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Guest editorial

Editorial for the special section: transgenerational entrepreneurship in the global world

I am delighted to offer this special section for readers of Cross-Cultural and Strategic Management and the academic community at large. First of all, families and the ventures and businesses they created are the dominant form of business organisation worldwide (Basco et al., 2018; La Porta et al., 1999). In recent years we see increasing attention from researchers, and family business research can be said to be moving into the main-stream when increasing number of papers appear in leading journals. New journals have also emerged as platforms for family business researchers to exchange ideas and accumulate knowledge. Meanwhile, more and more journals have devoted special issues related to different aspects of FB. As a case in point, Chrisman et al. (2018) announced that their recent issue “Governance Mechanisms and Family Firms” is actually the 14th special issue on theories of family enterprises published in Entrepreneurship Theory and Policy.

When preparing the call for this special issue, I searched past papers published in Cross-Cultural and Strategic Management (and its precedent, Journal of Cross-Cultural Management). It is not too surprising to find that a few of the “family” papers are related to work-and-family conflict, and those few “entrepreneurship” papers are concerned with startups or new ventures. There are only two papers that may be categorised as related to family enterprise. Camuffo et al. (2012) studied competence portfolio of entrepreneurs of small family businesses in Northern Italy. It showed how different competences of entrepreneurs in these small firms influenced the firm performance. Although this study made observations on family businesses, it hardly considered them as theoretical significant. Saeed et al. (2017) examined female directorship of family ownership with a focus on governance. It is a rare paper in CCSM in which family business is the subject. Thus, my quick search found only at most two family business papers. It supports my observation that family business and entrepreneurship have not attracted much interest from CCSM editors and its readers. Since the academic community has placed more attention into family business now, I hope that the call and the publication of this special section can arouse more interest from existing readers of CCSM and draw more submissions from researchers to our journal.

Another reason I am delighted to see this special section is because the call has a dual focus on transgenerational entrepreneurship and global world. Transgenerational entrepreneurship can be defined as two or more generations of family members driving for new business activities, strategic renewal and innovation (Habbershon et al., 2010; Habbershon and Pistrui, 2002). It is the theme of a global research consortium called Successful Transgenerational Entrepreneurship Project (STEP) which devoted to the understanding and promotion of family business research. Their endeavour is meaningful to family firms because strategic renewal and innovation increase the likelihood of survival across generations (Jaskiewicz et al., 2015) which sits at the core of family firms’ vision for continuity and transgenerational succession (Chua et al., 1999).

In the past decade, this consortium has expanded and facilitated many of its member universities to start their family business research and connect their faculties to colleagues around the world for exchange and collaboration. For instance, I was able to set up the Pacific Asia Regional Group only with the support of Tim Habbershon (STEP chairman then), and the Group rallied to produce a first collection of systematic case studies of the region after its...
first meeting (Au et al., 2011). Members were also stimulated and empowered to publish more on family business (e.g. Irava and Moores, 2010; Yusof et al., 2014), and subsequently took the advantage of its global membership to wrote longitudinal and comparative case studies of family business, resulted in book volumes (e.g. Sharma et al., 2015) and journal articles (e.g. Diaz-Moriana et al., 2018; Sieger et al., 2011). CCSM promotes and publishes cross-cultural and international studies on management. More STEP researches should help to achieve its goals. Particularly, although family firm research is increasingly popular, comparative and large-scale international studies are still quite rare. The rich case database STEP members collected together could be a gold mine to interested researchers. In addition, the data collected by a global survey of family firms by STEP could result in renewed interest to explore cultural and institutional influences on families and family firms (e.g. Basco et al., 2018). I hope that this special section could give a boost on this progress.

Below I will introduce the papers in this special section and then express some of my observations and reflections after putting the section together. The call went out in 2016 and had drawn eight submissions. The number probably reflects that this subject was a first trial for CCSM. Nonetheless, we were able to take in four high quality papers; among them, three of them are empirical. One of them is qualitative using STEP cases while the other one used STEP global survey data in a cross-level analysis.

The first paper was by Bhatnagar et al. (2018) that used multiple indepth case studies to understand new venture formation among family business groups in India. The subject of venture formation is central to family entrepreneurship and essential to long-term survival of family firms. They found that there were four distinctive stages for new venture creation in Indian family firms, and that the familial socio-political dynamics and leadership influenced how new ventures unfolded in the process. Thus, family entrepreneurship is “built not only on the techno-economic feasibility of a business opportunity but also the socio-political considerations in the family”. This paper expands our knowledge on how to promote transgenerational entrepreneurship in India and also has implications for family firms beyond.

Feng (2018) took up the “twin agency” perspective to understand R&D of listed family firms in mainland China. Family firms are influenced by the internal governance factors and by external governance factors (i.e. quality of government) especially significantly in China. Its main finding is that in areas with a higher quality of government, greater R&D output for family firms depends on greater family control rather than family management. What is unique about the paper is that it reveals the interactive influence of inside (firm-level) and outside (state-level) agency problems in family firms in general and their R&D output in particular. It shows that output of R&D is related to innovativeness of family firms and thus their continuous growth and long-run survival in different cities of China.

Au et al. (2018) studied how family firm characteristics, family CEO and multigenerational presence, affect the dominant logic of a firm and in turn its strategic renewal. While the firm context is of theoretical interest, what’s unique of the study is its theory and empirical testing of two national cultural dimensions, power distance and uncertainty avoidance, as a cross-level moderator of the firm-level relationships. They took advantage of the cross-level data from family firms of 26 countries collected by the global STEP survey. The findings show that family CEO is negatively related to renewal across cultures, and this relationship is attenuated by uncertainty avoidance and power distance. In addition, multigenerational involvement is positively related to renewal, and this relationship is enhanced by the two cultural dimensions. Their study opens new avenues to theory and empirical test regarding how institutional and cultural factors affect family firms. This helps to account for variations of family firm behaviours across the globe.

The last paper is a theory piece. Shen (2018) proposed a dynamic socio-emotional wealth (SEW) model drawing upon the prospect theory. SEW is related to diversification and innovation of family firms but the findings of existing studies are not very consistent.
Shen argued that it lies in the fact that SEW can be framed as a loss or gain. A shift in reference point can change the value of SEW in different situations and turn a family firm to see things in a loss frame rather than a gain frame, and vice versa. Thus, the family firm would change its strategy to diversify. Her model proposes a view to renew our interpretation of existing findings and has the potential to explain R&D behaviour and IPO under-pricing of family business firms.

In reflection after the editorial work, I regard the purpose of editing this special section half finished. The editorial team of the special section set off in the call to seek papers in the broader context of transgenerational entrepreneurship and encourage scholars of different disciplines to submit a manuscript. I think the breadth of the above papers has partially fulfilled this goal, as the papers cover management, cultural, innovation and governance issues. Yet the submitting authors seem to be management scholars with a diversity in their disciplines. On the other hand, the papers cover multiple aspects of transgenerational entrepreneurship, but apart from Han, Au and Chung, they did not show a clear cross-cultural comparison or take on much of a global perspective. Feng and Bhatnagar, Ramachandran and Ray cover only a single country, even though its implications could be global. Shen’s paper is a theory piece; although it could have broad implications, her paper falls short of giving a good explication of it global application. I guess we cannot achieve all the goals in one go. But I do look to the future and wish to see more papers both in CCSM and other outlets that would carry unique specific characteristics for carrying our field forward. It is my wish that future papers should continue to globalise family business research from conceptual and empirical ends. If possible, these studies should be comparative or multi-level in nature that cover nations, firms, or individuals. In addition, these papers should draw collaboration of scholars from different nations and disciplines, with the aims of collecting unique, large-scale data set as well as bringing multiple perspectives together.

Kevin Au

Department of Management, Center for Entrepreneurship, Chinese University of Hong Kong, Shatin, Hong Kong

References


Further reading


The role of familial socio-political forces on new venture creation in family business

Navneet Bhatnagar and Kavil Ramachandran
Indian School of Business, Hyderabad, India, and
Sougata Ray
Indian Institute of Management Calcutta, Kolkata, India

Abstract

Purpose – New venture (NV) creation is critical to the growth and long-term survival of business groups. The purpose of this paper is to investigate the NV creation process in family business (FB) context and examine the influence of familial socio-political considerations and dynamics on venture creation processes.

Design/methodology/approach – The paper employs a triangulation technique drawing from the extant literature, observations from 25 in-depth interviews of FB leaders and insights from two FB practitioners and abductive reasoning to theorize on the NV creation process and the influence of socio-political considerations and dynamics within family.

Findings – The results show that there are four distinct stages of the NV creation process in FB context. Familial socio-political considerations and dynamics greatly influence the NV creation process. These considerations and dynamics vary according to the socio-political clout enjoyed by the proposer. Leadership’s predisposition to the proposer and the proposer’s socio-political clout in the family determine whether an NV proposal leads to venture creation.

Research limitations/implications – The study extends NV creation literature by suggesting that in addition to the economic rationale, socio-political considerations play a critical role in venture creation decisions. Future research can validate the findings with quantitative analysis.

Practical implications – FB members must garner strong socio-political support for their NV proposal. FB leaders must ensure that their NV proposal evaluation and resource allocation decisions are not unduly influenced by the proposer’s socio-political clout.

Originality/value – The study views the NV creation process in FB context from the lens of familial forces at play. It identifies four distinct stages of the NV creation process and examines the role played by familial socio-political considerations and dynamics during each stage.

