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**Language Competencies, Policies and Practices in Multina-
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Nordic MNCs**

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LANGUAGE COMPETENCIES, POLICIES AND PRACTICES IN MULTINATIONAL CORPORATIONS:

A COMPREHENSIVE REVIEW AND COMPARISON OF ANGLOPHONE, ASIAN, CONTINENTAL EUROPEAN AND NORDIC MNCs

by

Anne-Wil Harzing & Markus Pudelko

ABSTRACT

The importance of language differences in multinational corporations can hardly be overlooked. However, so far most studies in this field have been either conceptual or in-depth, explorative empirical studies that in most cases were based on a few case studies in a few countries. Therefore, the key contribution of this paper is to provide the first large-scale quantitative overview of language competencies, policies and practices in multinational companies (MNCs). It is based on data from more than 800 subsidiaries, operating in various industries and located in thirteen different countries with headquarters in more than 25 different countries that we aggregated into four distinct home country clusters. Consequently, this comprehensive study allows us to differentiate previous conceptual or case-based findings according to home, host and corporate languages. On this basis, we are also able to develop managerial implications which vary according to the different country clusters.

INTRODUCTION

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

Since the pioneering work of Rebecca Piekkari (see Marschan, Welch & Welch, 1997; Marschan-Piekkari, Welch & Welch, 1999a,b), a budding literature on the role of language in MNCs has emerged. However, these studies have typically focused on a rather small number of companies in a limited number of home and host countries. In fact, most of these studies were in-depth case studies of only one or two MNCs. Although the case study research method is ideally suited to explore new areas of research, it is less suitable to provide a comprehensive overview of the importance or occurrence of certain phenomena in a wider setting. In addition, most previous studies that looked at the role of language in MNCs focused on a limited number of languages only. They typically studied interactions that included one native English-speaking party (e.g. Harzing & Feely, 2008; Luring, 2008; San Antonio, 1987; Wright, Kumagai, & Bonney, 2001) or dealt with the overseas operations or subsidiaries of Nordic companies

(Andersen & Rasmussen, 2004; Barner-Rasmussen & Björkman, 2005, 2007, Luring, 2008). Even the rare studies that reported on a larger number of MNCs (e.g. Harzing, Köster & Magner, 2011) focused on specific language pairs only.

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

We therefore decided that rather than adding another in-depth case study, exploring new aspects of the role of language in MNCs, we would follow the above cited calls for more wide-ranging quantitative studies. Hence, the present article provides the first comprehensive review of language competencies, policies and practices in MNCs. However, our paper remains exploratory, in the sense that it does not test specific hypotheses. Instead, it investigates a range of issues in a much wider language context than previous, case based research. While previous, case based research ventured into new territories, highlighting the relevance of language for international business, we still don’t know to what extent their findings were based on idiosyncrasies of the languages involved. A key contribution of our study is therefore to compare and contrast the role of language in MNCs headquartered in a series of different countries, which we aggregated into four very distinct language based country clusters: Anglophone, Asian, Continental European and Nordic. This also allows us to present a far more differentiated set of managerial implications than previous studies were able to generate.

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

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

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

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

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

The use and choice of a corporate language has been a very important theme in the literature on language in MNCs. Marschan-Piekkari et al. (1999a) report its advantages as facilitating formal reporting, enhancing informal communication and information flow and assisting in developing a common corporate culture. Japanese MNCs have been singled out in this context with Yoshihara (1999) describing the two pillars of their international HRM strategy as “Management by Japanese” and “Management in the Japanese language”, referring to the frequent use of Japanese expatriate managers as well as the use of Japanese as a corporate language. Vaara, Tienari, Piekkari & Sääntti (2005) and Piekkari, Vaara, Tienari & Sääntti (2005) investigate the role of corporate language choice in a merger between a Swedish and a Finnish

firm. Although a common corporate language was chosen to facilitate integration and communication, in reality it was interpreted as a political choice by the organization whose language was not chosen and as a result led to disintegration rather than integration. Fredriksson, Barner-Rasmussen & Piekkari (2006) study the use of corporate language in three organizational units of Siemens. The authors find that although English is designated as the official corporate language, in practice both English and German are used frequently. In our study we will provide an overview of the extent to which a corporate language has been formally designated, and report on the choice of the corporate language (HQ language or other language). We will demonstrate in particular how MNCs located in the various country clusters make very different choices in this respect.

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

In sum, the studies described above have provided us with interesting, mostly case study based or conceptual insights into the role of language in MNCs. However, what is missing so far is a *comprehensive* overview of actual language competences, policies, and practices. Unlike previous studies that mainly focused on (often single) MNCs from one home country operating in a limited number of host countries, our study includes a significant amount of variety, both in terms of home and in terms of host country. More specifically, our data were collected at subsidiaries in thirteen different host countries. In terms of home country, the data covers an even larger number of countries which can be subsumed under four very different country clusters. These clusters can be differentiated across two dimensions: the importance of the local language and the English language skills of managers:

- *Anglophone countries* (UK, USA, Australia, New Zealand, Canada, Ireland), which are characterized by a strong English-as-native language advantage and which can be expected to use their home country language in doing business abroad, because of the dominance of English as a lingua franca.
- *Asian countries* (Chinese Asia, Japan, Korea), which are characterized by relatively low level of English-language skills (although Hong Kong and Singapore would be exceptions). Their local languages play a relatively important role on a regional basis and are becoming increasingly important on a world-wide scale.
- *Continental European countries* in the economically dominating Western part of the continent from large language areas (larger countries such as Germany, France, Italy and Spain, as well as smaller countries in the same language domain such as Austria, Switzerland and Belgium). In these countries English-language skills are reasonably high (but not as high as in the Nordic countries). The respective local languages (used to) play a rather large role internationally, that is now declining.

