CONTROL IN HEADQUARTERS-SUBSIDIARY RELATIONSHIPS: A CASE STUDY FOCUSED ON EXPATRIATE AND MANAGERS PERSPECTIVES

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ABSTRACT

In multinationals, the relationship between headquarters and subsidiaries can be complex, namely when expatriates are used as control mechanisms. Furthermore, the literature on expatriate adjustment research has been predominantly "expatriate-centric" and has neglected the subsidiary’s point of view. Thus, this research aims to comprehend the expatriate’s role as an MNC (Multinational Corporation) control mechanism in a subsidiary owned by a foreign multinational, considering the impact of cultural distance, language and tensions created after his placement. An in-depth single case study was conducted in a subsidiary owned by a Japanese multinational corporation. Evidence gathered to show that the parent company influences the subsidiary’s management control system through expatriates’ placement. In this study, two different perspectives were obtained, the expatriate’s perspective and the manager’s perspective. This allowed us to gain a deeper understanding of the expatriate’s role and difficulties. These findings contribute to the International Management (IM) literature on cultural distance, language, and conflict/tensions in expatriate adjustment, showing that these three elements matter and need to be taken into account in empirical research on the role of expatriates as a control mechanism in MNC contexts.

Keywords: Headquarters-Subsidiary, Expatriate, Management Control, International Management, Multinational Corporation

INTRODUCTION

In the current knowledge economy, cross-border investments of Multinational Corporations (MNC) represent a vehicle for countries’ development and economic growth, playing a crucial role in the globalization process (Cooper et al., 2011; Cooper & Ezzamel, 2013). The investment made by foreign MNC has been a critical factor in enabling subsidiaries’ companies to improve their technological and management capabilities and their involvement in the parent company’s value chain (Pananond, 2013). In cross-border investments, the control mechanisms chosen by MNC are often related to their way of entry, whether it was through a total or partial acquisition (Park & Choi, 2014). Therefore, depending on the type of acquisition, they may influence their subsidiaries’ management using different control mechanisms (Park & Choi, 2014). One of these control mechanisms is the international transfers of managers. However, although research on international transfers gives an overview of the advantages and disadvantages of employing expatriate managers in foreign subsidiaries, there is less discussion and evidence regarding the organizational functions fulfilled by these expatriate managers (Harzing, 2001).

In line with this global trend, a stream of research has evolved since the 1970s, making Expatriates Management (EM) an important area of research in the International Management (IM) field (Dabic et al., 2015). Previous studies on EM have claimed that expatriates play a role
in knowledge transfer and management development, as well as in “realizing both a direct and indirect type of control” (Harzing, 2001). Nevertheless, in the 1970s, most of the research was headquarters-focused (Kostova, Marano & Tallman, 2016). In this context, the scientific community has been studying expatriates’ role, although studies from the subsidiary perspective have been scarce. The role of international transfers as a control mechanism has to be seen in the light of Headquarters-Subsidiary (HQS) relationships in general (Harzing, 2001). However, the literature on Headquarters-Subsidiary (HQS) relationships focused on the impacts of control mechanisms’ implementation is still very dispersed and fragmented. Thus, more research is needed to reach a better understanding of the phenomenon. Furthermore, EM research has been conducted mainly in Asia and from a predominant US viewpoint. Therefore, additional research is required in other countries (Dabic et al., 2015).

In the last 50 years, IM research observed a movement away from the early focus on formal organizational structures toward greater prominence on people’s role, such as expatriates, and informal factors such as language (Kostova, Marano & Tallman, 2016). Previous studies have shown that MNC uses more expatriates in subsidiaries that are culturally distant from the home country as a control mechanism (Colakoglu & Caligiuri, 2008; Jaussaud & Schaeper, 2006; Shin, Hasse & Schotter, 2017). In contrast, other studies suggested that increased cultural distance leads to a lower proportion of expatriates to reduce costlier resource commitments in situations with higher cultural uncertainty levels (Widmier, Brouthers & Beamish, 2008). These seemingly contradictory results highlight the need for more research on this subject.

Some gaps have been identified in the literature, namely regarding the effects of cultural distance and the benefits that derive from the inclusion of expatriates in the subsidiaries’ management control systems (Wilkinson, Peng, Brouthers and Beamish, 2008). Some authors even claim that the cultural distance between the expatriate and the individuals with whom he interacts in the work context may vary depending on different factors, such as the expectations about the status of the tasks being performed or the expatriate’s leadership skills (Kossek, Huang, Pisczeck, Fleenor & Ruderman, 2015). Hierarchical leadership styles are relevant in terms of management (Romme, 2021). These issues are important since the subsidiaries are influenced by the parent company through different control mechanisms. The rooting of these mechanisms is important to create knowledge in the subsidiary (Forsgren, Andersson & Bjo, 2005).

This research aims to comprehend the expatriate’s role as an MNC control mechanism in a subsidiary owned by a foreign multinational, considering the connection he establishes between the parent company and the branch, namely by allowing to bridge the cultural distance, to overcome linguistic diversity and organizational tension. To do so, two research questions were formulated: Why do MNC place expatriates to control their subsidiaries? How do managers see the role of expatriates in the subsidiary?