Keywords Family business, New venture creation, Business innovation, Socio-political clout, Transgenerational entrepreneurship, Venture creation process

Paper type Research paper

Introduction

Creation of new business venture has invited considerable scholarly attention (Gartner et al., 2004; Townsend et al., 2010) since the seminal work published by Gartner (1985). Researchers have reported many preconditions that facilitate new venture (NV) formation (Plummer et al., 2016; Rodriguez et al., 2009; Gomez and Korine, 2008; Aldrich and Ruef, 2006; Perrow, 2002; Carter et al., 1994). The NV creation process has been extensively studied from individual entrepreneurship and corporate entrepreneurship perspectives (Vogel, 2017; Marchisio et al., 2010; Yeung, 2000; Bhave, 1994; Shaver and Scott, 1991). However, recent discussion on NV creation has been extended to ecosystems such as family businesses (FBs) (Sharma et al., 2014; Sieger et al., 2011). FB is the dominant form of business organization across the world (De Massis et al., 2015; Tagiuri and Davis, 1996). FB context provides a unique ecosystem for creating and nurturing new business ventures. FBs exhibit distinct decision-making processes (Ensley and Pearson, 2005), socioemotional attachments (Berrone et al., 2012) and institutional overlaps (Tagiuri and Davis, 1996).
The complex relational dynamics at play in FB (Sharma et al., 2012) may drive their NV creation process in unique ways. Though researchers have reported a high degree of NV creation activity in FB (Chittoor et al., 2011; Rodriguez et al., 2009; Aldrich and Cliff, 2003), our understanding of how the idiosyncratic features of FB influence the process of NV creation still remains limited (Alvarez et al., 2013; Steier, 2009; Aldrich and Cliff, 2003).

Organizational and external environments influence the characteristics of NVs that entrepreneurs create (Gartner et al., 1989). A family firm operates as an inter-institutional system in which both the business and the family influence each other's decision making (Lampel et al., 2017; Davis and Harveston, 1998). Therefore, the NV creation process within a family firm is bound to be affected by familial considerations. Scholars have attributed both positive and negative effects of family involvement on NV creation (Sciascia and Bettinelli, 2013). One group of scholars (e.g. Patel and Fiet, 2011; Sharma and Salvato, 2011) argues that family involvement impedes entrepreneurial action of firms and thereby negatively influences NV creation. The other group (e.g. Aldrich and Cliff, 2003; Hayton et al., 2011) claims that family firms present a unique and favorable setting for entrepreneurship and NV creation. However, the nuanced influences of the FB context on the NV creation process at the firm level have not received adequate research attention.

One of the unique features of the FB context is the variation among family members in their social status and political clout within the family. Studies of NV creation in corporate entrepreneurship context recognize the importance of social status and political clout of the intrapreneur within a firm (e.g. Burgelman, 1984; Hornsby et al., 2009). However, NV studies in the FB context have not systematically explored this aspect. This paper attempts to address this crucial research gap. Specifically, we attempt to improve the understanding of the nuanced role of familial socio-political considerations at various stages of the NV creation process in FB context:

We define an individual's familial socio-political clout as “the complex whole of the social standing and connectedness a member enjoys within the family and the political power she/he wield on influencing opinions and decisions in the family.”

The study uses a triangulation technique to explore the NV creation process in FB context. We draw from the extant literature on NV creation, interviews with 25 family business leaders (FBLs) and insights of two FB practitioners to develop a generic conceptual framework of the NV creation process in FB context. The framework depicts how the proposer's socio-political clout within the family influences various stages of the NV creation process. We also develop a set of theoretical propositions through abductive reasoning.

This paper is organized in four sections. The first section presents the theoretical foundation of the NV creation process. The second section explains the nuances of the NV creation process in FB context and identifies the research gap. The third section describes the methodology used for the study. The fourth section presents the findings and conceptualization and discusses the implications. The paper concludes with the limitations and a set of suggestions for future research.

**NV creation process: theoretical foundation**

Extant literature on NV creation primarily deals with four important facets – NV creation process, factors influencing the process, establishment of legitimacy of NV and the role of the proposer in NV creation. NV creation is a multi-stage process. For instance, Vogel (2017) suggests that the NV creation process has two phases: i.e. venture idea generation and venture opportunity development, evaluation and exploitation. Zahra et al. (2006) mention five stages in NV creation: opportunity recognition, evaluation, refinement, championing and implementation. They suggest that relational trust fosters activities needed for successful new business creation.
Aldrich and Cliff (2003) mention that the NV creation process involves opportunity emergence, opportunity recognition, venture creation decision and resource mobilization. Bhave (1994) describes that the NV creation process has three stages: i.e. opportunity stage, technology setup and organization creation stage and exchange (Marketing) stage. Gartner (1985) suggests that the NV creation process includes the following: recognizing business opportunity, garnering resources, developing the product, marketing the product, building an organization and responding to government and society.

Vogel (2017) argues that all stages of venture creation are influenced by individual-level factors like personality, human capital and social capital, and external factors that include industry and market characteristics, regulatory and socio-demographic environment. The NV creation process involves multiple modes of activity that may occur concurrently and interdependently, and includes opportunity recognition, strategic organizing and tactical organizing (Lichtenstein et al., 2006). Therefore, business planning is crucial to NV creation (Gruber, 2007).

Need to establish legitimacy and distinctiveness of proposed NV

Due to a high failure rate of NVs (Deutsch and Ross, 2003; Rao et al., 2008), stakeholders are reluctant to invest in radically different venture ideas. For securing stakeholder acceptance, it is important that the NV proposer communicates powerful arguments on the venture’s legitimacy and distinctiveness (van Werven et al., 2015; Navis and Glynn, 2011). Legitimacy of a proposed NV, i.e. cognitive understanding of the nature of business and its normative fit with the evaluator’s worldview, can be established through arguments that help evaluators comprehend the nature of the NV (Fisher et al., 2017; van Werven et al., 2015; Cornelissen and Clarke, 2010). This requires establishing equivalence between the venture idea and existing business(es) (Hill and Levenhagen, 1995). However, the proposer must also convince the evaluators that the NV is positively distinct from the competition (Navis and Glynn, 2011). Simultaneously establishing similarity and distinction of the proposed NV requires nuanced communication with NV proposal evaluators. Especially, in the FB setting, this may become quite a complex task because of idiosyncratic family dynamics.

The role of the proposer

The proposer’s self-confidence in his/her own ability to perform entrepreneurial tasks is a critical predictor of NV success (Townsend et al., 2010). Psychological factors like the entrepreneur’s risk-taking ability, locus of control and achievement motivation influence NV creation (Shook et al., 2003; Shaver and Scott, 1991). A self-confident proposer presents strong arguments in favor of the NV proposal and wins stakeholder support. However, other researchers believe that NV creation is more about team work and is therefore shaped by the team’s capabilities (Jin et al., 2017; Klutz et al., 2014; Delmar and Shane, 2006). In FB setting, this means that NV creation would require wider support from other family members. Hence, the familial socio-political forces come into play.

Distinctiveness of the FB context

A family firm operates as an inter-institutional system composed of the business and family (Steier, 2009). Its decision-making logic is ingrained in both business considerations and family dynamics. While business considerations are often similar to those of non-FBs, family considerations are shaped by socio-political forces within the family. These forces arise out of the family’s genealogy, quality of relationship and culture. For instance, the financial decisions of the family firm are based both on its market and financial goals and family wealth generation objective (Miller et al., 2010). While non-family firms invest in developing organizational expertise to improve their strategic position in the market
(McKelvie and Davidsson, 2009), business families invest in developing the family’s expertise. FBs do this with a focus on the long-term enrichment of family’s human capital for sustaining the family’s business legacy (Sharma, 2008; Habbershon, 2006).

Firms view their reputation as an asset that has significant market and financial implications (Boyd et al., 2010; Dimov et al., 2007). However, business families view their reputation in a broader perspective, having an impact on their social and political standing. Power and politics are integral part of FB dynamics and influence business decision making (Niemelä, 2004). Reputation plays a significant role in a business family’s ability to forge alliances and influence the political environment (Arrègle et al., 2007; Zahra, 2010). Business firms always prefer to have their employees psychologically and socially bonded to the organization (Hekman et al., 2009; Ravasi and Schultz, 2006). Families have an even greater need to build a strong association between their business and the family members (Milton, 2008). As a family firm evolves from a founder-led firm to a sibling consortium, the pressure to maintain this tie (Schulze et al., 2003) and preserve socioemotional wealth (SEW: Gómez-Mejía et al., 2007) mounts even further. Therefore, in summary, the socio-political and reputational concerns while making NV creation decision are likely to be higher in FB than those in case of a non-FB.

NV creation process in FB context

FB researchers recognize that NV creation is important for FB survival, profitability and growth (Rogoff and Heck, 2003; Zahra et al., 2004). Business families are known to provide their younger members early exposure and skills for entrepreneurship and opportunities to engage in entrepreneurial activities (Dyer and Handler, 1994; Au et al., 2011). Family firms are also known to promote family entrepreneurial spirit by nurturing spin-offs by the next generation (Au et al., 2013). Therefore, members of a business family are favorably predisposed to NV creation. Family also provides both monetary and non-monetary assistance to founders for creating NVs (Astrachan et al., 2003; Erikson et al., 2003). Chrisman et al. (2003) observe that family is often a critical resource for start-ups. NVs in FB context have access to a number of unique family resources such as human capital, social capital, patient capital, survivability capital and governance structure (Sirmon and Hitt, 2003) that might improve their survivability and provide competitive advantage.