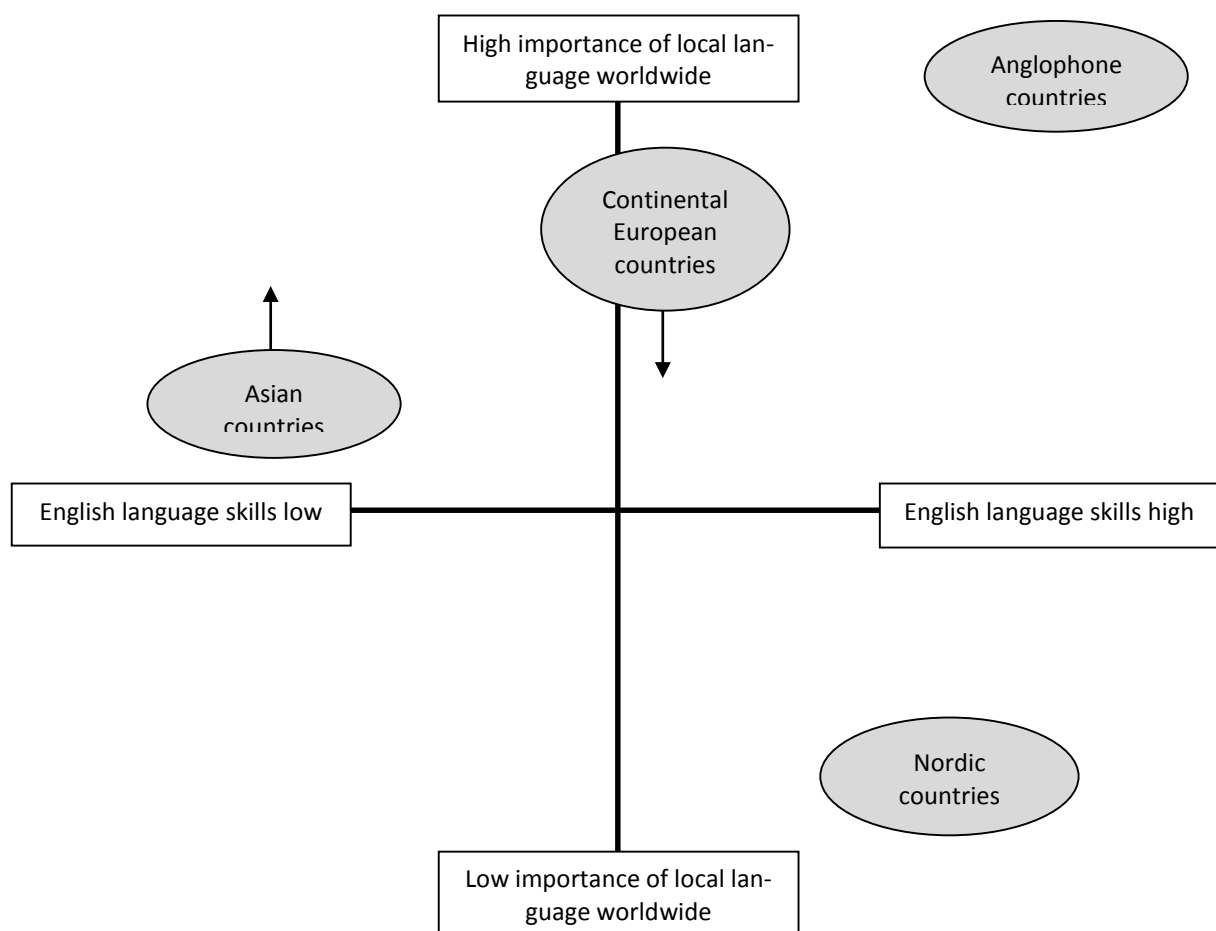
- *Nordic countries* (Sweden, Norway, Denmark, Finland, Iceland, Netherlands). In these countries English language skills are usually excellent and English is widely used for business purposes. Moreover, the use of their local languages outside the respective countries is not widespread and as a result the importance of these languages on a world-wide scale is very low.

Figure 1 summarizes our four country clusters identified above. Where boxes have arrows they are intended to portray development over time, i.e. the Asian languages (especially Chinese) are expected to become more important, reflecting the increasing dominance of China in world trade and foreign direct investment. In contrast, the main languages of Continental Europe (French, German, Spanish, Italian) are likely to see their importance world-wide declining, due to both the increasingly dominance of English as a lingua franca and the dawn of the “Asian century”.

The central research proposition of our paper is as follows:

MNCs will display distinct configurations of language competencies, policies, and practices that reflect their respective language heritage.

Figure 1: *Four country clusters, based on level of English language skills and the importance of the local language in business worldwide*



METHODS

SAMPLE AND DATA COLLECTION

Providing a comprehensive review of the role of language in MNCs requires a relatively large sample size. In order to avoid idiosyncratic results the study should also incorporate a wide range of home and host countries, so that a large variety of languages can be considered. Our study therefore used a cross-sectional survey design to collect data in a range of host countries that – just like our home countries – varied both in terms of their English-language competence and in the world-wide importance of their language. We included three host countries with native English language skills (UK, Australia, New Zealand). In addition, we incorporated four Nordic countries (Sweden, Norway, Denmark and Finland). As indicated above, in these countries English language skills are usually excellent, but the use of their native languages is not widespread outside the respective countries. We also collected data in three continental European countries in which English-language skills are reasonably good and whose languages (used to) play an important role on a world scale (Germany, France and Spain). Finally, three Asian countries were added (Japan, Korea and China). All three are characterized by relatively low level of English-language skills, but the Japanese and Chinese language play a more important role on a world or at least regional scale than Korean. Because of their smaller sample size Australia and New Zealand were combined in any analyses conducted at the host country level, as were the four Nordic countries.

Data were collected through both online and paper questionnaires between August 2008 and April 2010. Surveys were mailed locally and in collaboration with local universities in Australia, New Zealand, China, Japan, the UK, Spain and Germany. Surveys to France and the Nordic countries were mailed from the UK. In Korea, we engaged a local survey company to phone our prospective respondents as the smaller size of MNC subsidiary population required a much higher response rate. In all other countries, respondents received an initial mailing and one reminder, although budget limitations meant that in the UK, we could only send reminders to a third of the companies. Initially, we had hoped to collect all data online, but we soon learned that some respondents were not comfortable with this. Therefore, we offered the alternative of a paper version in most countries.ⁱ However, different data collection methods might influence the results (see Simsek & Veiga, 2001). In order to test whether this was the case in our study, we ran t-tests for all of the variables in our study for those countries in which both paper and online questionnaires were used. No significant differences were found between the two versions. We can therefore assume that the method of data collection did not significantly influence our results.

