COPING WITH REMOTE CONTROL:
Comparing the Control of Scandinavian Subsidiaries in Germany and East Asia

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Abstract

The considerable cultural distance between Scandinavia and East Asia may be reflected in headquarters-subsidiaries relations. This paper provides a comparative analysis from this perspective, focusing on control and coordination mechanisms of a matched sample of Danish subsidiaries in Japan and Germany including qualitative perception of problems. In order to trace general effects, this study includes other Scandinavian subsidiaries in East Asia, in total 140 subsidiaries. Cultural distance is found to be associated with a configuration of control involving extensive use of informal transfers, and the subsidiary CEO is a key to understand how uncertainties are handled in the interface.

Key words: Cultural distance, East Asia, Headquarters-Subsidiary Control, Multi-country Study

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Introduction

The relationship between headquarter and subsidiary is a classical research theme within the field of international management. Still, this is a challenging theme as the globalization of business environments may have altered the conditions since the classical review article by Martinez and Jarillo (1989) more than two decades ago. Still, a deeper understanding of cross-cultural control is needed.

In this report, we will attempt to integrate paradigms deriving from market, culture, and organizational control in the analysis of the - less masculine ? - Viking way of applying control mechanisms in respect to foreign subsidiaries. Drawing on data from 140 Scandinavian subsidiaries in Germany, Japan, South Korea, China, and Hong Kong, we examine headquarter-subsidiary relations not on the basis of headquarters’ views on control issues, but on information derived from the CEOs of the subsidiary. Our purpose is also to make up for the bias that big countries’ Multinational Corporations (MNCs) have dominated contributions to the field (Nohria and Ghoshal, 1997), as we will report from MNCs from small European countries, i.e. mainly Denmark.

Control of foreign subsidiaries is a complex issue. The concept can be defined broadly as a process used to ensure that all units of the organization strive towards common organizational goals and not just a process restricted to exercise of power. The concept of control should be connected to the linking and enabling process of coordination (Van
In the handling of the headquarter–subsidiary relationship, this involves corporate decision-making as well as corporate rules and corporate values, including both output and/or behavioral control.

Traditionally, control and coordination mechanisms have been divided into formal/informal and personal/impersonal types of contact (Martinez and Jarillo, 1989; Harzing and Sorge, 2003). However, the analysis has to take into account that actual control is a combination of different mechanisms. Control strategies emphasizing monitoring and information processing and control strategies emphasizing the members' internalization of organizational goals are interrelated (Eisenhardt, 1984). Revealing combinations and configurations of foreign subsidiary control mechanisms is still an empirical issue.

Furthermore, the globalization of business activities has led to an interest in the way the control of foreign subsidiaries function under different types of strategy and corresponding organizational structures as suggested by Bartlett and Ghoshal (1989), i.e., multinational/multidomestic, international, global and transnational structures affecting the overall nature of the relationship to the foreign subsidiaries of the MNCs.

The network structure is argued to have an increasing importance in the transnational borderless type of organization in the global world. The role of the headquarters has changed in this organizational context (Bartlett and Ghoshal, 1989). The center of such
an organization is not necessarily the headquarters. In general, large international firms have to function within a delicate balance between global integration and local responsiveness giving more attention to subsidiaries as autonomous units. The control mechanisms of subsidiaries may no longer be sufficiently understood by referring to formal control and the organizational hierarchy. Non-hierarchical as well as informal and more subtle mechanisms of control have to be better understood. Leading researchers, including several Nordic researchers, have emphasized the importance of normative control through shared norms and outlook, internal promotion and internal transfers (Edström and Galbraith, 1977; Hedlund, 1986, 1994).

The Scandinavian cultural profile as described by Hofstede (1980, 2001) seems to support such mechanisms of control; low inequality, low uncertainty avoidance, high individualism and high femininity seem at least not to be contradictory to the application of such mechanisms. Replications of Hofstede’s IBM study indicate that the Scandinavian profile is rather robust and stable (Merritt, 2000; Hoppe, 1990; Søndergaard, 2002). In addition to cultural factors, institutional factors seem to cluster the subsidiary management from companies with the country of origin in the Nordic countries (Benito et al., 2003).

Based on these assumptions, we explore questions relating to the Danish MNCs' adjustment of control mechanisms to the country-of-location of the subsidiary; how do
control mechanisms of subsidiaries in East Asia and Germany differ and how are control
problems perceived at the cultural-cultural interface of the foreign subsidiary?

Concepts and research in the global era of multinational corporations

Control mechanisms of foreign subsidiaries have been associated with a number of
strategic and contextual factors influencing the control strategy of multinational
corporations. We agree with Gomez and Sanchez (2003) that it would be naive to
believe that MNCs choose the control mechanisms that are best suited to one set of
factors, e.g. strategies, regardless of other forces. At a specific level, it is also
documented that the choice of control options depends on task programmability,
information systems and uncertainty (Eisenhardt, 1985).

While practitioners face complex challenges when considering which mechanisms of
control to adapt, researchers face the requirements of depth and rigor at a low cost in
terms of time and resource when considering which factors to include in their analysis of
foreign subsidiary control mechanisms. This leads to research designs with
predominantly one set of explanatory variables.

The issue of strategic considerations has been of particular interest to researchers who
have looked into factors making MNCs adopt specific control mechanisms, e.g.
Birkinshaw and Morrison (1995), Gupta and Govindarajan (1991), Martinez and Jarillo (1989 and 1991). Within the four strategy types suggested by Bartlett and Ghoshal, the major point of the theory of the multinational corporation of the global era is that the control mechanisms of foreign subsidiaries require a different balance between local adjustment and global integration as well as worldwide learning to fit the particular overall strategy type of the multinational corporation.

The business forces of local adjustment and global integration of the subsidiary seem central to the argument of the transnational company. The argument of fit between the control mechanism mix of centralization, formalisation and normative integration and organizational performance was supported by the study of Nohria and Ghoshal (1997).

**Cultural distance and control mechanisms - Framework**

Our approach on control draws on traditional agency theory, organizational theory, and information processing views (Eisenhardt, 1985; Galbraith, 1973). Basically, control of subsidiaries is seen as a solution to an agency problem. Out of the necessary delegation to a foreign subsidiary grows the potential risk that the subsidiary will pursue goals that are incongruent with the goals of the parent company. In relation to these views, cultural distance between headquarters and subsidiary reinforces the agency problems and is generally suggested to influence the choice of control mechanisms including
expatriate staffing (Hamilton and Kasklak, 1999; Gong, 2003; Gomez and Sanchez, 2003).

