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Language Fluency, Socialization and Inter-Unit Relationships in Chinese and Finnish Subsidiaries

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ABSTRACT High levels of trust and shared vision contribute to collaborative behaviour among units belonging to the same corporation. We examined the relationship of language fluency and socialization mechanisms to inter-unit shared vision and trustworthiness, using a sample of 310 inter-unit relationships involving subsidiaries of multinational corporations located in China and Finland. Results show that language fluency related significantly to shared vision and perceived trustworthiness in both the Chinese and Finnish subsidiaries. We also found socialization mechanisms to have a positive relationship to shared vision in the Chinese but not the Finnish sample, and no significant relationship to perceived trustworthiness in either sample. The interaction effects of language fluency and socialization mechanisms produced different results in the Chinese and Finnish samples. The study confirmed the importance of language fluency for inter-unit relationships and offered several suggestions for future research.

KEYWORDS language, multinational corporations, shared vision, socialization, trustworthiness

INTRODUCTION

Inter-unit knowledge transfer is a key source of competitive advantage for multi-national corporations (MNCs) (Bartlett and Ghoshal, 1986, 1989; Kogut and Zander, 1993; Winter, 1987). This insight has led to a search for factors that directly or indirectly impede or stimulate such transfers. Recent theoretical (Nahapiet and Ghoshal, 1998) and empirical research (Child et al., 2003; Tsai and Ghoshal, 1998) indicates that trust and shared vision figure prominently among these factors. Trust and shared vision are conceptualized as interrelated, over-lapping but different dimensions of social capital (Nahapiet and Ghoshal, 1998; Tsai and Ghoshal, 1998). While conceptually related, they have been found to have different influences on knowledge transfer across units in MNCs (Tsai and Ghoshal, 1998) and may involve different antecedents.

What drives trust and shared vision among internationally dispersed units? The social identity theory literature (Tajfel, 1982; Tajfel and Turner, 1986) has shown that identity fosters trust (Kramer, 1993) as well as communication and shared understanding (Haslam, 2001). Building on these insights, we argue that language fluency and the use of socialization mechanisms are two common identity-building mechanisms, which may act as important drivers of inter-unit trust and shared vision. Furthermore, we argue that language fluency and socialization mechanisms not only influence inter-unit trust and shared vision independently of each other, but that there may be interaction effects between these factors. For example, a minimum level of language fluency is likely to be necessary for socialization mechanisms to be successful. In contrast, the two factors also may substitute each other, so that the influence of one decreases as the practice of the other grows.

Multinational corporations are almost by definition multilingual entities, but this fundamental organizational characteristic has received little more than occasional comments in the literature (e.g., Govindarajan and Gupta, 2001; Hedlund, 1986). This is surprising given how important inter-unit communication and collaboration are considered for corporate competitiveness (see e.g., Ghoshal et al., 1994; Gupta and Govindarajan, 1991). There are now signs of increased interest in the issue. Language is discussed in recent research on multinational teams (e.g., Earley and Mosakowski, 2000; Hambrick et al., 1998) and international human resource management (see Piekkari 2006 for a review). Case research (Marschan et al., 1997; Marschan-Piekkari et al., 1999a,b) has shown language skills to have an impact on the development of interpersonal and inter-unit networks, as well as on the organizational influence of individuals and units. Scholars have also begun to theorize about different language strategies used in international corporations (Janssens et al., 2004).

We define language fluency as the extent to which persons from one MNC unit, when communicating with another unit, are able to speak or write easily and accurately in the language in which the communication takes place. In this study, we empirically examined how language fluency impacts perceived trustworthiness and shared vision between units of MNCs. Based on a framework grounded in social identity theory (Erez and Earley, 1993; Tajfel, 1982; Tajfel and Turner, 1986), we argue that shared vision and perceptions of the trustworthiness of other units are associated with subsidiary managers' linguistic ability to interact with their colleagues in these units. We hypothesize that shared vision and perceived trustworthiness increase with the improved language skills of the individuals involved in cross-unit interactions.

Additionally, in accordance with social identity theory we hypothesize that shared vision and perceived trustworthiness are influenced by the socialization mechanisms used within the corporation. This hypothesis is also in line with the research on control and coordination of MNCs, specifically the use of mechanisms such as inter-unit transfers, teams and meetings (Edström and Galbraith, 1977;

Harzing, 1999; Martinez and Jarillo, 1989; O'Donnell, 2000). In this literature, the interpersonal interaction that such mechanisms entail has been assumed to be important for inculcating different corporate units in shared visions, goals, values and beliefs (Nohria and Ghoshal, 1994). Up until now, however, this key assumption has gone largely untested. Luo (2002) found intracorporate information flows and coordination efforts to positively relate to integration between the parent organizations and their Chinese subsidiaries, but he also called for more detailed analyses. Another important contribution of our study is thus to test the influence of socialization mechanisms on shared vision and perceptions of trustworthiness.

Furthermore, we examine the interaction effects of language fluency and socialization practices on inter-unit relationships. Such interaction effects can be expected on both theoretical and practical grounds. On the one hand, language fluency and the use of socialization mechanisms may accentuate each other. In contrast, a negative interaction effect is conceivable, as the importance of socialization practices for inter-unit cohesion may be more significant at low levels of language fluency than at high levels.

The empirical test of our hypotheses is based on data from Chinese and Finnish subsidiaries of foreign multinationals. Our sample comprises 310 dyadic relationships between such subsidiaries and their sister units and headquarters. We conclude this paper with suggestions for future research on language and socialization mechanisms within the context of MNCs.