This study aims to enrich the literature on the use of expatriates as a control mechanism in HQS relationships in culturally and geographically dispersed countries. Theoretically, this study leans on institutional theory and assumes that organizations seek to adapt their practices and structures to their internal and external environment (Meyer & Rowan, 1977). This theory has been widely used to study control in MNC, namely management accounting and control systems (Caracuel & Torres, 2010; Dabic & Furrer, 2014; Martin, 2012). Institutional theory has also been used to study expatriates’ success and failure (Soltani & Wilkinson, 2011).

This paper’s remainder is organized as follows: the second section reviews the literature on expatriation as a mechanism to overcome cultural distance, lack of a common language, and organizational tensions. Then, the study’s design, a case study research in a mining company located in Portugal and owned by a Japanese MNC, is presented. In section 4, the findings are presented and discussed. Finally, some concluding remarks are offered.
LITERATURE REVIEW

The Expatriate and Cultural Distance

Expatriation has been studied in the literature as an important mechanism for MNC to exercise their control over the subsidiaries. It allows implementing management that combines effective control and coordination of the subsidiaries’ operations, thus circumventing cultural distance and the lack of a common language (Jaeger & Baliga, 1985). Harvey, Speier & Novecevic, (2001), following the previous argument, emphasized that several studies concluded that expatriates’ placement in executive management positions in the subsidiaries is a common practice of MNC. These authors consider that expatriates are used to exercising control in the subsidiaries and not exert influence in other areas, such as human resources management, since their purpose is to achieve a high level of operations’ integration.

“A common point of departure for most institutional scholars is that for MNC to adapt and perform effectively within a foreign market, they must understand and appreciate the nature and structure of host countries’ institutional characteristics.” (Forstenlechner & Mellahi, 2011). Institutional theory offers a comprehensive theoretical explanation for MNC legitimating processes. Legitimacy and the institutionalization process are key factors to solve the multinational control over their subsidiaries’ problem (Brenner & Ambos, 2013). MNC feel the need to include expatriates to gain internal legitimacy. However, legitimacy is also related to the importance that the subsidiary has for the multinational. (Yamin & Andersson, 2011), in their study over Swedish multinationals, concluded that the importance of the subsidiaries is correlated with the importance of products, production level, size, number of expatriates, age (years of existence), degree of rooting (domain, commitment) in MNC.

MNC must strategically have the capacity to create, transfer and integrate all the information of their geographically dispersed subsidiaries, which, in practice, involves the relocation of expatriates (Darawong & Igel, 2017). These are considered an important control mechanism (Jaeger & Baliga, 1985) for disseminating subsidiaries and their subsequent performance (Chang, Gong & Peng, 2012). However, the difficulties of insertion in the subsidiary depend on the market structure, size, type of industry, among other variables. Thus, different control mechanisms, such as the expatriates’ involvement by MNC in subsidiaries, have different impacts on knowledge integration and development (Forsgren et al., 2005). Many subsidiaries operate in emerging economies, which may pose difficulties in the relocation of expatriate managers, cultural adaptation, and personal quality of life (Harvey et al., 2001). Yet, an expatriate interested in advancing his career within the multinational may not give significance to these aspects and take the risk of acculturation if the cultural distance between the country of origin and the host country is significant (Harvey et al., 2001). In short, expatriates are most effective when the cultural distance is smaller than when it is high. When the cultural distance is high, they will be unlikely to perform their functions effectively since they risk being seen as strangers by the subsidiary. However, they may also potentially not understand their informal aspects and operations.

As culture is an essential element in a parent company, it becomes imperative to elaborate a comparison between Japanese culture (country of origin of the selected case study capital) and Portuguese culture (host country of the investment). For this comparison, Hofstede’s dimensions were adopted. Based on Hofstede, (1980): Individualism vs collectivism; Power/hierarchy gap; Masculinity vs femininity; Uncertainty avoidance; Pragmatism; Indulgence. In the country of origin, cultural characteristics are high on power distance/hierarchy, uncertainty avoidance and pragmatism; Indulgence is low; Individualism vs collectivism is medium.
Giraud, et al., (2011) studied the differences between the perceptions of managers of various nationalities towards the exercise of control, aiming to conclude on the impact of cultural differences. These authors concluded that Japanese managers stand out from those from Europe and the USA regarding their negotiation style, which is guided by non-confrontational principles. They are also less positioned as business partners and have less knowledge of the business's operational aspects, in which they rarely postulate a sense of initiative. In this context, they conclude that the divergences and convergences between managers' perceptions/behaviours from different countries and cultures lead to different control practices, so it is essential to understand the national culture of the host country. Japanese companies' characteristics can be considered sui generis concerning the way control is exercised (centralised and personalised) due to their inherent culture.

As expatriates are viewed as a control mechanism, such can be considered a process through which the shareholders (MNC, parent company) protect their interests (Wilkinson et al., 2008). Hence, some studies have explored the effect of cultural distance through the resources expatriation level and the ownership level (participation in the capital) to control the parent company and the subsidiaries. However, there is a lack of consensus in the literature. While some studies conclude that the increase in cultural distance is associated with a higher level of control (Pan, 1996), others argue the exact opposite (Kim & Hwang, 1992). As cultural distance can influence the multinational’s need for control, the expatriates can be crucial, and MNC is increasingly aware that they need to attract and retain them (Armstrong & Li, 2017) to manage their subsidiaries. The greater the cultural distance, the more adjustments subsidiaries will have to make in order to meet the needs of the host country's unique environment and also the greater the cost of adaptation (Ge, Ando & Ding, 2020).

