Problem Perceptions by Top Managers in Distant Subsidiaries

Abstract

Subsidiary managers in distant countries are expected to cope with uncertainty and to bridge the gap between headquarters' strategies and subsidiaries' realities, but few studies make meaningful comparisons between subsidiary managers' perceptions of problems. This is the aim of this longitudinal study. We investigate how expatriate CEOs in Danish subsidiaries in East Asia and in Germany perceive problems compared with native CEOs. Data are mainly gathered in surveys in surveys in 1995, 2005, and 2012, in total are 205 questionnaires analyzed using structural equation modeling. The results indicate that expatriate CEOs significantly more often report problems of equivocality. Perceived problems in headquarters–subsidiary interactions in East Asian subsidiaries are not significantly associated with CEO expatriate status, but are instead significantly associated with (moderated by) MNC use of cultural modes of control. The study also shows that problem perceptions remain fairly stable over time.

Keywords: Cultural distance, Expatriates, Headquarters-Subsidiary control, Longitudinal study, Problem perception, Structural Equation Modeling.

INTRODUCTION

Expatriate managers are not simply part of the control systems of multinational companies, although this is often the intention; instead, they play a complex role in the interface between different national cultures (Harzing, 2002). Expatriate CEOs play active roles in the strategies of independent subsidiaries, where they act as leaders of foreign employees and interpret the foreign environment. Furthermore, their roles differ between countries and companies and often change with time.

Especially when the host country is far away—both geographically and culturally—the CEO's role is expected to be crucial. They are informational channels to the headquarters and they make important decisions themselves. But does an expatriate CEO perceive the problems and opportunities of the subsidiary very differently from a native CEO? Though this may be an implicit assumption of both practitioners and researchers, few attempts have been made to study it rigorously.

This article is an explorative investigation of the problems perceived by subsidiary CEOs, drawing on the literature on perceived environmental uncertainty, expatriation, and the impact of cultural distance in the headquarters–subsidiary relationship. The analysis is based on the assumption that multinationals and other organizations must develop information processing mechanisms capable of detecting relevant information regarding their environments. Individuals in organizations interpret received information, and the strategy-level managers are the key interpretative actors when organizations are seen as interpretation systems (Daft & Weick, 1984).

In multinational companies, the control of subsidiaries often entails considerable uncertainty. Placing expatriate CEOs in subsidiaries is one way to cope with the cross-cultural problems and uncertainties and these expatriate managers themselves constitute part of the chosen form of control (Brock, Shenkar, Shoham, & Siscovick, 2008; Gong, 2003; Tan & Mahoney, 2006). However, no subsidiary manager is a neutral interpreter. His or her personal background, especially nationality, influences attention and problem perception at the interface between national cultures (Peltokorpi, 2010; Shaffer et al., 2006). Is a native CEO on the subsidiary side of any perception gap between headquarters and subsidiary, whereas the expatriate manager is expected to be more loyal to headquarters? Is the expatriate manager also more sensitive to cross-cultural problems and does he or she also rank problems differently (cf. Laurent, 1986)?

This paper analyzes CEO perceptions in the context of subsidiaries that are geographically and culturally distant from their headquarters. The research setting is mainly Danish subsidiaries in Japan and Germany, and a matched sample permits rigorous analysis of the difference between expatriate and native CEO perceptions. Moreover, follow-up replications in 2005 and 2012 of the original 1995 study provide indications of developments over time.

FRAMEWORK OF SUBSIDIARY CEO PERCEPTIONS

Dealing with uncertainty is an important challenge facing cross-cultural management in multinational corporations. The importance of perceived environmental uncertainty has been recognized in organizational theory for several years (Huber, O'Connell, & Cummings, 1975). This uncertainty has also been recognized as especially high in multinational companies with subsidiaries operating in markets far from the home countries (Egelhoff, 1991). Consequently, multinational companies need flexible strategic management as well as administrative arrangements that deal internally with the various sources of uncertainty (Doz, 1980). This view is connected to the notion of organizations as interpretation systems (Daft & Weick, 1984). At the individual level, it is also recognized that an important skill of expatriate managers is a 'perception dimension' entailing "cognitive abilities that allow the expatriate to correctly perceive and evaluate the host environment and its actors" (Black, Mendenhall, & Oddou, 1991, p. 294).

What is correct may have no clear answer. Key actors have to cope with uncertainty and Milliken (1987) stressed that it is difficult or impossible to separate the objective and subjective aspects of uncertainty. Consequently, environmental uncertainty should be seen as a perceptual phenomenon. It is "inherently in the eye of the beholder," and Milliken (1987) defines it as "an individual's perceived inability to predict something accurately" (pp. 134 and 136). Furthermore, Milliken (1987) specifies three types of environmental uncertainty: state uncertainty (i.e., the state of the organizational environment is unpredictable), effect uncertainty (i.e., the effect on the organization of events or changes in the environment is unpredictable), and response uncertainty (i.e., response options and the consequences of a response choice are unpredictable).

When we focus on cross-cultural interfaces in multinational corporations, other specific types of uncertainty appear that reinforce perceived uncertainty. Some of these are personal in character and connected to the cross-cultural interaction itself; these can be referred to as social norms-based uncertainty, cognitive uncertainty, and equivocality (Bjørn, 1997). These types of uncertainty are interconnected and confront expatriate subsidiary managers as problems in their intercultural interaction, both internally in the organization as well as externally.

From an information-processing perspective, headquarters–subsidiary control is mainly a matter of uncertainty reduction, and MNCs use various mechanisms for this purpose (Egelhoff, 1991). Some of these mechanisms focus on personnel, such as expatriation and training, while others are organizational design and control features, such as rules and programs, hierarchical referral, goal setting, vertical information systems, and lateral relationships (cf. Galbraith, 1973).

From our perspective, Daft and Weick's (1984) model of organizations as interpretation systems is useful for connecting organizational- and individual-focused research. Their model is based on the assumption that it is individuals who set goals, process information, and perceive the environment, but under the influence of more permanent organizational mechanisms. It is also assumed that important interpretation is done by a small group of top managers. Although various participants and departments may contribute to the scanning and information processing, it is at the upper level of the organization that the information in its entirety is interpreted (Daft & Weick, 1984). Since subsidiaries of multinationals often have considerable autonomy in decision-making and strategy formulation (Birkinshaw et al., 2000), we assume that that the CEO in a subsidiary is a key person in the interpretation processes and he or she essentially aims to confer meaning on data and to reduce equivocality. Few rules govern interpretation in situations of

equivocality. Since "equivocality means ambiguity the existing of multiple and conflicting interpretation about an organizational situation" (Daft and Lengel, 1986, p. 556), managers and employees have to use language and interaction to share perceptions. In other words, a flexible organization giving the CEO considerable discretion is to be expected in a foreign subsidiary, and how the CEO perceives and ranks problems is crucial because it may influence their decisions. Their perception of problems is connected to their crossing of several cultural and organizational boundaries. It is not only equivocality problems in their communication with subordinates, the local market and and the local institutions. They may also perceive problems with the headquarters.