Questionnaires were mailed to the Head of Human Resources of all majority owned subsidiaries with more than 100 employees in a pre-selected set of industries. Addresses for all countries were acquired from Dun & Bradstreet. We chose HR managers as our respondents for a variety of reasons. First, they were expected to be the manager most likely to be knowledgeable about the variety of topics included in our study. Second, as most surveys to MNC subsidiaries are targeted at managing directors, we expected a survey directed to a functional manager to provide a higher response rate. Third, out of all functions we expected HR managers to be most likely to be a local manager. This limits the bias introduced by having a mix of host country nationals and expatriate respondents, which is especially important for a study on language differences. Our results showed that 95% of the HR managers were host country nationals, a higher percentage than any of the other functional areas.

After correcting for undeliverables, our overall response rate was 13.83%. This response rate is not unusual for multi-country studies. Nearly fifteen years ago Harzing (1997) already reported that response rates for international mail surveys typically varied between 6 and 16%. Our response rates varied from 4.0% for China to 47.6% for Korea. The latter most likely reflects the different data collection method (telephone survey) used in this country. The former probably reflects the fact that China was the only country in which we did not send out paper questionnaires. Response rates in China were further reduced because of a government policy not to allow access to foreign websites with Chinese page titles. Hence, after our website was blocked, we received no further responses in the initial mailing in China. Low response rates were also obtained in the UK and France. In the UK, this might have been caused by the lack of a full reminder and the fact that data were collected in the height of the first wave of the Global Financial Crisis. Not sending questionnaires locally might have negatively influenced response rates in France, although we did include a recommendation letter from France's most prestigious business school.

Given our relatively low response rate, we performed two sets of analyses to establish the extent of non-response bias. First, we compared the size and age of the subsidiaries that responded with those that did not respond. There were no significant differences for either subsidiary size in terms of employees (581.25 vs. 586.15, $p = .96$) or year of establishment (1982.53 vs. 1984.42, $p = .123$). Second, for each country, we compared respondents to the first mailing with respondents to the reminder on all variables included in our study. Late respondents are often seen to be more representative of non-respondents than early respondents (Armstrong & Overton, 1977). There were no systematic significant differences on any of the variables. Non-response bias therefore does not appear to be a problem in our study.

In spite of the relatively low response rate, we achieved substantial sample sizes in each of the nine countries/regions included in our study, as well as a good spread of industries. Table 1 presents the final sample by host and home country and by industry.

Table 1: Distribution of sample across host country, industry and home country

Host country	Number of respondents	Home country	Number of respondents
Australia/New Zealand	92	(< 10 respondents omitted)	
China	91	Austria	14
France	70	Belgium	14
Germany	125	Denmark	14
Japan	80	France	67
Korea	118	Finland	19
Nordic countries	71	Germany	107
Spain	82	Italy	18
United Kingdom	88	Japan	89
Industry	Number of respondents	Netherlands	35
Banking & Insurance	20	Norway	11
Business Services	78	Singapore	13
Chemicals	129	Sweden	28
Food & Beverages	55	Switzerland	42
Industrial Machinery	130	United Kingdom	56
Measuring & analysing instruments	30	United States	222
Motor vehicles & parts	138	Other	68
Paper & allied products	33		
Pharmaceuticals	73		
Rubber & Plastics	60		
Other	71		
Total	817	Total	817

QUESTIONNAIRE DEVELOPMENT AND MEASURES

Data for this study were collected through a questionnaire that was developed after an extensive review of the relevant literature on HQ-subsidiary relations and the relevance of language in these relationships. To assess language use in subsidiaries, we asked our respondents which language was generally used for communication between local managers, between local managers and expatriates and between subsidiary managers and HQ managers. We also asked in how many languages (including the country's own language) managers in their subsidiary communicated on a *regular* basis, including languages used in contacts with their external customers and suppliers. Language skills were measured by asking respondents for their assessment of the language capabilities of managers in their subsidiary, as well as HQ in both the corporate language and the other party's language (i.e., the HQ country language for subsidiary managers and the subsidiary country language for the HQ manager) on a 7-point Likert scale. With regard to corporate language, respondents were asked whether their company had a corporate language, and if so whether it was the language used in the country of HQ or another language. Power-authority distortion was computed by subtracting the language skills of HQ managers in the corporate language from the skills of subsidiary managers in the corporate language.

As questionnaires in English can obscure national differences (Harzing et al. 2005, IJCCM) through a reduction of variance, we translated the questionnaire into the local language for all countries, except for the Nordic countries. In these countries, we expected the English language capacity of our respondents to be high enough to provide reliable responses in English. The relatively small sample sizes in these countries also meant that translation into an additional four languages was not cost-effective. However, we did translate the survey instrument into Chinese, Japanese, Korean, German, French and Spanish. The initial translation took place by bilingual research assistants under the supervision of the project coordinator. Subsequently, a focus group consisting of both the translator and two or three other bilingual students discussed the translated questionnaire in the presence of the project coordinator. First, the bilingual students were asked to carefully review the translated questionnaire one item at a time and indicate whether the text sounded “natural” to them. In a second step, they were asked to review the original English sentence and assess whether it was equivalent to the corresponding native version. Even if only one of the students felt the items were not fully equivalent, the translator initiated discussion between the participants to find a better translation. The project coordinator was available to provide feedback on the meaning behind the questions where necessary. This whole process took at least 3 hours, but for the Asian languages it usually took three sessions lasting up to 8 hours in total.