THEORETICAL BACKGROUND AND HYPOTHESES

Language Fluency and Shared Vision

Firm competitiveness requires the efficient transfer of resources, such as knowledge, among globally dispersed units. This type of cooperative behaviour does not occur automatically, and scholars have identified a range of barriers to resource and knowledge sharing and transfer (Gupta and Govindarajan, 2000; Lane and Lubatkin, 1998; Szulanski, 1996). However, intraorganizational cooperative behaviour may be facilitated by what Ouchi (1979) refers to as clan control. In firms characterized by a high level of clan control, individuals identify with the organization, and their organizational identification over time converts into internalization of the organization's goals and values (Ouchi, 1979). When this occurs, employees are more likely to engage in behaviour compatible with the interests of the overall organization.

Applying this idea to the context of MNCs, scholars have forcefully argued that identification with and adoption of shared goals and aspirations across units belonging to the same multinational company is positively related with inter-unit collaboration and integration (Bartlett and Ghoshal, 1987; Bresman et al., 1999; Hedlund, 1986; Martinez and Jarillo, 1989). Here we follow Tsai and Ghoshal (1998) in using

the term 'shared vision' to denote this phenomenon. A shared vision may be viewed as 'a bonding mechanism that helps different parts of an organization to integrate or to combine resources' (Tsai and Ghoshal, 1998, p. 467). 'Shared vision' should be understood here to cover a range of perceived psychological and practical similarities across units belonging to the same parent corporation.

Social identity theory (Tajfel, 1982; Tajfel and Turner, 1986) is useful for understanding group and inter-group behaviour. The theory posits that group membership functions as a base from which members can derive a positive self-identity. For this to occur, a group needs to achieve positive group distinctiveness; this, in turn, 'causes people to compare their in-group with [an] out-group and to perceive the in-group as preferable, even if the in-group and the out-group are not in direct conflict. The result of this comparison process is a general denigration of out-group so as to enhance self-identity and ingroup status' (Erez and Earley, 1993, p. 78). In other words, group membership drives members to find ways to distinguish their own group, while denigrating non-members. Furthermore, once group membership has been established, it 'influences the attributions we make about our own and others' behaviour, intentions, and values' (Brewer and Kramer, 1985, p. 236).

There are strong indications that language and accent influence the formation of in- and out-groups. Lambert (1967), a pioneer on speech style and social evaluation, has shown an individual's language and accent to be important determinants of others' reactions. Triandis (1972) argues that individuals who share a common language are likely to share the same perceptions of rules and collective norms, roles and values. In his seminal article, Tajfel (1982) equates linguistic distinctiveness with positive group distinctiveness. He underlines that 'there is a vast amount of evidence from history, anthropology, and political science that various forms of linguistic distinctiveness are perceived as a crucial mainstay in the revival or preservation of a separate ethnic or national identity' (Tajfel, 1982, p. 26).

However, empirical research on language in MNCs indicates that limited language comprehension and fluency may create a sense of remoteness and disconnectedness, which can exclude individuals, units and regions from each other's view (Marschan et al., 1997; Marschan-Piekkari et al., 1999a,b). Research on a large Finnish multinational revealed a network of managers who were fluent in Finnish. Non-Finnish-speaking managers felt excluded from this network, which some of them dubbed 'the Finnish mafia'. This effect was not restricted to the home country language: tight social networks stretching across several units based on other shared languages, such as Spanish or German, were also reported (Marschan-Piekkari et al., 1999a). Inversely, Barner-Rasmussen (2003, p. 90) reports on a Central European junior executive who had learnt the preferred language of the top managers in the Nordic multinational he was working for, bringing him considerably higher visibility among his superiors than his hierarchical position indicated. Language skills may thus provide a shared social identity and promote the emergence of in-groups, but in doing so may also create out-

groups and hinder the emergence of a shared vision between in- and out-groups. Given that 'people tend to restrict their communication to those who speak their own language' (Taylor and Osland, 2003, pp. 221–222), limited language fluency may also hinder organizational learning in international corporations, while good language skills may have the opposite effect.

Hypothesis 1a: The greater the inter-unit language fluency, the higher will be the degree of shared vision.

Language Fluency and Perceived Trustworthiness

Common social identification among organizational members is also likely to enhance mutual trust (Suzuki, 1998). Here, we specifically focus on perceived trustworthiness, an important precedent of trust. Intra- and inter-organizational trust can be conceptualized in numerous different ways (see e.g., Bigley and Pearce, 1998; Kramer and Tyler, 1996; Rousseau et al., 1998). However, the level of trust in the relationship between two parties is commonly a function of two factors – the perceived trustworthiness of the trustee and the trustor's general propensity to trust others (Mayer et al., 1995). As we focus on dyadic relationships between units within MNCs and the trustor's general propensity to trust others is unlikely to be impacted by factors specific to any single dyadic relationship – we delimit our inquiry to identifying determinants of how a unit perceives the trustworthiness of another unit. This delimitation is made more salient by the fact that despite the rapidly growing literature on intra- and inter-organizational trust, few attempts have been made to investigate factors that explain the level of perceived trustworthiness within large international corporations. An exception is the work of Child and his collaborators (Child and Möllering, 2003; Child et al., 2003) on trust in relations between Hong Kong firms and their Chinese subsidiaries.

People tend to associate positive beliefs and feelings with their own group, and are more likely to have a negative category based perception of out-group members' trustworthiness (Williams, 2001). Eisenstein (1983) suggests that features such as non-standard aspects of phonology and intonation may invoke negative assessments of speakers. Yoshihara (2000) has demonstrated that language facility impacts both the extent to which details can be articulated and other group members' perceptions of the articulator (e.g., with regard to his/her IQ). Gudykunst (1991) has shown that an individual's amount and type of participation in a multinational group is influenced by his/her facility with the group's working language. Hambrick et al. (1998) argue that the less advanced individual group members' skills in the shared language, the more the functioning of the group will suffer due to difficulties in exchanging information and building trust.