In our view, subsidiary CEOs are precisely positioned so that both their individual behavior and organizational restrictions matter. They bring to the subsidiaries their own beliefs, norms, and values, and are in turn influenced by their background, including parent country culture. Because of subsidiary autonomy, the individual's characteristics may have consequences for the strategic decision-making; at the same time, however, subsidiary CEOs are under headquarters control.

Specifically, given our focus, we expect the control systems of MNCs to dominate the relationships, communication, and procedures that influence subsidiary CEOs' perceptions of relevant issues and problems in the subsidiary environment. These systems have a major impact on the success of strategies and on how multinational companies and their managers perceive and interpret the global social and economic environment.

Headquarters' use of subtler control mechanisms combined with granting some formal autonomy to subsidiaries may be a way to adapt to the conditions in a foreign country. Accordingly, leading

researchers have emphasized the importance of normative control exercised through shared norms and outlook, internal promotion, and internal transfers (Edström & Galbraith, 1977; Fenwick, De Cieri, & Welch, 1999; Hedlund, 1986, 1993). If headquarters exercise control using such control mechanisms, the subsidiary CEO will likely pay greater attention to problems related to cultural differences, which is in turn may make him or her react and perhaps moderate actual problems.

Much of the literature on expatriation treats managers' and employees' sociocultural adjustment to foreign countries. This research has increasingly provided empirical evidence regarding key factors in the adjustment process, such as host country language ability and time spent in the host country (Bhaskar-Shrinivas, Harrison, Shaffer, & Luk, 2005; Black et al., 1991; Selmer & Lauring, 2011). Nevertheless, few statements about expatriates versus local nationals are based on empirical evidence (Boyacigiller, 1990), and some results indicate that expatriate managers are no more loyal to the company than are host country nationals (Banai & Reisel, 1993).

From the broader theoretical framework our theoretical point of departure in explaining subsidiary managers' problem perception is that the CEO's personal background, including national culture, influences his or her personal values and frame of reference. People of different cultural backgrounds have different frames of reference in that they have different sets of patterned meanings or collective mental programming. Cultural values therefore influence the selectivity of manager perceptions and provide interpretations of the contextual factors deemed important to the organization (Lachman, Nedd, & Hinings, 1994; Paik & Sohn, 2004) Furthermore, perceptions influence managerial activities, which in turn influence decisions regarding organizational structure and processes (Kiesler & Sproull, 1982; Weick, 1979).

The causal chain is complex. The influence of personal background is moderated by socialization and control. The expatriate adjustment literature has demonstrated that, although expatriates are socialized in that they adjust to the host country's cultural norms, the degree of adjustment may depend on the length of assignment in the host country (Bhaskar-Shrinivas et al., 2005; Waxin, 2004). In general, sociocultural adjustment has been associated with variables that facilitate cultural learning and the acquisition of language and social skills in the host culture (Selmer, 2006; Selmer & Lauring, 2011).

The influence of cultural distance is also complex. The construct itself may oversimplify the relationship between countries, for instance by neglecting the asymmetries of relationships, but it is still a central and well-entrenched construct in the literature (Zaheer et al., 2012). Especially it is meaningful in studies that include subsidiaries with very different degrees of cultural distance to the parent country.. Cultural distance may not only increase the difference between expatriate and local managers' perceptions of problems; it has also been demonstrated to be associated with subtler and more informal modes of control (Gomez-Mejia & Palich, 1997; Hamilton & Kashlak, 1999). However, the association between cultural distance and strong control may diminish over time (Wilkinson, Peng, Brouthers, & Beamish, 2008).. It is also an open question how Scandinavian expatriates cope with the most distant East Asian culture, namely, that of Japan. Using Hofstede's terms (Hofstede, 2001; Kogut & Singh, 1988), there is a considerable distance between Danish and Japanese cultural norms in all central dimensions: masculinity, uncertainty avoidance, acceptance of power distance, and individualism.

Within the outlined framework, our research model focuses on the elements shown in Figure 1.

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< Insert Figure 1 about here >

The working assumption is that an expatriate subsidiary CEO is sensitive to cross-cultural interaction in the subsidiary and perceives problems differently than would a native CEO. We specifically test the assumption that the expatriate manager perceives problems in the headquarters–subsidiary interactions to a lesser extent that would the native manager. Although the study is somewhat explorative, since little research has systematically investigated expatriate problem perception, we test four specific hypotheses:

> *Hypothesis 1: Expatriate CEOs perceive problems of equivocality to a greater extent than do native CEOs.*
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> *Hypothesis 2: Expatriate CEOs perceive problems in headquarters–subsidiary interactions to a lesser extent than do native CEOs.*
>
> *Hypothesis 3a: Expatriates CEOs in subsidiaries perceive equivocality problems at a lesser degree as time goes by.*
>
> *Hypothesis 3b: Expatriates CEOs in subsidiaries perceive problems in headquarters-subsidiary relationships at a lesser degree as time goes by*

Hypothesis 1 is related to the work of Ali and Azim (1996), who studied Western expatriate and native managers' perceptions of managerial problems in the United Arab Emirates. They found that expatriate managers were more sensitive to subjective and objective problems than were the native managers. Similar indications were found in a recent qualitative study of Western executives in local Asian organizations, and the Western executives seemed to confront local

problems effectively (Arp, 2013). Nevertheless, since language and culture are central barriers facing expatriates in their socio-cultural adjustment (Bhaskar-Shrinivas et al., 2005), equivocality could be perceived as a great challenge for expatriates in distant cultures.