Despite several studies regarding expatriate adjustment research, most of them have been predominantly “expatriate-centric” and have neglected host country nationals (Takeuchi, 2010). Furthermore, research suggests that effective interpersonal communication is critical for expatriates' adjustment (Froese, Peltokorpi & Ko, 2012). The cultural distance has a negative effect on foreign investments' performance and longevity, which is related to the required degree of acculturation between the country of origin and the host country (Barkema, Bell & Pennings, 1996). In this context, the integration difficulties between the parent company and its subsidiaries are related to the cultural differences between them and the interaction with the surrounding environment. The accentuation of these differences is related to the chosen way of entry, the level of integration, and the establishment's mode (Barkema et al., 1996). These authors concluded that investments' survival rate in subsidiaries is lower when the cultural distance between the country of origin and the host country is high.

Regarding cultural integration, it depends on the degree of resistance to change (Caldas & Tonelli, 2002) and how to deal with the differences and align values (Zago & Retour, 2013). Tanure, Evans, Cançado & Cruz (2011) concluded that cultural integration encompasses several challenges, such as building a shared value chain that generates cooperation and knowledge exchange, crucial to business growth. Consequently, communication between expatriates and local managers may impact their relations, especially in the development of new projects or improvements in the ones that already exist (Darawong & Igel, 2017).

When subsidiaries gain experience, they obtain market knowledge and gain more confidence in their abilities to function in the foreign market. In this context, organizational learning becomes important (Wilkinson et al., 2008). Here, organizational learning is defined as something that forces companies to make the necessary adjustments to survive and grow in the current competitive market, so they need to have the potential to learn from their successes and failures Wilkinson, et al., (2008) propose introducing a new variable to measure the impact of the cultural distance, considering the age of the subsidiary and its level of learning, taking into account the number of expatriates and the level of the property. They apply the concept of cultural distance, and its effect on the control modes referred to in two Japanese subsidiaries,
concluding that: the age of the subsidiary moderates the impact of the cultural distance in the modes of expatriation control and level of foreign ownership. They argue that the decrease in the subsidiary's control level appears to be a typical result of the adjustments made according to their age, where there is a level of adaptation (with high control) and then some stabilization leading to a reduction in the control level. When the subsidiary is located in distant and culturally different markets, the executives may wish to exercise tight control during the operational (adaptation) phase. They may plan a reduction/loss of control when the subsidiary acquires adequate knowledge and experience in its markets. Thus, the need for expatriate resources diminishes as the subsidiary gains knowledge and experience in its markets; the characteristics of the subsidiaries’ national culture and their experience can influence the cultural distance and impact.

In conclusion, not only the cultural distance between the parent company and its subsidiaries has a moderating effect on the degree and type of control exercised by the parent company (Puck, Hödl, Filatotchev, Wolff & Bader, 2016), but it also influences the choice of the input/ownership/investment modality in subsidiaries. Furthermore, since the subsidiaries participate in the process of knowledge creation for the multinational as a whole, appropriate control mechanisms should be used to foster knowledge flows between the parent company and subsidiaries. Thus, in terms of knowledge flows, it is crucial to understand the interdependences between the subsidiary rules and the control mechanisms on different levels such as autonomy, human resources or technology levels (Rabbiosi, 2011). Control mechanisms, such as expatriates, could function as primary drivers of knowledge transfer between the parent company and its subsidiaries. According to the existing rooting degree, these mechanisms are divided into management controls and operational controls (Park & Choi, 2014).

Park & Choi (2014) also argued that control mechanisms, when used adequately in multinationals, allow the approximation between the parent company and the subsidiaries and the organizational learning of a variety of knowledge, including technological. A two-way knowledge transfer should be fostered, something that does not always happen. For example, (Chakrabarti, Mukherjee & Jayaraman, 2009) found that there may be cultural conflicts between subsidiaries and parent company, depending on the structure’s rigidity, the collectivism or individualism levels, and the degree of aversion to uncertainty. However, they claim that acquisitions are more profitable in the long term if the acquirer and the acquired are from more culturally distant countries. However, these conclusions are not consistent with those presented by (Barkema et al., 1996), who argued that a high cultural distance has a negative effect on long-term investment profitability. Cultural differences may not stimulate the knowledge exchange between the parent company and subsidiary, but only its transfer to the parent company (Sarala & Vaara, 2010).

Therefore, due to the cultural differences in multinationals, especially between the parent company and its subsidiaries, management control practices must be adapted to each location. Control cannot be understood as a mere technique, which encompasses procedures, practices and people within an organization and a relationship with the national cultures (Giraud, Saulpic, Bonnier, Delmond, De Geuser, Laulusa, Mendoza, Naulleau & Zrihen, 2011). Giraud, et al., (2011) argue that management control, in a broad sense, can take different forms, depending on the host countries’ cultural influences (the subsidiaries' location), considering that cultural values can act as facilitators or obstacles to the proper functioning of the whole system. Thus, cultural differences can affect expatriate’s effectiveness. According to (Paik & Sohn, 2004), expatriates' effectiveness in facilitating headquarters’ control of subsidiaries is contingent on their cultural competencies and knowledge. Expatriates without cultural knowledge are ineffective.