ANALYSES

In addition to reporting relevant descriptive results, our analyses focused on the comparison between the various home country clusters. Where dependent variables are nominal (corporate language, language used between local managers and expatriates/HQ managers), we used cross-tabs to tabulate the different categories. Cramer’s V was used as a measure of association. This statistic is conceptually similar to the correlation coefficient, but can be used with nominal data and is appropriate for tables that are larger than 2X2. The higher Cramer’s V, the larger the explanatory power of the independent variable (country clusters) in relation to the dependent variable (corporate language, language use). Where the dependent variables are continuous (language skills and the derived measure of power/authority distortion, number of languages used), we used an Analysis of Variance to establish whether there were any differences in mean scores between the four country clusters.

RESULTS

In this section we report our results with regard to the languages spoken in the subsidiaries, the respective language capabilities at HQ and subsidiaries, the use of a corporate language, and the extent of power authority distortion. In each case we systematically compare our four distinct home country clusters to assess our proposition that different language heritages will influence language policies, practices and capabilities in different ways. Where appropriate we also differentiate our finding with regard to our thirteen host countries.

LANGUAGES SPOKEN IN THE SUBSIDIARIES

We asked respondents which language was used for communication between local managers in the foreign subsidiaries, between local managers and expatriates and between subsidiary managers and HQ managers. It is important to note that our question only referred to managers, who, as Barner-Rasmussen & Aarnio (2011) showed, generally have higher language

fluency in the shared language than employees in functional areas such as manufacturing.

We would not expect any systematic differences between MNCs headquartered in different countries in terms of the languages that local managers speak amongst each other as this is determined by the host country, not the home country in the foreign subsidiaries. This expectation was confirmed by our data. The language used between local managers was virtually always the local host country language, although in a small number of cases (8%) respondents indicated that the local (non-native English speaking) managers spoke English together.

Table 2: Language use in communication with expatriates and HQ managers in MNCs headquartered in different country clusters

HQ country cluster/Language	English	Asian	European	Scandinavian
Language used in communication with expatriates				
Anglophone (n=278)	91.4%	2.9%	5.4%	0.4%
Continental European (n=254)	78.7%	2.8%	17.7%	0.8%
Nordic (n=109)	78.0%	0.9%	13.8%	7.3%
Asian (n=125)	41.6%	58.4%	0.0%	0.0%
Language used in communication with HQ managers				
Anglophone (n=290)	99.3%	0.0%	0.7%	0.0%
Nordic (n=117)	93.2%	0.9%	1.7%	4.3%
Continental European (n=265)	84.2%	0.4%	15.5%	0.0%
Asian (n=126)	38.1%	61.1%	0.8%	0.0%

In contrast to the case of communication among local managers, we *would* expect differences between HQ country clusters in terms of the language spoken between local managers and expatriates and between local managers and HQ managers. As Table 2 shows this is indeed the case. As the number of cases for languages other than English was very small we combined the Asian languages, the four major European languages (French, German, Spanish, Italian) as well as the Scandinavian languages, mirroring our HQ country clusters.

As Table 2 shows, English is the dominant language for interaction between local managers and *both* expatriates and HQ managers for three out of the four HQ country clusters. Not surprisingly, this dominance is particularly strong for MNCs headquartered in Anglophone countries. In terms of communication with HQ managers MNCs headquartered in Nordic countries come very close to MNCs headquartered in Anglophone countries; both groups display a dominant use of English. A very different pattern is shown by the Asian MNCs where Asian languages are most frequently used, both for communication between locals and expatriates, and for communication between local and HQ managers.

In the non-Asian clusters, only European languages display a non-negligible use for communication with expatriates. In these cases, expatriates apparently speak the local language and

use this to communicate with local managers. For MNCs headquartered in Continental Europe, this could also include expatriates who share their native language with local managers (e.g. Germany/Austria/Switzerland). In Nordic MNCs, Scandinavian languages are generally used in their Scandinavian subsidiaries. For communication with HQ managers, the dominance of English is even stronger than for communication with expatriates and only Continental European MNCs use another language than English in more than a handful of subsidiaries.

Overall, our results show strong confirmation of the expected differentiation in terms of home country clusters. Cramer's V for the association between home country clusters and language use is high and highly significant both for communication with expatriates (0.405, $p=0.000$) and for communication with HQ managers (0.471, $p=0.000$)

We also asked our respondents how many languages (including the country's own language) managers in their subsidiary communicated on a *regular* basis, including languages used in contacts with their external customers and suppliers. In a fifth of the subsidiaries only the country's own language is used on a regular basis and in half of the subsidiaries two languages are used frequently. A further fifth of the subsidiaries uses three languages on a regular basis, whilst the remaining 10% use four or more languages. It is clear that most subsidiaries are multilingual, confirming Barner-Rasmussen & Aarnio's findings in Finnish subsidiaries (2011). There were no significant differences between our home country clusters in this respect (F-value: 0.304, $p=0.823$).

However, looking at the thirteen countries in which we collected data, there are substantial differences between the various *host* countries. We find that subsidiaries in the English speaking countries (Australia/New Zealand and the UK) and the Asian countries generally use fewer languages, on average between 1.9 and 2.4 languages. In the English-speaking countries, the majority of subsidiaries only use one language (i.e. English), whilst in Japan, China and Korea, the modal choice is 2 languages. In the bigger European countries (France, Germany, Spain) the average number of languages used lies between 2.5 and 2.8. Three of the four Nordic countries have an average language use of 3 languages or more and none of them only use one language. Only Swedish subsidiaries use slightly fewer languages (2.6 on average), probably reflecting the more frequent use of Swedish with any Nordic HQs of Swedish subsidiaries.

LANGUAGE CAPABILITIES

We also asked our respondents for their assessment of the language capabilities of managers in their subsidiary as well as at HQ in both the corporate language and the other party's language (i.e. the HQ country language for subsidiary managers and the subsidiary country language for the HQ manager). Both HQ and subsidiary managers had a much higher average capability in the corporate language than in each other's languages. For HQ managers the average score was 6.10 (on a scale of 1 to 7) for the corporate language and 3.09 for the subsidiary language. For subsidiary managers the average score was 5.17 for the corporate language and 3.89 for the HQ language. This is to be expected as the most common corporate language, English, is the most often spoken foreign language. Furthermore, the above results tell us that HQ managers have a higher capability in the corporate language than subsidiary managers and have a lower capability in the other party's language. This is only logical as the HQ has the power to select the corporate language and to prescribe subsidiaries to learn the HQ language. Table 3 depicts a breakdown of these results in terms of country clusters.