Hypothesis 2 relates to the expatriate CEOs' identification with their subsidiary. Expatriate managers are not necessarily more loyal to the parent company than are host country nationals (Banai & Reisel, 1993), but part of the reason for their expatriation is that they, as headquarters representatives, will effectively confront local problems. As superior employees, they are often socialized in the headquarters and experienced in its control systems. Recent research suggests that especially expatriates with longer assignments and top managers may be less committed to their company (Harrison et al., 2004). In our view this can imply that expatriated CEOs often value subsidiary autonomy in a degree that makes them perceive headquarters' control as unnecessary interference.

As time goes by problem perception may change and be modified as suggested in *Hypotheses 3a and b*. Thus, *contemporaneity* is included to take time into account. Data were collected in three rounds (i.e., 1995, 2005, and 2012), and it makes it possible to test whether a modification of reported problems appears after 1995. It is not obvious that an organizational learning takes place similar to individual adaptation. During a longer period CEOs are replaced by new ones and do the successors really perceive smaller problems? Are they better prepared or do the problems decrease? Research on entry modes suggests that companies learn from early entries and adapt the modes of subsequent ones (Chang and Rosenzweig, 2001). Such learning may be extended in established subsidiaries in the sense that early problems in the headquarters-subsidiary relationship are solved in the years that follow. Other research also indicates that the

impact of cultural distance on control issues and the use of expatriates diminish over time (Gong, 2003; Wilkinson et al., 2008). Maybe the actual frictions reflected in reported problems in cross-cultural encounters also diminish.

In the extended part of the analysis, we control for other factors, as indicated in Figure 1. The *time in current location* of the expatriate may moderate their perceptions of equivocality problems but may increase their perceptions of subsidiary problems with the headquarters, as demonstrated by Black and Mendenhall (1990), Hamilton et al. (2004) and Bhaskar-Shrinivas et al. (2005). *Cultural distance* is included to capture the expected difference in level of management challenge between German and East Asian subsidiaries calculated as a simple version of Kogut and Singh's (1988) cultural distance index, in which the difference between home and host country cultures is measured using Hofstede's (1980, 2001) country scores, giving equal weight to all four original dimensions. *Cultural control* may moderate actual problems in headquarters–subsidiary interaction, and this control mode has been associated with cultural distance in other studies (Gong, 2003; X, 2009). This factor was identified by means of an early explorative factor analysis of items in another part of the survey instrument concerning actual headquarters–subsidiary interaction.

Market and institutional conditions, such as competition and technical trade barriers, are not included in the multivariate analysis since these factors are considered too industry dependent. *Perceived recruitment problems* are, however, included as a mediating variable.

METHODS

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The study of problem perceptions was part of a comprehensive study of coordination problems in Danish subsidiaries in East Asia and Europe. It started out by a preliminary qualitative study of 14 Danish subsidiaries in Japan in 1995. This part of the study included qualitative interviewing and revealed a broad range of cross-cultural problems and problems in the headquarters–subsidiary relationship. The formulation of the following questionnaire later this year was based on these interviews.

The questionnaires were in 1995 sent to the CEO of each of the 66 Danish subsidiaries in Japan and to each of the 66 Danish subsidiaries in Germany with a sister company in Japan. Respondents were mainly asked to specify on a Likert scale the degree to which they agreed with statements regarding problems. The core survey of Danish subsidiaries in Japan and Germany was extended to include Danish subsidiaries in China, Hong Kong, and South Korea as well as Swedish and Norwegian subsidiaries in Japan. The 1995 survey was replicated in 2005 and 2012 by sending the same questionnaire to the same group of Danish subsidiaries. The matched sample of the subsidiaries in Japan and Germany constitutes the main part of the study; other subsidiaries are included to generalize the analysis of the influence of cultural distance.

All questionnaires were addressed to the chief executive officer of each subsidiary, and Table 1 illustrates the response rates from the samples. The response rates of the original study (average 44%) seem considerably higher than in other surveys of foreign subsidiaries, which according to Gomez and Sanchez (2005) normally achieve a response rate of approximately 20%. Only our follow-up studies obtained such low response rates, of 24% and 18% in 2005 and 2012, respectively.

In the first part of the study it was possible to analyze the response rates in more detail. Despite a small difference between Danes and Japanese/Germans, all groups of respondents responded at a high rate, indicating that non-response bias is not a general problem. However, in the follow-up studies, only the sample of CEOs in the Japanese subsidiaries continued to respond at a high rate. It is also notable that the profile of the respondents showed in Table 2 was rather stable and revealed rather small differences between groups in respect to seniority, time in current location, and reported personal adaptation time.

< Insert Table 1 about here >

< Insert Table 2 about here >

The research design shares features with methodological triangulation (Denzin, 1978) in that concepts and hypotheses are partly grounded in unstructured qualitative methods, followed up by more structured analysis and even hypothesis testing. As the interviews conducted in the early qualitative study of 14 Danish subsidiaries in Japan were only somewhat structured, it is only possible to pay close attention to respondent perceptions in the survey results. The relevance of the questions is attested to by the fact that the questions were phrased by CEOs and other leading managers in Danish subsidiaries.

To avoid some of the interpretation problems stressed in the literature on cross-cultural comparative methods (Hui & Triandis, 1985), the questionnaires were formulated in English and Danish and then translated into each of the Asian languages. The translators, who were all native speakers of the target languages, queried the researcher concerning the exact meanings of words,

forcing the researcher to state more precisely what was meant. Retranslation of the questionnaire after the first survey led to the elimination of three questions.

The specific constructs used in the quantitative analysis are defined in Appendices 2 and 3. To avoid strong assumptions regarding measuring scales, our variables are typically transformed into five-point scales and analysis of correlation is based on Kendall tau-b rank-order correlations. As a last step in the analysis we use structural equation modeling to estimate our model and test our hypotheses. This confined estimation includes the measurement of the two dependent latent variables, equivocality (4 items) and headquarters-subsidiary problems (5 items).

Seeing the project in its entirety, it is important to note how it progressed and made more structured analyses possible. Starting back in 1994 the project was rather explorative and to a considerable extent qualitative. The aim of the matched sample survey was to corroborate the preliminary results from the Danish subsidiaries in Japan by comparing actual control and problem perceptions in the subsidiaries in Germany and Japan. The larger number of cases has made it possible to replace simple comparison of single items by constructs estimated in structured equation models. Most importantly, it is also possible to take the time factor into account and make more satisfactory comparisons between expatriates and native CEOs.