This may be seen as a corollary of the general theory of coordination because cultural distance fosters uncertainty, and a combination of task interdependence and task uncertainty raises coordination costs (Thompson, 1967). As task uncertainty increases, studies have especially shown increases in the use of horizontal channels and both scheduled and unscheduled meetings (Van de Ven et al., 1976).

In agency theory, the concept of uncertainty is given an even more explicit emphasis as outcome of organizational activities is considered to be a function of both employees' behaviour and random effects. Thus, in the distinction between output control and behavioural control, output control implies that the controlled unit bears some of the risk (Eisenhardt, 1985). Within organizations, the use of these different control modes depends on national cultures (Ouchi, 1979; Hedlund, 1986).

As mentioned below, these theoretical views are to some extent supported by empirical research and lead us to formulate the following hypotheses:

**H1:** Increased cultural distance between host and home country is associated with an increased use of control mechanisms in the headquarter-subsidiary relationship.
H2: Increased cultural distance between host and home country is associated with an increased use of informal control mechanisms in the headquarter-subsidiary relationship.

Especially the recent study by Gong (2003) focusing on subsidiary staffing seems to support the last hypothesis, although the effect seems to weaken over time.

The concept of distance is a frequent theme in studies of international management in the industrial network research traditions. Differences in language, laws and regulations, business practices and supplying attitudes are some of the manifest areas of conditions for business relationships with suppliers located internationally. The perceived difference between home country and the sourcing markets is referred to as cultural distance or psychic distance (Johanson and Vahlne, 1977). In a thorough review, Sarkar and Cavusgil (1996) list 11 studies where the effect of cultural distance on the particular form of foreign investment is investigated, in particular the choice of entry mode (Kogut and Singh, 1988) and the degree of control over foreign operations (Erramili and Rao, 1993).

A pivot point in studying buyer-seller relationships is the notion of distance and cultural differences. In the network literature, this topic has traditionally been treated under the concept of social or cultural distance or psychic distance (Hallén and Wiedersheim-Paul, 1979). The distance between buyers and sellers is often internalised as an
organizational problem in the foreign subsidiaries with the dividing lines between local employees and expatriated managers or between units with different orientations.

The concept of distance implies that the greater the difference in language and frame of mind, the greater the distance in general because more severe difficulties and challenges in communication between the parties may be expected. This argument appears plausible. On the other hand, precisely because of the distance, efforts such as cultural training, language courses, and use of cultural intermediates may have been put into place to overcome the perceived distance. Secondly, the traditional distance concept implies a communication situation between two or more actors with different cultural backgrounds without indicating what is important and how. The concept of psychic distance remains a debated concept in the literature (Conway and Swift, 2000; O’Grady and Lane, 1996; Stottinger and Schlegelmilch, 2000). The cultural distance concept formed by Kogut and Singh (1988) giving equal weight to Hofstede's four dimensions also has shortcomings in capturing the complexity of cross-national differences (Shenkar, 2001, Xu and Shenkar, 2002).

However, the Kogut and Singh measure is frequently used in studies of differences in modes of entry, levels of investment failures and successes of international joint ventures. The studies using the Kogut and Singh measure have predominantly been focusing on distances between organizational units with different degrees of autonomy and interdependence. To our knowledge, the Kogut and Singh measure has not been
used on studies of organizational units within the same company located in difference countries, e.g. headquarter–foreign subsidiary relations.

The prospects of rewarding results in our study of such relations are based on the mixed results from previous studies indicating consequences of structural design, as differences on success and failure rates, survival rates of foreign ventures are related to cultural distances between partners.

The results are mixed mainly because of different definitions of success and failure (Hofstede et al., 2002). Thus, the mixed results seem to be caused by the dependent variable rather than the independent variable. Cultural differences, measured by the Kogut and Singh index, seem to make a difference in relation to the design choices, e.g. choice of communication forms of remote control.

Moreover, the Kogut and Singh measure has an additional advantage. Often one or two of Hofstede’s dimensions of cultural distances is singled out in the analysis of variance of organizational behaviour between countries. The dimensions interact in particular when related to issues of control. This interaction is captured by the measure. The measure here integrates all four dimensions.

The choice of communication form is conceptually related to the perceived need to reduce uncertainty of the unknown future course of the subsidiary and thus is mainly
associated with one of the dimensions found by Hofstede, i.e., uncertainty avoidance, defined by Hofstede (1991:113) as the extent to which the members of a culture feel threatened by uncertain or unknown situations.

Hofstede's uncertainty avoidance concept builds on Cyert and March's expression uncertainty avoidance, introduced in 1963 in organization theory to describe how some American firms handled uncertainty (Hofstede, 1991). Avoiding uncertainty is not the same as avoiding a calculated risk since the concept of uncertainty covers feelings and perceptions. Uncertainty is not only the fundamental problem with which top management of the organization must cope (Thompson, 1967). It is both an objective property of the environment and a perceptual phenomenon specific for each individual or for each culture (Milliken, 1987).

If people are programmed to view rules differently in different countries, difficulties are likely to occur when keeping international ventures together. Keeping such ventures together demands flexibility in the use of coordination tools as well as some degree of control. Partners programmed in weak uncertainty cultures, such as the Nordic countries, feel uncomfortable with rigid rules, especially if the rules are never followed. Partners socialized in strong uncertainty cultures, such as Latin Europe and America and the Mediterranean countries, feel uncomfortable without a structure of rules, even if the rules are impractical (Hofstede, 1991). Since Japan and Korea have high scores on
uncertainty avoidance, one may expect a similar inclination to rules in these countries, although specific direction may be preferred to abstract universal rules.

Research findings suggest that uncertainty avoidance is likely to affect the cross-border industrial networks as far as control and trust are concerned (Hofstede, 1991; Kogut et al., 1989; Laurent, 1983; Schneider and de Meyer, 1991).

To further develop our understanding of the subsidiary contextual factors, we thus find it rewarding to include the distance concept at different scales of analysis into our examination of the control mechanisms of foreign subsidiaries in distant markets compared with a closer market.