Marschan-Piekkari et al. (1999a) report that the linguistic competencies of subsidiaries and their employees may significantly influence inter-unit collaboration

and integration through several different mechanisms. One of these is that the existence of different languages within the same organization forces information to be filtered and translated, often leading to misunderstandings, and potentially to a vicious circle of distrust among the units involved. Inversely, Govindarajan and Gupta (2001) note that well-functioning communication – which is likely to demand good language skills – has a positive impact on trust. Further underlining the salience of the issue, Hambrick et al. (1998) argue that while all types of communication will suffer from weak skills in the shared language, communication about 'creative' or 'coordinative' tasks will suffer relatively more than communication about simple and straightforward ('computational') tasks.

The above suggests that employees' language skills may contribute strongly to the formation of in- and out-groups in MNCs. Following social identity theory, levels of perceived trustworthiness should be higher between units belonging to the same language-based in-group. A less desirable consequence would seem to be lower levels of perceived trustworthiness between in- and out-groups. This leads to the following hypothesis:

Hypothesis 1b: The greater the inter-unit language fluency, the higher will be the degree of perceived trustworthiness.

Socialization Mechanisms and Shared Vision

The interaction between managers in different units of the same corporation has been investigated in a number of studies. Research on the management of foreign subsidiaries has shown that the use of international teams, committees, training programmes, visits and employee transfers have increased over time as international companies have grown larger and more complex (Martinez and Jarillo, 1989). Corporate socialization mechanisms refer to those organizational mechanisms that facilitate the development of interpersonal relationships and elicit identification with the organization (Van Maanen and Schein, 1979).

Edström and Galbraith (1977) emphasized long-term personnel transfers among internationally dispersed units of MNCs as a strategy for achieving integration. More recently, the scope of inquiry has been broadened to include other practices that increase interpersonal interaction and, thereby, inter-unit integration. Short-term visits, participation in joint training programmes and meetings, and membership in cross-unit teams, task forces and committees give rise to various forms of contacts and communication between managers in foreign subsidiaries and headquarters. Similar activities facilitate continuous interaction among managers of different foreign subsidiaries (O'Donnell, 2000). The contacts and communication may focus on work-related and/or social aspects. Furthermore, the personal interaction that occurs between managers from different parts of the organization is likely to increase their joint identification with the corporation (Van Maanen and

Schein, 1979). Within the context of MNCs, subsidiary managers who participate in corporate training and development programmes, visit other units and interact with other organizational members in committees and task forces are likely to identify with the corporation as a whole (O'Donnell, 2000).

The interpersonal and inter-unit relationships that develop across unit boundaries as a result of socialization mechanisms provide a context within which shared visions may be created and reproduced (Nohria and Ghoshal, 1994). Tsai and Ghoshal (1998) hypothesized a positive relationship between what they called 'social interaction ties' and shared vision, with the former being seen as an antecedent of the latter; although they found the relationship to be statistically insignificant, the results were in the expected direction. We therefore propose the following hypothesis:

Hypothesis 2a: The greater the use of inter-unit socialization mechanisms, the higher will be the degree of shared vision.

Socialization Mechanisms and Perceived Trustworthiness

Perceptions of trustworthiness are the results of the history of the relationship between the parties (Meyerson et al., 1996), and it has been shown that more positive evaluations of trustworthiness are found when there is more frequent communication (Becerra and Gupta, 2003). Different forms of socialization mechanisms used in MNCs contribute to people from the focal units getting to know and potentially understand each other better, which may then lead to greater perceived trustworthiness (Govindarajan and Gupta, 2001). The possibility to interact face to face may also allow the parties to identify and develop more commonalities, so that a sense of trustworthiness can be reinforced (Das and Teng, 1998). Tsai and Ghoshal (1998) found that the level of social interaction was a strong determinant of inter-unit trust and trustworthiness. Similarly, focusing on relationships between Hong Kong parent firms and their Chinese subsidiaries, Child and Möllering (2003) found empirical support for a positive relationship between efforts to develop personal rapport (what they called 'active trust development') and trust. Therefore, the following hypothesis is put forward.

Hypothesis 2b: The greater the use of inter-unit socialization mechanisms, the higher will be the degree of perceived trustworthiness.

The Interaction between Language Fluency and Socialization Mechanisms

So far, we have hypothesized that inter-unit language fluency and the use of socialization mechanisms have separate direct effects on inter-unit perceived

trustworthiness and shared vision. However, there may also be interaction effects between the two independent variables. Two alternative hypotheses can be formulated. First, proficiency in a shared language and the use of socialization mechanisms may support each other in producing high levels of inter-unit perceived trustworthiness and shared vision. It may not be enough for managers to be involved in social interactions during joint training programmes, in committees or task forces, and during visits; they must also be fluent in a common language to overcome the barriers to perceived trustworthiness and shared cognitions that may exist across units in MNCs. Conversely, language fluency between the two parties may not be sufficient without the managers from both units becoming familiar with each other, for instance, as participants in joint team, task forces, training programmes or during visits.

Hypothesis 3a: The greater the inter-unit language fluency and the use of inter-unit socialization mechanisms, the higher will be the degree of shared vision and perceived trustworthiness.

However, a negative interaction effect is also conceivable. As argued earlier, language fluency and socialization mechanisms are in themselves likely to influence perceived trustworthiness and shared vision. However, when the degree of language fluency is low, the use of socialization mechanisms may be particularly important for the development of inter-unit shared vision and perceived trustworthiness. Conversely, when language fluency is sufficiency high, any increment in the use of socialization mechanisms is unlikely to produce an equally large effect on these two outcomes. According to this line of reasoning, there will be a substitution effect in the relationship between language fluency and the use of socialization mechanisms, indicated by a negative interaction between these two factors.

Hypothesis 3b: The relationship of socialization mechanisms to inter-unit shared vision and trustworthiness will be stronger under the condition of low language fluency than high language fluency.

