Cross-cultural competence of the PRC expatriate managers

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ABSTRACT Despite the surge in Chinese outward foreign direct investment (OFDI) in recent years, little is known about how Chinese firms manage their overseas operations after the entry of foreign markets. Considerable challenges, among which the inability of Chinese expatriates to manage overseas as the major one, expose Chinese firms to failure in investment and other negative outcomes in their internationalization. In this paper, we stress the importance of cross-cultural competence (CCC) of Chinese managers in the post-entry phase of Chinese OFDI, and propose a framework to examine the CCC issue from an individual perspective. Several important factors, which are included in personal attributes and personal skills, have been proposed to have positive influence on CCC of Chinese expatriate managers.

Keywords: Foreign direct investment, Cross cultural competence, Chinese expatriate, Chinese multinational, internationalization

INTRODUCTION

Over the last two decades, the People’s Republic of China (PRC) has gained much attention from international business (IB) researchers for the rapid-growth of its domestic economy and its attractiveness for foreign direct investment (FDI) (Deng, 2004). Recently, after benefits gained from inward FDI (Tung, 2007), more and more Chinese firms are investing overseas directly to realize their growth aspirations, resulting in a significant surge in the outward FDI (OFDI) from the PRC (Buckley et al., 2007; Morck, Yeung, & Zhao, 2008). According to the UNCTAD (2008), the average annual growth of Chinese OFDI recorded 54.9% from 2002 to 2007, with which the PRC becomes the largest source of FDI among emerging economies and the eighth largest investor in the world (Yang, Jiang, Kang, & Ke, 2009). Despite the likely fall in Chinese OFDI as a result of the global financial crisis in November 2008, it is expected that the overseas expansion will continue to be a high priority for Chinese companies.

The surge in Chinese OFDI presents both challenges and opportunities to IB researchers. While there is still a significant gap in academic literature on the internationalization of Chinese firms, a number of studies have investigated the drivers of Chinese OFDI (Deng, 2008; Morck et al., 2008), the determinants of Chinese OFDI (Buckley et al., 2007), as well as the entry mode choice of Chinese
firms in their outward expansion (Cui & Jiang, 2008). The main issue being discussed in these studies is the relevance of transference Western or mainly US-based FDI theories to the PRC context (Cui et al., 2008). While challenging the mainstream FDI theories, Chinese OFDI has similar characteristics with investments from emerging economies which can be explained from both a resource-based view and an institution-based view (Child et al., 2005; Deng, 2004; Luo & Tung, 2007). From a resource-based view, Chinese OFDI is undertaken not only to exploit ownership advantage (e.g., superior technology, low-cost competitiveness) in other developing countries (Deng, 2003, 2004), but also to explore competitive assets in developed countries with a strategic intent to offset their latecomer positions in global competition (Deng, 2008; Rui & Yip, 2008). The asset-seeking incentives make Chinese firms follow an accelerated path in internationalization, which can be described as a ‘springboard’ (Luo et al., 2007) rather than the traditional incremental internationalization pattern followed by Western multinationals (Johanson & Vahlne, 1977). From an institution-based view, Chinese OFDI is found to be strongly network-based, especially when investing in other Asian-Pacific countries, where business networks in alliances, ethnic and socio-cultural tie within the host country provide competitive advantages for Chinese firms (Buckley et al., 2007; Luo, 1997). Meanwhile, the Chinese government plays an important role in the decisions made by Chinese multinationals who have to comply with both home and host country institutions in OFDI activities (Buckley et al., 2007; Child et al., 2005; Cui & Jiang, 2009).

While much attention in IB literature has been devoted to the motivations and entry modes of Chinese firms in their internationalization, little is know about how these firms manage their overseas operations after the entry of foreign markets. Yet, managing overseas poses the highest risk to Chinese firms, which might result in investment failure because of cultural and managerial difficulties encountered in foreign markets (Tan, 2005). Research is urgently needed not only because of those difficulties, but also because of the significant role Chinese OFDI plays in other economies, such as stimulating local economic growth and providing work opportunities especially in the global economic recession. Accordingly, it is important to examine what challenges have the PRC expatriate managers encountered while managing overseas and how to achieve cross-cultural competence (CCC) in their
international management. Based on the expatriation literature and the literature in cross-cultural management, we propose a framework in this paper to examine what factors contribute to CCC of the PRC expatriate managers in Chinese OFDI. In the following sections, the concepts of CCC, the factors that have significant contributions to CCC including personal attributes and personal skills have been explained and examined. In addition, propositions have been developed based on the literature review and specifically, taken the PRC context into consideration.