Table 3: *Language capabilities in MNCs headquartered in different country clusters on a scale of 1-7**

HQ country cluster	Subsidiary managers in HQ language	HQ managers in subsidiary language	Subs. Managers in corporate language		HQ managers in corporate language	
Which language is used as corporate language?			HQ lan- guage	English	HQ lan- guage	English
Anglophone	5.21 ^a	2.80 ^a	5.14 ^a	5.14 ^a	6.94 ^a	6.94 ^a
Asian	4.19 ^b	3.64 ^b	4.70 ^a	5.47 ^a	6.96 ^a	4.79 ^c
Continental European	3.07 ^c	3.17 ^a	5.24 ^a	5.35 ^a	6.68 ^b	5.31 ^b
Nordic	2.08 ^d	2.81 ^a	n/a**	5.03 ^a	n/a**	5.50 ^b

* Means with the same superscript are not significantly different

** All Nordic MNCs use English as the corporate language

We find a predictable variation in the language competence of subsidiary managers in the HQ language. It is highest for MNCs headquartered in Anglophone countries, and lowest for countries headquartered in countries with small language areas such as the Nordic countries. For subsidiary managers in Asian and Continental European MNCs, language competence in the HQ language lies in between, with Asia having a higher score than Continental Europe.

There are far fewer differences between the country clusters in terms of the language skills of HQ managers in the subsidiary language. These skills are significantly higher in HQs of Asian MNCs compared to HQs in the other three country clusters, which do not show any statistically significant differentiation amongst themselves. With regard to our prior observation that the language skills of subsidiary managers in the HQ language are higher than those of HQ managers in the subsidiary languages, we can certainly confirm this for Anglophone MNCs and also for Asian MNCs. However, for Continental MNCs there is little difference and for Nordic MNCs HQ managers have higher (though still modest) language skills in the subsidiary language than subsidiary managers have in the HQ language. Of course this is very much related to the role the various languages play on a world-scale.

In terms of language skills of subsidiary managers in the corporate language, there are no significant differences between the four HQ country clusters, regardless of whether this is English or the HQ's language. HQ managers show excellent language skills in the corporate language if the HQ language is used. This is of course not surprising as most HQ managers are likely to speak this language as their native language. The slightly lower score for Continental European MNCs reflects that several of these countries have multiple languages. The picture is substantially different when the corporate language is English. In that case HQ managers in Continental European and Nordic MNCs have obviously lower English language skills than HQ managers in Anglophone countries, with HQ managers in Asian MNCs showing yet lower English language skills.

The data presented in Table 3 also allow us to differentiate our observation above that on average HQ managers have higher language skills in the *corporate* language than subsidiary managers. This is certainly the case when the HQ language is used as corporate language.

However, when English is used as a corporate language, subsidiary managers in Asian MNCs have statistically higher language skills in the corporate language than HQ managers, leading to the power/authority distortion pattern we identify below.

Interestingly, for companies that do *not* have an official corporate language, the capacity in the other party's language is relatively high and hardly differs between HQ (4.13) and subsidiary managers (4.33). Companies with and without a corporate language differ significantly in terms of both subsidiary managers' skills in the HQ language ($t=3.310$, $p=0.001$) and HQ managers' skills in the subsidiary language ($t=7.658$, $p=0.000$). This might mean that *one* of the reasons for not having a corporate language could be that there is no perceived need for it, as the counterparts both have a reasonably good facility in the other's language or even speak the same mother tongue. As we will discuss below in more detail, this could, for example, be the case with companies from Greater China where Chinese is spoken at HQ and in the subsidiaries in the same regional area.

THE USE OF A CORPORATE LANGUAGE

Table 4 shows that in nearly a quarter of all the subsidiaries included in our study, the issue of a corporate language is avoided altogether as our respondents indicated there was no corporate language. With 47% MNCs headquartered in Asian countries are much more likely to be in this category than MNCs from any other countries. This is not entirely surprising as the vast majority of the subsidiaries MNCs headquartered in China, Taiwan, Hong Kong or Singapore were located in the same four countries represented as HQ country. Hence in many cases, the HQ and subsidiary language would be the same and the choice of corporate language might simply be felt to be irrelevant.

MNCs headquartered in Anglophone countries are next in line, with nearly a quarter having no corporate language. Both Continental European and Nordic MNCs have a smaller proportion of companies without a corporate language with 17% and 12% respectively.

Table 4: Use of corporate language in MNCs headquartered in different country clusters

HQ country cluster	No	Yes, HQ language		Yes, other language		N
		% of total	% of yes	% of total	% of yes	
Asian	47%	37%	70%	16%	30%	126
Anglophone	23%	77%	100%	0%	0%	290
Continental European	17%	9%	11%	74%	89%	266
Nordic	12%	0%	0%	88%	100%	117
Total	23%	37%	48%	40%	52%	799

If we look at *which* language is used as a corporate language, we see a clear division between MNCs headquartered in Anglophone and Asian countries and those headquartered in Continental European and Nordic countries. For the sample as a whole, there is virtual equality (48% vs 52%) between companies using their HQ language as a corporate language and those using another language. However, for those MNCs from Anglophone countries which do have

a corporate language 100% of the companies use the HQ language (i.e. English). A reverse pattern is displayed by the Nordic countries, which *always* use another language as the corporate language. MNCs from Continental European countries are also likely to use another language, with only 11% of the companies with a corporate language using the HQ language. MNCs from Asian countries clearly follow a very different pattern; 70% of the MNCs *with* a corporate language use their HQ language.

All companies that use a language other than the HQ language as a corporate language use English. This is hardly surprising. As Barner-Rasmussen & Aarnio (2011) indicate there are strong institutional pressures in favor of English. Therefore firms must have a good reason to choose any other corporate language. English is naturally used as a corporate language in all of the English-speaking MNCs and is likely to be the default language in these companies even if they don't have a corporate language. English as a corporate language for non-native English speaking MNCs is used by 88% of the Nordic countries and 74% of Continental European MNCs, with the remainder having no corporate language or using the HQ language as corporate language. Hence, overall the use of English is pervasive, except for MNCs from the Asian countries. In these countries the use of English as a corporate language is still very unusual, only 16% of the companies have explicitly designated English as a corporate language.

