CULTURAL DIFFERENCES AND PROBLEMS IN HQ - SUBSIDIARY RELATIONSHIPS IN MNCs

by

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Introduction

During the last decades, it has often been argued that barriers between different cultures have diminished (Nordström, 1991, p. 28ff). Cultural integration has thus been in focus and several researchers have argued that the world, especially within the business community, has become more and more homogeneous (see e.g. Vernon, 1979; Porter, 1980, 1986; Levin, 1983; Ohmae, 1985). A recent trend, however, is to stress heterogeneity rather than homogeneity. Not least the animated discussions during the last few years about the future of the European Union shows that cultural differences still exist. Such differences are of special interest in MNCs, whose most characteristic feature is that they consist of units located in many countries.

A number of researchers (see e.g. Bartlett, 1986; Ghoshal and Bartlett, 1990; Hedlund, 1986; Ghoshal and Nohria, 1989; Gupta and Govindarajan, 1991; Nohria and Ghoshal, 1994; Prahalad and Doz, 1987; Rosenzweig and Nohria, 1994) have pointed to the fact that units within multinational firms are not identical. According to Ghoshal and Nohria (1989, p. 323) the MNC is the quintessential case of the dispersed firm with different national subsidiaries often embedded in very heterogeneous environmental conditions (Robock, Simmons and Zwick, 1977). Thus, MNC units are located in different cultural milieus (Hofstede, 1980) and people with different nationalities, belonging to the same firm, have to cope with each other. When people from different cultures work together, misunderstandings are likely to occur (Adler, 1986). Problems due to cultural differences are thus of special interest in such firms in which complexity, differentiation and variation in relations between the subsidiaries and HQ are characteristic features (Van Maanen and Laurent, 1993). As Hofstede (1983, p. 75) points out, cultural differences do matter, and cultural differences may become one of the most crucial problems especially for managements in multinational, multicultural firms.

Differences in culture is thus a main factor causing friction between parties in MNCs as cultural differences may lead to a communication gap. In order to get necessary information, individuals in different parts of the firm have to communicate and communication is largely influenced by cultural factors. Hence, people have culturally determined styles and ways of doing business, acquired primarily through their national culture but also through their business, corporate and individually based environments, and a reasonable hypothesis is that it is easier to communicate with people who share the same view of the world. Conflicts are also affected by cultural differences as individuals may have very different approaches to conflict resolution. (Tönnroos et al., 1993)
Although there are cultural differences between units belonging to the same firm, these differences are not necessarily a handicap. On the contrary, cultural diversity represents one of the most valuable assets in an MNC as each culture has some contribution to offer (see e.g. Ekstedt et al, 1994, Laurent, 1991, Van Maanen and Laurent, 1993). A main objective should not necessarily be to strive for a shared, common culture. However, cultural differences must be handled in such a way that they do not create too many problems in the relationship between HQ and subsidiaries. In order to function smoothly, there is a need for understanding between the units in the different cultures. The parties must learn how to cope with the cultural differences that exist.

In this paper cross-cultural differences within MNCs are in focus and the relationship between headquarters and subsidiaries is studied. There is always a geographical distance but there is also one in a mental sense, between two firms and also between actors in the same organisation (Hallen and Wiedersheim-Paul 1979, 1984, italics added). The purpose here is to discuss when cultural differences cause problems in the relationship between HQ and subsidiaries. A common hypothesis is that the greater the differences between countries, the greater the difficulties in understanding each other. As a consequence, the propensity for cultural-related problems should increase with cultural distances. This will be questioned in the following discussion and as an alternative explanation it will be suggested that problems in the relationship between HQ and subsidiaries are more affected by operational interdependences between HQ and subsidiary than by the cultural differences between them.

