the fifth and last item respondents were asked to rate the conflict potential of different ideas about the use of overtime. OECD statistics show a large disparity in annual working hours that can result in very different expectations about the time to be spent working (OECD (2010); also see Bell and Freeman (2001); Causa (2008)). The Cronbach's alpha for our 5-item scale on institutional differences is $\alpha = .739$, suggesting also for our second scale internal consistency.

3.3 Analysis

To test our hypotheses, first the aggregate ratings of cultural and institutional conflict sources had to be determined. To obtain a cumulative rating of cultural conflict factors we calculated mean scores out of the four items on the cultural scale, both for all six home-host country combinations and for the overall sample. Equivalent calculations were performed for the five items on the institutional scale. H1 would be supported if the ratings for cultural and institutional sources of conflicts were both of a significant level. To test this introductory hypothesis we simply had to evaluate the aggregate ratings for both sources of conflicts.

H2 would be supported if the various aggregate ratings for cultural sources of conflict were significantly higher than the aggregate ratings for institutional factors. To test this hypothesis, we subtracted the aggregate ratings of institutional conflict sources from the aggregate ratings of cultural factors for all six country combinations and the overall sample. These differences were then tested for significance using Wilcoxon signed-rank tests. Positive and significant differences would thereby indicate a higher relevance of cultural compared to institutional conflict potential.

In order to test our third hypothesis, we investigated whether and in which way varying degrees of cultural and institutional distance between the home and host country influenced the relative importance of cultural and institutional conflict sources.

More specifically, we coded our six home-host country combinations into three pairs with different degrees of cultural and institutional distance between home and host country. According to the arguments developed in section 2.6, German subsidiaries in the US and US subsidiaries in Germany were assigned the lowest distance values; German subsidiaries in Japan and Japanese subsidiaries in Germany received higher distance values; while Japanese subsidiaries in the US and US subsidiaries in Japan obtained the highest distance values. We subsequently calculated the Spearman-rho correlation between cultural and institutional distance on one side and differences between aggregate ratings of cultural and institutional conflict factors on the other. A positive and significant correlation would indicate that cultural sources of conflict gain in relative importance when the cultural and institutional distance between home and host country rises, thus supporting H3.

To test the influence of various control variables on the relative importance of cultural and institutional sources of conflict in different home- host country combinations, we performed a regression analysis with mean differences between aggregate ratings of cultural and institutional conflict sources as the dependent variable and cultural and institutional distance, subsidiary size, entry mode, industry and nationality of the respondent as independent variables. Cultural and institutional distance emerged as a highly significant ($p < .001$) explaining factor, while none of the control variables significantly influenced the dependent variable. Therefore, we are confident that our primary results are not distorted by any other effects.

4 Results

The individual mean ratings of the four cultural and five institutional conflict sources in all six subsidiary groups are presented in Table 2. Table 3 depicts the for our purpose more relevant aggregate ratings of cultural compared to institutional sources of conflict.

Insert Table 2 about here

Insert Table 3 about here

4.1 The importance of culture- and institutionally induced sources of conflicts

Table 3 indicates that for both cultural and institutional sources of conflict, the means are close to the middle option on our five-point Likert scale across all six subsidiary settings and, consequently, the overall sample. This suggests that our

respondents did not perceive cultural and institutional differences as overwhelmingly conflict-laden, but clearly recognized their conflict potential. This supports our first, introductory hypothesis.

4.2 The importance of culture- compared to institutionally induced sources of conflict

The differences between mean aggregate ratings of culture- and institutionally induced sources of conflict are displayed in the fifth column of Table 3. Our comparisons show that our respondents rated the conflict potential of cultural factors higher than the conflict potential of institutional variations in five out of six country combinations and across the whole sample. For three of these five combinations Wilcoxon signed-rank tests indicate that the differences between the (higher) mean ratings of culture and the (lower) institutionally induced sources of conflict are highly significant. Also across the entire sample are the mean differences highly significant. Our second hypothesis is thereby largely supported.