Consequently, multinationals must develop strategies to mitigate cultural distance's possible effects on the relationship between local managers (expatriates) and other employees.
Their presence in the subsidiaries may be characterized by an effective performance, matching the defined objectives (Kossek et al., 2015). Also, if expatriates do not have adequate training to perform this function, the multinational may risk that they will not voluntarily remain in the subsidiary in the long term (Kossek et al., 2015). Training should include themes related to the host country’s culture. Also, as well as their socialization in the host country, family issues are crucial to their relocation success (Lee et al., 2017).

This analysis leads to the following proposition: **P1** – The cultural distance between the subsidiary and the parent company is bridged by expatriates’ inclusion in the subsidiary.

**Common Language in Headquarters-Subsidiary Relationships**

Traditionally, language has been neglected or considered a subordinate part of cultural value in IM literature. The selective focus on either language or cultural values has created inconstancies in research (Peltokorpi, 2010). According to Welsh, Welsh & (Piekkari, 2005), “Despite the importance recently assigned to information and knowledge factors in the international management literature, it is surprising that the language dimension has been given little attention”. However, recent studies have stressed the importance of a common language between the parent company and the subsidiaries to control those (Björkman & Piekkari, 2009). According to these authors, it is through a common language that MNC executives develop, disseminate and implement their strategies and policies. The control of foreign subsidiaries often involves overcoming/crossing language barriers/frontiers if there is no common language. The implementation of control mechanisms can be seen as the result of a negotiation process, in which linguistic competence plays an important role (Björkman & Piekkari, 2009). Shareholders rarely impose control mechanisms. Usually, they involve discussions and negotiations with the subsidiaries’ managers, which imply an interaction and, consequently, language skills involvement. “For subsidiaries operating in countries where the host country language is different from that used as the company’s *lingua franca*, language provides a shield from scrutiny from headquarters as well as a plank in the power base of the subsidiary. Conversely, the lack of language skills can create feelings of social exclusion and isolation” (Welsh et al., 2005). The common language impacts intercultural and interpersonal communication between the expatriates and the local managers, but it also allows avoiding conflicts due to communication problems between them (Darawong & Igel, 2017). In this sense, the multinational's common/corporate language facilitates communication and control (Björkman & Piekkari, 2009). However, some common language adjustments may become necessary at the decision-making, formalization, results’ control, and socialization levels (Björkman & Piekkari, 2009). These adjustments can be summarized as follows:

- Centralization of decision-making – understood as a means by which shareholders ensure the operations’ effectiveness and the implementation of appropriate decisions as a way of surpassing the language barrier. In this case, the centralization degree depends on the subsidiary’s level of linguistic competence;
- Formalization – although this control is less effective in subsidiaries with low linguistic competence, where, for example, errors in translations may occur, there is a trend towards the use of this control mechanism by multinationals;
- Results control – are based on the numbers submitted by subsidiaries to shareholders and which are used as an indicator of their performance; their quantitative nature is less susceptible to misrepresentation (misinterpretation) by the subsidiary, representing a standardized mechanism of information collection, allowing comparisons between subsidiaries; by its nature, it does not show a close connection with the subsidiaries’ language skills;
- Socialization – there is no evidence regarding a relationship between this control mechanism and the subsidiaries’ linguistic competencies, possibly because more emphasis is given to formal controls. It is important not to confuse this control with cultural distance.
This discussion is formalized in the following proposition: **P2** – The absence of a common language between the subsidiary and the parent company explains expatriates' existence in the subsidiary.

**Organizational Tension**

Effective use of MCS has to include a performance measurement system, something which may create a dynamic organization tension (Mundy, 2010) with negative forces (if the control system is only used to diagnose deviations and corrections) and/or positive (if the control system is also used as a means of dialogue, motivation, and interaction). Thus, the application of certain control levels facilitates organizational capacities (Henri, 2006), such as innovation, learning, market orientation, and entrepreneurship. (Mundy, 2010) even stated that this dynamic tension between the various control levels is related to conflicts between the individuals' interests and those of the organizations. Similarly, (Widener, 2007) analyzed the tensions associated with the MCS, applying the four control levels defined by (Simons, 1995), which are the beliefs (values) level, the border (restrictions) level, the diagnosis (monitoring) level and the interactive (involvement) level. Here, using a performance measurement system influences the organization through organizational learning and adaptation in a more efficient way and the management’s attention to its problems, which allows the reduction of uncertainty and risk.

On the other hand, (Bonache, Langinier & Oberty, 2016) addressed the expatriates' question as a source of tensions, relating the expatriates’ success or failure as a reflection of their country of origin. These authors concluded that the internal conflicts between expatriates and the local managers reflect cultural differences, which need to be minimized. These conflicts/tensions relate to stress, tensions, and hostilities between individuals who may have different interests on a subject in the subsidiary, creating frustrations (Darawong & Igel, 2017). Social beliefs and practices influence the way that organizations act (Wang & Lounsbury, 2021). Additionally, linguistic differences also impose barriers to intercultural communication that can cause conflict.

This analysis leads to the following proposition: **P3** – The existence of dynamic (internal and/or external) tensions is due to expatriates' existence in the subsidiary.