FINDINGS

Our analysis is data driven in that structured analysis addresses the perceived problems identified in the early interviews. Four quotations from Danish managers in Japan related to our research question illustrate the point of departure:

"…While I met Japan with curiosity in the beginning, it later turned into a kind of personal frustration because I was not used to and did not understand Japanese thinking nor their language…"

…in lack of a language you are cut off from a lot of information that normally flows through the organization, and you only take part in selected topics. Even though much of the information … is irrelevant to the tasks you take care of, the information is important in that it helps you live a whole and normal life as a manager."

"Coming from the headquarters, I regarded myself as a man of the headquarters, and I often gave primary consideration to their needs, at least during the first year. Slowly, I have changed into being a man of the subsidiary, while formally the idea of being in Japan was to bring thoughts and ideas from the headquarters"

"The thing is that when you are sent to a country like Japan you know that you are going to face a culture very different from the Danish. You expect it and try the best you can to fit in by watching how the Japanese behave…What comes as a surprise is that the problems you meet typically are with the headquarters and not with the Japanese".

These statements indicate that expatriates managers of subsidiaries are not simply headquarters' representatives but find themselves in complex cross-cultural interactions where they have to cope with equivocality and shared loyalty. They also point to the fact that problem perceptions very much depend on expectations. By the use of surveys in 1995, 2005 and 2012 we trace a general pattern behind such statements. Do cultural distance, time and the managers' status as expatriates matter?

As a first step in the quantitative analysis, we analyze the matched sample from Danish subsidiaries in Japan and Germany to trace the influence of cultural distance (See Appendix 1). From a broad enumeration of possible problems, subsidiary managers both in Japan and Germany stress that market related factors (competition) are a "large problem" or "one of the largest problems your company has" (60% or more both in Japan and Germany in 1995), the natives in Japan scored significantly higher than the expatriates and while the natives' problem-indicating

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share on this item was rather stable at this level, the expatriates' share fell to 30% in the follow-up studies. The comparison between Japan and Germany also indicates that, especially in the Japanese subsidiaries, the managers face problems that may be related to equivocality and different cultural norms. The Japanese subsidiaries more often report problems connected to different norms, misinterpretation of information, insufficient skill, and employees feeling uncomfortable with uncertainty. These problems were mostly reported by the expatriates. Surprisingly, it is also the expatriates in Japan more than the natives who perceive headquarters bureaucracy as a problem.

In the next step of the analysis in this article, we use the whole sample to test the hypotheses using the relevant variables from the questionnaire. The variables in our research model are recoded into simpler ranked variables and treated as such in correlation analysis and structural equation modeling. Items concerning control are analyzed using explorative factor analysis (Appendix 3) and the factor concerning training practices, language, and organizational culture, Factor 3, had a significantly higher score in the subsidiaries in East Asia. An average of its three items with factor loadings greater than .50 was used as the *cultural control* variable in the structural equation modeling (the correlation matrix and variable definitions are presented in the appendices). This procedure made it possible to test our structural equation models where the measurement of the dependent variables was included in the otherwise confined estimation. The results of the estimation are shown in Figure 2 and 3, where the arrows between the ovals with path coefficients indicate the associations between latent variables.

Both the matched sample correlation analysis and the structural equation modeling provide some support for *Hypothesis 1*. The SEM model presented in Figure 2 has acceptable qualities, as

shown in the fit indexes in Table 3 (the comparative fit index, CFI = .98 and the root mean square error of approximation, RMSEA = .043). Thus, Hu and Bentler (1999) suggest that good models have relative fit indexes such as CFI larger than .90 combined with RMSEAs below .06 or .05. Not all paths are significant, but the path from expatriation to the perception of equivocality and recruitment problems indicates a significant association ($p < .05$), and even more so if subsidiaries in Germany are excluded ($p < .01$). It should be noted that the model ascribes significant influence to recruitment problems. The problem perceptions therefore reflect a reality in which CEO expatriation often is forced by necessity.

< Insert Figure 2 about here >

Surprisingly, there is only an insignificant association between cultural distance and the perception of equivocality problems. Expatriate managers often have problems crossing the cultural interface, where appropriately handling uncertainty and conflict is crucial, but since these problems are expected they are not always reported as crucial. To Scandinavians in East Asia, these problems are mainly related to language, and managers may use both formal and informal tactics to improve the intercultural communication, as demonstrated by Peltokorpi (2007). As regards expatriate involvement in local society, i.e., general and interaction adjustment, it would at first appear logical that the Danish expatriates in Germany should be more willing to involve themselves in local society. Elsewhere in the study, however, we have seen that it was easy for the Danes and Japanese to get along, while the Germans and Danes often found it more difficult. It has been pointed out that the lack of any common language except English between the Danes and Japanese makes it easy for them to get along. Without a common mother tongue, viewpoints and social patterns cannot be exposed or explored in depth or in detail; therefore, the Danes do

not get into conflicts with the Japanese, nor do they involve themselves in Japanese society. In comparison, Danish expatriates in Germany tend to involve themselves in German society and consequently run the risk of triggering conflict.

< Insert Figure 3 about here >

< Insert Table 2 about here >

Our data did not support *Hypothesis 2*, as shown in Figure 3, but the model (also with acceptable qualities, CFI = .96 and RMSEA = .057) showed a clear pattern. Perceived problems in headquarters−subsidiary interactions in subsidiaries in East Asia were not significantly associated with the CEO's expatriate status as suggested in the hypothesis. The headquarters−subsidiary problems were instead significantly associated with, i.e., moderated by, MNC use of cultural modes of control. This may be a minor surprise considering that expatriate managers are themselves often part of the chosen forms of control (Brock et al., 2008; Gong, 2003; Harzing, 2001; Tan & Mahoney, 2006). Our data therefore support the view that Scandinavian multinational corporations adjust their control systems to culturally distant host countries. Moreover, expatriate managers may over time adapt to the subsidiary conditions to an extent that makes their views of headquarters−subsidiary interactions difficult to distinguish from those of native CEOs. In some cases, they seem to be more loyal to the subsidiary than to the headquarters as indicated in some of the interviews.

The most important and surprising results of our longitudinal perspective is the stability of problem perception and the lack of support of *Hypotheses 3a and 3b*. Thus, the paths from

contemporaneity to problem perceptions in both SEM-models only indicate an insignificant (and even positive) association. There are small differences in the perceptions between our 1995, 2005, and 2012 data. Our data do not support assumptions of a strong learning effect or a change in the pattern of problems over time.