4.3 The influence of cultural distance

As mentioned in the previous section, the aggregate ratings for cultural sources of conflict were higher than the aggregate ratings for institutionally induced sources of conflict in five out of six home-host country combinations. We found now a weak (.178), but still highly significant ($p < .001$) positive correlation between cultural and institutional distance on one side and the difference between mean aggregate ratings of cultural and institutional conflict factors on the other. This result suggests that higher cultural and institutional distance lead to an increase in the relative importance of culture-induced compared to institutionally induced sources of conflict. This finding is corroborated by a regression analysis. While none of our control variables proved significant, the cultural and institutional distance between home and host country emerged as a highly significant ($p < .001$) factor in explaining the mean differences between aggregate ratings of cultural and institutional sources of conflict. The regression coefficient is moderate (.138), mirroring the weak correlation mentioned above. Our country-specific Hypothesis 3b thereby receives moderate support.

Since we carefully sampled our country combinations for pronounced variations in cultural and institutional distance, we are confident that our country-specific results yield also moderate support for our more comprehensive Hypothesis 3a.

5 Discussion and conclusions

Our first finding indicated that the aggregate level of culture-induced conflicts is across all subsidiary groups 2.93 and that of institutionally induced conflicts is 2.76 (on a scale from 1 to 5). In terms of our somewhat introductory Hypothesis 1, we can therefore conclude that both, cultural as well as institutional differences between home and host country are substantial sources of inner-subsidiary conflicts. This comes hardly as a surprise, but confirms that both streams of the literature, the one stressing the cultural background of conflicts in MNCs (see e.g. Armstrong and Cole (1996); Avruch (2002); Joshi et al. (2002)) and the one focusing on the institutional origins of these conflicts (see e.g. Xu and Shenkar (2002); Henisz (2003); Ionascu (2004)), are undoubtedly of relevance. The fact that the aggregate levels of inner-subsidiary conflict are not too far off the mid-point of the scale (3) and even somewhat below indicates, however, that subsidiaries still appear to be functioning without being completely paralyzed by inner-subsidiary conflicts. This might confirm findings from Forster (1997), Selmer (2007) and Pudelko and Haas (2010), while cautioning us against voices that describe the detrimental effects of inner-subsidiary conflicts in an overly dramatic way (see e.g. De Dreu et al. (2004); De Dreu and Beersma (2005); Dijkstra (2006)).

We also noted that the difference between the overall mean aggregate ratings of cultural and institutional sources of conflicts is positive (.17), suggesting in response to H2 that cultural differences matter somewhat more than institutional differences in explaining inner-subsidiary conflicts. These conclusions find some additional support once we introduce the effect of varying cultural and institutional distances, as we did in order to address H3. In doing so, we were able to observe that with increasing cultural and institutional distance, culture-induced sources of conflict rise in their importance relative to institutionally induced sources of conflict. However, while these results are statistically highly significant, they are not of a fundamental nature. This confirms again that both, cultural and institutional factors play a relevant role as sources of cross-national inner-subsidiary conflicts. Only by taking into account both of these major external, macro-level sources of conflicts will we be able to fully comprehend the complexity of inner-subsidiary conflicts in all their various facets.

Our findings, which are specific to the issue of inner-subsidiary conflicts, also have some wider implications for the much more general debate on which external factors exert a higher influence on cross-national management: the cultural or the institutional context. While this debate is significantly more complex than our specific data base on

inner-subsiary conflict is able to depict, we argue that our data can still provide some useful indications. After all, cultural and institutional considerations entered management studies only after representatives of what might be labelled the particularist approach understood that both, cultural and institutional specifics are in conflict with the applicability of standardized so-called best practices, as was suggested by the universalism approach of management (Pudelko, 2006). Our study focuses now on one specific aspect of this general debate: conflicts in foreign subsidiaries of MNCs due to cultural and institutional specifics of host countries that impede the applicability of standardized best practices as defined by headquarters. In this context, our data clearly suggest that both kinds of contextual factors, cultural as well as institutional, have to be considered and none should be neglected in favour of the other. Consequently, we support authors who call for an integration of both perspectives such as Earley and Singh (1995) or Child (2002a).