METHOD

Sample and Data Collection

Our empirical study used data collected in 89 Finnish and 75 Chinese subsidiaries in 2000–2002. The use of two different contexts, one advanced industrial country (Finland) and one developing country (China), allows us to increase the generalizability of the findings while uncovering possible differences between the two countries. Foreign direct investments (FDI) are important in both countries, the stock of FDI at the end of 2004 accounting for 14.9 percent of GDP in China and 30.1

percent of GDP in Finland (UNCTAD, 2005). Our sample allows a higher degree of generalization, while providing more variance in the independent variables.

Data collection began by contacting the 150 largest foreign-owned subsidiaries in Finland, and some 200 foreign-owned subsidiaries in China. The latter were chosen on the basis of available contact information and reasonable proximity to Shanghai, Guangzhou, or Beijing. Although random sampling would have been preferable, practical considerations led us to choose this sampling procedure. 164 subsidiaries (89 Finnish, 75 Chinese) participated in the study, resulting in a sample of 39 US-owned, 59 Nordic-owned, and 66 European-owned units. The overall response rate was 46.8 percent. The variation in response rates between Finland and China (59 percent vs. 37.5 percent) is likely to stem from two factors. First, our experience is that confidentiality policies tend to be stricter in Chinese units than in the Nordic ones. Secondly, goodwill stemming from our institutional affiliations probably facilitated access to a greater extent in Finland than in China.

Subsidiary general managers were the respondents as they are likely to have the best knowledge of the issues covered in this study. The data collection took place in the form of structured face-to-face interviews, using a pretested questionnaire in English. Any term that respondents had difficulty in understanding was explained to them in Finnish, Swedish or Mandarin. The first part of the questionnaire contained questions about the focal subsidiary and its parent company. We then asked questions on the focal subsidiary's bilateral relationships with four other units. The first was its MNC headquarters and the second was one unit in the near region (for Finnish subsidiaries this was specified as another Nordic country, for Chinese subsidiaries as elsewhere in China). The third was one unit in the broad geographical region (another European country for Finnish subsidiaries, another Asian country for Chinese subsidiaries) and the fourth was one overseas unit (a unit outside of Europe for Finnish subsidiaries, a unit outside of Asia for Chinese subsidiaries).

In each geographical area, the respondents were asked to focus on the unit with which their unit had the most intense knowledge sharing relationship. Only some of the subsidiaries were involved in all the four types of bilateral inter-unit relationships described above. The total number of relationships in the data was 383 (197 involving a Finnish subsidiary and 186 a Chinese subsidiary). Of these, 228 relations were to sister subsidiaries (Finland 115, China 113) and 155 to headquarters (Finland 82, China 73). After elimination of relationships that contained missing values on relevant variables, the final sample used in the study comprised 310 relations. The ratio of sister subsidiaries to headquarters units was approximately 60–40 in both the Finnish and the Chinese samples.

We ran t-tests to compare the demographic profiles of the usable (310) and non-usable (73) samples. The two samples did not differ on subsidiary home country, subsidiary general manager nationality or parent company nationality. Parent corporations in the non-usable sample tended to be slightly larger.

However, parent company size is only a control variable in our analyses and exerts little influence on the relationships between our key variables. This slight bias is therefore unlikely to distort the findings significantly.

Measures

Dependent variables. Based on our conceptualization of *shared vision*, our operationalization of this concept covers inter-unit similarities in business practices, operational mechanisms, organizational culture, management style, ambitions and views of how to do business. It is measured by four items on a Likert-type scale ranging from 1 = not at all to 7 = very much. Similar questions have been used in several previous studies to measure shared vision (Tsai and Ghoshal, 1998), or closely related concepts such as 'normative integration' (Nohria and Ghoshal, 1994) or 'organizational distance' (Simonin, 1999). The Cronbach alpha of the variable was 0.84.

We followed Tsai and Ghoshal (1998) and used two questions to measure *Perceived trustworthiness*, using a seven-point Likert scale (1 = 'No, not at all', 7 = 'Yes, absolutely'). It measures the extent to which the focal subsidiary perceived the other unit as trustworthy. The correlation between the two items was 0.66 and the Cronbach alpha of the variable was 0.78.

Independent variables. Socialization mechanisms we measured include: (i) inter-unit trips and visits; (ii) inter-unit committees, teams and task forces; and (iii) training involving participants from both units. These practices are similar to those used in previous research on intra-corporate integration. However, in previous studies, respondents have typically been asked to estimate the use of a certain mechanism on a scale from 'very rarely' to 'very frequently' (e.g., Roth et al., 1991) or answer yes or no to whether a specific type of mechanism is used (e.g., Ghoshal and Bartlett, 1988; Gupta and Govindarajan, 2000). We, by contrast, used arithmetic data. For each mechanism, respondents estimated the number of managers interacting with people from the other unit within the scope of that particular mechanism, e.g., joint training. The resulting number was divided by the subsidiary's total number of employees, providing measures of the relative number of managers involved in each mechanism. These measures were summed to a variable reflecting the extent of socialization mechanisms being practiced in that particular inter-unit relationship. The Cronbach alpha of the variable was 0.78.

To measure language fluency, the respondents were asked to grade the ability of the people involved in the communication with the other unit to express themselves fluently both orally and in writing, in the language in which the communication took place. The responses were graded on a Likert-type scale ranging from 1 (= low) to 7 (= high). The two items, whose correlation was 0.67, were averaged to form a variable measuring inter-unit language fluency with a Cronbach's alpha of 0.83. This measure – the mean value of the two scales – was, however, strongly

skewed, with 48.1 percent of the relations scoring 6 or higher. It was therefore recoded so that values of 4.5 or less (22.6 percent of the observations) were recoded as 1, values of 4.51–5.5 (28.7 percent) as 2, values of 5.51–6.5 (30.1 percent) as 3, and values above 6.5 (18.6 percent) as 4. This provided an approximately normally distributed variable.[1]

To eliminate potential multicollinearity problems between the main effects (language fluency and perceived trustworthiness) and the interaction term (between language fluency and perceived trustworthiness), we followed the recommendation by Aiken and West (1991) to 'center' the independent variables. Thus, we subtracted the sample mean from each individual observation leading to a new sample mean of zero. The transformation has no impact on the level of significance of the interaction term (Aiken and West, 1991).