Overall, our results show strong confirmation of the expected differentiation between home country clusters. Cramer's V for the association between home country clusters and choice of corporate language (no, HQ language, other language) is high (0.583) and highly significant ($p=0.000$).

ENGLISH AS A CORPORATE LANGUAGE AND POWER/AUTHORITY DISTORTION

As discussed below, on average HQ managers clearly have a higher level of fluency in the corporate language than subsidiary managers, indicating that in general power/authority distortion should not be a problem. However, as Table 5 shows, this hides large differences between MNCs headquartered in different country clusters. Not surprisingly, in MNCs headquartered in Anglophone countries, HQ managers have substantially higher fluency in the corporate language (English) and hence power/authority distortion is not a problem at all.

It might come as a surprise, however, that in MNCs headquartered in Asia managers also have a far better command of the corporate language than subsidiary managers do. However, we shouldn't forget that in Asian MNCs the corporate language is usually the HQ language. If we only look at Asian MNCs that have English as a corporate language the power/authority distortion is fairly pronounced.

Table 5: The occurrence of power/authority distortion in MNCs headquartered in different country clusters (bold face indicates power/authority distortion)

HQ country cluster	Subsidiary corporate language skills minus HQ corporate language skills			
	Corporate language is HQ language or English		Corporate language is English	
	Difference	N	Difference	N
Anglophone	-1.80 ^a	222	-1.80 ^a	222
Asian	-1.34 ^b	64	0.69^b	19
Nordic	-0.47 ^c	103	-0.47 ^c	103
Continental European	-0.13 ^c	219	0.04^d	194
Total	-0.93	617	-0.78	544

* Means with the same superscript are not significantly different

MNCs headquartered in the Nordic countries do not experience a power/authority distortion, even though all of them use English as a corporate language. MNCs headquartered in the Continental European countries do experience some level of power/authority distortion, but only in situations where English is the corporate language. This pattern is most pronounced for Italian MNCs, which are quite close to Japanese MNCs in this respect. It is probably not a coincidence that the phenomenon of power/authority distortion was first discovered through participant observation of an English expatriate in an Italian MNC (Harzing & Feely, 2008).

Overall, our results clearly confirm our expected differentiation in terms of home country clusters. There are very significant differences between the four home country clusters with regard to the level of power authority distortion (F-value 52.016, $p = 0.000$). MNCs from Anglophone countries and Asian countries are significantly different from all other groups at $p=0.000$. MNCs from Nordic and Continental European countries are significantly ($p=0.000$) different from MNCs headquartered in both Anglophone and Asian countries. However, they are only marginally ($p=0.053$) significantly different from each other. If we look only at MNCs where the corporate language is English, differences are even more pronounced and all HQ country clusters are significantly different from each other.

Following up on the theme of the role of language as power, we also asked our respondents whether speaking the corporate language or the language of HQ was important for one's formal or informal positional power in this MNC. This was clearly the case, with average reported scores of 5.23 and 5.27 on a 7-point scale. However, the role of language as power, especially formal power, is significantly ($t=3.591$, $p = 0.000$ for formal power and $t=1.895$, $p=0.058$ for informal power) more important in companies with Anglophone HQs than in companies with non-Anglophone HQs. Conversely, subsidiary managers in native-English speaking host countries see the role of language as power as very significantly less important than subsidiary managers in non-native English speaking host countries ($t=11.72$, $p=0.000$ for formal power and $t=8.399$ for informal power). It is clear that the role of language as a source of power is more acutely felt by non-native English speakers when interacting with native English speakers. Subsidiary managers in Spain, France and Germany have particularly high scores for the importance of speaking the corporate language for both formal and informal power (5.77-

6.11). These subsidiary managers will generally be experiencing English as a corporate language, regardless of whether their HQ is in an English-speaking country or not.

DISCUSSION

The distinctive feature of this study was the inclusion of a large variety of home and host country languages. Our data clearly revealed that distinctly different patterns of language competencies, policies and practices exist according to the various combinations of home, host and corporate languages. Due to these variations, the problems resulting from different language competencies and the ensuing solutions have to be seen in the context of the specific languages at play, and can therefore not be generalized. This central finding strongly confirms the relevance of calls by Welch et al. (2001) and Barner-Rasmussen & Aarnio (2011) for more comparative data, allowing us to arrive at more differentiated conclusions in terms of country differences. In comparison, the mainly in-depth, qualitative research that has dominated the emerging field of language in International Business so far has been rather negligent of possible variations according to the specific languages involved.

In terms of the languages regularly spoken at subsidiaries, our data reveal a distinctly different pattern between Asian MNCs and MNCs from all other countries. In MNCs from non-Asian countries, English is the most frequently used language for communication between expatriate and local managers and, even more so, between HQs and subsidiary managers. In contrast, in subsidiaries of Asian companies, Asian languages are spoken more frequently both between locals and expatriates and between local and HQ managers. This can be interpreted as an indication of a relative high degree of ethnocentrism in Asian MNCs. While recent research by Barner-Rasmussen & Aarnio (2011) in Finnish subsidiaries showed that in 90% of the cases communication between HQ and subsidiaries took place in English, our study illustrates how important it is to carefully distinguish between the conditions in different countries in order to avoid country idiosyncrasies.

Regarding the number of languages regularly spoken in the subsidiaries a clear differentiation can be made according to the various host countries included in our study. The lowest number of languages is spoken in Anglophone countries, followed by Asian and Continental European countries with the highest number of languages being spoken in the Nordic countries. These differences appear to reflect variations in the importance of the own language, but also a varying degree of inclination and ability to engage in conversations in foreign languages.

