# MANAGING LANGUAGE PROBLEMS – A KEY SOURCE OF COMPETITIVE ADVANTAGE IN THE GLOBAL BUSINESS ENVIRONMENT

**Liliana Nicoleta GRIGORE**


## *Abstract*

In the pursuit of achieving a new stage in their evolution – the transnational level – multinational companies have developed operations all over the world. These diverse networks, in geographical, cultural and language terms, are hard to manage if the company is not secured with a key source of competitive advantage – the management of language problems.

The article highlights some of these problems and presents a few options to improve language management and thus increase a company's competitive advantage.


## *Introductory remarks*

As the process of globalization has become more obvious, demanding and long standing, many multinational companies have made efforts to accept its challenges in order to enter successfully the new stage in their evolution – the transnational level.

In their intent to achieve this goal many multinational companies have developed networks of overseas operations that need permanently to be coordinated. Managing such geographically, culturally and linguistically diverse networks is a very hard task nowadays. One of the most important elements which have to be taken into consideration as a key source of competitive advantage, having a great influence on the processes of global communication and coordination, is the language.

Companies have invested heavily to discover and put into practice methods and tools meant to improve the processes mentioned above, but language problems still give them headaches on the world wide scene. In what follows, I shall look at some of these problems and present ways of increasing the competitive advantage, by improving the language management within the company.

## *Building global competitive advantage*

According to Ghoshal (1992), there are three fundamental ways of building global competitive advantage:

- exploiting differences in input and output markets in different countries;
- exploiting economies of scale;
- exploiting economies of scope.

Multinational companies are characterized by a unique advantage in that they can transfer activities from one country to another, paying attention to the fact that the home base should be located in the country with the most favourable diamond.

A second source of competitive advantage is economies of scale. A corporation can achieve scale economies by expanding the volume of its output, which can eventually lead to what is called the experience or learning effect.

The last source of competitive advantage is economies of scope, also called synergy effects. The basic notion here is that it can be less expensive to produce two or more products within the same corporation than to produce them separately. Ghoshal (1992) identifies three important sources of scope economies:

1) the corporation must be diversified;
2) the corporation must have shared external relations (customers, suppliers, distributors, governments, etc.);
3) the corporation must have shared knowledge.

## *Dimensions of the language barriers in multinationals*

Multinational companies should seek to develop their global coordination, but this – in no way simple – task is compounded whenever the language problem appears as a barrier to international communication. It is also difficult to see how any company can envision itself going multinational without going multilingual at the same time.

Socio-cultural factors are perhaps the most important variables that internationally operating managers must take into consideration. These are variables like language, values, educational factors and labour factors. Multinational companies have to take into consideration all these factors when trying to create their competitive advantages.

The increasing globalization phenomenon has had great impact on the competitive position of various companies and one of the main factors leading to strategic changes in order to create a competitive advantage is language management.

When discussing about language management strategies we have to take into consideration the language barriers companies are confronted with, and in this respect the three dimensions entangled are: *language diversity*, *language penetration* and *language sophistication*.

- **Language diversity**

This first dimension refers to the number of different languages the company has to manage, depending on the scale of the company's global network (subsidiaries, customers, suppliers and joint ventures). On the one hand, there are the global giants (e.g. Microsoft) who have to manage approximately 80 different languages, while on the other hand, there are typically global companies that will manage their global networks by establishing capabilities in the leading European languages (including some East European languages), Japanese, Chinese, Arabic and in selected Asian languages (Malay, Urdu, Hindi, Bengali).

Several studies identify the top dozen language priorities in European companies. Moreover a model based on population, demographic and economic data (the Engco model) suggests the same number of languages according to global influence.

- **Language penetration**

The second dimension is dependent on the number of functional areas in a multinational company which have to operate across linguistic boundaries. The new systems of global coordination refer to almost every function of the business. All the departments in a company have to deal with national and linguistic boundaries, at all levels and functions.

- **Language sophistication**

The last dimension to be considered is the degree of linguistic sophistication, referring to the complexity and refinement of the language skills required. The required skills differ from employee to employee, within an organisation, evolving from a receptionist to an international manager, as they are all required to develop concepts and solve problems in both spoken and written forms without language being a barrier.