Two major research traditions of international management lead us to formulate two research questions:
1. How does cultural distance affect the use of control mechanisms?
2. How are control problems in foreign subsidiaries perceived?
The use of research questions indicates the explorative nature of the research. However, we intend to use rather structured comparative analyses and for example test the statistical significance of differences between Japanese and German subsidiaries. All in all, the analysis is guided by the model in Figure 1.
The model reflects the intention to explain the impact of cultural distance when controlling for other influential variables. Several dimensions of distance - cultural, administrative, geographic, and economic - may influence the profitability of foreign activities (Ghemawat, 2001). Thus, the operations and performance of foreign subsidiaries depend on geographical distance. Absence of proximity makes it difficult for headquarters to supervise directly and other means of coordination and control will be considered (O'Donnell, 2000). Changing environment in the economic, political and industry context of the foreign subsidiary is also expected to influence operations and outcomes since it increases uncertainty (Boddewyn and Brewer, 1994; O'Donnell, 2000). Control may depend on performance. Performance of the subsidiary cannot be assumed to be a simple positive result of control. Low performance often makes managers react with tighter formal control, which in turn may be dysfunctional (Simon and March, 1958). Size is at several levels expected to lead to formalization, but size as well as market strength may also lead to autonomy of divisions (Blau, 1968; Greiner, 1972; Van de Ven et al., 1976).
Figure 1: Framework - Model of Cultural Distance and Subsidiary Control

Subsidiary context
[Control variables]

Size
Geographical distance
Changing environment
Competitiveness in local market/Market strength
Performance
Subsidiary treated with special consideration

Cultural Distance
(Between home country and subsidiary country)

Expatriated/local Subsidiary Manager

Modes of Control and Coordination of Subsidiary

Perceived Problems by Subsidiary Manager
**Methods**

We examine data of control mechanisms of foreign subsidiaries collected in a qualitative and quantitative study of Danish subsidiaries in five countries.

The data used in this paper is mainly based on data gathered in a mail questionnaire in 1995. This survey forms part of a rather comprehensive study of coordination problems in Danish subsidiaries in East Asia and Europe. The study includes qualitative interviewing, and the core survey of Danish subsidiaries in Japan and Germany was in 1996 extended to include Danish subsidiaries in China, Hong Kong, South Korea, as well as Swedish and Norwegian subsidiaries in Japan.

The formulation of the questionnaire was based on results from a qualitative study of 14 Danish subsidiaries in Japan. This preliminary study revealed a broad range of coordination and control problems in the headquarter-subsidiary relationship, and a description as well as a discussion of these problems has been made available for managers in a formerly published book. Thus, the questionnaires were 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 state to what degree they agreed with statements on problems on a Likert scale. Response rate: 58 and 56 %, respectively.

In the final part of the study, these results were interpreted interactively in recent
interviews with 20 CEOs and other managers in the Japanese subsidiaries and in the Danish headquarters. A small field study of headquarters views terminated the empirical work in the summer of 1996.

The sample was chosen in the following manner:

Japan: The questionnaire was sent to all Danish subsidiaries in Japan as recorded by the Danish Ministry of Foreign Affairs (MFA) per 20 August 1995.

Germany: The questionnaire was sent to the Danish subsidiaries in Germany with a sister company in Japan as recorded by the Danish Ministry of Foreign Affairs per 20 August 1995 and as informed by the companies' headquarters by phone.

Other: The questionnaire was in 1996 sent to all the Danish subsidiaries in China, Hong Kong, and South Korea (in English and in Chinese/Korean), as well as to the Swedish and Norwegian subsidiaries in Japan.

The questionnaire was addressed to the chief executive officer of each subsidiary. Together with the questionnaire followed an addressed, non-stamped response envelope. The following Table 1 illustrates the response rates from each sample. The response rates seem considerably higher than other surveys of foreign subsidiaries, which according to information provided by Gomez and Sanchez (2003) achieve a response rate of around 20%.
Table 1: Sample size and response rates

<table>
<thead>
<tr>
<th>Population</th>
<th>Japan</th>
<th>Germany</th>
<th>Hong Kong</th>
<th>China</th>
<th>South Korea</th>
<th>Norway</th>
<th>Sweden</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total number of subsidiaries</td>
<td>66</td>
<td>660</td>
<td>66</td>
<td>56</td>
<td>18</td>
<td>----</td>
<td>----</td>
</tr>
<tr>
<td>according to the MFA</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corrected sample (*)</td>
<td>50</td>
<td>50</td>
<td>62</td>
<td>55</td>
<td>17</td>
<td>----</td>
<td>----</td>
</tr>
<tr>
<td>Number of respondents</td>
<td>29</td>
<td>28</td>
<td>20</td>
<td>18</td>
<td>8</td>
<td>14</td>
<td>23</td>
</tr>
<tr>
<td>Response rate</td>
<td>58%</td>
<td>56%</td>
<td>32%</td>
<td>33%</td>
<td>47%</td>
<td>----</td>
<td>----</td>
</tr>
</tbody>
</table>

(*) Reasons for correcting the sample: a) some of the companies listed in the official list were not subsidiaries, but included by the MFA because of their Danish president or otherwise Danish relations; b) some of the companies listed did not report to the headquarters, but were subsidiaries of the subsidiary reporting to the headquarters; c) in one case, the headquarters requested us not to send questionnaires to the subsidiaries.

In the first part of the study - of the Japanese and the German subsidiaries - there is no significant difference between the two samples, and the response rate is rather high, showing great interest in the study. In this part of study, it was possible to analyse the response rates in more detail. There appears to be differences with regard to the response rates of the Danish, Japanese, and German respondents. The following Table 2 compares the response rates based on the different nationalities.
The Danish respondents appear to have a somewhat higher response rate in both the German and the Japanese sample. The German and the Japanese respondents have almost identical response rates. In spite of this difference between Danes and Japanese/Germans, all groups of respondents have a high response rate. This indicates that non-response bias is no major problem in itself.

A major related issue in this type of questionnaire is the issue of a culture-based response bias. The sample involves both Asian and European respondents. Their cultural roots may cause people of each nation to provide more or less extreme answers to the questions. Assuming, for example, that the Japanese respondents tend to answer the questions more cautiously than the other nationalities, the results are influenced in the following manner: Problems that are de facto significantly more important in Japan than in Germany may not show. However, this bias is somewhat counterweighted by the fact that there are Danish respondents in both samples. If the samples had been sufficiently large, it would have been possible to test this bias by comparing responses from Danes in Germany with responses from Danes in Japan. It appears, surprisingly, that the
Danish respondents provide more cautious answers than their Japanese and German colleagues. In particular, caution is made when it comes to making statements about the German and Japanese employees and managers.