The ensuing key question becomes now, however, whether culture is a more encompassing concept than institutions (as suggested by Child (2002b) and Pudelko (2006)); or, alternatively, whether culture is part of the institutional context, next to regulative and normative aspects (as suggested by DiMaggio and Powell (1991); Scott (1995); Xu and Shenkar (2002); and Gaur and Lu (2007)). While our data is not directly addressing this question, we might find some limited support for the former position, given that cultural differences have been perceived by our respondents to be more of importance for inner-subsiary conflict than institutional differences. As mentioned above, this difference was statistically highly significant, yet not truly fundamental in nature. Furthermore, once cultural and institutional distance has been introduced, this conclusion was only strengthened.

Our findings also include important lessons for managers of MNC subsidiaries. Managers should ensure that their subordinates are well aware of the conflict potential of both, cultural and institutional sources of conflict. While cross-cultural training programs have already been adopted by many multinationals in response to cultural conflicts, the building up of employees' knowledge about institutional differences between countries that can equally cause conflicts might have been comparatively neglected. Consequently, institutional differences in economic and educational systems, labour regulations or employer-employee relations should also be highlighted, as they equally form important sources of inner-subsiary conflict. Furthermore, cultural and institutional factors should not be regarded in isolation, but in conjunction. Based not

the least on our data, we suggest perceiving national institutions as being largely influenced by national culture, while both exert a substantial influence on the management system of a country.

Our study is not without limitations. First, our analyses cannot do fully justice to the ambiguous effects of subsidiary conflicts. We follow the dominant view of conflict as being detrimental to organizational performance, while the potential benefits of organizational conflict (as analyzed by Baron (1991); Nitsun (1996); Pelled (1996); Jehn (1997) and others) are not taken into account. However, we consider it appropriate to leave this specific aspect of the discussion aside for reasons of clarity, since our study is not concerned with the effects of subsidiary conflict, but with the magnitude of conflict induced by different sources.

Second, our analyses relied on a single respondent for every subsidiary. However, we specifically targeted as respondent in each subsidiary the key informant we considered most knowledgeable about the inner-subsiary conflict: the head of human resources. These persons can be expected to have the best possible professional knowledge and the most balanced view regarding our research items. This key informant approach is very common in large scale surveys such as ours.

Third, although our sample was unique in that it included all six possible subsidiary combinations of the three major industrialized countries in the world, the sample sizes for the individual home-host country combinations differed considerably. In particular our samples for US subsidiaries in Japan and Germany were comparatively small, comprising 36 and 54 observations respectively. However, since we analyzed the data for US subsidiaries in Japan together with the responses for Japanese subsidiaries in the US and the data for US subsidiaries in Germany with their respective counterpart, a sufficiently large number of observations was available for all three degrees of cultural and institutional distance.

Fourth, our five-point Likert scales might be criticized for being vulnerable to the medium response effect, which is common to scales with a distinct midpoint. However, we consciously decided to allow for a medium rating of conflict potential, as this reflects the perceptions of many respondents. Odd-numbered Likert scales like ours are common in cross-cultural surveys. The large-scale GLOBE study of 62 societies (House et al. (2004); Chhokar et al. (2007)), for example, used seven-point scales to measure cultural dimensions.

Fifth, although we employed careful back-translation procedures we cannot guarantee perfect equivalence of meaning in the terminology of our English, German and Japanese questionnaires. Some terms may carry a broad spectrum of denotations and connotations, which are impossible to translate completely into another language. However, every survey that is conducted in multiple languages is vulnerable to this source of potential bias.

In spite of its limitations, we are confident that our study has made a significant contribution to a better understanding of the sources of conflicts that foreign subsidiaries of MNCs are facing. And understanding such conflicts is the first step to reducing them. For future research we suggest that proponents of the cultural and the institutional research stream should acknowledge each other's importance, while at the same time recognizing the limitations of their own approach. Neither of the two is strong enough to explain conflicts in subsidiaries of multinational corporations without taking the other into account.

Acknowledgements

The first author would like to express his gratitude to the British Academy and the Carnegie Trust for granting him multiple research grants, allowing for the collection of the subsidiary data in the US and Japan.