Sighting new business opportunities involves pattern recognition (Baron and Ensley, 2006), which is a natural strength of FB due to their experience and entrepreneurial orientation (Sardesmukh and Corbett, 2011). Family firms with strong entrepreneurial legacy foster transgenerational entrepreneurship by imparting strategic education to the next generation that helps them recognize entrepreneurial opportunities (Jaskiewicz et al., 2015). Informal networks of industry, mentors and other social sources of information also play a crucial role in opportunity recognition (Ozgen and Baron, 2007). In the FB context, these networks are readily accessible to the members of the owner family and play a crucial role in NV creation (Chang et al., 2009).

Similarly, being a part of an FB group helps the new businesses. For instance, NVs launched by existing businesses are known to get benefit from the knowledge of the parent organization and founder’s expertise (Basu et al., 2015). Prior firm experience and capabilities are also known to positively influence NV performance (Balasubramanian, 2011). Enduring FBs have entrepreneurial resources, which they can direct toward novel business opportunities (Jaskiewicz et al., 2016). However, those entrepreneurial resources are limited and are likely to be accessible to close family members.

Thus, in case of an FB, both the family and the business influence and shape each other. Therefore, most possibly the same distinction exists between the NV creation process in family firms and that in non-family firms. Business families are likely to pay attention and provide support to decisions that can add to their wealth, and respond negatively if they fear...
wealth reduction. However, family decision makers view not only monetary wealth but also SEW of the family. Therefore, the proposer’s socio-political clout is likely to bear influence on the NV creation process and the collective decisions they make.

Data and methodology
The study was conducted using a triangulation technique advocated in management research (Ellis et al., 2017; Souitaris et al., 2012; Scandura and Williams, 2000), and also used in FB literature (Kammerlander et al., 2015; De Massis et al., 2008). Triangulation involves the corroboration of evidence using multiple research methods, which helps the researcher overcome the limitations of any one technique and leads to more robust findings. For this study, evidence was triangulated using three research methods, i.e. observations from extant literature, findings from in-depth interviews of 25 FBLs and insights shared by two FB practitioners (see Figure 1). The main research study was designed as an empirical qualitative study primarily based on the in-depth interviews of 25 FBLs.

The review of extant literature on NV creation process and NV creation in FB context included the following peer-reviewed scholarly journals: Entrepreneurship Theory and Practice, Journal of Business Venturing, Management Science, Organization Science, Academy of Management Journal, Academy of Management Review, Strategic Management Journal, Family Business Review and Journal of Family Business Strategy. Besides these, books and handbooks on entrepreneurship and NV creation were also included in the review.

Observations from the literature were corroborated with the findings of in-depth interviews of 25 FBLs who operated in different industries in India. These FBLs were the participants in a four-day long, management development program for senior FB executives (see Table I for an overview of the cases). Senior management personnel are known to be a good source of information and have often been considered to be the key informants for business research (Welch et al., 2002; Kumar et al., 1993). In-depth interview method was chosen as it is regarded to be an insightful business research method (Saunders et al., 2011) that has been frequently used in FB research (Evert et al., 2016; Uhlaner et al., 2015; Goldberg, 1996; Astrachan and Kolenko, 1994). The interviews were held in February 2017. These were conducted in English language. The duration of the interviews ranged from 35 to 45 min each. The interviews were semi-structured, i.e. after specific initial queries, the

Figure 1.
Triangulation technique applied to study the influence of familial socio-political forces on the NV creation process
FBLs were asked to share their thoughts and experiences on the NV creation process in their FBs (see Table II for the list of interview questions).

First, to assess if the respondent had the relevant NV creation experience and was fit to be a subject for the study, the interviewee was asked if his/her FB had established an NV in

<table>
<thead>
<tr>
<th>No.</th>
<th>Industry in which the key business operates</th>
<th>Ownership stake held by the family</th>
<th>Generation leading the business</th>
<th>Interviewee’s Role of familial socio-political forces</th>
<th>Annual sales (FY 2016, INR million)</th>
<th>No. of employees</th>
<th>NVs created by the FB</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Textile</td>
<td>58% $</td>
<td>Third</td>
<td>Director</td>
<td>1,543</td>
<td>1,200</td>
<td>2</td>
</tr>
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<td>2</td>
<td>Real estate and construction</td>
<td>100%</td>
<td>Second</td>
<td>Managing director</td>
<td>1,358</td>
<td>600</td>
<td>1</td>
</tr>
<tr>
<td>3</td>
<td>Media and publication</td>
<td>100%</td>
<td>Third</td>
<td>Managing director</td>
<td>810</td>
<td>350</td>
<td>4</td>
</tr>
<tr>
<td>4</td>
<td>Iron and steel</td>
<td>51% $</td>
<td>Third</td>
<td>Vice president</td>
<td>3,582</td>
<td>1,700</td>
<td>2</td>
</tr>
<tr>
<td>5</td>
<td>Information technology</td>
<td>54%</td>
<td>First</td>
<td>CEO</td>
<td>594</td>
<td>250</td>
<td>2</td>
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<tr>
<td>6</td>
<td>Conglomerate</td>
<td>55% $</td>
<td>Fourth</td>
<td>Director</td>
<td>3,250</td>
<td>1,650</td>
<td>7</td>
</tr>
<tr>
<td>7</td>
<td>FMCG</td>
<td>65%</td>
<td>Fourth</td>
<td>President</td>
<td>2,475</td>
<td>950</td>
<td>4</td>
</tr>
<tr>
<td>8</td>
<td>Pharmaceuticals</td>
<td>56%</td>
<td>Second</td>
<td>Chairman</td>
<td>1,380</td>
<td>475</td>
<td>4</td>
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<tr>
<td>9</td>
<td>Packaging</td>
<td>68%</td>
<td>Third</td>
<td>Managing director</td>
<td>953</td>
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<td>First</td>
<td>Managing director</td>
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<td>First</td>
<td>Chairman</td>
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<td>Chemicals</td>
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<td>Third</td>
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<td>Second</td>
<td>President</td>
<td>816</td>
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<tr>
<td>15</td>
<td>Paper</td>
<td>74%</td>
<td>Third</td>
<td>Vice president</td>
<td>1,952</td>
<td>1,100</td>
<td>4</td>
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<tr>
<td>16</td>
<td>Electrical fittings</td>
<td>51% $</td>
<td>Second</td>
<td>President</td>
<td>2,549</td>
<td>1,250</td>
<td>2</td>
</tr>
<tr>
<td>17</td>
<td>Iron and steel</td>
<td>52% $</td>
<td>Second</td>
<td>Director</td>
<td>4,525</td>
<td>1,850</td>
<td>3</td>
</tr>
<tr>
<td>18</td>
<td>Agricultural machinery</td>
<td>100%</td>
<td>Second</td>
<td>CEO</td>
<td>438</td>
<td>276</td>
<td>3</td>
</tr>
<tr>
<td>19</td>
<td>Home appliances</td>
<td>55%</td>
<td>Third</td>
<td>Director</td>
<td>2,125</td>
<td>735</td>
<td>2</td>
</tr>
<tr>
<td>20</td>
<td>Commodities trading</td>
<td>100%</td>
<td>First</td>
<td>President</td>
<td>552</td>
<td>265</td>
<td>1</td>
</tr>
<tr>
<td>21</td>
<td>Logistics</td>
<td>100%</td>
<td>Second</td>
<td>Managing director</td>
<td>1,146</td>
<td>577</td>
<td>4</td>
</tr>
<tr>
<td>22</td>
<td>Ceramic tiles and sanitary fittings</td>
<td>75% $</td>
<td>Second</td>
<td>Vice president</td>
<td>2,412</td>
<td>1,825</td>
<td>4</td>
</tr>
<tr>
<td>23</td>
<td>Media and real estate</td>
<td>53%</td>
<td>Third</td>
<td>Managing director and managing director</td>
<td>2,783</td>
<td>1,769</td>
<td>5</td>
</tr>
<tr>
<td>24</td>
<td>Fast food restaurant chain</td>
<td>85%</td>
<td>Second</td>
<td>Managing director</td>
<td>1,375</td>
<td>768</td>
<td>3</td>
</tr>
<tr>
<td>25</td>
<td>Pharmaceuticals (generic and bulk drugs)</td>
<td>58%</td>
<td>Second</td>
<td>Director</td>
<td>3,588</td>
<td>1,692</td>
<td>4</td>
</tr>
</tbody>
</table>

Notes: In cases where the family owned less than 100 percent stake, the remaining stake was owned by minority shareholders and/or financial institutions and/or joint venture partners; $ denotes publicly traded firm listed on the Bombay Stock Exchange (BSE) and/or the National Stock Exchange (NSE), India.

Table I. Details of interviewees’ family business
the past five years. The interview proceeded when this condition was met. The interviewee was then asked to describe the NV creation process in his/her FB. The interviewee was further probed on how the venture idea germinated in the family and who in the family was likely proposer of an NV. The interviewee was asked to describe whether his/her FB followed a proper screening process to evaluate an NV proposal and what considerations influenced the NV creation decisions in the family. Further questions probed deeper on the influence of the proposer’s socio-political clout in the family and his/her relative distance from the family’s strategic decision-making core group on different stages of NV creation.