**CCC IN IB: THEORETICAL UNDERPINNINGS**

In the process of globalization, multinationals face many challenges which can result in failures in overseas investment. A key factor in the failure of multinationals’ overseas operations, most academic researchers and business practitioners would agree, is the inability of home country managers to adjust to and effectively function in a foreign culture while managing in a host country subsidiary (Johnson, Lenartowicz, & Apud, 2006).

Gertsen (1990) termed ‘CCC’ to describe ‘the ability of individuals to function effectively in another culture’ (p.346). In this sense, poor CCC can be viewed as one of the major factors that result in failures in IB. Based on social learning theory, Black and Mendenhall (1990) suggested that individual differences would have effect on cross-cultural training from which cross-cultural skills was developed and cross-cultural skills led to successful cross-cultural adjustment and competence. Similarly, Leiba-O’Sullivan (1999) suggested that there were two types of CCC—*dynamic* and *stable* CCC. She argued that ‘stable CCC’ (e.g. personality traits) was more essential than ‘dynamic CCC’ (e.g. cross-cultural knowledge and skills), because the former constrained an individual’s ability to acquire the latter.

Recently, Johnson et al. (2006) identified three antecedents of CCC, namely personal attributes, cultural skills and cultural knowledge, and argued that these three antecedents are not equivalent to CCC. CCC focuses on the outcomes of successful work performance in cross-cultural settings, with
effective use of cultural skills, knowledge and personal attributes. In addition, CCC was defined particularly for the IB field as:

“Cross-cultural competence in international business is an individual’s effectiveness in drawing upon a set of knowledge, skills, and personal attributes in order to work successfully with people from different national cultural backgrounds at home or abroad.” (Johnson et al., 2006, p.530)

Three antecedents of CCC, including personal attributes, cultural skills and cultural knowledge, had been identified (Johnson et al., 2006). The personal attributes dimension included personality traits and internalized values, norms, and beliefs from one’s home culture. Skills were the behavioural component of CCC, which included ability (specific skill sets that have been acquired over time) and aptitude (an individual’s capacity to acquire additional skill-sets). The knowledge dimension refers to understanding of the complex economic, political and social environment, as well as the knowledge about the specific culture of another country (e.g., value system, rules for appropriate behaviour). It should be noted that there are environmental and contextual impediments to the effective application of the antecedents that lead to CCC (Johnson et al., 2006).

In reviewing the CCC literature, several gaps emerge. First of all, the conceptual model contained no detailed description about what were these antecedents (knowledge, skills and attributes). Although some work had been done by others to examine skills and personal attributes needed in cross-cultural interactions (see Leiba-O'Sullivan, 1999; Yamazaki & Kayes, 2004), most of them are developed based on an examination of the US, European and Japanese managers in overseas management. The experience of developing country managers generally, and the PRC managers in Chinese OFDI especially, have seldom been examined. Yet, to do so is of crucial importance given the rapid outward expansion of Chinese firms and the severe challenges encountered by Chinese managers in their overseas operations (Tan, 2005).
In the following section, two important antecedents of CCC, which are the personal attributes and personal skills are discussed especially for the PRC expatriate managers.

**PERSONAL ATTRIBUTES FOR CCC**

In the international human resource management (IHRM) literature, many studies have explored the relationship between individual differences (e.g., personality traits, norms and attitudes, experience, gender) and expatriate adjustment/effectiveness (Kim & Slocum, 2008; Shaffer, Harrison, Gregersen, Black, & Ferzandi, 2006). This stream of research is rooted in socio-analytic theory (Hogan & Holland, 2003; Hogan, 1996), which was developed in interpersonal psychology (Carson, 1969; Wiggins, 1979). This theory is intended to explain individual differences in work performance and career success (Hogan et al., 2003). In this section, literature on expatriate adjustment/effectiveness is introduced with specific reference to the relationship between personal attributes and CCC.