As the same respondent provided data on independent and dependent variables, we used Harman's one-factor test to examine the extent to which the data appears to suffer from common method bias (Podsakoff et al., 2003). Specifically, we conducted an exploratory factor analysis of the items included in the two independent and the two dependent variables. The analysis supported our four-factor structure, indicating that common method bias was not a serious problem in this study. Further, the problem of common method bias is more limited when the data is used to test interaction effects (Hypotheses 3a and 3b in this study). The items for all four variables are in Table 1.

We used confirmatory factory analyses (CFAs) to further assess the convergent and discriminatory validity of the four scales for each of the two samples. We used LISREL 8.71 to perform these analyses. In the Finnish sample, we obtained a model with a χ^2-test of 38.72 and 37 degrees of freedom. The p-value for the χ^2-test was 0.392 and the RMSEA (root mean square of approximation) measure was 0.015, indicating an excellent fit (Browne and Cudeck, 1989). As can be seen in Table 1, the factor loadings for the items are high and the t-values of all indicators are highly significant, indicating good convergent validity. The set of variables has good discriminant validity.

In the Chinese sample, the χ^2-test was 48.53 for 37 degrees of freedom. The p-value was 0.097 and RMSEA was 0.041, indicating good fit and discriminant validity. As shown in Table 1, while the factor loading of one of the socialization mechanism items was on the low side (0.35), the other loadings were at least 0.52 and all t-values were statistically significant, indicating satisfactory convergent validity.

Control variables. We included nine control variables to rule out potential alternative causes of shared vision and inter-unit trustworthiness. It is conceivable that units over time come to see the other as more trustworthy (Mayer et al., 1995) and there may also be some convergence in terms of visions. Therefore, for each unit the interviewee was asked to estimate when some kind of knowledge transfer between

Table 1. Confirmatory factor analysis of the Finnish and Chinese samples

	Finnish sample			Chinese sample		
	Factor loading	t-value	R^2-value	Factor loading	t-value	R^2-value
Shared vision						
The business practices and operational mechanisms of the two units are very similar.	0.53	7.43	0.29	0.75	8.16	0.46
The organizational culture and management style is very coherent and similar across the two units.	0.62	8.94	0.38	0.80	11.20	0.57
Your unit shares the same ambitions with the unit in question.	0.78	11.93	0.60	0.71	10.42	0.50
Together with the other unit, you have a shared understanding of doing business.	0.87	13.93	0.76	0.88	13.83	0.78
Trust						
Your unit can rely on this unit without any fear that they will take advantage of your unit even if the opportunity arises.	0.81	12.08	0.65	0.80	10.22	0.64
In general, people from this unit will always keep the promises they make to your unit.	0.91	13.95	0.83	0.73	9.42	0.53
Socialization						
How many managers from your subsidiary/the other unit make trips and visits to each other each year?	0.69	9.72	0.47	1.00	18.98	1.00
How many managers from both units participate in the same corporate inter-unit committees/teams/task forces?	0.75	10.75	0.57	0.35	4.81	0.12
How many managers from your subsidiary participate in training involving participants from both units each year?	0.83	11.98	0.69	0.52	7.44	0.27
Language fluency						
Please rate the ability of the people involved in the communication with the other unit to express themselves fluently in the language in which the communication takes place,						
Orally	0.83	10.36	0.69	0.87	8.13	0.76
In writing	0.89	10.88	0.79	0.74	7.50	0.55

the units had started to take place. This relation duration variable indicates when the two focal units started a relationship that went beyond belonging to the same corporation, i.e., the kind of relationship that might have an impact on the development of a high degree of shared vision and perceived trustworthiness. The determinants of perceived trustworthiness and shared vision also may differ depending on whether the relationship is between two subsidiaries (horizontal) or between a subsidiary and its headquarters (vertical). Relation type was controlled for with a dummy variable (coded as 0 = sister subsidiary, 1 = headquarters).

In a similar vein as the length of a relationship, the extent to which the value chains of the two parties are integrated may have a bearing on inter-unit shared vision and perceptions of trustworthiness. Therefore, the relative importance for the focal subsidiary of supplies from and sales to the other party were included as control variables. The respondent were asked to provide data on what percentage of the focal unit's sales were sold to the other unit, and what percentage of the subsidiary's purchases were bought from that unit. These two measures were combined to form a measure of value chain integration.

As well as the potential language-related difficulties that may exist between individuals from different cultures, the cultural distance between two units may hamper the development of trustful relationships. For instance, individuals may have a negative stereotype of people from a different culture and be less likely to share cognitive structures. We therefore control for inter-unit cultural distance. Hofstede (1980) identified four cultural dimensions: power distance; collectivism vs. individualism; femininity vs. masculinity; and uncertainty avoidance. Kogut and Singh (1988) used Hofstede's cultural value scores to construct a composite index of the cultural distance between headquarters and foreign subsidiaries:

$$CD_{jk} = \sum_{i=1}^{4} \left\{ (D_{ij} - D_{ik})^2 / V_i \right\} / 4 \tag{1}$$

where CD_{jk} = the cultural distance between countries j and k, D_{ij} = the score for parent country j on cultural dimension i, D_{ik} = the score for subsidiary country k on cultural dimension i, and V_i = the variance of the index for cultural dimension i. The formula corrects for the variance of each cultural dimension and averages across the four dimensions. This index has been used in a variety of studies (e.g., Luo, 2002; Luo and Zhao, 2004).