<table>
<thead>
<tr>
<th>No.</th>
<th>Question</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Has your family business established a new business venture during the last five years?</td>
</tr>
<tr>
<td>2</td>
<td>Could you describe the process of new venture creation in your family business? What stages does it follow?</td>
</tr>
<tr>
<td>3</td>
<td>How a new venture idea germinates in the family? Who are the likely proposers?</td>
</tr>
<tr>
<td>4</td>
<td>Do you follow an elaborate evaluation process to screen an NV proposal? How do you evaluate and what do you look for in an NV proposal?</td>
</tr>
<tr>
<td>5</td>
<td>Beside the business rationale, what other considerations influence your NV creation decisions? Describe from both proposers’ and evaluator’s perspectives.</td>
</tr>
<tr>
<td>6</td>
<td>Does the level of attention given to an NV proposal varies depending on the proposer’s proximity or distance from the strategic decision-making group at the core of the family?</td>
</tr>
<tr>
<td>7</td>
<td>If the proposer belongs to a family branch that is distant to the inner circle, does the core decision-making group supports the NV proposal (beyond merely listening to it)?</td>
</tr>
<tr>
<td>8</td>
<td>What is the level of interest exhibited by family members to encourage an NV initiative?</td>
</tr>
<tr>
<td>9</td>
<td>Are NV proposers able to garner support and high level of commitment of family members for the NV proposal, especially on account of their passion and ownership feeling for the NV?</td>
</tr>
<tr>
<td>10</td>
<td>What motives drive FB leadership’s decisions on NV proposal? Do socio-political forces influence their decisions? If yes, how exactly this happens?</td>
</tr>
<tr>
<td>11</td>
<td>If the NV proposer has a strong social and family standing, does that person’s NV proposal successful in attracting the family’s attention and support? What happens when the proposer does not have that kind of socio-political support?</td>
</tr>
<tr>
<td>12</td>
<td>How does an NV proposal coming from a proposer with socio-politically strong base in the family gets evaluated? Is that evaluation conducted on some prescribed norms or policies or is it given a lenient scrutiny?</td>
</tr>
<tr>
<td>13</td>
<td>Does an NV proposal coming from a family member who is distant from key decision-making members likely to be strictly scrutinized?</td>
</tr>
<tr>
<td>14</td>
<td>If an NV proposal gets wide acceptance and becomes the family’s idea, is it evaluated leniently on business or other criteria?</td>
</tr>
<tr>
<td>15</td>
<td>Does your family business have a policy framework to decide on resource allocation to NV proposal?</td>
</tr>
<tr>
<td>16</td>
<td>If an NV proposer is a close and well-embedded family member, does s/he get resources allocated informally to the NV, even when the demand exceeds formally prescribed limits?</td>
</tr>
<tr>
<td>17</td>
<td>Is the family very particular in accounting for the resources provided to the NV proposed by a close family member? Does this vary when the proposer is a distant family member? How?</td>
</tr>
<tr>
<td>18</td>
<td>Are there requirements of formal approvals and adhering to hard and fast limits for resources required for an NV proposed by a close family member? Does this vary when the proposer is a distant family member? How?</td>
</tr>
<tr>
<td>19</td>
<td>When an NV proposal by a close/embedded family member is approved, does it get high commitment from the family business establishment? Does this vary when the proposer is a distant family member? How?</td>
</tr>
<tr>
<td>20</td>
<td>When an NV proposal by a close/embedded family member is approved, does everybody in the family works to ensure its success? Does this vary when the proposer is a distant family member?</td>
</tr>
<tr>
<td>21</td>
<td>When the NV establishment is being setup by a close/embedded family member, do all other family members extend full support to the establishment of the NV? Does this vary when the NV is being setup by a distant family member? How?</td>
</tr>
<tr>
<td>22</td>
<td>When an NV is setup by a distant family member, do other family members eventually lose interest in it? Does this vary when the NV is setup by a close/embedded family member?</td>
</tr>
<tr>
<td>23</td>
<td>What are your own thoughts/experiences on the influence of socio-politics within the family on NV creation process? What do you suggest family businesses must do to improve their NV creation process?</td>
</tr>
<tr>
<td>24</td>
<td>Any other insights you would like to share on this issue?</td>
</tr>
</tbody>
</table>

Table II. Interview questions that family business leaders were asked on the NV creation process and familial socio-political influences
The interviews were recorded and manually transcribed using Microsoft Word. While they interviewed, the researchers also took notes on key observations shared. The interview transcripts were analyzed according to the norms prescribed in literature (Weber, 1990; Neuendorf, 2016). The unit of analysis was a sentence. This resulted in key terms and ideas that the interviewees associated with the NV creation process and the influence of familial socio-political forces. Using the open coding method (Saldana, 2015; Reay et al., 2017), entire transcription data were manually coded at two levels. Level 1 identified NV process-related statements and terms. Level 2 further segmented the statements/words into finer categories of familial socio-political influences and behaviors (Figure 2 shows how coding was done).

Note: Other aspects related to the phenomenon were also coded following the above process.

**Role of familial socio-political forces**
The coding output provided clarity and helped understand the distinct aspects of familial socio-political forces influencing the NV creation process. Using this understanding, a concept map was developed as per the method described by Moon et al. (2011) and Bickman and Rog (2008) to depict the phenomenon of socio-political influence on the NV creation process (see Figure 3). As advised by Moon et al. (2011, p. 24), we began developing the concept map by defining the focus question: "how familial socio-political forces influence NV creation in family business?" Based on the interview transcripts, we identified the key concepts (like stages in NV creation process, family embeddedness, in and out groups, socio-political motives of FB leadership, etc.). These concepts were spatially arranged based on the understanding of their order of occurrence and proximity to each other. Thereafter, links were drawn connecting each of these concepts in a logical manner that became evident from the interview transcripts. The spatial arrangements were revised in an iterative process till a clear and cohesive figure emerged.

Finally, the concept depicted in Figure 3 and findings from the interviews were supplemented with the insights gathered by two experienced FB practitioners. The insights from the two practitioners were gathered following the same interview guidelines that were adopted in case of the FBLs interviewed earlier. The practitioners were not privy to the transcripts of the FBLs' interviews. The triangulation of observations from the literature, findings from the interviews of FBLs and insights collected from the two FB practitioners was conducted to arrive at a comprehensive understanding of the influence of familial socio-political forces on NV creation in FB context.

Findings and discussion
The analysis of interview discussions and practitioner insights on the NV creation process in the FB context led to four broad categories of statements. The first category had statements focused on the process of NV creation and the stages in that process. The second

![Figure 3. Concept map: NV creation process and familial socio-political influences – spoke representation based on replies from the interviewees](image)
category of statements described what socio-political forces influenced the NV creation process. Next was the group of statements that indicated how the incumbent leadership perceived, evaluated, and decided the fate of the NV proposal and the motives that drove those decisions. The fourth category of statements was related to the proposer’s socio-political clout in the family and the influence it has on various stages of the NV creation process. This section presents the statements and deduces four propositions from those statements.

Stages in NV creation process in FBs

Identification of business opportunities is considered to be the starting point of NV creation (Corbett, 2005; Lumpkin and Lichtenstein, 2005; Shaver and Scott, 1991). Individuals with intuitive cognitive style are known to have strong ability to recognize opportunities (Kickul et al., 2009). NV opportunity can be recognized in several contexts. This was supported by the following remarks made by the interviewees we probed:

Spotting a new business opportunity is the first step in venture creation. New opportunities can emerge from customer contact meets or surveys or through market screening for whitespaces representing un-served customer needs (said a family business leader).

International trade shows and meets are a great source for us to recognize emerging new business opportunities (said another FB leader).

Technological changes often give rise to new business opportunities. Whenever the next generation members in our family see a promising opportunity, they bring it to our notice (commented another leader of a multigenerational FB).

Once a new business opportunity is identified by the NV proposer, a business plan is developed and presented to the strategic decision-making body for approval (Herron and Sapienza, 1992). This necessitates conducting due diligence of risks and benefits involved in the venture (Timmons and Spinelli, 2009). The following statements of the interviewees corroborate that proposal evaluation is the next stage in NV creation:

Whenever a family member comes up with the suggestion of floating a new business venture, we ask the member to submit a detailed proposal to the board. The board inspects it and a meeting is organized after a month to share with the member whether the proposal holds promise for us to take it up (commented a FB leader).

Our family business board discusses the pros and cons of all the NV proposals. We only proceed further when all of us have examined the proposal and have arrived at a consensus (described another FB leader).

After management’s approval, the next critical step is to apportion resources required to setup the venture (Herron and Sapienza, 1992; Greene et al., 1999). Resource allocation is smooth when the NV is perceived to be aligned with the parent (Raisch and Tushman, 2016). FBs are known to provide NVs with human, financial and social capital resources (Sirmon and Hitt, 2003). The following statements made by the interviewees indicate the same:

After the board approval, the NV proposal and its resource requisition is forwarded to our strategic management group, which evaluates the requirements and allocates the required resources (explained a family business leader).

We have created an in-house venture fund to invest in new ventures. When the family decides to enter a new business, besides the seed capital, a group of senior executives are assigned to the NV to ensure a smooth take-off (described a leader of second generation FB).

With all the required resources allocated to NV, the next stage is the establishment of the venture (Shaver and Scott, 1991; Kickul et al., 2009). It is the process of executing the NV
plan on the ground, setting up the business infrastructure and creating the interfaces to conduct the business (Timmons and Spinelli, 2009). The interviewees’ following remarks support the same:

Finally, when it comes to building the new business on ground, we assign our best execution experts to oversee the task right from the scratch to finish (elucidated the leader of a diversified conglomerate FB).

Following resource allocation, the next big task is of establishing the business venture. This involves deciding locations, building facilities, hiring etc., that is, building the entire hard and soft ecosystem to ensure a launch without any hiccups (said another FB leader).