**Theoretical background**

According to a number of international business studies there are differences in organisations and management practices between companies in different countries (Hofstede, 1980, Laurent, 1983, Sandström, 1990) and difficulties in international business caused by what has been designated as “culture” have frequently been discussed. What do we mean by "culture" then? The last decade has seen a rapidly growing interest in this subject and a number of different definitions has appeared. Culture has been defined both as something an organisation is as well as something it has (Smircich, 1983, Sackmann, 1992). There is hence no consensus on the concept of culture (Czamiawska-Joerges, 1992, p. 160) and “(t)he organizational culture literature is full of competing and often incompatible views” (Smircich and Calás, 1987, p. 244ff). Although the concept of culture does not have one definition and meaning, a fundamental distinction can be made whether it is seen as a result of differences
between countries or if by “culture” we mean something that can be created in order to hold a firm together. As pointed out by Ghoshal and Westney (1993), from either of these perspectives, the multinational firm is suitable for concept building and empirical research. “The multinational represents a theater of action at the intersection between two cultures: the culture or subcultures of the MNC organisation and the culture or subcultures of the different countries in which the MNC operates” (Ghoshal and Westney, 1993, p. 19).

A number of researchers have studied the effects of national cultures on different organisations (Erramilli, 1991, Kogut and Singh, 1988, Nordström 1991.) The best known study on cultural differences is probably Hofstede’s (1980) study of 40 subsidiaries in one multinational firm. He argues that people within a nation are “collectively mentally programmed”, i.e. they interpret experiences in a certain way that differs from the interpretation in other cultures. These mental programs are developed in childhood and as they are reinforced and institutionalised in legal systems, government, schools, organisations etc., there are no rapid changes in culture (Hofstede, 1983, p. 76). According to Hofstede, cultural differences can be expressed as differences in symbols, heroes, rituals and values, of which the three first can be collected under the term “practices”. Such practices are more superficial than values and can be manipulated through organizational culture. Hence, while national culture mainly refers to differences in values developed early in a person’s life, organizational culture is primarily related to practices which have been learnt at work. Between national and organizational culture, Hofstede identifies a third category, professional culture, which is formed somewhere in between and consists of values and practices to an equal degree. (Hofstede, 1991)

Deeply rooted values which are hard to change is, according to Hofstede, the essence of culture. Such a "culture-specific" argument implies that different societies reflect relatively stable and distinct cultures (Child and Kieser, 1979). However, it is important to remember that within every nation there are cultural differences. Although it might be possible to distinguish some national characteristics it is misleading to use culture and cultural characteristics as a factor connecting all inhabitants of a country. With this limitation in mind, the starting-point in this paper is that different countries reflect different cultures. The more two countries differ, the more difficult it will be for members of these cultures to understand each other, i.e. the larger the cultural distance. As stressed already by Carlson (1966, p.20), “The firm's knowledge of a foreign market is a function of the cultural distance. The risks involved in doing business with

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1 During the 70s, Hofstede collected data for 40 countries (116 000 questionnaires) which forms the basis of his book Culture's Consequences (1980). Later, supplementary data for another ten countries has increased the number to 50 countries.
neighbouring countries whose institutions it knows seem much less than those inherent in transactions with strange countries far away”.

According to Hofstede (1980), differences in national cultures vary along four dimensions (individualism vs. collectivism, large vs. small power distance, strong vs. weak uncertainty avoidance and masculinity vs. femininity), and in his study the position of each country on each of the four dimensions has been indicated by a score. In order to capture cultural differences in general between countries, Kogut and Singh (1988) formed a composite index based on the deviation along each of the four cultural dimensions. The more two cultures differ, the higher the cultural distance between them will be. This methodology has been used by Nordström and Vahlne (1992) to illustrate cultural differences between Sweden and 22 other countries (see Appendix). These adjusted Hofstede data show that cultural differences are smallest to the neighbouring Nordic countries and to the Netherlands, followed by the English speaking countries Canada, Australia, USA and Great Britain. Western European and South American countries then follow, whereas Mexico and Japan, according to this ranking, are most culturally distant from Sweden.

It is often suggested that it is easier to understand people in countries that are culturally close to one’s own. Consequently, cultural problems should be less frequent in the relationship between actors in such countries and increase with distance. This will be further discussed and illustrated in the next section where empirical material from a study of Swedish MNCs is used. Problems due to cultural differences in the relationship between HQ and subsidiaries will be related to the cultural distance measurement, based on Hofstede’s data which was discussed above. A divergence from the hypothesis above leads to a discussion where interdependence is suggested to be of vital importance. The discussion ends in a number of propositions.