*Measures: Coping with Validity and Language Problems*

The research design shares features with methodological triangulation (Denzin, 1978) in the sense that concepts and hypotheses are partly grounded by unstructured qualitative methods to be followed by more structured analyses and even hypotheses testing. The interviews in the early stage were only structured and systematic to some degree. Questions were asked on the basis of Galbraith's *Concept of Organization Design* (Galbraith, 1973). This framework mainly suggests themes for the interview rather than exactly phrased questions. As noted by Kvale (1996), the interview is a thematically focused conversation about the life world of the respondent in which the interviewer is looking for description, explanation, knowledge, and interpretations of the subject matter.

Consequently, it is possible to give the respondents' perception proper consideration in the survey. The relevance of the questions is certified by the fact that the questions have been phrased by CEOs, directors, and other leading managers in Danish subsidiaries. The managers signed a written report on each interview, and on the basis of these reports, the questions have been formulated to cover the points made by the
managers. In order to make sure that each question was formulated as clearly and understandably as possible, five professionals were asked to read thoroughly through the questionnaire and take notice of any questions that could be interpreted in several ways. Also, the questions should be formulated in an easy to read, unbiased language and should not be too long. This procedure involved a few changes to one of the scales and three of the questions.

To avoid some of the interpretation problems stressed in the literature on cross-cultural comparative methods (Hui and Triandis, 1985) and to ensure an adequate translation, the questionnaires were formulated in English and Danish and then translated into each of the Asian languages. In the process of translation, the translators, who were all native speakers of the questionnaire language, asked questions concerning the exact meaning of words, enforcing the researcher to state more precisely what was meant. Nevertheless, one Japanese respondent and one German respondent complained about the translation of a few questions. A retranslation of the questionnaire after the first survey led to the elimination of three questions.
Findings

**Mapping Differences in Control Mechanisms**

The first step of our analysis indicates how the use of headquarter-subsidiary control seems to be adjusted to a distant host country. Thus, Table 3 shows the frequency of different forms of contact between Danish parent companies and their subsidiaries in Japan and Germany, respectively. The reported contact is based on a modified version of the categories suggested by Harzing and Sorge (2003) and a number of significant differences are found. Since the comparison is based on a matched sample in the sense that data are collected among Danish companies with subsidiaries in both Japan and Germany, this is a controlled analysis of the importance of distance. Then significance at the 10 percent level should also be noticed.

First of all, the results show that Danish multinationals to a larger extent use direct personal control mechanisms and indirect personal control/coordination devices towards the Japanese subsidiaries than towards the German subsidiaries. The use of international management training is significantly more extensive in the Japanese subsidiaries at the 5 percent level. The use of detail planning is on average also more extensive, but this difference is insignificant and only based on a one-item construct.
All in all, these findings may illustrate the effect of cultural distance on the use of control mechanisms. The use of indirect (input) controls (socialization, management training) is significantly higher for subsidiaries in the culturally distant market compared to subsidiaries located in the culturally closer market. Thus, the results are in line with the expectations of Hamilton and Kaslak (1999) and Gomez and Sanchez (2003) and provide some support of our hypotheses.

**Table 3: Control of Danish Subsidiaries in Japan and in Germany**

<table>
<thead>
<tr>
<th>Mean scores</th>
<th>Japan (N=29)</th>
<th>Germany (N=28)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Direct, Personal</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Direct supervision (Visits, meetings, written and phone contact) *)</td>
<td>3.69</td>
<td>3.39</td>
</tr>
<tr>
<td>- Expatriate control (Degree of expatriate presence)</td>
<td>2.03</td>
<td>2.12</td>
</tr>
<tr>
<td><strong>Direct, Impersonal</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Formalization</td>
<td>3.93</td>
<td>3.77</td>
</tr>
<tr>
<td><strong>Indirect, Personal</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Socialization *)</td>
<td>2.92</td>
<td>2.27</td>
</tr>
<tr>
<td>- Informal communication</td>
<td>3.76</td>
<td>3.79</td>
</tr>
<tr>
<td>- International management training **</td>
<td>2.74</td>
<td>2.13</td>
</tr>
<tr>
<td><strong>Indirect, Impersonal</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Output evaluation</td>
<td>2.87</td>
<td>2.67</td>
</tr>
<tr>
<td>- Detail planning</td>
<td>3.73</td>
<td>3.15</td>
</tr>
</tbody>
</table>

Measures are defined in the appendix.

Scale: The scale ranges from (1) "Never", through (2) "Seldom", (3) “From time to time", (4) "Often", to (5) "Fixed part of the relationship".

*) Difference between the samples significant at a 10% level (t-test of distributions).

**) Difference between the samples significant at a 5% level (t-test of distributions).
Our data enable us to expand the exploration of the research questions and to examine other subsidiaries placed in other parts of the East Asian region. The results reported from this more heterogeneous sample in Appendix 3 indicate that subsidiaries in China and South Korea closely resemble the Danish subsidiaries in Japan. The control mechanisms applied to the subsidiaries in China deviate only significantly from the control mechanisms applied to the subsidiaries in Japan by less use of detailed planning.

The control mechanisms in relation to subsidiaries in South Korea only deviate significantly from the control mechanisms in relation to the subsidiaries in Japan by less use of direct supervision - a devil's advocate would claim that the explanation might be the relative attractiveness of a trip to Japan or China. Hong Kong, still a colony of Britain at the date of the data collection, generally has a mediate position. In use of control devices, the relation to subsidiaries located in Hong Kong is more similar to the relation to subsidiaries located in Germany than to the relation to subsidiaries located in Japan; international management training is significantly less used in subsidiaries located in Hong Kong than in subsidiaries situated in Germany. With the exception of Hong Kong, the Danish multinationals to a large extent employ indirect personal forms of control in the relations with subsidiaries located in the geographical distant markets of China and South Korea.

Results from Norwegian and Swedish multinationals with subsidiaries in Japan do not deviate from the results of the Danish multinationals concerning the impersonal and
indirect form of control (socialization) (last columns of Appendix 3). Nevertheless, there are differences even between companies from the Scandinavian countries that are close to each other in all Hofstede's dimensions. In this sense, our data seem to provide support for the argument that country-of-origin matters (Harzing & Sorge, 2003), but these differences may reflect industry differences.