**METHODOLOGY**

This research followed a qualitative design. An in-depth single case study method was conducted. This method is appropriate when someone is investigating a “contemporary phenomenon in-depth and within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident” (Yin, 2018). An advantage of this method is that it allows the examination and understanding of unique, rare, and atypical companies and organizations as well as complex and dynamic events and processes” (Mills et al., 2010). This paper is focused on the analysis of a permanent expatriate’s role as an MNC control mechanism in a Portuguese subsidiary owned by a foreign Japanese multinational. Thus, as long as the authors are aware, there is no deep comprehension about the phenomenon that we want to study holistically, especially during a timeframe (from 2007 to 2015), allowing a longitudinal analysis of the phenomenon under study (Yin, 2018). Furthermore, the case study method is popular among academics who study MNC related to accounting and control topics (Baxter & Chua, 2003). More specifically, it is capable of revealing managers’ deep perceptions regarding management control systems and organizational activities (Chenhall & Smith, 2007; Smith, 1997).

Multiple sources of evidence were used during the data collection stage, and a chain of evidence was established. Information was collected through semi-structured interviews, documentary analysis and direct observation. The semi-structured interviews were conducted with a permanent expatriate, two administrators and one directors (in 2015). All the interviewees, except for the expatriate, have extensive mining experience, whether technical, operational or financial. Interviewees are identified by a code number, ranging from “ADM0, ADM1”, Expatriate administrator and “INT1”. The interviews had an average length of one hour.
and thirty minutes. Notes were taken in all interviews. They were also recorded and transcribed and then sent to the respondents for eventual corrections and final validation.

These interviews were complemented with the analysis of the following documents: Decree-law no. 54/2015 and no. 10/2010; Law 88/1990; APA legislation, supported by DL and various Ordinances; Organisational chart of the group and the subsidiary in 2015; Financial statements from 2007 to 2015; Internal reporting’s for the group from 2007 to 2015; Internal document issued by the group with the SCG implemented; Internal document issued by the group with the accounting policies followed; Internal procedures for end-of-period closing; Summary of the group's international meeting on internal control and audit; Questionnaires on internal control policies sent by the group and respective replies by the subsidiary's local staff for 2014; HRD document with the job description of the subsidiary's local staff and their curricula vitae; Code of ethics and conduct; Documents issued by management regarding CSR, ethics and conduct, safety policy and work environment. Mission, vision and strategy; Mine closure plan; group Site of the Portuguese Environmental Association; Site of the General Directorate of Energy; Comparison of the group's accounting policies with those of the SNC; Letter of audit recommendations 2014.

The observation of these documents and the interviews allowed internal validation of this case study, while the literature review gave it external validity. Finally, the data retrieved from the above sources were disassembled and examined for relationships. After being coded, it was reorganised according to substantive themes (Miles et al., 2013). Three themes emerged:

1. Cultural distance problems;
2. Communication problems;
3. Conflict.

Context and Description of the Case Study

Although Portugal has a reduced territorial dimension, it has very diversified and complex geology, being very rich in essential mineral resources. This potential, coupled with the EU’s dependence on certain mineral raw materials, is an opportunity to develop the extractive industry. This industry improves the endogenous national resources and contributes to the development of the national economy through the services involved, distribution and product sales, job creation and export growth (Geologia & Energia, 2015). The subsidiary understudy has a secular history in Portugal and is a strategic firm, nationally and regionally, selling ore concentrate. In 2015, it employed around 270 employees, and Between 2007 and 2015, the sales achieved approximately 160.000 million euros of exports, which corresponds approximately to 1800 tons of production (financial statement report).

It is also important to notice that its MCS has undergone some adaptations, following some parent company requirements. The parent company is involved in a wide range of businesses, which are different from one another, and it has great economic and institutional power in its country of origin. It also has a management control system defined for all its subsidiaries, including an expatriate as an important control mechanism.

ANALYSIS AND DISCUSSION OF THE RESULTS

Cultural Distance Problems

Several authors state that expatriates play a significant role in controlling the subsidiary (Brenner & Ambos, 2013; Forsgren et al., 2005; Park & Choi, 2014; Wilkinson et al., 2008). In this case study, there was only one permanent expatriate with a top position, whose functions were limited to monitoring the subsidiary’s activity and being the parent company's liaison element. However, his cultural differences were evident and visible in how he interacted with the local staff, with whom he insisted on not having any extra-professional relationship.
example, he refused to participate in family gatherings or local community activities, *i.e.*, some of the aspects that have always been valued in this subsidiary. In this context, the Expatriate Administrator only acted as a liaison between the subsidiary and the parent company, merely transmitting to the Board of Directors the opinion of his colleagues in the parent company, having to obtain all the necessary information to forward it to them. As on ADM0, e of the administrators stated: “*His function is to convey to the Board of Directors, not his opinion, but, almost always, the opinion of administrators in the parent company.*” Hence, the expatriated acted as a control mechanism used by MNC (Jaeger & Baliga, 1985; Harvey et al., 2001). This is also in line with (Yamin & Andersson, 2011), as this subsidiary assumes importance for the parent company, given its final product (ore concentrate) and due to its fragile relationships with China (the largest producer of such ore). All the local staff's views support such an idea since the existence of an Expatriate Administrator is viewed as an imposition from the parent company. As ADM11 put it: “*...it almost always works towards the parent company from the subsidiary.*” That is, “*I only see it benefits the parent company, because it benefits from the knowledge transfer of the subsidiary’s local staff, while the opposite is not true. This happens because the shareholder only knows mass mines and not from lode, which is the case.*” Thus, it is shown that there is not any knowledge transfer *Intra* and *inter, i.e.*, there is only knowledge transfer from the subsidiary to the parent company, which in part contradicts (Forsgren et al., 2005), who claims that the subsidiary can create knowledge by rooting the parent company’s control mechanisms.