References

- Allmendinger, Jutta (1989), Educational systems and labor market outcomes, *European Sociological Review* 5, 231-250.
- Armstrong, David and Paul Cole (1996), Managing distances and differences in geographically distributed work groups, in: Jackson SE & Ruderman M (eds.), *Diversity in work team*, Washington DC: American Psychological Association, 167-186.
- Avruch, Kevin (2002), Cross-cultural conflict, in: Hipel KW (ed.) *Conflict Resolution. Encyclopedia of Life Support Systems*, Oxford, UNESCO, available online: <http://www.eolss.net/ebooks/Sample%20Chapters/C14/E1-40-01-01.pdf> [last access: 29 March 2010].
- Ayoko, Oluremi B., Charmine E. J. Härtel, and Victor J. Callan (2002), Resolving the puzzle of productive and destructive conflict in culturally heterogeneous workgroups: A communication accommodation theory approach, *The International Journal of Conflict Management* 13(2), 165-195.
- Baron, Robert A. (1991), Positive effects of conflict: A cognitive perspective, *Employee Responsibilities and Rights Journal* 4(1): 25-36.
- Bell, Linda A. and Richard B. Freeman (2001), The incentive for working hard: Explaining hours worked differences in the US and Germany, *Labour Economics* 8(2), 181-202.
- Björkman, Ingmar (2006), International human resource management and institutional theory, in Stahl, Günter K. and Ingmar Björkman (eds.), *Handbook of research in international human resource management*, Cheltenham: Edward Elgar, 463-474.
- Bollen, Katalien, Emmanuel Coene, Martin Euwema, and Patrick Muller (2008), Mediation in hierarchical conflicts: the role of gender and anger, paper presented at the IACM conference, Chicago, available online at <http://ssrn.com/abstract=1298621> [last access: 4 November 2010].
- Brislin, Ronald W. (1970), Back-translation for cross-cultural research, *Journal of Cross-Cultural Psychology* 1,185-216.
- Cartwright, Susan and Simon McCarthy (2005), Developing a framework for cultural due diligence in mergers and acquisitions: Issues and ideas, in: G. Stahl & M.E. Mendenhall (eds.), *Mergers and acquisitions; managing culture and human resources*, 253-267, Stanford: Stanford University Press.

- Causa, Orsetta (2008), *Explaining differences in hours worked among OECD countries: An empirical analysis*, OECD Economics Department Working Paper No. 596.
- Chen, Chuansheng, Shin-ying Lee, and Harold W. Stevenson (1995), Response style and cross-cultural comparisons of rating scales among East Asian and North American students, *Psychological Science* 6,170-175.
- Chevrier, Sylvie (2003), Cross-cultural management in multinational project groups, *Journal of World Business* 38, 141-149.
- Chhokar, Jagdeep S., Felix C. Brodbeck, and Robert J. House (eds.)(2007) *Culture and leadership across the world: the GLOBE book of in-depth studies of 25 societies*, Mahwah, NJ: Lawrence Erlbaum Associates.
- Child, John (2002a), Theorizing about organization cross-nationally: part 1 – an introduction, in Malcolm Warner and Pat Joynt (eds.), *Managing across cultures. Issues and perspectives*, 2nd ed., London: Thomson, 26-39.
- Child, John (2002b), Theorizing about organization cross-nationally: part 2 – towards a synthesis, in Malcolm Warner and Pat Joynt (eds.), *Managing across cultures. Issues and perspectives*, 2nd ed., London: Thomson, 40-56.
- Chor, David and Richard B. Freeman (2005), *The 2004 Global Labor Survey: Workplace Institutions and Practices Around the World*, NBER Working Paper No. W11598, available online at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=800453 [last access July 7, 2010].
- Clarke, Clifford H. and Douglas Lipp (1998), *Danger and opportunity: Resolving conflict in US-based Japanese subsidiaries*, Yarmouth ME: Intercultural Press.
- Collier, Trevor and Daniel L. Millimet (2009), Institutional arrangements in educational systems and student achievement: a cross-national analysis. *Empirical Economics* 37(2), 329-381.
- Condon, John C. and Fathi S. Yousef (1975), *An introduction to intercultural communication*, Indianapolis: Bobbs-Merrill.
- David, Kenneth and Harbir Singh (1993), Acquisition regimes: Managing cultural risk and relative deprivation in corporate acquisitions, *International review of strategic management* 4, 227-276.
- Davidson, Marilyn and Ronald J. Burke (ed.)(2004), *Women in management worldwide: Facts, figures and analysis*, Burlington: Ashgate Publishing.