**Personality Traits**

Many studies suggested that personality traits, which mainly focus on the ‘Big Five’ personality factors, are positively associated with expatriate adjustment or effectiveness (Kim et al., 2008; Shaffer et al., 2006). The five personality traits are conscientiousness, emotional stability, agreeableness, openness and extraversion (McCrae & Costa, 1987). Conscientiousness refers to the extent to which individuals are self-disciplined, careful and dependable. Conscientious expatriates are more likely to exert more effort to meet job expectations and such task-oriented behaviours should result in better work adjustment (Shaffer et al., 2006). Emotional stability refers to the tendency to experience positive emotions and remain calm in stressful situations. It is an important determinant of successful adjustment, as it helps expatriates cope with the stress of adapting to a new environment and avoid conflicts in social interactions (Peltokorpi, 2008). Agreeableness is the tendency to get along well with others in interpersonal settings. This trait generally facilitate effective communication and relationship building with hosts (Mendenhall & Oddou, 1985). Openness is an individual’s open attitude to out-group members and different cultural values. Individuals which have high levels of this quality tend to find it easier to make sense of different values, which will facilitate their adjustment (Arthur &
Extraversion refers to the tendency that individuals enjoy and be energized by interacting with others. Extroversion is likely to help expatriates build and maintain relationships with host nationals (Leiba-O’Sullivan, 1999; Shaffer et al., 2006). Overall, it is generally argued that the five personality factors are positively associated with expatriate performance (Huang, Chi, & Lawler, 2005; Shaffer et al., 2006).

Attitudes

Apart from personality traits, attitudes of expatriates are also very important in achieving CCC. Shaffer et al. (2006) indicated that ethnocentrism had a strong negative influence on expatriate effectiveness. Based on a study of 409 US expatriates on assignments around the world, Tung (1998) suggested that expatriates tended to have more positive attitudes toward international assignments such as “positive impact upon career development and opportunity to acquire skills and experience” than the very early times of expatriation.

Prior experience

Many empirical studies have suggested that prior experience of expatriates, such as working and living in the host country, had a positive impact on achieving CCC (e.g. Black, 1988; Kim et al., 2008). Logically, prior international experience, especially in the host country, should be associated with higher levels of CCC, as past overseas experience not only enables expatriates to form more accurate expectations for the international transfer (Black, 1988), but also provides expatriates with direct opportunities to learn and further apply a variety of knowledge, skills and behaviours (Takeuchi, Tesluk, Yun, & Lepak, 2005).

However, it is evident that many PRC expatriates have not had the opportunity to gain international experience prior to expatriation. China is relatively late in the globalization of its enterprises (Luo et al., 2007; Tung, 2007). Being a special administrative region of the PRC, Hong Kong has long been argued to serve as a stepping stone and training ground for Chinese enterprises in their internationalization process (Selmer & Ling, 1999). It is evident that Chinese companies involve Hong
Kong as a connection to international markets and a first step for further outward expansion (Young, Huang, & McDermott, 1996). However, whether Hong Kong serves as a training ground for the PRC expatriate managers has not been examined empirically.

In addition, international joint venture (IJV) experience provides another competitive advantage for Chinese companies in their OFDI activities (Rui et al., 2008). Chinese indigenous companies have the opportunity to form IJVs with global competitive firms, from which they benefit in terms of knowledge and managerial skills transfer. It is reasonable to suppose that the PRC managerial staff benefit from domestic IJV experience and thus become more capable in cross-cultural management.

**Language Proficiency**

Expatriates tend to face language barriers in communicating with local staff either on job or in socialization (Kim et al., 2008; Peltokorpi, 2008). Accordingly, it can be argued that local language proficiency will lead to greater CCC. Kim and Slocum (2008), for example, found that English fluency was positively correlated with Korean expatriates’ performance in the US. Similarly, Peltokorpi (2008) suggested that Western expatriates’ proficiency in Japanese language facilitated their adjustment in Japan.