Conversely, the subsidiary allowed the parent company to acquire knowledge about an operational activity they were unaware of (lode mining). Such is in line with (Park & Choi’s, 2014), which consider that control mechanisms, such as expatriates, should allow the approach between parent company and subsidiary and two-way organizational learning, something that does not always happen. In turn, when acquiring more experience and confidence, the arguments that the subsidiary sees their organizational learning stimulated (Wilkinson et al., 2008) were not visible in this case. Regarding knowledge transfer, we also verified that there wasn’t an understanding by the parent company of the subsidiary rules and its interdependence with the control mechanisms (Rabbiosi, 2011).

*Ad-Hoc* visits from expatriates and meetings between them and local staff were frequent. For local staff, these visits were too frequent, too bureaucratic and, therefore, not very productive. They even considered that the purpose of these visits was the expatriates’ training/learning regarding the lode mining operation. At meetings, no decisions were taken without the parent company’s endorsement. AINT 2 considered that these visits were viewed by the parent company as “*...a compensation for not having long vacations*” or “*as a reward for good performance*”. The head of the finance department (INT1) claimed that “*These visits always occur as a consequence of the parent company wanting to know the subsidiary and for the implementation of new controls and reports by the parent company.*” Another ADM0, who shared the same opinion, argued that these visits were intended for the parent company’s representatives to learn and not to transmit knowledge to the subsidiary. Finally, the Expatriate Administrator justified these visits with the parent company's initial financial investment on the subsidiary’s acquisition and with the oversee of the financial activity so that the subsidiary remained solvent. Yet, he did not refer to the knowledge transfer issues.

Local staff’s opinions were aligned in that they considered that one characteristic regarding the companies pertaining to the country of origin of the capital (Japan) is the lack of knowledge on the businesses they engage, compared to European companies (Giraud et al., 2011). From the case study, it is apparent that there is a cultural distance between the parent company and subsidiary, and that is why a permanent expatriate is needed. This effect is reflected in the ADM0 statement, when he asserted that: “*It is a cultural issue and, culturally [from a management culture perspective], it would be unacceptable not to have a reliable expatriate who keeps the information up to date and who can transmit or ask for urgent information.*” He further argued that “*There is only one permanent expatriate in the Board of Directors. He has a normal influence because he is, above all, a facilitator. He exists to convey to the Board of Directors, not his opinion, but, almost always, his superiors’ opinion.*” This
impression was reinforced by ADM1, who considered that “For me, he works as a mere pawn because he has to drink, transform information to transmit it to the parent company (...) he has no autonomy. This is also related to the culture of the country concerned”. Considering the cultural dimensions of Hofstede (1980), we can argue that the cultural distance is high, something which is also related to the effectiveness of the expatriates as a control mechanism (see Harvey et al., 2001). Local staff argued that the cultural distance was manifested in the mistrust’s attitudes/posture that the expatriate and the parent company demonstrated towards other cultures. However, they considered that the parent company’s culture did not influence mine’s exploitation since the production is more dependent on the market conditions.

Furthermore, the cultural distance seems not to influence the workers’ productivity due to the excellent relationship they maintain with the local managers. This can be illustrated in comments of all interviewees, such as: “It does not influence the activity maximization, because the local managers’ relationship with the workers is good, always trying to motivate them towards the goal we intend to achieve, but, for that, we must know how to talk to them. This is something that the parent company, in my opinion, cannot do because they are bad at communicating. They are arrogant”. Regarding the cultural distance mitigation through the expatriate, “this reduction is very marginal because of communication difficulties, even with expatriates”, says INT1. It is not confirmed here what some literature claims (Pan, 1996), i.e., that the expatriates are chosen by the parent company as a control mechanism and as a way of mitigating the cultural distance effect between the two parties involved. INT1 his director also believes that the expatriates “Have a hard time understanding our views and sometimes, during a meeting, when we think we’ve made ourselves understood, when they sum up the meeting, they express the initial opinions [those transmitted by the parent company] once again”. So, it can be argued that acculturation between the parent company and the subsidiary is low, something which is embodied by the permanent expatriate, hampering the relationships between both parties (Barkema et al., 1996).

Furthermore, according to the same director, “They also have little initiative of their own to learn about the various issues, which they should do without a request from the parent company. Sometimes, although they have been in the position of expatriates for a long time, they become aware of some existing situations with great surprise”. These findings corroborate those of (Caldas & Tonelli, 2002), which highlighted the existence of some resistance to change between the two parties involved, and those of Zago & Retour (2013), regarding the need to align values to allow a cultural integration of the local staff with the expatriates. The existence of a value chain shared by both parties has not been verified, as would be desirable. Therefore the integration challenge inherent in the parent company’s strategic investment in this subsidiary may not have been achieved (see Tanure et al., 2011). The cultural distance effect was not minimized by the subsidiary’s experience and age, as (Wilkinson et al., 2008) reported. These authors also argued that, after the parent company’s adjustment stage, there could be a control reduction by the parent company, which, in this case, did not happen.