DISCUSSION

Our data to some extent allow rigorous comparison of expatriates' perceptions of managerial problems in cross-cultural interfaces. We are able to analyze the difference between expatriate and native CEOs in subsidiaries where the cultural difference between MNC host and home countries is the greatest and where the parent countries are Scandinavian with low national scores for uncertainty avoidance, acceptance of hierarchy, and masculinity.

Considering that the problems will be somewhat company specific, the results indicate a clear pattern in matched sample comparisons. There are no significant differences in the subsidiaries in Germany between how expatriates and native CEOs perceive problems, but there are in the distant subsidiaries in East Asia. Here, it is the expatriate managers who mostly report problems in cross-cultural interaction and management. Surprisingly, a general model is even able to explain part of the variance in the reported problems using structural equation modeling. In particular, the introduction of actual control mode as a mediating variable helped explain the perception of managerial problems.

The practical implications of our findings highlight the impact of personal and organizational adaptation. In our sample of well-established multinational companies, expatriate CEOs seem to

be sensitive to the special conditions in East Asia and also seem to adapt actively. The companies often adjust their control systems to the special conditions of the subsidiaries. When expatriate managers report more problems concerning the cultural interface, this may reflect the fact that headquarters had already found significant problems with the subsidiary and tried to gain control over the situation by appointing a high-status expatriate manager from headquarters as the managing director of the subsidiary. This is suggested in some of the interviews. In this case, expatriation is a reaction to prior problems, though the problems may still exist and may have to be dealt with on a regular basis.

This point implies a note of caution. The reporting of coordination problems and conflict in a survey often indicates coordination efforts. No reported problems could indicate that the latent conflicts are being handled by withdrawal, which is sometimes dysfunctional. Practical interventions may involve both the promotion and reduction of conflicts in cultural interfaces (Brown, 1983). The data presented above indicate that expatriates may—but do not necessarily— play a role in getting closer to identifying the actual problems instead of simply stating "insufficiently skilled staff." Conflicting views, in that expatriate CEOs perceive more problems related to cultural difference than do native CEOs, could be expected, but the pitfall may be that conflicts at the cultural interface in subsidiaries affect productivity and hinder awareness of problems that could actually be resolved.

In general, the obvious practical implications of our study are related to the stability of problem perceptions. The expatriates in our sample seem rather well–prepared for cross-cultural management especially in distant cultures, but since expatriates keep reporting almost the same pattern of problems, the companies should continue to prepare them for their challenges. It is also

worth noting that the expatriates in 2005 and 2012 compared to expatriates in 1995 report almost the same amount of time for personal adaptation. From headquarters' point of view it should not be expected that normative control is easily achieved through expatriation.

The study has obvious limitations. All MNCs in the sample had Scandinavian headquarters, and the results are valid mainly in a context in which the companies have international experience and the parent country culture encourages adaptation. Other studies have demonstrated that expatriate employment significantly depends on parent country cultural variables, and the use of the cultural distance concept in a broader sample should take the asymmetries in parent–host country relationships into account (Brock et al., 2008). Arriving at further generalizations through the use of widely distributed surveys is difficult and may require huge samples. Large sample sizes would be necessary to take different parent–host country combinations into account, as well as the specific personal backgrounds of the expatriates. Perceptions, of course, depend on respondent personality and personal values. Thus, recent research indicates that cross border managers who are high on "cross border business focus" and low on "national identity" possess the most sophisticated set of individual values conducive to conducting business across borders (Cogin and Fish, 2010). The general problem of heterogeneous samples in international studies of MNCs is even evident in our data, since we can demonstrate a clearer pattern when we exclude the subsidiaries in Germany from our SEM model. The study is also limited by a data-driven approach that includes several constructs that have not been validated in other research.

We will also mention a general note of caution on the use of the quantitative analysis. The presentation of estimated structural equation models appears to show causal relationships

between variables, but as other statistical analyses they can only reveal associations. Only in-depth qualitative analyses of processes and interactions can provide evidence on causality.

Instead of using large structured surveys, it would likely be more fruitful for future research to investigate the mechanisms of problem perceptions in more detail and the use of problem reporting by using new information technology in cross-cultural contexts. Our data indicate a strongly increased use of email communication channels over time. This may change not only the reporting pattern but also how managerial problems are perceived.

CONCLUSION

This study attempts to rigorously analyze the problem perceptions of expatriate subsidiary CEOs compared with those of native subsidiary CEOs and how their problem perceptions change in a long term perspective. Since the sampling was restricted to Scandinavian subsidiaries in Germany and East Asia, controlled comparisons were possible and the analysis revealed a fairly clear pattern beyond what simple comparison of single items could show. Using structural equation modeling, we estimated a model with acceptable statistical properties demonstrating that expatriate managers reported problems of equivocality significantly more often than did native managers. As opposite to this, perceived problems in headquarters–subsidiary interactions in subsidiaries in East Asia were not significantly associated with CEO expatriation. The headquarters–subsidiary problems were instead significantly associated with, i.e., moderated by, MNC use of cultural modes of control.

In addition, and this is our main contribution, the study indicated that the problem perceptions remained fairly stable over time; in fact, there is an insignificant increase in problem perception as time goes by in these well-established firms. During the study period, several new CEOs replaced older ones and, although some adjustments were made of the control systems to accommodate foreign conditions, the MNCs are still often dependent on the abilities of open-minded CEOs.

Beneath the general pattern there will be complex organizational and personal adaptations as indicated in the study. Although our data do not support assumptions of a strong organizational learning effect, the individual expatriate managers with international experience seem to moderate their perceptions of problems related to the foreign culture. Managers' international experience may still be related to a global mindset that can be a prerequisite for successful internationalization (Levy, Beechler, Taylor, & Boyacigiller, 2007; Nummela, Saarenketo, & Puumalainen, 2004).

Despite its limitations, this study has taken a step toward identifying the substance of subsidiary problems and the role of expatriate managers in facing them. Our research suggests that it would be useful for future research to examine the connections between problem perceptions, global mindsets, and decision-making in the subsidiaries of multinational companies.

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TABLE 1
Sample Size and Response Rates

Population	Japan	Ger-many	Hong Kong	China	South Korea	Norwegian in Japan	Swedish in Japan
Total number of subsidiaries according to the 1995 Ministry list	66	660	66	56	18	----	----
Corrected sample [a]	50	50	62	55	17	n.a.	n.a
No. of respondents	29	28	20	18	8	14	23
Response rate	58%	56%	32%	33%	47%	----	----
Follow-ups Corrected sample 2005/2012 [b]	50/33	42/32	32/34	42/28	14/10	----	----
No. of respondents 2005/2012	14/13	9/3	8/5	7/0	3/3		
Response rates 2005/2012	37/39%	21/9%	25/15%	17/0%	21/30%	---	---

[a] The sample was reduced because some of the companies in the official list were not subsidiaries or did not report directly to the headquarters.
[b] The 2005 and 2012 samples were further reduced because of changes in the ownership of the subsidiaries and in a few cases we were unable to access the CEO.