When everyone in the family is on board; funds, manpower and materials are allotted to the new business, the blueprint of the setup is implemented. For us, it is usually a long project as it takes time to setup a manufacturing business compared to a service business (explained a third generation manufacturing FB leader).

Sample statements of interviewees, based on which the categorization of four stages in NV creation process was done, are presented in Table III.

As is evident from this discussion and Table III, the process of NV creation in the FB context was found to comprise four distinct stages. The first was the recognition of a new business opportunity (i.e. opportunity recognition stage), followed by the evaluation of the proposal to create the NV (i.e. proposal evaluation stage). After an NV proposal received the family’s approval, it was assigned the resources required to set it up (i.e. resource allocation stage), and then finally the venture was established on the ground (i.e. venture establishment stage).

The two senior FB practitioners, each with more than 25 years of consulting and FB advisory experience, confirmed the existence of these four stages of NV creation and their sequence.

Familial socio-political factors influencing NV creation process

Creation and success of NV are known to be influenced on account of manager’s political networking (Li and Zhang, 2007). The socio-political phenomena of “individualism” and “power distance” have been found to influence venture creation decisions (Mitchell et al., 2000). These phenomena are also likely to influence NV creation in the FB context. For instance, social identity (Ashforth and Mael, 1989; Bergami and Bagozzi, 2000) and informal social ties (Oh et al., 2004), membership of IN-group or OUT-group (Richter et al., 2006) influence members of an organization. In the FB context, these social forces within the family are likely to influence the NV creation process.

Social identity theory (Ashforth and Mael, 1989) provides a relevant theoretical lens to view NV creation phenomenon in the FB context. This theory suggests that individuals tend to choose activities and support institutions that are congruent to the salient aspects of their identities. Social identity theory has been found to be relevant in the context of board governance in family firms (Cannella et al., 2015) but little is known in the subfield of entrepreneurship in FB according to this theoretical perspective. Extending the argument of social identity theory, we posit that the FB leadership and other family members who evaluate an NV proposal view that proposal and the resultant venture in terms of its congruence with their own social identities. This congruence is likely to be higher when the proximity of the NV proposer with the evaluator is high (i.e. IN-group proposer) and lower when the proximity is lower (i.e. OUT-group proposer).

Chua et al. (1999) state that the vision and strategic decisions of an FB are shaped and pursued by a dominant coalition in the family. This dominant coalition is composed of a selected group of family members who have a significant power status in the family and a greater say in the affairs of the FB. Therefore, a family member who has a strong social standing in the family is likely to have the capability of influencing other family members
and garner their support for his/her NV proposal. The embeddedness perspective argues that individuals are not isolated atoms but are often part of social/familial networks. Hence, they do not make decisions to start a business in a vacuum but they consult and are subtly influenced by significant others in their environment (Aldrich and Zimmer, 1986). They seek attention and support for their NV proposal from the members in their social/familial networks. Individuals with stronger and influential network relations are more likely to get this support. Thus, socio-political forces applied by both the FB leadership and the NV proposer determine the outcome of the NV creation process in the FB context. The following statements of the interviewees and the insights shared by the practitioners corroborate this:

Though we have a policy for appraisal of new venture proposals, often family considerations have to be kept in mind while dealing with the proposals. Everyone in the family is willing to lend an ear

<table>
<thead>
<tr>
<th>Interview responses (sample of respondents’ statements)</th>
<th>Classification of stages in NV creation process</th>
<th>Role of familial socio-political forces</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. “Identifying the under-served needs of customers is the key to develop a new venture idea. This requires a very sharp eye”</td>
<td>Opportunity recognition</td>
<td></td>
</tr>
<tr>
<td>2. “International travel often helps us identify a product that can be successfully launched in India”</td>
<td>Proposal Evaluation</td>
<td></td>
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<tr>
<td>3. “We motivate our next generation members to identify new business opportunities and present business plans so that we can assess potential”</td>
<td>Resource allocation</td>
<td></td>
</tr>
<tr>
<td>4. “Interactions at industry conferences are good sources of identifying emerging business opportunities. These exchanges help us look beyond our existing businesses and often serve as triggers for creating new ventures”</td>
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<td></td>
</tr>
<tr>
<td>5. “Technological advancements present new business opportunities. So, we closely watch the changes on technology front”</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. “All new venture ideas are first discussed in our family council meeting and then the plan is thoroughly examined by the corporate strategy group”</td>
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<td></td>
</tr>
<tr>
<td>2. “New venture proposals are screened by our board. Many seemingly exciting venture ideas are unable to stand the scrutiny of their viability”</td>
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<tr>
<td>3. “When we assess a proposal for a new business venture, the most important thing for us is the strategic fit of the new venture with our existing businesses”</td>
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<tr>
<td>4. “Ideas to setup new ventures are presented to our group chairman. He appraises those proposals and places the selected, promising ones to the consideration of the board members”</td>
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<tr>
<td>5. “We examine a new venture idea on three counts: the synergies it will generate or benefit from, the returns it would generate in a 5–10 year horizon, and the pressure it would put on our existing resources”</td>
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<td></td>
</tr>
<tr>
<td>1. “The most crucial part of new venture creation is assigning adequate resources because several requirements compete for resources”</td>
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<td></td>
</tr>
<tr>
<td>2. “The board approval of the new venture is followed by allocation of funds, manpower and other resources”</td>
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<td></td>
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<tr>
<td>3. “A new venture has to be supported with sufficient working capital”</td>
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<tr>
<td>4. “From office space to human resources, and finances, all resources are allotted proportionately to the approved new venture proposal”</td>
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<td></td>
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<tr>
<td>5. “When the new venture proposal is authorized, its resource needs are also considered. So, provision of resources is the next logical step”</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. “If an idea is found to be promising and viable, elaborate execution plans are made to bring the new venture to shape”</td>
<td>New venture establishment</td>
<td></td>
</tr>
<tr>
<td>2. “Once all are convinced on the idea’s potential, all of us come together to help setup the venture. Success becomes a matter of family reputation”</td>
<td></td>
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<tr>
<td>3. “We execute new venture creation like a project, with clear timelines”</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. “After the board approval, the new business entity is registered”</td>
<td></td>
<td></td>
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<tr>
<td>5. “When resources are earmarked, creating the physical setup of the new business does not take long”</td>
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</table>
to the idea proposed by a person who is widely popular in the family and has a history of proven business track record (commented a family business leader).

My experience is that venture creation follows the pattern of business cycles. If a family member presents a new venture idea when markets are booming, it is more likely to go through the scrutiny because cash flows are good. The same plan may be rejected during a recession. Having said that, the proposer’s standing in the family definitely matters. If I am unsure of the person’s capability, I will not hesitate to say NO, even in good times (described another leader of a first generation FB).

Investing in a new business venture requires a huge amount these days. However, at the same time we aim for prosperity and happiness of all family members. Therefore we give a choice to them (especially the younger members), to either join any of our existing businesses or bring a venture idea, convince us why do you think it will be a success and earn the funding (said a leader of a diversified FB).

Next generation members have high aspirations. They want to do something on their own. Therefore, we promote them to identify and develop new venture ideas. We also assign them family seniors as mentors. When the mentors report good progress and are positive about the venture, only then is next round of funding and other resources are provided (shared another FB leader).

When a member exerts a lot of pressure either on their own or through other family members, to clear their new venture proposal, there are high chances that they get their way. This happens because no one wants to upset large number of family members. But due to this, sometimes a more promising proposal does not get the kind of attention and family support it deserves. Partly, we (the leadership) are to take the blame for that (explained another leader of a multigenerational FB).

Both the FB practitioners shared their insights on this issue and validated that socio-political motives of FB leadership and the socio-political clout enjoyed within the family by the NV proposer influence the NV creation process. The following statements of the practitioners confirm this:

New ventures provide opportunities for family members to grow, prove themselves to the family and contribute to family wealth. Hence, they try to influence other family members to support their venture proposals. On the other hand the FB leadership wants to keep everyone in the family together. If NV opportunities are tightly controlled and denied to family members, it might create unrest and threaten the leadership. On the other hand too much of diversification and de-focused venture strategy will weaken the core business and again threaten the FB leadership. Hence, the leadership has to strike the right balance between these two extremes as they manage the NV creation process (said FB Practitioner 1).

Given two similar proposals for new venture creation, the one from an individual who is in the direct line of leadership descent, is more likely to get the family’s and strategic decision-making group’s support because that individual is perceived as the future leader. Other members often need to press their case more than twice that hard. Every stage of the NV Creation process is influenced by the socio-political forces in the family. For instance, FB Leaders want to appear to be politically correct, therefore they ask someone else in the family to discourage the proposer from pushing the idea (said FB Practitioner 2).

Hence, we posit that:

\[ P1a \] All stages of the NV creation process in FB context are influenced by the incumbent FB leadership’s desire to maintain socio-political harmony in the family.

\[ P1b \] All stages of the NV creation process in FB context are influenced by the proposer’s socio-political clout within the family.

**Socio-political motives of the FB leadership**

FBLs attach high emotional value to the non-financial aspects of the business (Zellweger and Astrachan, 2008). One of the key objectives that drive strategic decisions of FBLs is the
preservation of the socioemotional well-being of family members, i.e. the family’s SEW (Gómez-Mejía et al., 2011; Naldi et al., 2013). For instance, family firms are known to diversify less because doing so necessitates appointing non-family members (as the capabilities required to run an unrelated business may not be found within the family), which reduces the family’s control over the unit and depletes SEW (Gómez-Mejía et al., 2010; Berrone et al., 2012).