So far, the analysis is based on the simple four categories of control including single item (socialization and detail planning) and low reliability constructs (formalization and output evaluation). In the next step, we use explorative factor analysis (with principal components and "varimax" rotation) of all control items in order to trace reliable dimensions in actual control. From this analysis, four interpretable dimensions emerge (See Table 4): (1) *Informal transfers/expatriation*: This factor covers both managerial expatriation and visits by technical staff and mixed teams. Thus it takes into account that expatriation is not restricted to the managerial level as stressed by Gong (2003); (2) *Formal control and supervision*: This factor connects control by rules with managerial visits and frequent contacts; (3) *Cross-cultural training*: This factor connects training with control through organizational culture; (4) *Employee contacts*: This factor covers contacts below the managerial level.
Table 4: Results of Factor Analysis on Control Items

<table>
<thead>
<tr>
<th>Factor 1 Informal Transfers/Expatriation</th>
<th>Factor 2 Formal Control and Supervision</th>
<th>Factor 3 Cross-cultural Training</th>
<th>Factor 4 Employee contacts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short visits from technical staff at the subsidiary to the headquarters</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expatriate technical staff from the subsidiary to the headquarters</td>
<td>0.76377</td>
<td>0.16933</td>
<td>-0.05519</td>
</tr>
<tr>
<td>Short visits from technical staff at the headquarters to the subsidiary</td>
<td>0.61433</td>
<td>-0.29605</td>
<td>0.18242</td>
</tr>
<tr>
<td>Teams consisting of members from both the headquarters and the subsidiary</td>
<td>0.60701</td>
<td>0.35441</td>
<td>-0.15290</td>
</tr>
<tr>
<td>Expatriate managers from the subsidiary to the headquarters</td>
<td>0.55039</td>
<td>0.21429</td>
<td>0.42290</td>
</tr>
<tr>
<td>Expatriate technical staff from the headquarters to the subsidiary</td>
<td>0.52116</td>
<td>-0.29064</td>
<td>0.34694</td>
</tr>
<tr>
<td>Short management visits from the subsidiary to the headquarters</td>
<td>0.45737</td>
<td>0.07547</td>
<td>0.23135</td>
</tr>
<tr>
<td>Management meetings between the headquarters and the subsidiary held in the subsidiary</td>
<td>0.41274</td>
<td>0.08431</td>
<td>0.09460</td>
</tr>
<tr>
<td>Contact in writing between the headquarters and the subsidiary management</td>
<td>0.28830</td>
<td>0.67228</td>
<td>0.21303</td>
</tr>
<tr>
<td>Short management visits from the headquarters to the subsidiary</td>
<td>-0.08287</td>
<td>0.63798</td>
<td>0.19990</td>
</tr>
<tr>
<td>Rules concerning how the subsidiary should solve its tasks</td>
<td>0.38129</td>
<td>0.62105</td>
<td>0.06464</td>
</tr>
<tr>
<td>Contact by phone between the headquarters and the subsidiary management</td>
<td>0.04227</td>
<td>0.55486</td>
<td>-0.02775</td>
</tr>
<tr>
<td>Detail plans</td>
<td>-0.08997</td>
<td>0.55071</td>
<td>0.22125</td>
</tr>
<tr>
<td>Plans without details, but with key numbers</td>
<td>0.27726</td>
<td>0.47803</td>
<td>0.10397</td>
</tr>
<tr>
<td>Education of Danish personnel in working with the Japanese</td>
<td>-0.22482</td>
<td>0.44852</td>
<td>0.33995</td>
</tr>
<tr>
<td>Education of Danish personnel in the Japanese language</td>
<td>0.13432</td>
<td>0.06977</td>
<td>0.70230</td>
</tr>
<tr>
<td>Plans concerning the development of the organisation's culture</td>
<td>0.08943</td>
<td>0.03232</td>
<td>0.69542</td>
</tr>
<tr>
<td>Education of the Japanese personnel in Danish or English</td>
<td>0.13840</td>
<td>0.16630</td>
<td>0.61354</td>
</tr>
<tr>
<td>Plans without any specification of numbers</td>
<td>0.45343</td>
<td>0.11261</td>
<td>0.48132</td>
</tr>
<tr>
<td>Integrated on-line EDP systems</td>
<td>-0.11352</td>
<td>-0.07805</td>
<td>0.45354</td>
</tr>
<tr>
<td>Expatriate managers from the headquarters to the subsidiary</td>
<td>0.24780</td>
<td>0.15352</td>
<td>0.44916</td>
</tr>
<tr>
<td>Contact in writing between employees below the management level</td>
<td>0.03247</td>
<td>0.21310</td>
<td>0.38790</td>
</tr>
<tr>
<td>Contact by phone between employees below the management level</td>
<td>0.11648</td>
<td>0.17202</td>
<td>0.09750</td>
</tr>
<tr>
<td>Contact by phone between employees below the management level</td>
<td>0.12965</td>
<td>0.21130</td>
<td>-0.06510</td>
</tr>
</tbody>
</table>

Factor loadings above 0.50 underlined.
In order to explore how these modes of control are affected by cultural distance, we use multiple regression analysis. Items with factor loadings above 0.50 are then used when computing the dependent variables. In this multiple regression analysis the main independent variable is *cultural distance*, but the analysis includes other contextual and organizational variables to control for these potential influential variables (Table 5).

**Table 5. Multiple Regression Results**
(Based on Subsidiary Manager Responses)

<table>
<thead>
<tr>
<th>Variables</th>
<th>Informal Transfers/Expatriation</th>
<th>Formal Control and Supervision</th>
<th>Cross-cultural Training</th>
<th>Employee contacts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cultural distance</td>
<td>0.511 ***</td>
<td>0.254</td>
<td>0.179</td>
<td>-0.101</td>
</tr>
<tr>
<td>Geographical distance</td>
<td>-2.787 ***</td>
<td>-0.902</td>
<td>0.285</td>
<td>-0.111</td>
</tr>
<tr>
<td>Number of employees in subsidiary</td>
<td>0.003 *)</td>
<td>0.001</td>
<td>0.003 *)</td>
<td>-0.0003</td>
</tr>
<tr>
<td>Competitiveness in local market</td>
<td>0.577 *)</td>
<td>0.595 *)</td>
<td>-0.240</td>
<td>-0.200</td>
</tr>
<tr>
<td>Performance (Sales per employee)</td>
<td>-0.014</td>
<td>0.026</td>
<td>-0.020</td>
<td>-0.001</td>
</tr>
<tr>
<td>Subsidiary treated with special consideration</td>
<td>0.729 **)</td>
<td>0.746 **)</td>
<td>-0.143</td>
<td>0.122</td>
</tr>
<tr>
<td>Model R²</td>
<td>0.27</td>
<td>0.11</td>
<td>0.11</td>
<td>0.04</td>
</tr>
<tr>
<td>Adjusted R²</td>
<td>0.22</td>
<td>0.04</td>
<td>0.04</td>
<td>-</td>
</tr>
</tbody>
</table>

Values are unstandardized parameter estimates
*) p < 0.10
**) p < 0.05
***) p < 0.01

Measures of independent variables defined in Appendix
By taking the independent variables one by one, the model explains an acceptable part of the variance of the variable *informal transfers/expatriation* (Factor 1), and cultural distance is significantly related. In this sense the support for H2 can be generalized. This result is partly in line with Gong's (2003) recent study. With cultural distance, managerial visiting and expatriation increase. The estimated model also indicates that geographical distance is negatively associated with this factor whereas size and competitiveness have a positive impact. *Cross-Cultural training*, including development of organizational culture, is insignificantly correlated with cultural distance. In this sense, there is only weak support for Hedlund's (1986) early research on the importance of development of shared norms and cross-national understanding through training in order to control employees in subsidiaries far away.