Certain corporate characteristics have been shown to vary across home countries or regions, supporting arguments that the practices of MNCs are impacted by mimetic isomorphism (DiMaggio and Powell, 1983) and national business systems (Ferner and Quintanilla, 1998). The headquarters of all the sample firms were either in the USA, in Scandinavia or elsewhere in Europe. In order to control for home region effects, Scandinavia was treated as the base case and dummy variables

were created for the two other regions. Parent company size may influence both the resources available for developing inter-unit social capital, and the practical possibilities for doing so. Corporate size was therefore included as a control variable, operationalized as the log of the corporate annual turnover in millions of US dollars. The longer the general manager (GM) has worked in the corporation, the more s/he would be likely to have developed a shared vision with other members of the corporation. Hence, the subsidiary GM's corporate tenure was included as a control variable.

Finally, there may be differences in the level of shared vision and perceived trustworthiness depending on whether the respondent (GM) is a host country national or an expatriate. Social identity theory suggests expatriates might exhibit higher levels of shared vision and, in particular, perceived trustworthiness; thus we controlled for subsidiary GM nationality with a dummy variable (0 = expatriate, 1 = host country national).

RESULTS

Table 2 contains summary statistics of the variables used in this study, including means, standard deviations and correlation coefficients.

T-tests show that the Finnish subsidiaries score significantly lower on both use of socialization mechanisms (mean = 0.1 or 10 percent) and language fluency (mean = 2.2 on a rescaled four-point scale) than the Chinese subsidiaries (mean = 0.3 and 2.6, respectively). Additional analyses showed that the Finnish sample subsidiaries had formed part of their parent MNCs for considerably longer than their Chinese equivalents (means = 22 years and six years, respectively). This may partly explain the less frequent use of identity-building socialization mechanisms reported by Finnish general managers. The lower degree of language fluency in the Finnish sample may be due to the fact that Finnish subsidiaries had significantly fewer expatriate managers (mean number of foreign management members = 0.4 vs. 2.8 in the Chinese sample); due to their international experience, expatriates are likely to have above average language skills. While there are statistically significant differences in the level of perceived trustworthiness between Chinese (mean = 5.6) and Finnish (mean = 5.2) subsidiaries, no difference was found concerning levels of shared vision.

Two sets of hierarchical regression analyses were performed to test our hypotheses. We ran regressions on shared vision and perceived trustworthiness for the Chinese and Finnish samples separately. The control variables were entered first, the independent variables next and finally the interaction variable was added. All models used to test the hypotheses were highly significant, the statistical significance of the models improving when the independent variables were added. As the results for the partial models were very similar, we report the results of the full models. The results are in Table 3.

Table 2. Means, standard deviations and Pearson correlation coefficients of the studied variables

Variable	Chinese sample Mean	Std	1	2	3	4	5	6	7	8	9	10	11	12	13	Finnish sample Mean	Std
1 Shared vision	5.0	1.3	–	50**	21**	25**	04	00	–03	–03	19**	–10	07	11	–27**	4.9	1.1
2 Trustworthiness	5.6	1.2	44**	–	13	33**	00	15*	–05	–02	01	–12	–13	09	–28**	5.2	1.3
3 Socialization	0.3	0.4	26**	11	–	06	11	12	11	–04	34**	–15*	–00	–02	–07	0.1	0.1
4 Language fluency	2.6	1.1	35**	21*	09	–	07	–04	02	02	–06	17*	00	–15*	–08	2.2	0.9
5 Relation duration	4.6	3.3	09	13	–03	04	–	02	24**	10	16*	06	15*	28**	01	13.9	16.1
6 Relation type	0.4	0.5	04	06	07	04	20**	–	19**	–07	–08	–03	–07	–03	–01	0.4	0.5
7 Value chain integration	17.6	31.1	–05	–00	30**	–02	07	34**	–	01	07	10	05	14	–06	17.2	32.4
8 Cultural distance	1.9	1.4	–06	02	–01	–05	09	46**	17*	–	12	13	09	09	02	1.0	0.4
9 US MNC	0.1	0.3	00	14	–06	–05	15*	–05	–10	–01	–	–53**	29**	10	–04	0.4	0.5
10 European MNC	0.5	0.5	–19**	–16*	01	11	21**	04	03	–22**	–36**	–	32**	11	–03	0.3	0.5
11 Corporate size (log)	3.2	0.9	06	07	–26**	03	35**	–11	–20*	–20**	04	29**	–	36**	–15*	3.6	0.8
12 Corporate tenure of subsidiary GM	10.8	8.9	24**	19**	–11	–04	27**	–02	–20**	–03	–10	03	49**	–	–21*	11.5	8.8
13 GM is subsidiary country national	0.2	0.4	–05	–12	09	–01	12	05	08	–10	25**	04	–06	–27**	–	0.9	0.3

Notes:
* p < 0.05, ** p < 0.01, two-tailed.
Lower diagonal represents Chinese data, upper diagonal Finnish data. Decimal points omitted from correlation coefficients due to space constraints.

Table 3. Stepwise regression analyses of language fluency and the use of socialization mechanisms on perceived trustworthiness and shared vision for the Chinese and Finnish samples