- De Dreu, Carsten K.W. and Bianca Beersma (2005), Conflict in organizations: Beyond effectiveness and performance, *European Journal of Work and Organizational psychology* 14, 105-117.
- De Dreu, Carsten K.W., Dirk van Dierendonck, and Maria T.M. Dijkstra (2004), Conflict at work and individual well-being. *The International Journal of Conflict Management* 15, 6-26.
- Dijkstra, Maria T.M. (2006), *Workplace conflict and individual well-being*. Dissertation. Amsterdam: Kurt Lewin Institute.
- DiMaggio, Paul J. and Walter W. Powell (1991), Introduction, in Walter W. Powell, Paul J. DiMaggio (eds.), *The new institutionalism in organizational analysis*, Chicago: University of Chicago Press: 1-38.
- Doz, Yves L. and Coimbatore K. Prahalad (1987), A process model of strategic redirection in large complex firms: the case of multinational corporations, in Andrew M. Pettigrew (ed.), *The management of strategic change*, Oxford: Basil Blackwell: 63-83.
- Duignan, René. and Anthony Iaquinto (2005), Female managers In Japan: Early indications of career progression, *Women In Management Review* 20(3), 191-207.
- Earley, P. Christopher and Harbir Singh (1995), International and intercultural management research: what's next? *Academy of Management Journal* 38: 327-340.
- Edwards, Tony (2004), The transfer of employment practices across borders in multinational companies, in Harzing, Anne-Wil and Joris van Ruysseveldt (eds.), *International Human Resource Management*, 2nd ed., Thousand Oaks, CA: Sage, 389-410.
- Euromoney (2001), Country risk ratings, *Euromoney* 389: 270-281.
- Forster, Nick (1997), The persistent myth of high expatriate failure rates: A reappraisal, *International Journal of Human Resource Management* 8(4), 414-433.
- Garten, Jeffrey E. (1993), *A Cold Peace: America, Japan, Germany and the Struggle for Supremacy*, New York: Times Books.
- Gaur, Ajai S, Andrew Delios, and Kulwant Singh (2007), Institutional Environments, Staffing Strategies, and Subsidiary Performance, *Journal of Management* 33(4), 611-636.
- Gaur, Ajai S. and Jane W. Lu (2007), Ownership Strategies and Survival of Foreign Subsidiaries: Impacts of Institutional Distance and Experience, *Journal of Management* 33(1), 84-110.

- Harrison, Graeme and Jill McKinnon (1999), Cross-cultural research in management control systems design: A review of the current state, *Accounting, Organizations and Society* 24, 483-506.
- Harzing, Anne-Wil (2003), The role of culture in entry mode studies: From negligence to myopia?, *Advances in International Management* 15, 75-127.
- Harzing, Anne-Wil (2004), Strategy and structure of multinational companies, in Anne-Wil Harzing (ed.), *International Human Resource Management*, 2nd ed., Thousand Oaks, CA: Sage, 33-64.
- Harzing, Anne-Wil (2006), Response styles in cross-national mail survey research: a 26-country study, *International Journal of Cross-Cultural Management* 6, 243-266.
- Henisz, Witold J. (2003), The Power of the Buckley and Casson Thesis: The Ability to Manage Institutional Idiosyncrasies, *Journal of International Business Studies* 34(1), 173-184.
- Hofstede, Geert (2001), *Cultures consequences: comparing values, behaviors, institutions and organizations across nations*, Thousand Oaks CA: Sage.
- Hojo, Masakazu (2009), Inequality in Japanese Education. Estimation Using the Gini Education Coefficient, *The Japanese Economy* 36(3), 3-27.
- House, Robert J., Paul J. Hanges, Mansour Javidan, Peter W. Dorfman, and Vipin Gupta (eds.) (2004), *Culture, leadership, and organizations: the GLOBE study of 62 societies*, Thousand Oaks, CA: Sage.
- Hyman, Richard (2004), Varieties of capitalism, national industrial relations systems and transnational challenges, in Harzing, Anne-Wil and Joris van Ruysseveldt (eds.), *International Human Resource Management*, 2nd ed., Thousand Oaks, CA: Sage, 411-432.
- IMD World Competitiveness Center (2001), *World competitiveness yearbook*, Lausanne.
- Innes, Erik and Jonathan Morris (1995), Multinational corporations and employee relations. Continuity and change in a mature industrial region, *Employee Relations* 17(6), 25-42.
- Ionascu, Delia, Klaus E. Meyer, and Saul Estrin (2004), *Institutional distance and international business strategies in emerging economies*, University of Michigan Working Papers, available online at <http://www.wdi.umich.edu/files/Publications/WorkingPapers/wp728.pdf> [last access: 30 June 2010].