**Communication Problems**

From the Expatriate Administrator’s point of view, his stay in the subsidiary was, according to him, useful for his career, something which corroborates expatriates’ motivation to accept their relocation within the group (Harvey et al., 2001). However, the expatriate assumes some limitations regarding his role. For example, he considers himself a translator. As he claims: “I try to translate, and I think this is one of my functions”. Regarding the creation of value and the transfer of knowledge to the subsidiary, he was very evasive. He also assumed that communication/dialogue with local staff is difficult due to different management styles. As he puts: “I cannot say it unconditionally, but the Portuguese way of thinking and that in my country are very different, and the communication between them is not always effective. (...) it is not easy to understand this mine’s geological distribution, and that constrains the communication with the local staff”. From another stance, it can be argued that the MCS (the expatriate) characteristics and how control is exercised by the parent company are also related to language
barriers and the existence or not of a common language, as argued by (Björkman & Piekkari, 2009). The Expatriate Administrator even affirms that the language barrier is a hindrance by assuming that “this communication difficulty is embarrassing in the relationships with the local staff”.

Regarding this problem, one of the directors understood several actions of the expatriate, such as having frequent meetings, using a written formalization of all procedures required by the parent company and, implicitly, leading to the decision-making centralization. This formalization and centralization are aligned with the lack of a common language, as highlighted by (Björkman & Piekkari, 2009). INT1 states that “there are communications difficulties with the permanent and punctual expatriates, due to the absence of a common language.” On the other hand, this formalization leads “to an excessive bureaucratisation...” claims INT1.

**CONFLICT**

Finally, the placement of a permanent expatriate and the occasional expatriates’ visits led to some organizational tensions with local staff. As one of the directors claimed (INT1): “The existing conflicts, other than in the financial/administrative areas, have resulted in the extemporaneous exit of the local staff involved. The existing tensions are sporadic (...). However, sometimes it is a little uncomfortable to receive the same information requests from several people in the parent company structure, information that sometimes has already been transmitted previously”. Also, there was a mistrust climate between the Expatriate Administrator and the local managers, leading to an intensification of these tensions. The Expatriate Administrator considered that “To be honest, I do not have enough ability to solve the internal problems (...). I have to ask the local administrators and the other directors to be able to do it. After starting to work in Portugal, I reported that it was not a good idea to work with the Portuguese managers (...). I also realized that there were key managers who did not like the parent company and they were malicious about the organization, so I had to be careful when I asked something or asked them to do any task.”

Furthermore, the Expatriate Administrator believed that the local staff did not value meeting deadlines, so he must press them to ensure such deadlines were effectively fulfilled.

We can verify that there were dynamic tensions between the two parties involved since the MCS was not being used as a means of dialogue and proactive interaction but only as a vehicle to assess deviations and impose corrections (Mundy, 2010). In other words, in this case, we may infer that using a less interactive and more diagnostic management control system (Simons, 1995) can foster tensions. It can also be argued that these tensions are also associated with the subsidiary’s inherent management risk, its environmental and strategic uncertainty, as argued by (Widener, 2007). As the Expatriate Administrator states: “We spent a lot of time finding the management and directors who did not focus solely on their benefit and the subsidiary. I think some of them disturbed the harmony between the employees, and this also includes my colleagues”. In resume, it was the Expatriate Administrator’ opinion that local staff should focus, primarily, on the parent company’s interests.

**In Summary**

- Cultural differences between the permanent expatriate and the local staff are evident, as there are differences in management styles. However, this variable is circumvented by the parent company by choosing to set the subsidiary’s goals based on the ore produced market, i.e., the control is in the market. He considers that Portuguese does not value meeting deadlines, being he who must watch over his fulfilment. For this, some new procedures have been implemented in some subsidiary’s crucial areas. He believes that many problems need to be solved, which are previously discussed with the local administrators and directors and, subsequently, are communicated to the parent company. His personal opinion is that in the subsidiary, unlike the parent company, there is no teamwork. On the other hand, the local staff considers the expatriate as a facilitator, a controller, and a vehicle to obtain knowledge for the parent company, which has no decision-making power over the subsidiary. His placement in the subsidiary is related to the culture of the shareholder’s country of origin and, to a certain extent, to the existence of language barriers, leveraged by the punctual expatriates’ frequent visits;
The cultural distance and the country of origin’s culture are reflected in the expatriates’ way of interacting and communicating with the subsidiary’s staff and other employees, which is formal and impersonal. As a way of mitigating the cultural distance’s effect, informal meetings with temporary and permanent expatriates have been held locally;

- The subsidiary’s organizational culture has also allowed that the shareholder’s position in the subsidiary’s management and the relationship with the employees has not affected the subsidiary’s productivity, i.e., the local organizational culture is historical, and it includes traditions rooted in the employees and these persist (regardless of the shareholder), with the local staff managing, to maximize productivity and achieve the defined goals;

