A boon for business English? How multinationals benefit from a shared language

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Global e-commerce company Rakuten is based in Japan. But for the past five years, Rakuten's official corporate language has been English in order to foster a globalized culture and break down linguistic barriers.

Research by IESE's **B. Sebastian Reiche**, with co-authors Anne-Wil Harzing and Markus Pudelko, suggests Rakuten's self-described "Englishization" policy is on to something. Drawing on a large-scale sample of 817 subsidiaries of multinational enterprises around the globe, the co-authors demonstrate that shared language, even if it's not the native language of headquarters (HQ), helps information flow from HQ to the subsidiary level. That, in turn, will boost firm performance, as other studies suggest.

The benefits of a common language at work are mediated by two factors, the co-authors also find. The first is the presence of shared HQ goals and a vision for subsidiary managers around the world to rally around. The second is, perhaps surprisingly, centralized human resources (HR) policies and decisions.

Previous research has found that a shared social identity across a multinational firm promotes knowledge flowing from HQ to subsidiaries, but the opposite also seems true. Reiche's research helps extend our understanding of how multinationals succeed by examining the link between shared language and knowledge flows, pinpointing two mediating factors, and explaining why these knowledge flows also promote a shared identity.

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Around the world in many tongues

The study's sample of 817 multinational subsidiaries were distributed fairly evenly into nine countries/regional categories in Asia, Europe and Oceania. Specifically, the co-authors looked at Australia/New Zealand (as one regional group), China, France, Germany, Japan, South Korea, Nordic countries (as one regional group), Spain, and the United Kingdom.

These 817 subsidiaries' global headquarters were located in 36 different countries, with about a quarter of them based in the United States. Among the study group, English was the official corporate language for over two-thirds (68 percent) of the cases. For another 24 percent of the multinationals, there was no official corporate language. Japanese was the next most common "official language" for subsidiaries, but that was only in 4 percent of the cases. Another eight languages accounted for the remaining 4 percent of the sample.

Common goals, vision — and rewards

The study isolated two key factors encouraging knowledge to flow from HQ to subsidiaries. The first is shared HQ goals and vision. Along with a common language, clearly established and articulated goals and vision for the corporation as a whole help forge a common social identity. The presence of this factor was understood via carefully constructed questionnaires.

The second key factor is centralized HR decisions. This may come as a surprise to those who have heard that foreign subsidiaries should enjoy a degree of autonomy to empower overseas executives to manage staff according to local needs. Yet the co-authors' empirical evidence runs counter to that thinking and indicates that centralized HR policies and decisions foster shared social identities (and thus help boost firm performance, as previous research has found).

For example, when foreign subsidiary managers' performance reviews, raises and career planning are handled by headquarters, they align managers' interests with the conditions that help information flow from HQ to subsidiaries.

The study divides its 817 subsidiaries into two categories: foreign acquisitions (59 percent of the total) and foreign "greenfields" (41 percent) — the latter refers to subsidiaries built by HQ from scratch, without any legacy employees to retrain.

Foreign acquisitions, it turns out, are where shared language coupled with these two key factors can help most.

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As globalization increases, corporate communications and operations that cross borders are increasingly the norm. Reiche and co-authors show that sharing a language helps, especially when combined with two key factors: shared goals and centralized HR decisions. Reiche's research indicates that adopting a lingua franca for business — in most cases, English — is a good place to start.

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