- Jackson, S.E. and R.S. Schuler (1995), Understanding human resource management in the context of organizations and their environments, *Annual Review of Psychology* 46(1), 237-264.
- Jandt, Fred E. and Paul B. Pedersen (1996), *Constructive conflict management: Asia-Pacific cases*. Thousand Oaks, CA: Sage.
- Javorcik, Beata S. and Mariana Spatareanu (2005), Do Foreign Investors Care about Labor Market Regulations? *Review of World Economics* 141(3), 375-403.
- Jehn, Karen A. (1997), A quantitative analysis of conflict types and dimensions in organizational groups, *Administrative Science Quarterly* 42(3), 530-557.
- Joshi, Aparna, Giuseppe Labianca, and Paula M. Caligiuri (2002), Getting along long distance: understanding conflict in a multinational team through network analysis, *Journal of World Business* 37(4), 277-284.
- Kim, Youngok and Sidney J. Gray (2009), An assessment of alternative empirical measures of cultural distance: Evidence from the Republic of Korea, *Asia Pacific Journal of Management* 26, 55-74.
- Kogut, Bruce and Harbir Singh (1988), The effect of national culture on the choice of entry mode, *Journal of International Business Studies* 19, 411-432.
- Kostova, Tatiana (1999), Transnational transfer of strategic organizational practices: A contextual perspective, *Academy of Management Review* 24, 308-324.
- Kostova, Tatiana and Kendall Roth (2002), Adoption of an Organizational Practice by Subsidiaries of Multinational Corporations: Institutional and Relational Effects, *The Academy of Management Journal* 45(1), 215-233.
- Leung, Kwok and Dean Tjosvold (1998), *Conflict management in the Asia Pacific: Assumptions and approaches in diverse cultures*. Singapore: Wiley.
- Manev, Ivan M. and William B. Stevenson (2001), Nationality, Cultural Distance, and Expatriate Status: Effects on the Managerial Network in a Multinational Enterprise, *Journal of International Business Studies* 32(2), 285-303.
- Metcalf, Beverly D. (2005), Exploring cultural dimensions of gender and management in the Middle East, *Thunderbird International Business Review* 48(1), 93-107.
- Morosini, Piero, Scott Shane, and Harbir Singh (1998), National cultural distance and cross-border acquisition performance, *Journal of International Business Studies* 29(1), 137-158.
- Muchlinski, Peter (1999), *Multinational enterprises and the law*, Oxford: Wiley-Blackwell.