Relating to the PRC expatriates in Western countries, it is difficult for the PRC expatriates to master local languages such as English, German or French because the official language in the PRC--Mandarin-- is quite different from the above languages in terms of pronunciation as well as sentence syntax. However, in most cases, host languages must be used while working and living in the host country (Zhang & Edwards, 2007). Therefore, it is reasonable to assume that host language proficiency is positively related to the PRC expatriates’ CCC in Western countries. Based on the literature review above, the following propositions have been developed.
Proposition 1a-e: The personality traits of (a) conscientiousness (b) emotional stability (c) agreeableness (d) openness (e) extraversion have positive impacts on CCC of the PRC expatriate managers in Western countries.

Proposition 2: Positive attitudes toward international assignments contribute to CCC of the PRC expatriate managers in Western countries.

Proposition 3a-c: The PRC expatriate managers who have prior experience (a) overseas (b) in Hong Kong (c) in IJV achieve a higher level of CCC than those who do not have prior experience in the host country.

Proposition 4: Host country language proficiency has a positive impact on CCC of the PRC expatriate managers in Western countries.

Apart from personal attributes, it is noticeable that certain kinds of skills are needed for CCC. These skills are discussed in the following section.

PERSONAL SKILLS FOR CCC

Managing within a different country/culture requires certain kinds of skills that may transcend those that are effective in the home country/culture (Black et al., 1990; Mendenhall et al., 1985). Thus, the development of crucial skills for cross-cultural management, plays an important role in achieving CCC.

The skills needed to be successful in a new culture can be subsumed into four areas, which are: Self-maintenance skills, interpersonal skills, perceptual skills and communication skills (Mendenhall et al., 1985). Self-maintenance skills serve to strengthen expatriates’ mental health and self-confidence (Mendenhall et al., 1985). The cross-cultural interpersonal skills encompass skills that enhance expatriates’ ability to interact effectively with host-nationals, which include relationship development and willingness to communicate (Mendenhall et al., 1985). The perceptual dimension of skills refers to the ability to make a correct perception of the host-nationals’ behaviours and the host environment (Black et al., 1990; Mendenhall et al., 1985). Yamazaki and Kayes (2004) further suggested that
communication skills are also important for expatriates, which serve as an integral part of other skill cluster mentioned before (Yamazaki et al., 2004).

In addition, Neupert et al. (2005) indicated that cultural understanding and awareness were important for expatriate effectiveness. It is argued that these skill sets are similar to the perceptual skills discussed above. Moreover, Seak and Enderwick (2008) investigated important skill sets needed by New Zealand expatriates working in China. The results indicated that expatriates in China not only needed to have the skills discussed in prior studies, but also needed to have training skills due to substantial deficiencies in Chinese management.

A number of studies in this area rooted in social learning theory or experiential learning theory (e.g., Black et al., 1990; Yamazaki et al., 2004) which intended to explain the human learning process (Bandura, 1977; Kolb & Fry, 1975). However, these theories just explain the process of skill development, while failing to explain the relationships between cultural skills and CCC. It is argued that there is further need for theoretical expansion to explain the relationship between cultural skills and the CCC phenomena. In addition, prior studies mainly focus on expatriates from developed countries (e.g., US, Japan). Little is known about what skills are needed by expatriates from the PRC, and whether these skill sets differ from those identified in prior literature. Hence, the following propositions have been developed.

**Proposition 6-9:** Self-maintenance skills, Interpersonal skills, Perceptual skills and Communication skills have positive impacts on CCC of the RPC expatriate managers.

The propositions developed above help to identify possible personal attributes and skills that may contribute to CCC of the PRC expatriate managers. A conceptual framework is developed to explain the relationships between personal attributes, personal skills and CCC of the PRC expatriate managers (See Figure 1).
METHODOLOGY

In order to answer the research propositions discussed in the last section, a mixed methods research design was chosen for the current study. Prior studies in the area of cross-cultural competence (CCC) also tend to rely on a mixed methods research design, especially quantitative research followed by collection of qualitative data to further explain the quantitative results (Huang, Chi, & Lawler, 2005; Selmer, 2001, 2002; Selmer & Ling, 1999; Shaffer, Harrison, Gregersen, Black, & Ferzandi, 2006).