Methodology and empirical results

In an ongoing project at the Department of Business Studies in Uppsala the relationship between HQ and subsidiaries in some of the best known Swedish MNCs, representing forest products, power generation & distribution, gas and petrochemical products, telecommunications, welding consumables and hard materials/tools, is studied. The largest unit has more than 27,000 employees and the smallest about 1,000 (the mean is 8,600 employees). The turnover ranges from 1.7 to 23 billions SEK (the mean is about 8 billion SEK). These companies have a long history of international experience and they are highly internationalised. Almost all subsidiaries have their own production. To broaden the material, two service companies are included, one in the computer industry and one air transport Company. These two companies are much
smaller, with less than one thousand employees and a turnover just over 500 million SEK in each Company.

The data base contains 57 foreign subsidiaries, located in the following countries: Finland (5), Norway (5), Denmark (4), Germany (7), Great Britain (10), Holland (2), Belgium (3), Switzerland (4), Austria (1), France (5), Spain (2), Italy (6), Turkey (1) and Mexico (2). Thus, Europe dominates. However, studies such as Hofstede’s point to the fact that cultural differences between European countries are significant and therefore interesting to study. Further, Laurent (1986, 1991) claims that important differences that exist within Europe have been largely ignored or overlooked. An emphasis on Europe is therefore justified.

During the period 1991-1994 we visited the subsidiaries as well as HQ. While headquarters are located in Sweden, the subsidiaries are all abroad. It should be observed that HQ in the study is not the corporate HQ but a divisional management. The reason for this is that in Swedish MNCs, the tendency has been to strengthen the position of the divisions (Hedlund and Åman 1984). Rather than reporting to the CEO, to an increasing extent subsidiaries report to the divisional management. The operative responsibility for the subsidiaries thus lies in the hands of divisional management.

Individuals are the “carriers of culture” which implies that the picture that emerges depends on the characteristics of the respondents (Tömroos et al., 1993). Consequently, the selection of representative individuals is crucial. In order to capture how cultural differences are perceived in the subsidiaries, three different functions in each subsidiary have been covered - general management, sales and purchasing - as these can be seen as the "core functions" and thus vital for the existence of each unit. The individuals in charge of each of these functions were interviewed as they are those most likely to be involved in relationships with divisional HQ. 57 subsidiary managers, 52 purchasing representatives and 57 sales managers participated. At divisional HQ, the chief executive manager (sometimes together with an assistant), answered questions concerning the relationship with each subsidiary in the division included in the study. Four different respondents, representing different functions and levels in the firm, have thus evaluated if cultural differences have caused problems.

Presentation of results
Above it was suggested that cultural differences do exist and may be of such importance that the relationship between HQ and subsidiaries will be disturbed. In order to study this, the subsidiary respondents were asked to respond to the following statement: "Cultural differences have caused problems in the relationship with the Global Divisional Management" (= divisional HQ). The divisional HQ responded to
the same statement concerning their relationship towards each subsidiary. The distribution of answers on a five grade scale ranging from “Fully agree” to “Totally disagree” is shown in Table 1 below. The four respondent categories are shown separately while the percentage figures refer to the total.

Table 1: Cultural differences and problems in the relationship between HQ and subsidiaries.

<table>
<thead>
<tr>
<th></th>
<th>Div HQ</th>
<th>Sub. manager</th>
<th>Purchasing</th>
<th>Sales</th>
<th>Total</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fully agree</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>6</td>
<td></td>
<td>2.7%</td>
</tr>
<tr>
<td>Partially agree</td>
<td>16</td>
<td>13</td>
<td>11</td>
<td>10</td>
<td>50</td>
<td>22.4%</td>
</tr>
<tr>
<td>Neither nor</td>
<td>9</td>
<td>6</td>
<td>6</td>
<td>4</td>
<td>25</td>
<td>11.2%</td>
</tr>
<tr>
<td>Partially disagree</td>
<td>18</td>
<td>11</td>
<td>15</td>
<td>14</td>
<td>58</td>
<td>26.0%</td>
</tr>
<tr>
<td>Totally disagree</td>
<td>12</td>
<td>25</td>
<td>20</td>
<td>27</td>
<td>84</td>
<td>37.7%</td>
</tr>
<tr>
<td>TOTAL:</td>
<td>57</td>
<td>57</td>
<td>52</td>
<td>57</td>
<td>223</td>
<td>100%</td>
</tr>
</tbody>
</table>