TABLE 2

Profile of Respondents in Scandinavian Subsidiaries 1995-2012.

1995 figures without brackets; 2005 and 2012 figures together in brackets

	Japanese sample		*German sample*		*Chinese, Hongkong, Korean Sample*		*Japanese sample with Norwegian/ Swedish subsidiaries*	
	Expat N=17 (18)	Local N=11 (8)	Expat N=8 (4)	Local N=20 (5)	Expat N=37 (14)	Local N=9 (1)	Expat N=19	Local N=17
	Average years							
Employed by the company in (years)	9.1 (12.0)	20.9 (14.4)	18.9 (12.0)	14.7 (10.3)	12.2 (8.1)	7.0 (1.5)	5.4 (-)	20.2(-)
Expatriate in the subsidiary in (years)	6.5 (9.6)	- (-)	7.9 (7.6)	- (-)	3.2 (5.8)	- (-)	4.4 (-)	- (-)
Adaptation time: *"If you think you have adapted to the way the subsidiary works please indicate how many years this adaptation process lasted?"*	1.6 (4.6)*	1.1 (11.0)**	0.5 (1.0)	1.5 (2.6)	1.1 (2.0)	1.5 (0.5)	1.9 (-)	1.6 (-)

Note: The N-values do not correspond totally with the numbers in Table 1 because of missing values.

*) Only 6 from this group answered the question and their answers were: 0.5, 1, 2, 2.5, 3, 5, 10, and 29 years.
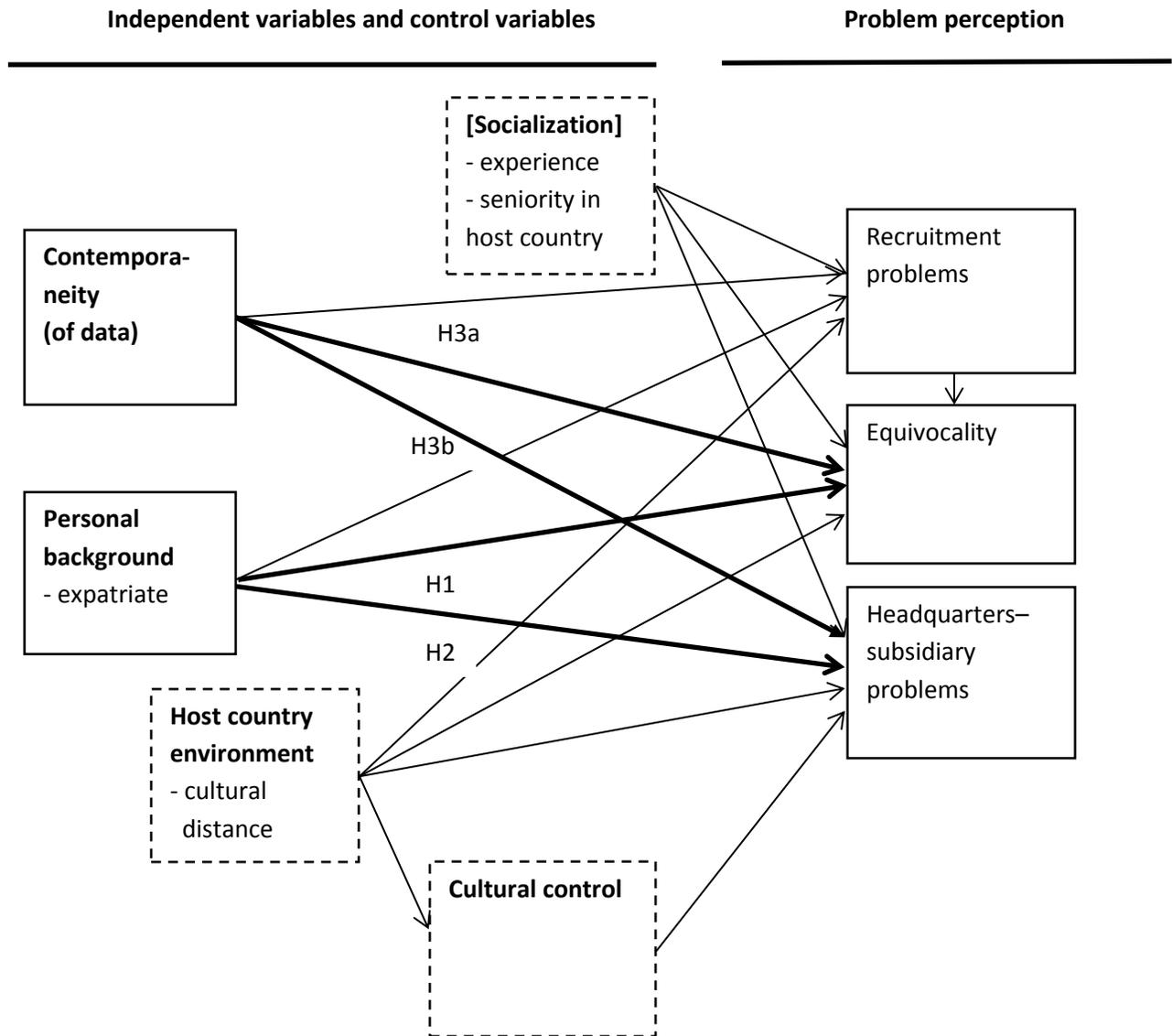
**) Only 5 from this group answered the question and their answers were: 2, 2, 10, 11, and 30 years.

TABLE 3
Goodness-of-Fit Measures of Estimated Models

	Model 1 (On equivocality)	Model 2 (On hq-subsidiary problems)
Effective sample size	188	193
Chi-square test statistic	22.88	45.28
Degrees of freedom	17	28
P-value	0.153	0.021
R^2	0.29	0.16
Population discrepancy function (F_0)	0.031	0.086
Root mean square of approximation (RMSEA)	0.043	0.057
P-value for test of RMSEA < 0.05	0.56	0.33
Expected cross-validation index (ECVI) for saturated model	0.48	0.57
Comparative fit index (CFI)	0.98	0.96
Goodness-of-fit index (GFI)	0.95	0.92
Adjusted goodness-of-fit index (AGFI)	0.88	0.85
Parsimony goodness-of-fit index (PGFI)	0.36	0.47

Note: Estimated using LISREL software (Jöreskog and Sörbom, 1996).