With regards to language capabilities, we found that, overall, HQ managers have a higher capability in the corporate language than subsidiary managers, and at the same time a lower capability in the subsidiary language, compared to the subsidiary managers' ability to speak the HQ language. Here we can observe the importance of power differences as HQs have the power to select the corporate language and to prescribe subsidiaries to learn the HQ language. Despite this general pattern, country differences exist, reflecting in particular the importance of the HQ language: the competence of subsidiary managers in the HQ language is highest for MNCs headquartered in Anglophone countries and lowest for Nordic MNCs. Regarding the opposite case of language skills of HQ managers in the subsidiary language, they are highest in HQs of Asian MNCs. Here, it is likely that Asian HQ managers speak in particular the language of subsidiaries in other Asian countries. In the case of Chinese this might even be the same language, underlining again the special case of the Asian cluster.

In terms of the specification of a corporate language, it is interesting that in the Asian cluster, a very large proportion of corporations, i.e. around half of them, avoided such a specification altogether. This might be surprising, given the advantages of a corporate language as described by Marschan-Piekkari et al. (1999a) in terms of facilitating formal reporting and supporting informal communication and the development of a corporate culture. Furthermore, of those Asian companies which *have* defined a corporate language, a very high proportion (70%) chose the HQ language as a corporate language. In our view, this can be interpreted as a further strong indicator of a high degree of linguistic ethnocentrism of Asian MNCs.

In contrast, the vast majority of MNCs hailing from Continental European (83%) and Anglophone companies (77%) *have* defined a corporate language. In the Anglophone countries, the corporate language is always English, i.e. the HQ language. MNCs originating from the Nordic countries are similar in the sense that also their corporate language is always English. However, conceptually they display the complete opposite pattern to MNCs from Anglophone countries, in that the HQ language is never chosen as the corporate language. These findings clearly reflect the importance of English as the lingua franca of international business, the irrelevance of Scandinavian languages and Dutch in international business, and, ultimately the high proficiency of managers in Scandinavian countries and the Netherlands in English.

MNCs from Continental European countries fall between the Anglophone countries and the Nordic countries: 89% of companies in these countries defined English as corporate language, the rest employ their respective home country language as corporate language. This finding demonstrates that even in countries that have (or had) a language that was historically important in business, English has now become the dominant language, although not to the same degree as in the smaller Nordic countries (see also Barner-Rasmussen & Aarnio, 2011). However, we should also recall that having chosen an official corporate language does not necessarily mean that this choice is accepted in practice. For instance, Fredriksson et al.'s (2006) case study in Siemens shows that German was used quite regularly, despite English being the formal corporate language.

Power/authority distortion occurs when HQ managers, who possess the formal authority in their relationship with subsidiaries, have to relinquish part of their power to subsidiary managers having better language skills in the most likely corporate language, English (Harzing & Feely, 2008). The detrimental effects of power/authority distortion were clearly illustrated in a case study by Marschan-Piekkari (1997, 1999a/b) for the specific case of a Finnish MNC. Whereas in our study we find support for the potential negative effects of such distortions, we were also able to put them into perspective by assessing the extent to which the phenomenon arises in different countries.

Our results show that power/authority distortion is most important for Continental European countries, provided of course that English is the corporate language. In contrast, in MNCs headquartered in Anglophone countries power/authority distortion is precluded by definition as HQ managers are native English speakers. Further, in the Nordic countries, power/authority distortion doesn't seem to be an issue, due to the excellent English language skills of HQ managers. Interestingly, most Asian companies do not have to struggle with power/authority distortion either. However, we argue that this is mainly because they often use the HQ language and not English as their corporate language. In contrast, for those Asian (and in particular Japanese) MNCs that *do* employ English as their corporate language, power/authority distortion causes significant problems. For the Japanese context this was already documented in the

case study by Lincoln, Kerbo & Wittenhagen (1995). We argue that the power/authority distortion problem is one of the reasons why Asian MNCs are hesitant to embrace English as a corporate language. A different problem of course arises, if local managers are not empowered due to their lack of HQ language skills. This is particularly the case for Japanese companies. Authority then remains in the hands of HQ managers or expatriates sent by HQ with little insights into local conditions. Overall, our results provide again evidence for significant differentiations according to the home country cluster that are even stronger if we consider only cases with English as the corporate language.

Language can become a formal or informal source of power, if some local managers have better English-language skills than others, as was illustrated by SanAntonio's (1987) study on Japanese managers in a US company. Our data also clearly confirm that speaking the corporate language or the language of HQ is important for one's formal and informal positional power in this MNC (rated with an average of more than 5 on a 7 point scale). However, our data equally reveal that such aggregate information can hide substantial country differences. According to our respondents, the role of language as a formal and informal source of power is significantly more important in companies headquartered in Anglophone countries than in companies from other countries. In contrast, this doesn't seem to be the case for subsidiary managers in English speaking host countries. Therefore, we can conclude that the role of language as a source of power is more significant for non-native English speakers. More specifically, language as a source of formal and informal power is felt particularly acutely by subsidiary managers in major European countries such as France, Germany and Spain. In these countries, managers are likely to be confronted with English as corporate language, without always mastering it fully. Hence, it is likely that – as native speakers of languages that in the past have had positions similar to English – our respondents from these countries feel most acutely how the power balance has shifted to English.

We can therefore conclude that there are distinctly different conditions in terms of the use of a corporate language: among other country-specific findings, Asian countries are highly ethnocentric in using their home country language; Nordic countries, in contrast, have adapted completely to the globally dominant language, English; Anglophone countries by definition do not need to adapt to the dominant language as it is their native idiom; and other European countries fall in between their Northern European neighbors and Asian countries, while being much closer to the former than the latter. Consequently, we have to be wary of generalizations which do not take into consideration the vast differences in language groups across countries or country clusters. This illustrates again how important it is, to avoid country-specific idiosyncrasies and to include sufficient variety in our data collection.

MANAGERIAL IMPLICATIONS

Our data revealed how the challenges MNCs face in addressing the universal challenge of managing language across the globe differ substantially from country to country. As a consequence, the policies and practices companies have to choose as solution mechanisms to respond to these problems also have to vary. The importance of the HQ country and language, the English language skills in the home and host country and, possibly also cultural factors, such as the degree of ethnocentricity, all seem to play a role.