The most apparent result is that in more than a third of the relationships, cultural differences have not caused problems. If the relationships where the respondents partially disagree with the statement are included, it can be seen that in nearly 2/3 of the relationships, problems due to cultural differences are not essential. This does not mean that cultural differences do not exist, but rather that the parties involved have learned how to handle the differences, or alternatively, do not need to handle them.

However, all relationships between HQ and subsidiaries do not function without problems. Although the majority partially or totally disagree with the statement, a fourth agree totally or partially that cultural differences have had such an impact that they have caused problems. Where are these problems most frequent then? In Table 1 it can be seen that there is some variation between the four groups of respondents. Among divisional HQ there are more respondents who fully or partially agree with the statement and considerably fewer who totally disagree than in the three respondent groups representing the subsidiaries. While divisional managers seem to experience most problems, the fewest problems seem to be experienced by the sales managers. Among them, almost 72 per cent totally or partially disagree with the statement.

To what extent is there a positive relation between cultural distance and problems in the HQ-subsidiary relationship? In Figure 1 below is shown how cultural distance in
Hofstede’s terms (See p. 5 and Appendix) is related to problems in each subsidiary. The answers to the statement in Table 1 (p. 8) concerning whether cultural differences have caused problems in the relationship (where “Fully agree” correspond to 5 and “Totally disagree” to 1) from three different respondents in each subsidiary as well as divisional HQ have been added. In live subsidiaries, only two of three respondents have answered the question. These subsidiaries are not included in Figure 1. Each point in the figure below represents one subsidiary. In seven cases, two subsidiaries within a country have experienced the same amount of problems, and this has been illustrated in the figure.

The points to the left represent subsidiaries in Norway, Denmark, Finland and Holland. In the middle, subsidiaries in Great Britain, Spain, France, Germany and Switzerland are found, and to the right, i.e. on a larger cultural distance from Sweden, are the subsidiaries in Belgium, Italy, Austria and Mexico.

**Figure 1: Cultural distance and problems in the relationship**

The pattern above indicates that there is no relation between cultural distance and problems. The correlation coefficient is -0.06 (Spearman’s rank).

Our material shows that most problems are experienced in the relationship between HQ and a subsidiary in Switzerland, where all four respondents fully or partially agreed with the statement. This subsidiary is followed by subsidiaries in France, Great Britain, Spain and Norway. However, the most distant subsidiary, located in Mexico,
does not experience problems due to cultural differences. Thus, our material does not support the hypothesis that problems increase with cultural distance. Cultural differences may affect a relationship negatively although there is a short distance between the actors. On the other hand, subsidiaries located in culturally distant countries may experience less or no cultural-related problems.

Figure 1 also indicates that subsidiaries located in the same country do no experience cultural differences in the same way. Although some subsidiaries in Switzerland, France, Great Britain, Spain and Norway seem to have problems in their relationships with HQ due to cultural differences, the majority of respondents in other subsidiaries in these countries do not experience problems. Consequently, there are differences between subsidiaries located in the same country. Furthermore, according to our data, there are differences within the same subsidiary as respondents in the same subsidiary experience the existence of problems due to cultural differences between subsidiary and HQ differently.

To sum up, the picture outlined above indicates that problems due to cultural differences call for other explanations than the cultural distance between HQ and subsidiary. In the following it will be suggested that such problems are more related to the character of the specific relationship that exist between HQ and each subsidiary, which in turn is contingent upon how interdependent the actors are.

**Interdependences**

No business unit can function in isolation. On the contrary, each subsidiary is involved in relationships with other actors. Every unit contributes to and receives something from the others, i.e. interdependence is a fundamental trait in all relationships.