After identifying the dimensions of the language barriers, the companies have to measure them by using various tools such as Linguistic Auditing (Reeves and Wright, 1996) and Language Check-up (Reeves and Feely, 2001).
The Linguistic Auditing is used for:

- evaluating the foreign language requirements
- benchmarking the findings against existing capabilities
- identifying the areas of strength and weakness
- assessing the company's needs in terms of language training and recruitment

- providing the means to match the foreign language capability against the strategic aspirations.

While Linguistic Auditing is costly and time-consuming, requiring support from external language assessors, the Language Check-up is self-administered, generates results quickly and deals with a wider range of language issues, but lacks the rigour and reliability of the full Language Auditing.

## *Consequences of the language barriers*

After analyzing the dimensions and identifying the means to measure them, a company has to be aware of the impact of the language barriers. The true cost of the language barrier is not measured in money spent on specialists or days lost with translations, but is represented by the way it damages and changes the relationships. This will eventually lead to the distortion of the strategies pursued by the company, thus creating difficulties and triggering some negative consequences such as uncertainty and suspicion in the relationship with partners, division of groups, polarisation of perceptions and perspectives. Unfortunately this is only the tip of the iceberg, and if not handled with care and on time, the language barriers can cause even much more harm (e.g. uncertainty, mistrust, conflict).

In the following lines, I shall illustrate a few of the probable consequences the language barrier can determine. The list is not an exhaustive one as it only tries to illustrate the wide range of consequences of the language barrier and emphasizes that language should be managed as a corporate asset.

1. *Buyer – Seller relationship* – faced with the globalization effect some companies will perceive a greater cultural distance, having to deal with uncertainty about markets with a different language from theirs. Therefore companies will be more successful and will be able to develop competitive advantages in countries that share their language. In the role of sellers, companies that do not work in the language of the customer will, in general, under-perform in export markets compared to those companies which are more linguistically competent.

2. *Foreign market expansion* – when companies desire to create a global network and to expand on a global scale, they will prefer subsidiaries characterized by a low level of psychical distance to their home country, including language differences. Parent companies based in English-speaking countries will establish subsidiaries in countries where English is widely spoken.

3. *Joint ventures* – Due to the power of communication, the language chosen by joint venture partners where only one has an international language will be that language, therefore causing pressure on the joint venture by dominance.

4. *Headquarters (HQ) - subsidiary relationship* – mistrust, suspicion and conflict caused by the language barrier, will determine a more formal evaluation of the subsidiary's performance. It might also hinder knowledge and technology transfer.

5. *Staffing policy* – companies prefer to employ expatriates in key positions at subsidiaries with a different language from the one of the parent company; British and American companies will rely less on expatriates, due to the internationality of English.

## *Solutions for overcoming language barriers – pros and cons*

After examining the language issues, by using the tools to evaluate the dimensions of the language barrier, companies have to find solutions in order to best manage language problems. Multinationals have a wide range of options helping them to come up with the best language strategy.

The simplest answer would be to rely on the native language as a *Lingua Franca*. But it has its disadvantages as some companies request "working in the language of the customer". Even if English is used in relationships with foreign customers, the Lingua Franca option fails to recognise the increasing use of languages such as Spanish, Arabic and Chinese.

Another approach to language problems is to rely on *Functional Multilingualism,* which means to rely on a mix of languages and any other ways of communication. A recent study shows that 16% of international business transactions are conducted in a "cocktail of languages". However it has the same drawbacks as the use of Lingua Franca.

The language barrier could be overcome by using *external language resources* such as translators and interpreters. This does not mean that the language barrier disappears, as this service is very expensive, the language specialists must fully understand the context of the subject they are translating or interpreting, there will certainly appear ambiguity and cultural overtones in the source of messages the interpreter works with. An interpreter is just a poor substitute for direct communication whenever negotiation, humour and even persuasion are involved.

If a company faces skills-shortage, the reasonable solution would be *language training.* The language training industry is highly developed and offers programmes at every level and in many different languages. Training solutions are used when the company performs well and has sufficient money to cover this luxury, but when times are bad there will be no budget for training purposes and the multinational company cannot rely only on the training solution in order to overcome the language barrier.