A survey instrument is chosen to collect quantitative data in the first phase of the research design. The survey instrument fits the purpose of the current study well. The current study examines the predictive variables that lead to CCC of PRC expatriate managers by testing a group of propositions. Data will be collected directly from individual PRC expatriate managers who currently work in overseas markets. Follow-up interviews will be used to collect qualitative data in the second phase of the research design. The purpose of the follow-up interviews is to learn more detail from the survey results and to gather exploratory explanations on the differences between the responses from PRC expatriate managers and those from developed country expatriates in previous studies. It is assumed that context plays an important role in cross-cultural research and expatriates from different countries/contexts will experience different processes in adjusting to an unfamiliar environment. Thus, the qualitative data collected from interviews with PRC expatriate managers will contribute to explaining the survey results and help in testing existing knowledge and extending theories to the PRC context.

The population of the current study consists of PRC expatriate managers working for Chinese MNEs. PRC expatriate managers are those who probably grow up in the PRC and thus have a Chinese cultural background, but currently working and living in a foreign country. Chinese MNEs are defined as companies with 50 per cent or more of their assets coming from their
headquarters in the PRC. According to the official records of the Ministry of Commerce of the PRC, more than ten thousand of Chinese MNEs invested abroad by the end of 2006 (Xinhuanet, 2007). Although it is impossible to get the exact number of PRC expatriate managers, it is evident that there are likely to be tens of thousands due to the large numbers of Chinese enterprises that conducting OFDI. The researcher use social networks in contacting the head offices and associations of Chinese MNEs in order to gain access to PRC expatriate managers in Western countries. In addition, PRC expatriate participated in the survey were encouraged to forward this survey to other PRC expatriates he/she knows. Access to interviewees was gained from survey respondents from the first phase of the data collection process. By the end of the questionnaire, the contact information of the corresponding researcher was provided to survey respondents. Survey respondents were indicated that if they would like to participate in follow-up face-to-face or telephone interviews, they could contact the researcher directly by emails, telephone calls, or by sending their business cards. As the collection of survey responses and the contact information of respondents are separate processes, they anonymity of the responses in the survey is ensured. The researcher further contacted these respondents for semi-structured interviews to get more information on the hypotheses/research questions, as well as the anomalous results from the analysis of the survey data. With data collected from survey and interviews, the research questions will be answered and the conceptual framework will be adjusted to fit the specific Chinese cultural background.

CONCLUSION

Although Chinese enterprises look to conquer global markets and their outward investment is important to other economies (Morck et al., 2008), the challenges facing Chinese companies in their overseas management remains an under-addressed issue in IB research. This paper makes a primary contribution to the understanding of Chinese OFDI especially in the post-entry phase and stresses the
importance of CCC of Chinese expatriate managers in Chinese OFDI. A conceptual framework, with factors including personal attributes and personal skills that have significant contributions to CCC, have been developed with the PRC context taken into consideration.

Based on extensive literature review and the uniqueness of Chinese OFDI, we propose that personal attributes, which include personality traits, attitudes, host language proficiency will have significant influence on the CCC of the PRC expatriate managers. In addition, prior overseas experience, as well as prior working experience in Hong Kong and prior IJV experience will have positive impact on the development of CCC of the PRC expatriates. Along with these personal attributes, personal skills including self-maintenance skills, interpersonal skills, conceptual skills and communication skills would be critical for the PRC expatriate managers to achieve CCC. Besides, other important skill sets, which could be revealed from empirical data, are likely to be expected for the PRC expatriate managers to perform an effective job overseas. Accordingly, empirical test for these propositions and the conceptual framework is needed to examine the appropriateness and fitness of the conceptual model in explaining the development of CCC of the PRC expatriate managers. To do so is of great importance for both IB research and IB practices given the challenges facing Chinese multinationals in their outward expansion and the significance of Chinese OFDI to other economies.
References


**Figure 1: A proposed conceptual framework of CCC of the PRC expatriate managers**

- **Personal attributes**
  - Personality traits
  - Attitudes, norms
  - International experience
  - Host language fluency

- **Cross-cultural skills**
  - Self-maintenance skills
  - Interpersonal skills
  - Perceptual skills
  - Communication skills

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