It is also important to note that there is no support for the general hypothesis H1 since cultural distance seems to have no significant impact on other modes of control. Neither the variance of *formal control and supervision* nor the variance of *employee contacts* can be explained by our model to an acceptable extent. However, factors related to the specific firm or subsidiary, such as market competitiveness, seem to be correlated to the use of formal control and supervision.

A note on the use of formal coordination, which seems weakly related to environmental instability (not included in the regression analysis): Hypothetically, organizations would have to choose coordination mechanisms which are capable of coping with sudden and
frequent changes when facing unstable environments, which are reported from the subsidiaries in our sample; a little more from the German subsidiaries than from the Japanese. A closer look at single items of our data indicates a partly expected pattern since quick environmental changes are significantly related to less use of plans (without any specification of numbers). It is, however, surprising to find a positive correlation between frequent use of rules and quick changes in the environment.

The explanation may relate to the complementary nature of formal and informal control. For example, it may be easy to get ad hoc permission to break the rules. Thus, we find a strong positive correlation between reports on quick changes in the environment and contact by phone between headquarters and the subsidiary management. In this way, flexibility is instituted in the headquarter-subsidiary hierarchy.

Furthermore, formalization - like bureaucracy - may be of an enabling type instead of the normally assumed coercive type. Under some circumstances, formalization provides needed guidance and clarifies responsibilities, thereby helping individuals to be and feel more effective (Adler and Borys, 1996). Especially in Japan and where asymmetric power relationships are avoided, bureaucratization may have this impact. Anyway, it should be added to the analysis above that CEOs reporting headquarters to treat their subsidiary with special consideration also report high scores on the use of direct supervision, formalization, and detailed plans.
As expected, “cultural distance” mainly increases the use of some of the informal control mechanisms, notably the use of an expatriate manager, but also initiatives on socialization and training. These results seem to reflect an expected reaction to the way in which the CEOs perceive problems at a more operational level because CEOs in subsidiaries in East Asia often perceive problems such as differences in norms and misunderstandings. In other words, we need to expand the analysis by including the specific perceptions of distance (cultural distance or psychic distance) (Hallén and Wiedersheim-Paul, 1979) which are held by subsidiary CEOs in order to provide a better understanding of actual adjustment to the country of location.

Perceived Problems of Control and Coordination

Our analysis turns from focusing on the predefined cultural distance to focusing on perceived cultural distance when working on our last research question of how control problems are perceived in the foreign subsidiaries. Items on problems generated in the interviews and the related survey responses are shown in Table 6.
Table 6: Perceived problems in Danish Subsidiaries in Japan:

Share of respondents stating the suggested problem as large or one of the largest problems experienced. Differences attributed to the nationality of the respondent.

<table>
<thead>
<tr>
<th>Type of problem experienced:</th>
<th>Japanese sample</th>
<th>German sample</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Danish (N=15)</td>
<td>Japanese (N=12)</td>
</tr>
<tr>
<td>Strong competition</td>
<td>60%</td>
<td>67%</td>
</tr>
<tr>
<td>Different quality standards are required by the Japanese/German customers</td>
<td>53%</td>
<td>42%</td>
</tr>
<tr>
<td>Recruiting of qualified staff</td>
<td>53%</td>
<td>33%</td>
</tr>
<tr>
<td>Higher, but identical quality standards are required by the Japanese/German customers</td>
<td>33%</td>
<td>42%</td>
</tr>
<tr>
<td>Bureaucracy in the headquarters</td>
<td>27%</td>
<td>17%</td>
</tr>
<tr>
<td>Differences between Danish and Japanese/German social norms</td>
<td>33%</td>
<td>42%</td>
</tr>
<tr>
<td>Lacking information from the headquarters</td>
<td>13%</td>
<td>33%</td>
</tr>
<tr>
<td>Technical trade barriers</td>
<td>7%</td>
<td>25%</td>
</tr>
<tr>
<td>The managers and the staff are not sufficiently skilled (either technically, managerial or language-wise)</td>
<td>27%</td>
<td>8%</td>
</tr>
<tr>
<td>Information is misinterpreted even though good will is present</td>
<td>20%</td>
<td>17%</td>
</tr>
<tr>
<td>The employees feel uncomfortable about unknown and unpredictable situations</td>
<td>27%</td>
<td>0%</td>
</tr>
<tr>
<td>Frequent or significant changes in the environment</td>
<td>7%</td>
<td>17%</td>
</tr>
<tr>
<td>Bureaucracy in the subsidiary</td>
<td>7%</td>
<td>0%</td>
</tr>
<tr>
<td>The lack of loyalty or commitment or &quot;cheating&quot; characterize the behavior of employees and managers</td>
<td>7%</td>
<td>0%</td>
</tr>
</tbody>
</table>
The perceptions vary considerably. They may differ because they reflect the reality of problems. Management has to deal with other problems in Japan than in Germany, and subsidiary managers who are caught in the interface between Asian and Scandinavian culture may feel personally how the control problems occur. However, perceptions may also depend on the personality of respondents. They come from different nationalities and they have different attitudes because of different background factors. The lack of uniformity in perceptions of Danish expatriates is in itself an indication of the difficulties in achieving normative control through expatriation.