While MNCs of the Anglophone, Nordic and Continental European country clusters all use mainly English for the communication between locals and expatriates and between local and HQ managers, Asian MNCs most frequently use Asian languages, i.e. their HQ language. The extent to which this practice impedes both global integration (world-wide coordination through communication in the HQ language) and local responsiveness (heavy reliance for local operations on expatriates) is something Asian companies will have to review critically.

Furthermore, communication is likely to work best if several languages are at disposition to choose from when interacting with employees and clients. The largest number of languages is spoken in subsidiaries located in Nordic countries, followed by Continental European and Asian countries, with the lowest number of languages spoken in Anglophone countries. Linguistic diversity in (non-Anglophone) European countries can probably be regarded as a competitive advantage.

We concluded that the better language capabilities of HQ managers in the corporate language compared to subsidiary managers and their lower capability in the subsidiary language compared to the subsidiary managers' ability to speak the HQ language could be explained by power differences: HQs have the power to select the corporate language and to prescribe subsidiaries to learn the HQ language. MNCs have to be aware of the fact that language can be, in addition to the transparent formal hierarchy, an opaque instrument of power.

In terms of corporate language we observed that a large proportion of Asian multinationals avoided the definition of a corporate language all together. As there are numerous advantages associated with a clear definition of such a corporate language, this omission, which stands in clear contrast to our other country clusters, might be surprising. However, given that for those Asian multinationals that *did* define a corporate language, this is the HQ language in more than half of the cases (one might refer in this case to overt ethnocentrism), we might assume that in those companies that avoided the issue altogether, the actual practice might not be that different (thus resulting in a covert form of ethnocentrism). Consequently and as mentioned above, Asian multinationals in particular will have to ask themselves whether any efforts of transforming themselves into transnational companies will not be strongly limited by such language practices. Global integration depends on HQ nationals speaking the HQ language (in foreign subsidiaries in the form of expatriates), to the detriment of local talent. Localization is impeded because of the dominance of such expatriates.

The fact that all Anglophone and Northern European companies with a corporate language chose English provides certain clear advantages. However, while in the case of Asian countries we referred to overt and covert ethnocentrism, the case of Anglophone countries might be referred to as logical ethnocentrism, as any other choice for a corporate language would not make much sense. Nevertheless, companies from native English speaking countries should be aware of the fact that the dominance of their language could easily lure HQ managers into an insensitivity regarding other languages, cultures and practices. In addition, local employees of foreign subsidiaries might be perceived, simply due to lesser English skills, as less capable and might therefore not be promoted in line with their managerial skills.

In contrast, the pervasiveness of English in multinationals headquartered in Northern European countries, including the Netherlands, speaks for their linguistic openness or possibly simply their pragmatism in the realization that their home country languages are not going to carry them far in their internationalization efforts. Other Continental European countries lag

behind their northern neighbors in this respect. In addition, in these countries we probably need to be more cautious about the distinction between the formal corporate language and a possible parallel corporate language, i.e., the HQ language. This would indicate again a certain degree of covert ethnocentrism with all the negative implications that this might carry.

Regarding power/authority distortion, Continental European multinationals in particular, which usually have English as their corporate language, need to be mindful that local subsidiary managers with better English language skills might more easily achieve the upper hand in debates. This might also be a particular problem for those Japanese and other Asian companies that have adopted English as their corporate language. In contrast, the many Japanese and other Asian companies that employ their home country language to be their corporate language probably have a more pervasive problem in that local subsidiary managers are largely excluded from authority positions due to their lack of knowledge of the HQ language. As mentioned above, this is a problem of ethnocentrism, which Asian multinationals in particular have to deal with.

CONCLUSION

Since the late nineties there has been an increasing interest in the role of language in MNCs. However, most studies in this field have been either conceptual or in-depth, explorative empirical studies that were based on a few case studies in a few countries. The key contribution of this paper has therefore been to provide the first comprehensive overview of the role of language in MNCs, as recommended recently by Barner-Rasmussen & Aarnio (2011). Consequently, for the first time, this study allowed us to differentiate previous conceptual or case-based findings according to home, host and corporate languages. In order to do so, we drew on data from more than 800 subsidiaries, operating in various industries and located in thirteen different countries with HQs in more than 25 different countries.

As a result we were able to distinguish between four country clusters – Anglophone, Asian, Continental European and Nordic – that were confronted with different challenges in terms of language problems, addressing them in different ways. On this basis we were also able to develop managerial implications which varied according to the respective country cluster. In doing so we responded to the decade-old call by Welch et al. (2001) to compare MNCs from different language backgrounds and to the more recent suggestion by Barner-Rasmussen & Aarnio (2011) that we need more descriptive information from large-scale quantitative studies in order to confer more empirical stability upon the diverse claims that have been made by previous studies.

Although this paper has presented the first comprehensive review of language policies, practices and competencies in MNCs, it has not specifically discussed the impact of language on substantive aspects of international business, such as communication, expatriation, knowledge transfer, social capital or the level of autonomy, which were all beyond the scope of this paper. Although case study research in individual companies has provided some evidence regarding these issues, quantitative evidence has been so far limited to one relatively small-scale study in Finnish and Chinese subsidiaries (Barner-Rasmussen & Björkman, 2005, 2007). Future research could therefore look at how language impacts on these key variables in international business.

ENDNOTES

ⁱ In the first countries where we collected the data (Australia, New Zealand, and Japan), the paper version was only offered in the reminder. In China, no paper versions were sent because of logistical reasons. In Korea, data collection was outsourced to a survey company which called potential respondents in order to increase the response rate for the small population of subsidiaries in this country. Hence, most responses in Korea took place online. In all European countries, paper questionnaires were included with both the initial mailing and the reminder. In nearly all of those countries, Spain being the only exception, we received substantially more paper than online responses. Around two third of the responses in the European countries were paper versions, even though these involved the additional effort of mailing the questionnaire back to the researchers. Overall, around half of the responses were received in the reminder. This proportion was substantially higher for countries in which the paper version was only mailed in the reminder.

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