In Thompson’s seminal work *Organizations in Action* (1967) there is a distinction of interdependence between three categories: Pooled interdependence is the simplest form and implies that each unit contributes and is supported by the whole. While all organizations have pooled interdependence, more complicated organizations also have sequential interdependence, i.e. the order of interdependence between two units is specified. The third and most advanced form stresses the reciprocity between the units and is consequently named reciprocal interdependence. The most complex organizations have pooled, sequential and reciprocal interdependence. According to Thompson, the three types place increasingly more demanding burdens on coordination and communication.

Interdependence is not necessarily balanced. In the resource-dependence perspective (see e.g. Pfeffer and Salancik, 1978) it is stressed that in a dyadic, asymmetrical relationship, the less dependent actor is the more powerful. When interdependences in
MNCs are discussed, the dyadic relationship between two units, such as HQ and a subsidiary, is too limited. The concept of functional centrality (Astley and Zajac, 1990), i.e. to what extent a specific unit (subsidiary) is important to the function of the whole system (division), seems to be more relevant. According to this view, it is not only other divisional unit’s dependence on the subsidiary which is in focus, but also the subsidiary’s dependence on these other units.

Interdependence is not solely an intraorganizational characteristic involving units within the MNC. Subsidiaries as well as HQ are also interlinked in relationships with actors such as customers and suppliers located outside the legal borders of the Company. Each MNC unit can thus be seen as part of a business network consisting of counterparts inside as well as outside the MNC. The relationships with external partners have led to a situation where the boundaries of the MNC are not always clear cut and well delineated (Doz and Prahalad, 1993). However, in the following, a broad distinction between corporate and external interdependence is made.

As was shown in Table 1 (p. 8), most HQ-subsidiary relationships do not seem to be disturbed by the cultural differences that exist between countries. One reason might be that there is a low degree of interaction between the parties involved. Following Thompson (1967), several empirical studies have shown that higher levels of interdependence require more communication (see e.g. Boyacigiller, 1990). According to cross-cultural communication and psychology literature, people behave differently with members of their own culture than with members of foreign cultures, and as is pointed out by Mishler (1965), the greater the cultural differences, the more likely that there will be misunderstandings and barriers to communication (Adler and Graham, 1989). Thus, a high level of interaction increases the risk of conflicts while little contact diminishes that risk (Olie, 1994).

Hence, problems experienced in the relationship between HQ and a subsidiary can be associated with the degree of interaction which in tum is contingent on how interdependent HQ and subsidiary are. When HQ and subsidiary are very dependent on each other they probably interact more regularly and meet each other more often. The propensity for problems to arise due to cultural differences is higher in such a case than in cases when subsidiaries are more independent and involved in their local networks. Thus, when a subsidiary has most of its important relationships with actors outside the firm, i.e. is more involved in its external network, HQ-subsidiary relationship may function without problems, although there is a considerable cultural distance. In such a case, there is probably only limited interaction between them, emotions play a smaller role and the need for cultural understanding is limited. This can be illustrated by the situation in the largest of the Mexican subsidiaries in the above-mentioned project.
The Mexican subsidiary has been part of the division for 20 years, it has about 1,600 employees and accounts for 5 per cent of the division’s turnover. The most important actors in the subsidiary’s network have been identified and it is obvious that the local external network is of high importance. The three most critical suppliers are all external as are two of the three most critical customers. The purchasing and sales managers have evaluated the importance of these most critical suppliers and customers for the subsidiary, as well as the subsidiaries’ importance for the suppliers and customers. The results indicate that the degree of interdependence is high. The most important customer, which is external, is considered to play a vital role for the subsidiary when it comes to such vital aspects as technological development, sales volume, information about market activities and also for the creation and maintenance of relations with other counterparts. Although the subsidiary’s importance to this customer is somewhat lower, it is still considerable. It can be noted that the customer which belongs to the same firm as the subsidiary is notably less important. As for the relationships with the suppliers, the interdependence between the subsidiary and all three external suppliers is also high. However, when the importance of this subsidiary for other units within the division is estimated by the divisional HQ, it is stated that the subsidiary has some importance only in connection with creating and maintaining relationships with external counterparts. The subsidiary is dependent on other divisional units only when it comes to technological information.