In addition to the socioemotional objectives, the leadership’s decisions are also known to be influenced by organizational politics and power dynamics (Shen and Cannella, 2002). Top management team (TMT) controls the strategic decision making of the organization and exerts power on account of organizational structure, ownership and expertise (Finkelstein, 1992). Shared cognition or unity of thought among TMT members is found to have a positive effect on performance of the firm (Priem, 1990) and the NV (Ensley and Pearce, 2001). On the other hand, friction among TMT creates fault lines, slows down decision making and erodes cohesiveness (Eisenhardt et al., 1997; Talaulicar et al., 2005). Therefore, in order to maintain their political power and cohesion in future leadership, the incumbent TMT members are likely to develop, promote or support the progress of individuals who have a shared vision with that of the TMT.

Like other strategic decisions, NV creation decisions of the FB Leadership are also influenced by these socio-political considerations. The analysis of interviews and expert opinions of the practitioners revealed that in the FB context, the FB Leadership perceives NV creation as an extension or curtailment of its political power. When the NV proposal is presented by an individual perceived to be aligned with the interests of the incumbent leadership (like a proposer within or close to the inner decision-making core), the FB leadership viewed venture creation as an extension of his/her political power and influence. However, when an NV proposer was not perceived to have good alignment with the leadership vision, the proposed venture was viewed as a curtailment of the leadership’s political power and influence. In such cases, the leaders were found to discourage the NV proposal. Extending the social identity perspective, the phenomenon of perceived congruence between the NV proposer’s social identity and that of the proposal evaluator’s identity is likely to influence NV creation decisions.

How the FB leadership’s socio-political motives influence different stages of the NV creation process was made amply clear by the following statements made by the interviewees and the comments made by the two FB practitioners:

We are three cousins and each of us manages a region. I am the eldest and have two sons who are to continue the family’s legacy. If they come up with a promising new venture idea in future, I will surely support it because it will provide a base for my sons to grow in future (said a FB leader).

There are some members who are closer to you than the others. Surely, deep down within, that connect matters to some extent, when I am deciding about whether or not to approve their proposal or how much funds to be moved to the new project. But this does not mean that I will allow emotions to override the profit objective; you can’t expect me to invest in a dud project! (said another FB leader).

When the proposal is forwarded by a family member belonging to a group or family branch closer to the leadership, the leadership views it as adding strength to the its socio-political power within the family. The FB leader facilitates meetings between the proposer and key persons or experts, within and outside the family. The FB leader strongly recommends the NV to others and even volunteers to mentor. At the evaluation stage, FB leader brings additional inputs and calls for meetings. When there are strong reservations to the proposal, he asks for postponements to get more inputs, and gets the proposal approved in subsequent meetings (said FB Practitioner 1).

If the FB leader perceives that the NV proposer is connected to the family’s core group, then supporting the individual is seen as strengthening the family’s bonding and extending one’s own
influence in the family. In such cases, the FB leader allocates manpower and finds ways to generate funds for the NV, for instance prepares a plan for phased investments. While, in the setup stage, the FB leader motivates others and helps overcome implementation challenges. He helps in publicising the venture with an aim to ensure a smooth and successful launch (said FB Practitioner 2).

Thus, when the proposer is perceived close to the FB leadership and/or aligned with its socio-political interests in the family, the proposed NV is viewed to extend the leadership’s political power and gets support through all the stages. Hence, we posit that:

**P2.** The incumbent FB leadership views NV creation as a reinforcement to its socio-political power and supports the proposal when the leadership is positively predisposed to the proposer.

On the other hand, when the proposer is perceived to be distant or opposed to the FB leadership and/or non-aligned with its socio-political interests, the proposed NV is viewed to limit the leadership’s political power and the proposal gets dropped.

The following statements corroborate that argument:

Though we act objectively in the best interest of the business, being humans all of us have biases which may inadvertently nudge our thinking. For instance, I may not want to support a highly capital intensive project idea that another family branch puts forward. Such a huge investment will obviously shake-up the family’s control structure, which I would not like to see (explained a FB leader).

When I know that the individual lacks commitment to the family or to successfully manage the new venture, I will definitely object. Why should the family fritter away its precious resources that can be put to better use like expansion of existing business? I tell the youngsters that they must first demonstrate their commitment and capabilities in the family’s existing business and then earn their money for any new business they want to start (said a senior leader of a diversified FB).

Sometimes people oppose new venture ideas just because they don’t want to come out of their comfort zone. But at other times they have genuine anxieties, especially if the mutual trust between the proposer and the decision-makers is weak. Past track record of the person also matters. Sometimes the family’s decision-makers are also driven by selfish motives and ask themselves: what’s in it for me? If it is next generation boys, often comparisons are made and they or their parents seek parity in resource allocation. If the leadership perceives such issues to harm family unity, it may decide to side-line the NV proposal (said FB Practitioner 1).

Challengers threaten the incumbent family leadership’s hold over the business and their political power in the family. If a new venture proposal comes from person perceived to be belonging to such a group, the FB leadership is not likely to support the proposal. The leadership resorts to various types of behaviours that discourage or thrash the proposal. At the opportunity recognition stage the leadership may resort to stonewalling the proposal by denying time for meetings and discussions or by pessimistic scenario building. Sometimes the proposers are also deflected to look for better options or are simply told that there isn’t enough energy to initiate a new venture (on account of leader’s age). Even if the go ahead is given, objections are raised at the proposal evaluation stage. These may again include stonewalling by denial of resources (have no manpower, or money for this) or by finding loopholes or weaknesses or by claiming lack of financial discipline on the part of the proposer (said FB Practitioner 2).

Drawing again from the social identity theory perspective, here, the phenomenon of the NV proposer’s OUT-group membership decreases the congruence among the social identities of the proposer and the evaluator.

Hence, we posit that:

**P3.** The incumbent FB leadership views NV creation as a threat to its socio-political power and blocks the proposal when the leadership is negatively predisposed to the proposer.
Table IV lists some of the cases that the two practitioners cited to explain the phenomenon of how FB leadership’s socio-political motives, both positive and negative, influence the NV creation process.

**Influence of the proposer’s socio-political clout varies across NV creation stages**

Relational governance mechanisms often come into play in strategic decision making in family firms (Mustakallio et al., 2002). The members who are well embedded in the family are able to influence strategic decisions (Breton-Miller and Miller, 2009). For instance, family considerations often influence the allocation of resources in business (Breton-Miller and Miller, 2006; Hoopes and Miller, 2006). Similarly, family firms are known to mobilize their social capital to help their venture achieve economic success (Aldrich, 1999). Therefore, family embeddedness of the proposer is crucial for obtaining positive review and support for the venture. In addition, family members who are close to the leadership are seen as the trustees of family legacy. Therefore, these individuals are able to exert influence on decision makers and are likely to get support for their NV proposal.

However, the influence of the proposer’s socio-political clout was found to vary across different stages of the NV creation process. While it had a limited role in the opportunity recognition and venture establishment stages, the proposer’s socio-political clout had a high degree of influence during the proposal evaluation and resource allocation stages. In part, this was due to the fact that the proposer viewed these two stages as extremely critical for setting up the NV and lobbied hard within the family to seek a positive evaluation and to secure the allocation of adequate resources.

The following statements of the interviewees and the practitioners support the argument:

New ventures have a high failure rate. Conversion of a business opportunity into a new venture makes sense only when the person is really keen and capable enough to pull it off. If a member is really passionate about it, he will push it hard to win the family’s support when the venture idea is discussed in the family meeting (said an FB leader).

We have a core group of three brothers. Each of us has a son. When they come up with a new venture idea, we provide them all the resources they need to succeed and connect them to the right people in business. Of course, I can’t say that it is the same if the NV idea were to be presented by my cousin’s son. I will be more guarded; you see because it’s the family’s hard earned wealth (shared another FB leader).

If the person really wants to make it happen, he will move the heaven and earth! That is the entrepreneurial spirit that runs in our family. And the family also reciprocates! For a member who is more connected by heart to the family, we go out of the way to find a solution, be it the requirements of advance technology, superior manpower or capital (described a senior FB leader).

When we finally agree to establish a new venture, then all of us come together to make it a success. At the time of business launch it does not matter much which branch of the family leads it. Yes, sometimes the feeling of comparison comes when resource allotment to two ventures is discussed, but then every business has different needs (explained another FB leader).

I would not say that we are not influenced in venture creation decisions by the weight a person carries in the family. But it is something that comes after we ensure the venture’s feasibility. If a member who is close to you, demands a little more cushion to pull the venture off, obviously you will help him. We have to be flexible, especially to resolve the initial teething troubles that every new venture faces (said another FB leader).