The most striking result of this part of the study regards the role of the expatriate manager and the way in which he perceives the problems in comparison to a local manager. This is not merely a methodological problem to researchers. The expatriate managers are themselves part of the chosen forms of control, and expatriate respondents report another pattern of problems than do other respondents. Both types of managers have comparable managerial responsibilities, but the expatriate (mostly Danish) managers evaluate recruitment and skill problems as more important while evaluating themselves more positively than the Japanese and German managers. Generally, these respondents are more negative or see more problems in issues related to the foreign culture. Such conflicting views could be expected, but the pitfall may be that conflicts at the cultural interface in subsidiaries remain unproductive and hinder awareness of problems which could actually be handled.
Furthermore, during the interactive interpretation of the questionnaire results, it was suggested by a couple of respondents that the reason for the possible relationship between respondent nationality and the reporting of recruitment and skill problems may not be unfamiliarity with the local market. Rather, subsidiary presidents would often be non-locals when the headquarters had found significant problems with the subsidiary and tried to gain control over the situation by locating a high-status manager from the headquarters as the managing director of the subsidiary. Then expatriation is a reaction to antecedent problems, but the problems may still exist.

A related issue is the role that expatriate managers play in crossing the cultural interface where the handling of uncertainty and conflicts may be crucial. As regards the expatriates' involvement in the local society, the survey provides a somewhat surprising result. At first, it appears logical that the expatriates in Germany would be more willing to involve themselves in the local society. In other parts of the study, however, we have seen that the Danes and the Japanese had an easy task getting along while the Germans and the Danes often found it more difficult. Yet, it has been pointed out that the lack of a common language between the Danes and the Japanese makes it easy for them to get along. Without a common language, deep and thorough point of views and social patterns are not revealed. Therefore, the Danes neither get into conflicts with the Japanese nor do they involve themselves in the Japanese society. On the contrary, the Danish expatriates in Germany involve themselves in the German society and consequently take the risk of a conflict.
This point implies a note of caution. The reporting of coordination problems and conflict is often an indication of coordination efforts. No reported problems indicate that the latent conflicts are handled by withdrawal, which sometimes might be dysfunctional. Thus practical interventions may involve both the promotion of conflicts as well as the reduction of conflicts at cultural interfaces (Brown, 1983). The data presented above indicate that expatriates may - but not necessarily do - play a role in getting closer to the problems instead of just stating "insufficiently skilled staff".

Discussion and practical implications

Although this is an exploratory study using subsidiary data, it is also based on a rather structured comparative analysis of 140, mostly Danish, subsidiaries in five countries. Thus it is with some rigor we find that adjustments of the forms of control mechanisms were made in relation to Danish subsidiaries in Japan, China and South Korea; the possible country-of-location effects were reflected in other Scandinavian subsidiaries in Japan. However, it remains unclear whether the adjustments in fact are cultural distance effects.

To improve the analysis of this issue, we have in several respects followed Shenkar’s (2001) recommendations on cautiousness in applying the distance concept. First, we
control for other possible influential factors in tracing the effect of cultural distance. Second, although we use the aggregate Kogut-Singh (1988) index, we calculate separately one-dimensional measures of cultural distance. Thus, uncertainty avoidance emerges as the most important component. This is easily related to general theories of control and coordination, including agency theory in which coping with uncertainty is a central task. Third, we take a closer look at the cognitive measures of cultural distance by asking managers how they perceive difficulties of adjusting control in different countries. Fourth, we generally focus on the interaction between entities and the interface between cultures rather than abstract distance.

Our results support the need for differentiated coordination and control systems across subsidiaries according to the environment of the subsidiary. This argument has been advocated by other scholars, e.g. Leksell (1981), Ghoshal and Nohria (1993), Nohria and Ghoshal (1997), but for other reasons. While Nohria and Ghoshal's (1997) argument is based on a traditional contingency-approach stressing environmental factors, such as uncertainty and complexity, we take cultural factors specifically into account. One of the implications to practitioners in parent organizations may be to give a local manager latitude to use centralized and behavioural control despite the potential conflict with norms of the home country. Thus, the survey seems to indicate that a general problem is that the Japanese employees lack the necessary education to work with the headquarters' planning systems. In the qualitative part of the study, it was demonstrated how the subsidiaries' strategies, goals, activity plans, long-term planning
and budgets were unrelated to each other since the Japanese employees worked in non-systematic, non-planning patterns because of unfamiliarity with the Danish way of integrating the activities, which caused annoyance in the headquarters. In one case, the use of a Danish planning system in Japan was simply characterized as a failure. These results may also be interpreted as a need to take cultural distance into account by adapting planning and control systems to the local subsidiary.

However, our descriptive ranking of the problems perceived by the managers in the Danish subsidiaries in Japan and German indicates that problems related to market conditions, such as market competition and demands of customers, were ranked at a higher level of importance than cultural factors. At a lower level of importance, differences in social norms and language skills are found. The importance of the cultural distance is, however, indicated by the finding that the problems overall seem of higher importance to the subsidiary managers in Japan compared with the subsidiary managers in Germany.

Our findings may be claimed to reveal mechanisms that are important to far eastern subsidiaries of most Western companies, though all the companies in our sample have a Danish headquarter. This argument would require that the sample of the Danish multinationals represents an exemplary case of Western country-of-origin. However, a note of caution is necessary. In a study representing companies from a broad range of countries, it is shown that headquarter-subsidiary control practices at the international
level to a significant extent are explained by their country of origin. Even between European countries, there are significant differences (Harzing and Sorge, 2003). Unfortunately, the Harzing-Sorge study does not trace specific explanatory factors in the national societies. It is also important to note that cultural distance cannot be assumed to have symmetric properties (Shenkar, 2001). An Asian subsidiary in Scandinavia may face other control problems than a Scandinavian subsidiary in Asia.

These reflections seem to indicate that multinational studies of heterogeneous samples are needed to enable us to balance off effects of country-of-origin and country-of-location on the control mechanism in more rigorous analyses of explanatory factors. Ideal approaches may combine data from both subsidiary and headquarters. This may further our understanding of interactive control and coordination as well as related problems.

Our data reveal differences in the problems perceived by Danish and local (Japanese and German) managers. Compared to the local managers, Danish managers see recruitment and skill related problems (cognitive uncertainty) as well as discomfort with changes (unspecified uncertainty) as significant. Compared to the Danish managers, the local managers see issues of competition and technical trade barriers (stochastic uncertainty) and lacking information from the headquarters and bureaucracy in the subsidiary (data uncertainty) as the most significant problems.
We do not claim that our analysis solves all the problems connected to the concept of cultural distance and its static views (Shenkar, 2001). Notably future research should take into account that the effect of time and cultural distance is interrelated, for instance in the sense that productivity gains in using expatriates in remote subsidiaries diminish as years of operation increase (Gong, 2003). Furthermore, our study only takes a first step to include perceptions of control problems. The results in this part stress the dependence on the respondents’ nationality, and problems of reliability remain to be established. Finally, qualitative and quantitative approaches should open up for analyzing the complex dependences between perceptions of distance, control and performance.