The training solution can be replaced by a better alternative: the adoption of the *single corporate language.* A number of major multinational companies have adopted this strategy including Siemens, Electrolux, Daimler-Chrysler and Olivetti. This solution presents several important benefits such as: facilitation of formal reporting; ease of access to technical literature, policy and procedure documents and information systems; facilitation of informal communication between operating units and within cross-national teams; fostering a sense of belonging as an element in diffusing a corporate culture; focus on the management of language problems.

However, there are a number of problems which come up along with this solution: it is a long-term strategy; it is impossible to adopt a single language for all circumstances; a corporate language will often cause resistance if there is a large body of corporate personnel lacking competence in the chosen language.

If there is no possibility to apply one of the above mentioned options to deal with the language barrier, another option would be the *language nodes*, key skilled personnel who become the communication channel used by default between the company and the external world. Like any other option, this one, too, has major drawbacks: it places a huge burden on those who are the language nodes; it entails a high risk of miscommunication; it can cause communication distortion or breakdown.

The easiest way to deal with the language problem would be to hire *people* already having the required skills. Unfortunately the right level and mix of language skills is not always available on the market, thus this option has its disadvantages. It is advantageous in three distinct situations:

- to fill critical areas of language exposure;
- to create a language node;
- to develop expatriate managers.

When confronted with the language barrier a most obvious solution for a multinational company is to assign *expatriates* to work within each subsidiary, acting as a language node, creating a connection between the headquarters and the subsidiary. This solution is a costly one, as the salary of an expatriate manager would be higher than that paid to a local one. Moreover it does not entirely eliminate the language barrier, as the expatriate manager has to develop a twin personality.

Another worth mentioning option for overcoming the language barrier would be the *impatriation* option. By this a subsidiary person is sent to the HQ operation in order to provide communication links to the operations and institutions of countries from which they came. It is a cost-effective alternative in the situations where expatriates are less likely to succeed. This impatriation option can be seen as the process of mixing water (the parent company) and sulphuric acid (subsidiary). If we mix a drop of sulphuric acid with water there will be no effect as the subsidiary person will be easily assimilated by the HQ. But if we put a drop of water into the sulphuric acid we will obtain an explosive mix, as the HQ person will definitely impose the trend in the subsidiary. The impatriation solution has its drawbacks as any other option: it has short-term effectiveness and the repatriation imposes severe problems, as the impatriation requires extensive customer-designed support programmes during the aculturalization and socialization phases.

Another possible option, that of the *controlled language* can bridge the language problem as it imposes limits on vocabulary and syntax rules so as to make the text produced more easily comprehended by the non-native speaker/ reader.

## *Final remarks*

Companies operating internationally, particularly those that have expanded to a global scale, are facing the challenge of managing their language problems effectively. Language barriers trigger problems such as miscommunication, uncertainty, mistrust and conflict and unless these problems are professionally managed, they will cause negative consequences for the business. Companies which aspire to create competitive advantages need to conduct language check-ups and linguistic audits in order to be aware of the language barriers they are confronted with and the solutions which come in handy whenever they are needed.

In this article I have highlighted a range of different approaches that are used in different contexts, each with its advantages and disadvantages. We have seen that there is no clearcut solution to the language problems companies are faced with. The secret is, perhaps, to find the best *mix of solutions* within the company context. Or, maybe, the best solutions are yet to be discovered, springing from a combination of the options presented above.

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**The author**

**Liliana Nicoleta Grigore** is Senior Lecturer in the Department of International Business and Economics of the Academy of Economic Studies, Bucharest, where she teaches the courses of International Management and International Business. She holds a PhD in International Business and Economics (1999), the doctoral research conducting to the publication of 2 volumes – *Specific Problems of the International Labor Market* and *The International Labor Market – theories, realities and perspectives*. She has published studies and articles in different scientific journals and presented papers at national and international symposia and conferences. Author of an *International Management* textbook and of several materials for the Postgraduate courses organized by the faculty (e.g. Communication in International Marketing, Techniques used in International Negotiations).