Controls	Chinese sample				Finnish sample			
	Shared vision	Trustworthiness	Shared vision	Trustworthiness	Shared vision	Trustworthiness	Shared vision	Trustworthiness
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
Relation duration	0.12	0.15	0.13	0.15	-0.08	-0.05	-0.09	-0.06
Relation type (0 = sister unit, 1 = HQ)	0.04	0.02	0.03	0.01	-0.01	0.16*	-0.02	0.15*
Value chain integration	-0.09	-0.03	-0.09	-0.03	-0.04	-0.07	-0.03	-0.06
Cultural distance	-0.15†	-0.09	-0.12	-0.06	-0.03	0.04	-0.05	0.02
US corporation	-0.07	0.10	-0.03	0.12	0.17	0.02	0.16	0.01
European corporation	-0.32***	-0.25*	-0.32***	-0.24*	-0.05	-0.08	-0.08	-0.10
Corporate size	0.02	0.05	0.03	0.07	-0.08	-0.18†	-0.07	-0.18†
Corporate tenure of subsidiary GM	0.27**	0.05	0.24**	0.03	0.20*	0.22*	0.19*	0.24**
GM is subsidiary country national	0.04	-0.16†	0.01	-0.17*	-0.25***	-0.23**	-0.23**	-0.22**
Independent variables								
Socialization mechanisms	0.26***	0.13	0.30***	0.19*	0.10	0.04	0.17†	0.08
Language fluency	0.31***	0.21**	0.33***	0.22**	0.33***	0.39***	0.45***	0.47***
Interaction term								
Socialization * language fluency			-0.10	-0.20*			0.20†	0.13
Adjusted R2	0.30	0.12	0.30	0.15	0.19	0.22	0.20	0.22
F	6.73***	2.77**	6.24***	3.13***	4.59***	5.14***	4.35***	4.87***
Standard error of estimate	1.08	1.18	1.08	1.16	1.01	1.14	1.02	1.14
Degrees of freedom (total)	147	147	147	147	163	163	163	163

Notes:
† p < 0.1; * p < 0.05; ** p < 0.01; *** p < 0.001, two-tailed.
Values in the table are standardized regression coefficients.

Results support Hypotheses 1a and 1b, the relationship between language fluency and shared vision (models 1, 3, 5, 7) and perceived trustworthiness (models 2, 4, 6, 8) being statistically significant across both samples. Hypothesis 2a also received some support. Socialization mechanisms are positively and significantly related to shared vision in the Chinese subsidiaries (model 1) but not in the Finnish sample (model 5). When the interaction variable is included, the relationship grows marginally significant also in the Finnish sample (model 7). Hypothesis 2b receives little support. Socialization mechanisms and perceived trustworthiness, while positively related, are not significantly so in either sample (models 2 and 6), although when the interaction variable was included, the relationship grew significantly in the Chinese sample (model 4). In summary, language fluency relates consistently to shared vision and trustworthiness in both samples. Socialization mechanisms relate weakly to trustworthiness in the Chinese sample, but not in the Finnish sample.

In addition, the interaction effects of language fluency and socialization mechanisms on the dependent variables were different in the two samples. For the Chinese sample, the interaction effect was significant and negative for perceived trustworthiness, whereas the sign was negative though not statistically significant for shared vision. In contrast, for the Finnish sample, the interaction effect was positive and marginally significant for shared vision ($p < 0.10$), while for perceived trustworthiness the sign was positive but not statistically significant. In general, the results provided partial support for Hypothesis 3a in the Finnish sample (shared vision is highest when both socialization mechanisms and language fluency are high) and Hypothesis 3b in the Chinese sample (trustworthiness is highest when socialization mechanisms are high and language fluency is low).

Graphical illustrations of the two significant interaction effects (see e.g., Aiken and West, 1991; Schaubroeck et al., 2000) are provided in Figure 1. Following Cohen and Cohen (1983), we used +/−1 SD from the mean to compute high and low values for the language fluency score.

As for the control variables, the general managers in the Chinese subsidiaries owned by European multinationals expressed lower socialization and trustworthiness, relative to GMs in subsidiaries owned by Scandinavian MNCs. The tenure of the subsidiary general managers was positive while the nationality of the general manager (as a local national) negatively related to shared vision and perceived trustworthiness in the Finnish sample.

DISCUSSION

Building on social identity theory (Tajfel, 1982; Tajfel and Turner, 1986), this study examined the influence of language fluency and socialization mechanisms on shared vision and perceived trustworthiness in the relationship between foreign-owned subsidiaries located in Finland and China and their corporate parent and sister units. Our analyses of 310 inter-unit relationships revealed that fluency in the
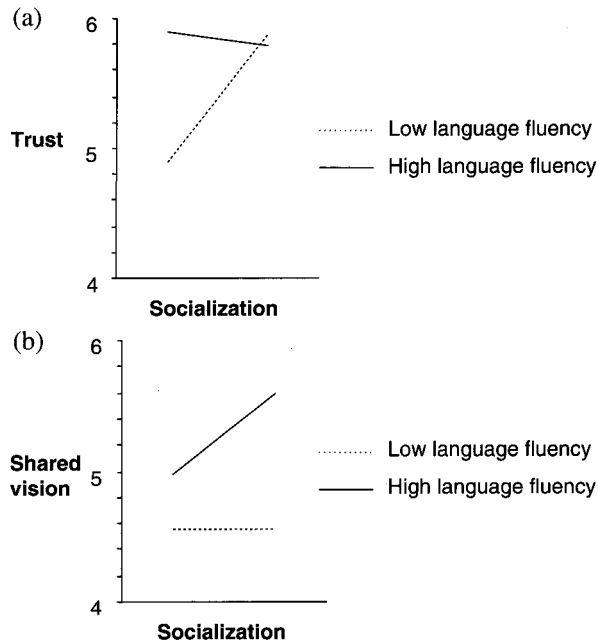
Figure 1. (a) The relationship of socialization mechanisms and trustworthiness by high and low levels of language fluency, Chinese sample. (b) The relationship of socialization mechanisms and shared vision by high and low levels of language fluency, Finnish sample.
Note: Low language fluency = 1 SD below mean; High language fluency = 1 SD above mean.

language used during inter-unit communication related significantly to inter-unit trustworthiness and shared vision in both the Chinese and the Finnish samples. This study augments our understanding of the role of language fluency in supporting identity building across geographically dispersed units within the same corporation. However, for trust and shared vision to develop between managers from different units, their ability to interact about specific work-related issues may be equally important. Additional research should investigate the relative importance of general language fluency vs. knowledge in technical and professional terminology for the development of trust and shared vision within MNCs.