- There is some communication difficulty between the subsidiary and the parent company because there is no common language of either the shareholder or the expatriates. They are unaware of how to manage a lode mine. Due to this lack of knowledge and the large investment made in the subsidiary, frequent shareholder and/or expatriates’ visits are promoted as a direct control method. The absence of a common language implies an excessive bureaucratization of the administration procedures, implicit in the work increase. Although with some positive effect, the language barrier implies that most initiatives are properly formalized (written in English), as well as all the control procedures;

- An expatriate in the subsidiary creates some organizational tension between the expatriate and the local staff, which results essentially from the linguistic barrier, lack of knowledge of the activity and the country of origin’s culture. The expatriate is not proactive in resolving conflicts, whether internal or with external entities, and he is always dependent on the local administrator. The tensions were also created through the expatriate’s opinion reports. He realized that there were malicious actions internally against the parent company’s interests, which led to some local staff’s departure. Regardless of the existing organizational tensions, the current local staff feels it has the shareholders’ legitimacy and confidence. However, the idea that they are always suspicious remains attributed to the culture and values implicit.

CONCLUDING REMARKS

This paper aims to comprehend (i) why MNC place expatriates to control their subsidiaries; and (ii) how managers see the role of expatriates in the subsidiary. Through an in-depth single case study, we conclude that an expatriate's placement as an administrator was intended to control the subsidiary. However, the control he exercised did not consider the cultural differences between the two parties, leading to dynamic tensions. It is clear that the cultural distance between the parent company and the subsidiary is high, which is aggravated by the lack of a common language. We found that the cultural distance, the lack of a common language and the dynamic tensions positively correlate with the expatriates’ relocation in the subsidiary.

We can conclude that the cultural distance, a lack of common language, and dynamic organizational tensions have a positive relation to expatriates' placement in the subsidiary. The fact that the totality of social capital is held by a multinational with a particular culture influences the findings mentioned above, namely because these companies are classified as *sui generis* (Giraud et al., 2011). On the other hand, the Expatriate Administrator’s views also reflect his values, based on his country of origin’s culture. They relate to (Hofstede's, 1980) study’s conclusions, where cultural conflicts may exist between the parties, according to each country of origin’s classification in Hofstede’s taxonomy (Chakrabarti et al., 2009). These cultural differences did not stimulate the bilateral knowledge creation, i.e., the exchange between the parent company and the subsidiary, but only the transfer from the second to the parent company (Sarala & Vaara, 2010).

Finally, the cultural controls were not fully effective in this subsidiary since there were some conflicts between the permanent expatriate and its managers (acculturation). Our concern in this study fits with institutional theory. While cultural differences make an adjustment to the host environment more difficult, expatriates are under pressure to adapt to and be consistent with their institutional environment. Success or failure of expatriate depends on the congruence between Headquarters and expatriates’ orientations and expatriates and host country culture (Soltani & Wilkinson, 2011). Moreover, the control exercised by the parent company in the subsidiary, reflected in its MCS’ characteristics, does not allow us to conclude that there was an adequate and effective integration of both parties (Hoppmann, 2009; Kostova & Zaheer, 1999), reflecting in the interpersonal relations with the permanent expatriate. The expatriate manager has a role shaped and managed from
headquarters, but the subsidiary manager is still able to take development initiatives within product, market, and resource constraints (Birkinshaw & Pedersen, 2009). Several contributions are identified.

The first relates that we studied an extractive industry, whose final product is strategic for Europe and the world, especially for Japan, the country of origin. The second, and more generic, is the presentation of a study on the extractive industry in Portugal's management area since all the existing academic works focus on geology and exploration areas. The third contribution of this study derives from the fact that, in methodological terms, we try to overcome some criticisms of the research carried out in this area, precisely the fact that expatriate adjustment research has been predominantly "expatriate-centric" and has neglected host country national (Takeuchi, 2010). In this study, the managers of the subsidiaries were considered key informants and were interviewed. Two different perspectives were obtained: the expatriate perspective and the manager perspective. This allowed us to gain a deeper understanding of the expatriate's role and difficulties. Finally, the findings contribute to the IM literature on cultural distance, language, and conflict/tensions in communications processes, showing that both cultural distance and languages matter and need to be taken into account in empirical research on intercultural communication (Peltokorpi, 2010) and on expatriation as a control mechanism in MNC context. Finally, this study is not without limitations. Despite the validity of the interpretations provided in the case study, generalization should only be conducted theoretically. It was also impossible to interview the parent company’s senior responsible, although due diligence was performed. Further research should focus on comparing the main Portuguese mines' MCS mechanism through a multiple case study.

**AUTHOR CONTRIBUTIONS**

Conceptualisation, MR, MCA and RS.; methodology, MR and RS.; software, RS.; validation, MR and MCA.; formal analysis, MR and CO.; investigation, MR, MCA, JV,VV, CO and R.S.; writing—original draft preparation, MR, MCA,JV, CO and R.S.; writing—review and editing, MR, MCA,JV,VV CO and R.S.; visualisation, MR; supervision, MCA; project administration, MR,MCA and RS; funding acquisition, MR, RS,CO, VV and JV. All authors have read and agreed to the published version of the manuscript.

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**CONFLICTS OF INTEREST**

The authors declare no conflict of interest.
ENDNOTES

The process of contacts, conflicts and adaptation that occurs between the country of origin and the host country, where each has its own culture (Cartwright e Cooper, 1993).

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