My experience in family business advisory practice has been that members use their standing in the family to push the new venture proposal through and get the resources they want. For this, they reach out to several members of the family, especially the core group of strategic decision makers. When they do have a strong direct connect, they approach the people who are closer to the core group and push the project through them. If they are able to garner wide support, and keep
<table>
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<th>_opportunity recognition</th>
<th>instances when FB leadership was positive</th>
<th>instances when FB leadership was negative</th>
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<td>In the case of logistics firm “Ketan Logistics,” the next generation member Rohit’s idea to start a IT-related business was identified after the family, in general, encouraged him to look for new growth opportunities. He could meet people connected with this industry through contacts that resulted in the finalization of a proposal to setup a software-driven logistics business.</td>
<td>In a number of cases where the family members are concerned about the next generation going away from the family or its business, ideas of starting anything new is discouraged from the beginning. A typical argument is that the business needs more hands.</td>
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<th>proposal evaluation</th>
<th>instances when FB leadership was positive</th>
<th>instances when FB leadership was negative</th>
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<td>The senior generation of the “ABC automobile dealers” encouraged the next generation to start new businesses outside the dealership area. They believed that the dealership business did not require any more next generation members for management. Accordingly, they evaluated and approved a business of a next generation member to start a restaurant.</td>
<td>In case of a footwear firm, Touchdown Footwear, one of the uncles opposed a proposal from the next generation to start a manufacturing unit in Bangladesh. This was because his own proposal to start a venture in Bangladesh several years ago was short down by his brothers and cousins because of personal enmity between them. Hence, the aggrieved uncle did not want the proposal from the children from some of those who opposed him earlier, to happen.</td>
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<th>resource allocation</th>
<th>instances when FB leadership was positive</th>
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<td>Urmin products, a company manufacturing Tobacco-based products whole-heartedly encouraged the next generation to look for opportunities outside their existing domain. They helped the eldest of the next generation to evaluate proposals and collectively approved investment in an automatic processed ready to eat snacks business.</td>
<td>The restaurant proposal from the young member of ABC automobile dealers did not go beyond allocation of a small amount. When it came to investing major part of the approved amount, one of the uncles felt that he would lose out in the long run if his nephews business came up. He wanted that much money to be invested in his own dealership business that will give him more visibility and power in the future.</td>
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<th>new venture establishment</th>
<th>instances when FB leadership was positive</th>
<th>instances when FB leadership was negative</th>
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<td>In Urmin products, three members of the senior generation collectively supported the eldest of the next generation member in all possible ways to get the project take-off.</td>
<td>In several cases where the resource allocation happens in the first round, resistance to give support in the second and third round or management support comes down when some of the influential senior members notice that the person behind the venture would get more attention, praise and power in the process. As a result they find reasons to criticize the new venture and belittle the person in different ways.</td>
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**Table IV.**

Insights shared by two FB practitioners on the role of familial socio-political forces at different stages of NV creation process.

**Notes:** All of these cases are real-life examples from India. However, names of organizations and individuals have been disguised to protect their identities.
persevering, a momentum builds in the family and people start looking at the proposal as the family’s idea. That is when a venture begins to take shape (said FB Practitioner 1).

The role of the person’s socio-political influence is not much in recognizing a new business opportunity but it becomes a very important factor when a business plan comes to the family’s consideration. At that stage the financial viability of the venture becomes only a hygiene factor, but over and above that, decision-makers also see what will be the effect of setting up of the venture in terms of family dynamics in the long run. An individual, who is seen in positive light and is well connected to everyone in the family, definitely has an edge when it comes to obtaining approval and securing funds (said FB Practitioner 2).

Hence, we posit that:

P4. The power of influence of the proposer’s socio-political clout varies across different stages of NV creation with proposal evaluation and resource allocation stages being more influenced than other stages in the process.

Figure 4 depicts the stages of the NV creation process and the influence of the socio-political forces in the FB context.

Implications
The study has significant implications for theory and practice. This research uses the lens of social identity theory and observes the familial socio-political influence of the NV proposer on NV creation in FB context. The study also extends the SEW literature by registering the role of SEW preservation considerations of FB TMT in making NV creation decisions. Future research can quantitatively measure the phenomenon and validate our findings.

There are notable implications of this research for FB. The NV creation process in the FB context is influenced by multiple socio-political forces. While FB leadership’s decisions are driven by their socio-political motives, different stages of the NV creation process are also strongly influenced by the NV proposer’s socio-political clout. Most importantly, the NV proposer’s IN- or OUT-group affiliation becomes a strong determinant of his/her socio-political clout in the family. The TMT is positively predisposed to the proposer belonging to the IN-Group. In supporting the proposal by a member of this group, the TMT perceives an addition to the family’s SEW. This support is aimed at the fulfillment of family prominence, continuity and enrichment, the three dimensions of SEW importance (Debicki et al., 2016).

![Figure 4. NV creation process and the influence of familial socio-political forces](image)
On the contrary, in supporting the NV proposal of an OUT-group member, the TMT does not view a significant addition to SEW. Thus, the interplay of SEW considerations and the proposer’s socio-political clout influences each stage of the NV creation process.

A positive implication of strong familial socio-political influence in favor of an NV proposal is that it facilitates quick decision making on new entrepreneurial initiatives. Fast decision making about venture establishment and resource allocation also contributes to the NV’s competitive advantage by shortening the “time-to-market” lead time. On the other hand, the negative implication of over influence of familial socio-political forces in NV creation is that it may lead to hasty decisions that may not be objectively thought through may bear disproportionate risks and can lead to adverse outcomes for the family’s economic and SEW. Hence, it is critical for the top decision makers in the FB to be aware of this risk and make decisions that are driven by strategic objectives.

The study also has important implications for the NV proposers. Family members planning to propose an NV creation idea must ensure that they garner strong socio-political influence in the family. More specifically, the proposer’s standing within the family and their alignment with the core strategic decision-making circle is crucial. The NV proposers who belong to the inner circle or IN-group of strategic decision makers stand a better chance of obtaining approval and support for their proposal. However, even the IN-group members need to realize that beyond a sound business rationale, they must also be able to garner sufficient socio-political support in the family. This will ensure that the proposal is perceived to be aligned with the FB leadership’s objective of preserving their political power and the family’s SEW.

The implication for proposers who are not in the FB leadership’s direct line of descent and/or belong to a distant branch of the family is that they need to network with and garner support from family members who are well embedded and bear strong socio-political influence in the family. This will ensure that their NV proposal is favorably evaluated and secures adequate resources. The next generation members who want to launch their own ventures (especially, the highly aspirational achievers) need to understand that only they can get their NV proposal approved and supported only when they are able to secure sufficient socio-political clout in the family. For this, they need to forge strong bonds with members who have proximity to the FB’s TMT, i.e. the IN-group.

The implication for the FB leaders is that they need to safeguard themselves from getting over-influenced by the socio-political weight that the proposer carries in the family. Though SEW preservation is an important criteria, they must ensure that an NV proposal is objectively evaluated on its commercial merits. This is important as NV creation is primarily a business decision that bears high risk of failure, in which there is a much larger risk of erosion of SEW. Hence, while making NV creation decisions, they must strive to strike a balance between SEW preservation and the economic feasibility and strategic fit of the proposed venture.

The policy implication for FB is that they must formulate fair, objective and clear policies for NV proposal evaluation. Family members must give fair attention and support to worthy NV proposals. Similarly, resource allocation to the approved NV must be made on objective criteria to avoid disputes ill-feelings in the family. When decisions at each stage of NV creation process are made on the basis of a clearly stated and objective policy framework, the proposer’s undue socio-political influence will not adversely affect the business. This will also preserve SEW. Once a proposal is approved and the venture is setup, family members must assume its ownership. They must remain committed to nurture it regardless of whoever initiates or leads the venture. NV creation decisions strongly rooted in business rationale are likely to lead to success and wealth creation, and contribute to the family’s SEW in the long term.
FB practitioners/consultants can use the findings to caution FBs about the hazards in NV creation process and how those can be avoided. They will benefit their FB clients by advising them to adopt objective mechanisms for evaluating NV proposals and allocating resources to the NV.

**Conclusion**
NV creation is critical to business growth and long-term survival. NV creation requires a proposer to champion the venture idea and win support across the business setup for its creation. In the FB context, the NV creation process becomes even more complex because of the owner family’s involvement and its dynamics. Family’s goals of growth and perpetual existence influence its business goals and NV creation decision. We conclude that family entrepreneurship is built not only on the techno-economic feasibility of a business opportunity but also the socio-political considerations in the family. The TMT is driven by strengthening its socio-political influence over the family. They view NV proposals by IN-group members as contributing toward this objective and the family’s SEW. For an NV to come into existence, it is crucial that the proposal attracts attention and support from the key decision makers and influencers in the family. This study indicates that the proposer’s socio-political clout in the family creates strong forces of positive and negative energies and influences every stage of the NV creation process.

At opportunity recognition stage, strong socio-political clout of the proposer helps the proposal to gain the attention and support of the FBs. They provide guidance and support to the proposer to grow the idea into a feasible business plan and push the NV proposal forward. At the proposal evaluation stage, strong socio-political clout helps a proposer in securing favorable scrutiny and positive assessment. This is due to the TMT’s objective of SEW preservation. As the proposer is perceived to be a socially well-connected individual within the family, a negative evaluation for the proposal risks causes wider damage to the family’s SEW. This perceived risk to SEW causes an implied pressure on the TMT to approve the NV proposal. After obtaining approval to be setup, resource allocation to the proposed NV is also influenced by the proposer’s socio-political clout. A well-embedded family member is able to quickly garner the required resources by successfully convincing other family members of the necessity and/or urgency for those resources. The proposer with strong socio-political clout is successful in timely and favorable execution of the NV setup. However, family entrepreneurship is likely to thrive in situations where the socio-political forces are kept under check through sound governance mechanisms.

In essence, the study contributes to the extant literature by establishing that socio-political forces within the family influence each stage of the NV creation process. The study also establishes that the quantum of this influence varies at each stage. While it is crucial for FBs to promote family entrepreneurship and preserve SEW and political power, it is also critical to have an objective scrutiny of the NV proposals. The proposed NV’s business potential and economic rationale must be given more weight compared to socio-political considerations of the family. The major responsibility of ensuring this rests on the key decision makers in the family. The FB leaders must safeguard themselves from getting unduly influenced by the proposer’s socio-political clout as they decide on NV creation. When NV creation is based on rigorous business criteria and meets financial feasibility, the growth it brings to the FB setup is harmonious and long lasting in nature.