We did not find support for the hypothesized relationship between socialization mechanisms and perceived trustworthiness. However, the relationship was significant in model 4 (Table 3) after the inclusion of the interaction term. Clearly, the different patterns for the high and low language fluency groups as shown in Figure 1a account for the insignificant main effect in model 2. Similarly, the main effect of socialization mechanisms on shared vision in the Finnish sample is significant after the interaction term is included (model 7). These results suggest a complex relationship between socialization and language fluency in the two samples.

Several explanations are possible for why a positive relationship between socialization mechanisms and trustworthiness emerges in the Chinese sample

(model 4) but not in the Finnish one (model 8). First, it is conceivable that in Chinese subsidiaries, the establishment of interpersonal relationships through the use of socialization mechanisms is more important to overcome the greater cultural and psychic distance (Johanson and Wiedersheim-Paul, 1975) that exists between these units and other MNC units. Secondly, identity-building effects of recent socialization mechanisms may be weaker in the Finnish units because they had been part of their parent company for a significantly longer time than the Chinese units.

In the international management literature, scholars have assumed – but seldom empirically tested – that practices like short-term visits, participation in joint training programmes and meetings and membership in cross-unit teams, task forces and committees significantly contribute to the normative integration of employees with the whole organization. Our findings differ in several important respects from those of Tsai and Ghoshal (1998), who found a strong positive relationship between socialization mechanisms and trust/trustworthiness, but not between socialization mechanisms and shared vision. Not only do we find a much weaker positive relationship between socialization mechanisms and trust/ trustworthiness, we also find a significant positive relationship between socialization mechanisms and shared vision, which is particularly strong in our Chinese sample. Furthermore, our study provides ample support for the importance of language fluency, an aspect completely missing from Tsai and Ghoshal's (1998) study. These results imply that the proposed effects need to be scrutinized in further empirical studies. More work is also needed on how they are impacted by geographical context.

We found a higher level of perceived trustworthiness in Chinese subsidiaries than in Finnish ones. Additional analyses revealed that Finnish respondents viewed their sister subsidiaries as significantly less trustworthy than their headquarters. This may stem from the struggle for survival that many Finnish subsidiaries are facing as MNCs restructure their European operations – a different situation compared with that of most Chinese MNC subsidiaries, where the tendency has rather been towards expansion and increased parent company investments in terms of both attention and money. Data we have later collected from our Finnish sample indeed show that several MNCs have reduced the functional scope of their activities in Finland. This suggests a political perspective (cf., Birkinshaw and Hood, 1998) on inter-unit perceived trustworthiness and trust to complement the focus on language fluency and socialization mechanisms.

Results of the interaction effect of language fluency and the use of socialization mechanisms revealed some interesting differences between the Chinese and Finnish samples. Figure 1a suggests a substitution effect of socialization mechanisms on language fluency in the Chinese sample. Socialization mechanisms can substitute for language fluency, resulting in a higher level of perceived trustworthiness at low rather than at high level of language fluency. At high levels

of language fluency, socialization mechanisms do not relate to trustworthiness. In the Chinese units, language fluency may be enough to produce a perception of trustworthiness of other corporate units. Results of the Finnish sample, however, suggest an accentuation effect. Shared vision was highest at high levels of both socialization mechanisms and language fluency. At low language fluency levels, socialization mechanisms are unrelated to shared vision. This suggests both social-identity inducing mechanisms are necessary in Finnish subsidiaries. This could be due to the lower levels of language fluency and the use of socialization mechanisms in the Finnish subsidiaries. Additional research is needed to unravel these differences across the two locations.

An obvious implication of these findings is to use language skills as a hiring criterion. Another implication is to invest in language training so as to increase perceived trustworthiness and shared cognition. Cyr and Schneider's (1996) study of European East-West joint ventures provides an example of the potentially positive outcomes of such training. However, language training as a stand-alone measure may not be sufficient. As individuals from different countries have different conventions of communication, MNCs may need to complement language training with cross-cultural communication training that also includes linguistic analysis (Mueller-Jacquier and Whitener, 2001). In a high context country like China, such training may be particularly important.

Limitations and Research Implications

One limitation of the present study is that only one respondent in each subsidiary provided the data on all the variables. Even though the general manager was a reasonable informant for these practices, future research should collect data from other respondents to improve the reliability of these measures and to minimize the common source bias. The collection of longitudinal data would also help ascertain the direction of causality, always a concern in cross-sectional research. For instance, we built on previous theoretical and empirical research suggesting that the use of socialization mechanisms may lead to higher levels of perceived trustworthiness and shared vision. However, it is also conceivable that the latter may lead to more inter-unit communication and exchange (the socialization practices). Additional research is also desirable to shed light on the effects of shared vision and perceived trustworthiness on inter-unit resource exchange, especially knowledge transfer and development (Tsai and Ghoshal, 1998).

Future research should explore further refinement of the language fluency measure. As language skills are competencies possessed by individuals, not organizations, future studies are likely to benefit from focusing on key actors. Such an approach would seem to gain further relevance from the recent calls for more research focusing on the individual level of analysis and the role of key individuals in international corporations (Gupta et al., 1999; Tsai and Ghoshal, 1998).

CONCLUSION

This study contributes to our knowledge of inter-unit relationships in MNCs by empirically demonstrating the crucial importance of fluency in a common language for the development of close inter-unit relationships. In addition, our study indicates the conditions under which socialization mechanisms may contribute to the emergence of inter-unit shared vision or trustworthiness within MNCs, with the effect being different in Chinese and in Finnish subsidiaries. This study suggests the importance of examining management and organization across contexts using comparative samples. Lastly, this study contributes to the increasingly important field of management research in China, an emerging economic power and already the largest recipient of foreign direct investment (OECD, 2003).

NOTES

[1] It should be noted that the results of the analyses were broadly similar when re-running the analyses using the original language fluency scale.

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