FIGURE 1
Research Model

Independent variables and control variables   **Problem perception**

Contempora-neity (of data)

[Socialization]
- experience
- seniority in
host country

Recruitment problems

H3a

H3b

Equivocality

Personal background
- expatriate

H1

H2

Headquarters–subsidiary problems

Host country environment
- cultural distance

Cultural control

Note: Control variables in dashed boxes

FIGURE 2.
Model 1: Structural Equation Model of Equivocality Problems
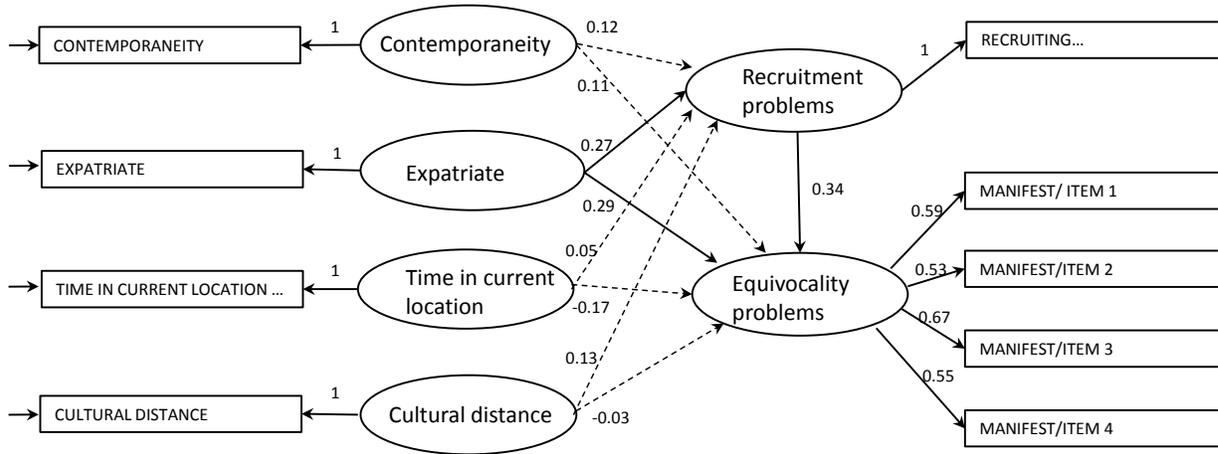
*Note: Fully drawn arrows between latent variables indicate significant paths with p < 0.05 (two-tailed test),
dashed lines indicate p > 0.05*
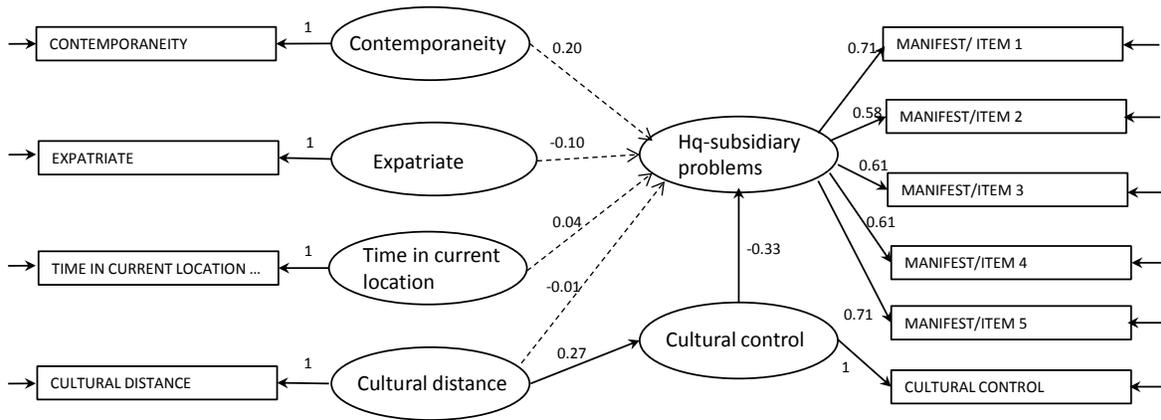$R^2 = 0.29$ *(equation on equivocality problem perception)*

FIGURE 3
Model 2: Structural Equation Model of Headquarters–Subsidiary Problems

Note: Fully drawn arrows between latent variables indicate significant paths with p < 0.05 (two-tailed test),
*   dashed lines indicate p > 0.05*
R^2 = 0.16 (equation on headquarters-subsdiary problem perception)

Perceived problems in Danish Subsidiaries in Japan and nationality of the respondent

Percentage of respondents stating the suggested problem as large or one of the largest problems experienced 1995. 2005 and 2012 figures together in brackets

Type of problem experienced:	*Japanese sample*		*German sample*	
	Danish N=15 (10)	Japanese N=12 (8)	Danish N=8 (4)	German N=20 (5)
	Percentages			
Strong competition ***)	60 (30)	67 (62)	63 (25)	75 (80)
Different quality standards are required by the Japanese/German customers **)	53 (40)	42 (50)	13 (0)	40 (0)
Recruiting of qualified staff **)	53 (40)	33 (13)	13 (0)	20 (40)
Higher, but identical quality standards are required by the Japanese/German customers **)	33 (40)	42 (38)	13 (0)	20 (0)
Bureaucracy in the headquarters *) **) ***)	27 (10)	17 (0)	25 (0)	30 (20)
Differences between Danish and Japanese/German social norms **)	33 (30)	42 (25)	0 (0)	10 (40)
Lacking information from headquarters	13 (10)	33 (13)	13 (25)	20 (20)
Technical trade barriers **)	7 (10)	25 (0)	0 (0)	10 (0)
Managers and staff are not sufficiently skilled (either technically, managerially or language-wise) **)	27 (30)	8 (13)	0 (0)	15 (0)
Information is misinterpreted even though good will is present ***)	20 (20)	17 (0)	0 (0)	15 (0)
The employees feel uncomfortable about unknown and unpredictable situations ***)	27 (40)	0 (13)	13 (25)	10 (0)
Frequent or significant changes in the environment	7 (10)	17 (38)	13 (0)	10 (0)
Bureaucracy in the subsidiary **)	7 (10)	0 (0)	0 (0)	15 (0)
Lack of loyalty or commitment or 'cheating' characterize the behavior of employees and managers	7 (0)	0 (0)	0 (0)	10 (0)