- Nitsun, Morris (1996), *The anti-group. Destructive forces in the organization and their creative potential*, London: Routledge.
- OECD (2010), *Average annual hours actually worked per worker*, available online at <http://stats.oecd.org/Index.aspx?DatasetCode=ANHRS> [last access: 6 July 2010].
- Ohbuchi, Ken-Ichi, Osamu Fukushima, and James T. Tedeschi (1999), Cultural values in conflict management : Goal orientation, goal attainment, and tactical decision, *Journal of Cross-Cultural Psychology* January 30(1), 51-71.
- Ohmae, Kenichi (1985), *Triad Power. The Coming Shape of Global Competition*, New York: Free Press.
- Olie, René (1994), Shades of culture and institutions in international mergers, *Organization Studies* 15, 381-405.
- Pelled, Lisa H. (1996), Demographic diversity, conflict, and work group outcomes: An intervening process theory, *Organization Science*, 6: 615-631.
- Peng, Mike W. (2003), Institutional transitions and strategic choices, *Academy of Management Review* 28(2), 275-296.
- Peterson, Richard B., John Sargent, Nancy K. Napier, and Won S. Shim (1996), Corporate expatriate HRM policies, internationalization, and performance in the World's largest MNCs, *Management International Review* 36(3), 215-30.
- Pondy, Louis R. (1967), Organizational conflict: concepts and models. *Administrative Science Quarterly* 12, 296-320.
- Pudelko, Markus (2000a), *Das Personalmanagement in Deutschland, den USA und Japan. Band 1: Die Bedeutung gesamtgesellschaftlicher Rahmenbedingungen im Wettbewerb der Systeme* (Human Resource Management in Germany, the USA and Japan. Vol.1: The Significance of Societal Contextual Factors in the Competition of the Systems). Cologne: Saborowski.
- Pudelko, Markus (2000b), *Das Personalmanagement in Deutschland, den USA und Japan. Band 2: Eine systematische und vergleichende Bestandsaufnahme* (Human Resource Management in Germany, the USA and Japan. Vol. 2: A Systematic and Comparative Report). Cologne: Saborowski.
- Pudelko, Markus (2000c), *Das Personalmanagement in Deutschland, den USA und Japan. Band 3: Wie wir voneinander lernen können. Mit einer empirischen Studie über die 500 größten Unternehmen der drei Länder* (Human Resource Management in Germany, the USA and Japan. Vol. 3: How We Can Learn From One Another.

- With an Empirical Study of the 500 Largest Companies of the Three Countries).
Cologne: Saborowski.
- Pudelko, Markus (2006), Universalities, Particularities, and Singularities in Cross-National Management Research, *International Studies of Management and Organization* 36(4), 9-37.
- Pudelko, Markus and Anne-Wil Harzing (2007), Country-of-origin, localization or dominance effect? An empirical investigation of HRM practices in foreign subsidiaries, *Human Resource Management* 46(4), 535-559.
- Pudelko, Markus and Helene Haas (2010), Conflict in Foreign Subsidiaries of Japanese and Western Multinational Corporations: The Impact of Cultural Distance and Differences in Home-Host Country Combinations, *Zeitschrift für Betriebswirtschaft*.
- Sagiv, Lilach and Shalom H. Schwartz (2007), Cultural values in organisations: insights for Europe, *European Journal of International Management* 1(3), 176-190.
- Schraeder, Mike and Dennis R. Self (2003), Enhancing the success of mergers and acquisitions: an organizational culture perspective, *Management Decision* 41, 511–522.
- Schwartz, Shalom H. (2004), Mapping and interpreting cultural differences around the world, in: Henk Vinken, Joseph Soeters, Peter Ester (Eds) *Comparing cultures. Dimensions of Culture in a comparative perspective*, Leiden: Brill, 43-73.
- Scott, Richard (1995), *Institutions and Organizations*, Thousand Oaks, CA: Sage.
- Selmer, Jan (2007), Which is easier, adjusting to a similar or to a dissimilar culture? American business expatriates in Canada and Germany, *International Journal of Cross-Cultural Management* 7(2), 185–201.
- Sharpe, Diana R. (2001), Globalization and change: organizational continuity and change within a Japanese multinational in the UK, in: Glenn Morgan, Peer Hull Kristensen, Richard Whitley (eds.) *The multinational firm*. Oxford: Oxford University Press, 196-221.
- Shenkar, Oded (2001), Cultural Distance Revisited: Towards a More Rigorous Conceptualization and Measurement of Cultural Differences, *Journal of International Business Studies* 32(3), 519-535.
- Smith, Tom W. (2004), Developing and evaluating cross-national survey instruments, in Stanley Presser et al. (eds.), *Methods for testing and evaluating survey questionnaires*, New York: Wiley, 431-452.