**Conclusion**

Cultural distance matters. As part of a research stream that has addressed formal and informal relations between headquarters and subsidiary, this study indicates how Scandinavian multinationals may adjust to an East Asian context.

Analysing the control mechanisms of Scandinavian corporations operating in East should provide special insight into the interface between the Asian cultures and the very different Scandinavian cultures, characterized by relatively low scores on masculinity and uncertainty avoidance. On this assumption, we examined matched samples of headquarter-subsidiary relations of Danish multinationals in Japan and in Germany.
addition, we examined Norwegian and Swedish multinationals in Japan as well as Danish multinationals in South Korea, Hong Kong and China.

The findings indicate that Japanese subsidiaries are more controlled and coordinated by informal mechanisms such as direct supervision, socialization and international management training than the German subsidiaries. When analysing the entire sample, a factor of informal transfers appears to be significantly related to cultural distance in a multiple regression model controlling for other influential variables. Thus, our model explains a configuration of control including extensive visits by technical staff and mixed teams as well as managerial expatriation. This seems exactly what cultural distance in the Kogut-Singh (1988) sense explains of control.

The concept of cultural distance was also measured by perceptions of subsidiary CEOs in respect to problems with the headquarters. Problems relating to cultural distance were indicated although problems relating to market environment seemed to be of higher importance. Thus, the perspective of subsidiaries as interfaces of different cultures proved to be useful in more specific analyses. Further improvements in the research of headquarter-subsidary relations require a closer look at both sides and at the dynamics of the interface.
References


Galbraith, J. R. (1973) *Designing Complex Organizations*, Addison-Wesley: Reading, MA.


### Appendix 1. Measures of Control/coordination (Predefined)

#### Direct, Personal Control

*Direct supervision - Mean score of 4 items (α = 0.74):*
1. Short management visits from the headquarters to the subsidiary
2. Short management visits from the subsidiary to the headquarters
3. Short visits from technical staff at the headquarters to the subsidiary
4. Short visits from technical staff at the subsidiary to the headquarters

*Expatriate control - Mean score of 4 items (α = 0.63):*
1. Expatriate managers from the headquarters to the subsidiary
2. Expatriate managers from the subsidiary to the headquarters
3. Expatriate technical staff from the headquarters to the subsidiary
4. Expatriate technical staff from the subsidiary to the headquarters

#### Direct, Impersonal Control

*Formalization - Mean score of 2 items (α = 0.39):*
1. Contact in writing between the headquarters and the subsidiary management
2. Rules concerning how the subsidiary should solve its tasks

#### Indirect, Personal Control

*Socialization - 1 item:*
1. Plans concerning the development of the organisation’s culture

*Informal communication - Mean score of 3 items (α = 0.66):*
1. Contact by phone between employees below the management level
2. Contact in writing between employees below the management level
3. Teams consisting of members from both the headquarters and the subsidiary

*International management training - Mean score of 3 items (α = 0.64):*
1. Education of Danish personnel in working with the Japanese
2. Education of Danish personnel in the Japanese language
3. Education of the Japanese personnel in Danish or English

#### Indirect, Impersonal Control

*Output evaluation - Mean score of 2 items (α = 0.45):*
1. Plans without details, but with key numbers
2. Plans without any specification of numbers

*Detail planning - 1 item:*
1. Detail plans

The scale is a 5-point scale ranging from ‘Never’ (1), through ‘Seldom’ (2), ‘From time to time’ (3), ‘Often’ (4) to ‘Fixed part of the relationship’ (5).
Appendix 2. Measures of Independent Variables

Cultural distance

*Cultural distance* is calculated by Kogut and Singh's (1988) cultural distance index in which the difference between home and host country cultures is measured by the use of Hofstede's (1980, 2001) country scores giving equal weight to all four dimensions.

Geographical distance

*Geographical distance* is a dummy variable coded '0' for German subsidiary and '1' for East Asian subsidiary.

Change in environment

'Frequent or significant changes in the environment'

Ranking Scale: 'No problem' (1), 'An insignificant problem' (2), 'A problem however not large' (3), 'A large problem' (4), 'One of the largest problems your company has' (5).

Size of Subsidiary

Turnover in 1994 (Approx.)

Market Strength

'Please describe the position of the subsidiary in the Japanese market'

a) among the leading companies in the business (4)
b) solid position, without being a leading company (3)
c) a good position within a limited range of products, though generally a small company (2)
d) an overall insignificant position (1)
## Appendix 3. Control of Subsidiaries in Japan and in other East Asian Countries

<table>
<thead>
<tr>
<th>Mean scores</th>
<th>Danish Subsidiaries in…</th>
<th>Subsidiaries in Japan from …</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Japan</td>
<td>Hong Kong</td>
</tr>
<tr>
<td></td>
<td>(N=29)</td>
<td>(N=20)</td>
</tr>
<tr>
<td>Direct, Personal</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Direct supervision (Visits, meetings, written and phone contact)</td>
<td>3.69</td>
<td>3.33 *)</td>
</tr>
<tr>
<td>- Expatriate control (Degree of expatriate presence)</td>
<td>2.03</td>
<td>1.95</td>
</tr>
<tr>
<td>Direct, Impersonal</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Formalization</td>
<td>3.93</td>
<td>3.83</td>
</tr>
<tr>
<td>Indirect, Personal</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Socialization</td>
<td>2.92</td>
<td>2.15 *)</td>
</tr>
<tr>
<td>- Informal communication</td>
<td>3.76</td>
<td>3.40</td>
</tr>
<tr>
<td>- International management training</td>
<td>2.74</td>
<td>1.68 **)</td>
</tr>
<tr>
<td>Indirect, Impersonal</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Output evaluation</td>
<td>2.87</td>
<td>3.15</td>
</tr>
<tr>
<td>- Detail planning</td>
<td>3.73</td>
<td>2.90 **)</td>
</tr>
</tbody>
</table>

**Scale:** The scale ranges from (1) "Never", through (2) "Seldom", (3) "From time to time", (4) "Often", to (5) "Fixed part of the relationship".

*) Difference between the Japanese sample (Column 1) and this sample significant at a 10% level;

**) Difference between the Japanese sample (Column 1) and this sample significant at a 5% level.