*)   *Significant decrease from 1995 to 2005/2012 in the Japanese sample (p < 0.10)*
**)   *Significant difference between Japanese and German sample in the indicated direction (p < 0.05)*
***) *Significant difference between Danish and Japanese respondents in the Japanese sample (p < 0.10)*

Appendix 2. Measures of Independent Variables and Problem Perceptions

Time in current location:
"How long a time have you been an expatriate in the subsidiary?"
Recoded to a four-point scale

Contemporaneity
Data from 1995 coded 1, from 2005 coded 2, and from 2012 coded 3

Cultural distance
Cultural distance is calculated as a simple version of Kogut and Singh's (1988) cultural distance index in which the difference between home and host country cultures is measured using Hofstede's (1980, 2001) country scores, giving equal weight to all four dimensions (Danish–German coded 1, Danish–Hong Kong coded 2, and other Scandinavian–East Asian distance coded 3).

Control factors, headquarters–subsidiary interaction
Averages of items found by means of explorative factor analysis (Appendix 3) and recoded to five- or six-point scales.

Problem perception
Ranking Scale:
"No problem" (1), "An insignificant problem" (2), "A problem, though not large" (3), "A large problem" (4), and "One of the largest problems your company has" (5)
or
"Disagree strongly" (1), Disagree somewhat (2) … Agree strongly (5)

Technical trade barriers:
Competition: "Strong competition"
Recruitment problems: "Recruiting of qualified staff"

Equivocality problems, four items/manifest variables:
1."Differences in norms often result in misunderstandings between expatriates and the [Japanese etc.] employees."
2."Translations from [Japanese etc.] to English or Danish cause misunderstandings."
3."Information is misinterpreted even though good will is present."
4. "It is difficult to get a clear picture of how the [Japanese etc.] will respond to my actions."

Headquarters–subsidiary problems, five items/manifest variables:
1."The headquarters disregards information vital to the subsidiary even though we [i.e., the subsidiary] have explained the importance of that information to the headquarters."
2. "The differences between the [Japanese etc.] and the Danish management styles create problems in the relationship between the headquarters and the subsidiary."
3."I wish that the headquarters had a better understanding of our situation in the subsidiary."
4. "The headquarters only care about our performance without showing any interest in our situation in [Japan etc.]."
5. "The headquarters' demands to the subsidiary seem unreasonable considering the subsidiary's situation."

Appendix 3. Factor Analysis of Items Indicating the Content of the Relationships between Headquarters and Subsidiary in 1995 (*n* = 119)

Item	Loadings
"Here, you are asked to indicate to what extent you use the stated tools in the relationship between the headquarters and the subsidiary. Please circle the (most) correct answer." 1 = Never 2 = Seldom 3 = From time to time 4 = Often 5 = Fixed part of the relationship	
Factor 1: Informal technical transfers and expatriation (face-to-face interaction) staff relationships	
Short visits from technical staff at the subsidiary to the headquarters	.76
Expatriate technical staff from the subsidiary to the headquarters	.61
Short visits from technical staff at the headquarters to the subsidiary	.61
Teams consisting of members from both headquarters and subsidiary	.55
Expatriate managers from the headquarters to the subsidiary	.52
Expatriate technical staff from the headquarters to the subsidiary	*.46*
Education of Japanese personnel in Danish or English	*.45*
Short visits from technical staff at the headquarters to the subsidiary	*.41*
Factor 2: Formal control and supervision (input from management) (vertical relationship)	
Management meetings between the headquarters and the subsidiary held in the subsidiary	.67
Contact in writing between the headquarters and the subsidiary management	.64
Short management visits from the subsidiary to the headquarters	.62
Rules concerning how the subsidiary should solve its tasks	.55
Contact by phone between the headquarters and the subsidiary management	.55
Detailed plans	*.48*
Plans without details but with key numbers	*.45*
Factor 3: Cultural control: Training practices, language, and organizational culture	
Education of Danish personnel in working with the Japanese	.70
Education of Danish personnel in the Japanese language	.70
Plans concerning the development of the organization's culture	.61
Education of Japanese personnel in Danish or English	*.48*
Plans without any specification of numbers	*.45*
Integrated online EDP systems	*.45*
Factor 4: Non-specific contacts	
Contact in writing between employees below the management level	*.78*
Contact by Phone between employees below the management level	*.75*
Contact in writing between the headquarters and the subsidiary management	*.43*

Note: Items loading less than .5 but beyond .4 are listed for observation only.

Appendix 4. Means, standard deviations, and rank-order correlations (Kendall tau-b)

Variable	Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12	13
Independent variables															
1. Expatriate	1.47	0.50	1												
2.Time in current location	2.13	1.11	.02	1											
3. Contemporaneity (of data)	1.32	0.47	−.14*	−.21***	1										
4. Cultural distance	2.26	0.77	.09	.02	.15**	1									
5. Control Factor 1	2.35	0.99	−.06	.10	.11*	−.01	1								
6. Control Factor 2.	2.94	1.00	.13**	−.03	.19***	.02	.23***	1							
7. Control Factor 3 "Cultural control"	3.23	1.76	.10	.09	.07	.19***	.28***	.24***	1						
8. Control Factor 4	3.32	1.37	.16**	.04	.01	−.01	.20***	.24***	.19***	1					
Problem perceptions															
9. Technical trade barriers	2.06	1.03	.04	.01	.05	.20***	.02	.02	.13**	−.09	1				
10.Competition	2.84	0.98	−.13**	−.05	−.09	−.10*	.00	.03	−.16***	−.12*	.03	1			
11.Recruitment problems	3.04	1.25	.19***	−.02	.05	.14**	.02	.13**	.04	−.03	.17***	.07	1		
12.Equivocality problems [1]	1.76	1.03	.22***	−.07	.03	.10	−.06	.02	.06	−.01	.17**	−.05	.24***	1	
13.Headquarters–subsidiary problems [1]	2.69	1.41	−.05	−.05	−.01	−.06	−.07	−.05	−.20***	−.07	.02	.11*	.17***	.31***	1

[1] Based on an average of the items in Appendix 2 where the variables are defined

* $p < .10$

** $p < .05$

*** $p < .01$