- Sparrow, P. and J.M. Hiltrop (1997), Redefining the field of European human resource management: A battle between national mindsets and forces of business transition, *Human Resource Management* 36(2), 201-219.
- Thomas, David C. (1999), Cultural Diversity and Work Group Effectiveness : An Experimental Study, *Journal of Cross-Cultural Psychology* 30(2), 242-263.
- Thurow, Lester C. (1992), *Head to head. The coming economic battle among Japan, Europe, and America*, New York: Time Warner.
- Ting-Toomey, Stella (1985), Toward a theory of conflict and culture, in William B. Gudykunst, Leah P. Stewart and Stella Ting-Toomey (eds.), *Communication culture and organizational processes*, Beverly Hills, CA: Sage, 71-85.
- Trompenaars, Fons and Charles Hampden-Turner (2002), *Riding the waves of culture. Understanding diversity in global business*, 2nd ed. Chicago: Irwin Professional Publishing.
- Tsui, Anne S., Terri D. Egan, and Charles A. O'Reilly (1992), Being different: relational demography and organizational attachment, *Administrative Science Quarterly* 37, 549-579.
- Vaara, Eero (2003), Post-acquisition integration as sensemaking: glimpses of ambiguity, confusion, hypocrisy, and politicization, *Journal of Management Studies* 40, 859-894.
- Whitley, Richard (1992), *European business systems: Firms and markets in their national contexts*, London: Sage.
- Whitley, Richard (2000), *Divergent capitalisms. The social structuring and change of business systems*, Oxford: Oxford University Press.
- Xu, Dean and Oded Shenkar (2002), Institutional Distance and the Multinational Enterprise, *The Academy of Management Review* 27(4), 608-618.

Table 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.

Table 2: Mean ratings of conflict potential

	Individual rights vs. group obligation	Individual or group decisions	Conflict styles	Gender roles	Attitudes towards economic system	School, vocational and college systems	Employer-employee relations	Labour regulations	Use of over-time
US subsidiaries in Japan	3.12	3.43	3.34	3.11	3.09	2.76	3.40	3.11	2.70
German subsidiaries in Japan	3.29	3.29	3.26	2.81	2.56	2.70	2.68	2.73	2.80
Japanese subsidiaries in Germany	3.26	2.85	3.19	2.82	3.09	2.24	3.06	3.05	3.38
US subsidiaries in Germany	3.00	3.00	3.18	2.73	3.59	2.89	4.16	4.27	2.80
German subsidiaries in the USA	2.72	2.54	2.95	2.76	2.86	2.66	2.81	2.48	2.34
Japanese subsidiaries in the USA	3.15	2.80	3.05	2.57	2.58	2.27	2.76	2.53	2.87
Overall	3.06	2.86	3.10	2.73	2.82	2.50	2.95	2.78	2.78

Values from 1 (low potential for conflict) to 5 (high potential for conflict)

Table 3: Mean aggregate ratings of cultural compared to institutional sources of conflict

	Cultural and institutional distance	Mean aggregate rating of cultural sources of conflict	Mean aggregate rating of institutional sources of conflict	Mean differences between cultural and institutional sources of conflict	Levels of significance
US subsidiaries in Germany	low	2.98	3.54	-0.56	.072*
German subsidiaries in the USA	low	2.73	2.62	0.12	.000***
Japanese subsidiaries in Germany	high	3.03	2.95	0.07	.747
German subsidiaries in Japan	high	3.16	2.70	0.47	.000***
Japanese subsidiaries in the USA	highest	2.87	2.60	0.17	.170
US subsidiaries in Japan	highest	3.25	2.98	0.29	.000***
Overall		2.93	2.76	0.17	.000***

Columns 3 and 4: Values from 1 (low potential for conflict) to 5 (high potential for conflict)

Levels of significance in column 6: *** $p < 0.01$; ** $p < 0.05$; * $p < 0.1$