In the Swiss subsidiary, the one which experiences most problems of all subsidiaries in the study, the situation is quite the opposite. This subsidiary has 380 employees and accounts for about 25 per cent of the division’s turnover. The subsidiary has been part of the division for three years. The degree of interdependence with other units within the division must be considered high. The three most critical suppliers are all within the group, as are two of the three most critical customers. When the importance of the subsidiary for other units in the division is estimated by HQ, this subsidiary is considered to be of higher importance than other subsidiaries within the division. The division’s importance for the subsidiary is also substantial.

These short illustrations of the subsidiaries indicate that whether the subsidiaries are mainly involved in the corporate or external network has something to do with how cultural differences affect the relationship. If the degree of corporate interdependence is high, the relationship is more vulnerable to cultural differences than when the subsidiary has most of its critical relationships with actors outside the firm. In the latter case, resources necessary for the firm are mainly obtained through interactions with external units, which enables the subsidiary to function without the rest of the firm. There is no need for HQ to interfere or try to understand the foreign culture. The
relationship may function smoothly just because of the fact that they do not need to interact frequently.

From this follows that the propensity for problems in a relationship is higher when there is a high degree of interdependence between HQ and subsidiary. The interaction between the parties is then more frequent than if there is a low degree of interdependence and the cultural differences that exist between the countries have a higher impact. This leads to the following proposition:

Proposition 1: Cultural differences are more likely to cause problems in an HQ-subsidiary relationship when there is a high degree of interdependence between them.

**Interdependences in different functions**

Just as an MNC does not consist of homogeneous subsidiaries, a subsidiary is not a homogeneous entity. Within each subsidiary, there are different functions, such as production, marketing and sales, which to varying degrees are involved in exchange relationships with other corporate or external counterparts. For example, purchasing in one subsidiary may be conducted mainly from other units belonging to the same MNC, while the products are sold to external customers. In another subsidiary belonging to the same MNC, the situation might be the opposite. Obviously there is a great variety of structures, but the point here is that different functions within a subsidiary can be more interdependent and corporate embedded than others. Thus, respondents within a subsidiary may have different opinions of whether cultural differences cause problems in the relationship with divisional HQ. When we studied the sales and purchasing functions in our material, we found that eleven respondents responsible for purchasing and twelve responsible for sales partially or totally agree with the statement that cultural differences have caused problems in the relationship with divisional HQ. These 23 respondents represent 19 subsidiaries. Thus, only in four subsidiaries, both purchasing and sales directors agree that cultural differences have caused problems. In line with the discussion above, we propose that experiencing problems in the relationship is related to each function’s degree of corporate embeddedness.

Proposition 2: The more a subsidiary buys from other units within the division, the higher the propensity for problems due to cultural differences in the HQ- purchasing department relationship will be.
Proposition 3: The more a subsidiary sells to other units within the division, the higher the propensity for problems due to cultural differences in the HQ- sales department relationship will be.

When the concept of culture was discussed in the first part of this paper, professional culture was mentioned as an aspect between national and organizational culture. Our data indicate that sales and purchasing representatives experience somewhat fewer problems due to cultural differences. One explanation might be that the professional culture is more pronounced for these categories than for the general managers at HQ and subsidiary level and that this facilitates communication. Sales and purchasing representatives probably interact with other sales and purchasing managers in the division and their professional culture helps to reduce cultural differences.

How power affects the relationship
The power relationship between the parties involved may also affect how cultural differences are perceived. It has been stressed that exchanges between parties lead to interdependences which are not necessarily symmetrical.(Emerson, 1962, Blau, 1964). Although all units within a multinational division might be of importance for the functioning of the whole division, some units may be more vital. From this follows that the more important a subsidiary is for the division, the higher its power and also its possibilities to dominate over more dependent units will be. Thus, having the upper hand in a relationship makes a unit less vulnerable to influences from others. Cultural differences are less likely to cause problems for such a unit, which is more probably able to impose its cultural values on others. Consequently, the more dependent a party is in an interdependent system, the more likely that this party experiences problems due to cultural differences.

Proposition 4: The more a subsidiary is dependent on the division, the higher the propensity for problems due to cultural differences.

Proposition 5: The more a division is dependent on a subsidiary, the higher the propensity for problems due to cultural differences.

Concluding remarks
In this paper it has been stressed that cultural differences are a reality in MNCs. The aim has been to discuss when cultural differences cause problems between HQ and
subsidiaries. A common argument is that problems are more frequent the more different the cultures are. Our data, however, indicate a more complicated picture. Although there might be a considerable cultural distance, this does not necessarily mean problems. As seen in the empirical material, the respondents in most HQ-subsidiaty relationships do not experience that cultural differences cause major problems. A main point is that these differences do not lead to problems if there is a low degree of interdependence. The network structure in which a subsidiary is embedded seems, in this empirical material, to be more related to cultural problems than the cultural distance between HQ and subsidiary. Subsidiaries which are of lower importance for other units in the firm and with most of their critical counterparts outside the MNC might experience only minor problems due to cultural differences. If there is a low degree of interdependence, the need for HQ to understand the subsidiary’s culture is less vital. The subsidiary can be left to handle its business in the external network in which it is involved and personal interaction between HQ and subsidiary is not necessary. The relationship between HQ and a subsidiary which is deeply involved in its local network may function best when it is accepted that the subsidiary lives in a world apart and HQ does not intrude. In such a case the "pull" from the subsidiary’s network and its culture is more vital for the subsidiary.

On the other hand, subsidiaries which are important to other units within the firm and have critical relationships with counterparts inside the legal boundaries may experience major problems due to cultural differences. In such a case, HQ and subsidiary are likely to have more interpersonal contacts. The more people have to interact, the more important the cultures, and the higher the propensity for conflicts. Cultural differences between the actors involved may then become more apparent and put a strain on the relationship.

Although it has been suggested that frequent interaction is a cause for problems, it is worth noting that it is probably also a prerequisite for the development of a positive atmosphere, characterised by mutual trust and understanding. As time goes by, the parties can hopefully learn how to handle the cultural friction that exists.
REFERENCES


Appendix

Adjusted Hofstede data

<table>
<thead>
<tr>
<th>Country</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Norway</td>
<td>1.2</td>
</tr>
<tr>
<td>Denmark</td>
<td>1.9</td>
</tr>
<tr>
<td>Holland</td>
<td>3.4</td>
</tr>
<tr>
<td>Finland</td>
<td>7.1</td>
</tr>
<tr>
<td>Canada</td>
<td>17.7</td>
</tr>
<tr>
<td>Australia</td>
<td>25.3</td>
</tr>
<tr>
<td>USA</td>
<td>25.9</td>
</tr>
<tr>
<td>Great Britain</td>
<td>27.6</td>
</tr>
<tr>
<td>Spain</td>
<td>27.7</td>
</tr>
<tr>
<td>France</td>
<td>30.3</td>
</tr>
<tr>
<td>Chile</td>
<td>30.7</td>
</tr>
<tr>
<td>Germany</td>
<td>31.5</td>
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<tr>
<td>Switzerland</td>
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<td>Brazil</td>
<td>34.0</td>
</tr>
<tr>
<td>Turkey</td>
<td>34.6</td>
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<tr>
<td>Argentina</td>
<td>35.4</td>
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<td>Belgium</td>
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<td>Portugal</td>
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<td>Italy</td>
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<tr>
<td>Austria</td>
<td>48.4</td>
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<tr>
<td>Mexico</td>
<td>59.4</td>
</tr>
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<td>Japan</td>
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</tr>
</tbody>
</table>

Source: Nordström and Vahlne, 1992

A comparison with Nordström’s psychic distance study indicates that the similarity between the rankings is quite high. The Spearman rank correlation coefficient is 0.61, significant at the 0.01 level. As the overall pattern between the countries in the studies is about the same, the conclusion is that psychic/cultural distance is rather stable. (Nordström and Vahlne, 1992.)