There are a few limitations of the study. Being an exploratory study, it has adopted methodological pragmatism over conservatism. Future research can adopt more quantitative approach to validate the findings. Further, the geographical scope of the study is limited to India. Future research in different geographical contexts may test the validity of the findings across regions. Future research can also probe whether differences exist in the influence of socio-political clout based on the proposer’s gender and/or
generation. It may also be worthwhile to further probe the factors that influence the evaluation of NV proposals put forward by non-family proposers. It would also be interesting to examine the temporal effects of socio-political forces by taking serial family-entrepreneurship cases into account. Notwithstanding limitations, this paper enhances our knowledge on NV creation process that FBs follow. The study makes valuable contribution to the literature by identifying the familial socio-political influences that affect NV creation in FB context. Addressing the concerns raised in the paper is likely to give a major boost to family entrepreneurship and NV success.

Note
1. Names of the interviewees, practitioners and their businesses are withheld to protect their identities. Details are available with the authors.

References


Further reading


**About the authors**

Navneet Bhatnagar is Analyst at the Thomas Schmidheiny Centre for Family Enterprise, Indian School of Business, Hyderabad, India. He has 15 years of experience in industry and academia. He received PhD Degree in Management Studies from the Department of Management Studies, Indian Institute of Technology Madras. Navneet’s research interests include professionalization, governance and next generation leadership development in the family business context. He has co-authored several case studies, book chapters and monographs in the area of family business management. His research on family firms has been presented in several international conferences in the USA and Europe. Navneet Bhatnagar is the corresponding author and can be contacted at: Navneet_Bhatnagar@isb.edu

Kavil Ramachandran is Professor and Executive Director of the Thomas Schmidheiny Centre for Family Enterprise at the Indian School of Business, Hyderabad, India. Professor Ramachandran received the PhD degree in Business Management from Cranfield University, UK in 1986. For the next 15 years, he served as Professor at the Indian Institute of Management, Ahmedabad. His areas of specialization are family entrepreneurship and strategic management. He has been a consultant to the World Bank, International Labour Organisation, Swiss Development Agency, Department for International Development, UK, various state governments and development banks in India.

Sougata Ray is Professor of Strategic Management at the Indian Institute of Management Calcutta. He has written over 100 research papers, case studies and monographs and published in leading journals such as *Organization Science, Journal of International Business Studies, Global Strategy Journal, Management International Review*, and *International Journal of Management*. His papers have been regularly included in the competitive section of the annual conferences of *Academy of Management, Academy of International Business, and Strategic Management Society* and received a number of best paper award nominations. He has been a consultant to leading international development agencies, corporate advisor and independent director in the Boards of Directors of several organizations in India.

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Interactive effects of quality of government and family firm governance on R&D output

Empirical research on the listed family firms in China

Feng Xiaoti
Centre for Wealth Management, China Europe International Business School, Shanghai, China and
PHDC, Nyenrode Business Universiteit, Breukelen, The Netherlands

Abstract

Purpose – The purpose of this paper is to focus on the interactive effects of intrinsic and extrinsic factors on R&D output by analysing Chinese-listed industrial family firms. It proposes modelling the moderating influence of quality of government (QOG) on the relationship between family firm governance types (family control and family management) and R&D output from the “twin agency” perspective (Stulz, 2005).

Design/methodology/approach – The data set is organised as an unbalanced panel. This study exploits random-effects GLS regression, analysing both cross-sectional and time variation, and estimating the mean effects. The GLS model corrects the variance- and sequence-related problems of linear model random items and remains consistent and robust when the error term is heteroscedastic and non-normally distributed.

Findings – The findings provide several empirical conclusions: in areas with a higher QOG, family firms with greater family control (i.e. voting rights of the board) achieve more R&D output than firms with less family control; and QOG has no significant interactive effects with family management (i.e. the ratio of family managers among top managers) on R&D output. The main contribution of this paper is to show that in areas with a higher QOG, greater R&D output for family firms depends on greater family control rather than family management. These findings give a better understanding of the interactive influence of inside and outside agency problems in family firms in general and their R&D output in particular across different cities, and may help both family firms’ leaders and government policy makers to foster innovation by controlling intrinsic and extrinsic agency problems.

Research limitations/implications – To date, most family firm innovation research has concentrated upon governance and R&D behaviour (Block, 2012; Brinkerink and Bammens, 2018; Chrisman and Patel, 2012; Lee and O’Neill, 2003). Few studies, however, have been performed from the major strategic (control) and operational (management) orientations, into the influence of outside (QOG) and inside (governance) factors upon innovation. This study attempts to fill that gap. It uses patent counts to measure the economic and technological importance of innovation. It argues that different QOG may lead major controllers or executives in family firms to have different motivations, and hence to approach innovation differently from the agency perspective.

Practical implications – The main contribution of this study is to show that in areas with a higher QOG, higher R&D outputs of family firms depend on higher family control rather than family management, due to the interactive influence of inside and outside agency problems. When family management is high, the direct effect is high, because family management may reduce the principal–agent agency cost (PAAC), but the interactive effect of QOG and family management is not significant. In areas with high QOG, although family management may reduce the PAAC, principal–principal and altruism agency costs may increase. Based on the twin agency theory, differing inside expropriation issues between strategic (family control) and operational (family management) orientations are the main differentiator, one accentuated by the external expropriation issues of QOG.

Social implications – These results contribute to a better understanding of family firms in general and their R&D output in particular across different cities. The findings also show of interest for government policy makers who should be aware of the significance of FFs’ characteristics for innovation and their incentives to conduct R&D projects.

This paper forms part of a special section: “Transgenerational entrepreneurship in the global world”.
Originality/value – The research uses Stulz’s (2005) “Twin agency” concept to analyse the interacting effects of state-level agency problems of governments with firm-level agency problems of family firms on R&D output. This paper answers the main question: What are the interactive effects of QOG and family firm governance on R&D output? The main contribution of the paper is to bridging the current gap in the literature.

Keywords Family firms, Family control, Agency problem, Family management, Quality of government, R&D output

Paper type Research paper

1. Introduction

Innovation is considered a primary engine of economic growth and a significant source of wealth. Innovation is pivotal, particularly in high-tech firms; however, innovation requires research and development (R&D) (Bunn et al., 2002). Evidence suggests that family firms constitute a significant source of technological innovation and economic development (Astrachan and Shanker, 2003; Zahra, 2005). A firm governance structure has been recognised as a crucial intrinsic determinant of R&D, due to behavioural agency issues that reflect different long-term attitudes, levels of risk-aversion and social-emotional wealth perspectives (Baysinger et al., 1991; Lee and O’Neill, 2003). The literature has shown that agency problems exist in family businesses (Jensen and Meckling, 1976; Schulze et al., 2001). Agency problems may give rise to information asymmetry (Sharma, 1997) and moral hazard problems (Campbell and Marino, 1994) between owners and managers or dominant and minority shareholders (Block et al., 2013; Chang et al., 2010; Chrisman et al., 2004; Fernández and Nieto, 2006; Zahra, 2005). Although loss aversion with regard to social-emotional wealth has predictive value for family firms’ R&D decisions, Gomez-Mejia et al. claim that family owners may be influenced by the potential for social-emotional wealth gains when making R&D investments. This approach has proven useful for explaining family underinvestment in R&D (Gomez-Mejia et al., 2014). In addition, Matzler et al. (2015) suggest that because active family control has two components—the management of strategic decisions and day-to-day operations, and the board’s monitoring and advising function—large shareholdings by families would not appear to influence innovation efficiency. Once the family is engaged in management and governance, positive effects can be expected. And Cucculelli et al. (2016) assert in their recent study that the family firms managed by both family members and external managers are observed the negative correlation on patents which signal the presence of enhanced risk-aversion. When firms are run by external managers, in particular, they engage in less risky investment. However, no definite conclusion has been reached about the complicated relationship between family firm governance structure and R&D behaviour.

During the past 40 years, China has shown the most impressive record of growth in the world for a developing, transition economy. The Chinese Government has elevated entrepreneurship and innovation to a state-level strategy. As an essential component of the economy, family firms play a vital role in driving China’s innovation. Family firms in China, which are mostly still highly controlled and managed by the founders and their family members, are thus facing a change from traditional business to high value-added business. On the country level, the Chinese Government also has an impressive record of reform efficiency and robust implementation, which has been achieved through policies and laws (Fan et al., 2007). The powerful influence of local government in China should never be ignored. Some economists have narrowed the concept of good government by defining it as “good for economic development” (La Porta et al., 1999). Stulz advances a “twin agency” concept in addition to company insiders’ (i.e. managers and controlling shareholders) expropriation of outside minority investors (i.e. the insider agency problem), the state also uses its discretionary powers to expropriate firms and their investors (i.e. the state agency problem) (Chen et al., 2014; Stulz, 2005). In Stulz’s model, all investors risk expropriation by the state, and outside investors also risk expropriation by those who control firms, whom he calls corporate insiders because they may either be managers or controlling shareholders.
“When outside expropriation risks are significant, it is optimal for corporate ownership to be highly concentrated, which limits economic growth, risk-sharing, financial development, and so on” (Stulz, 2005, p. 2). Corporate insiders appropriate private benefits and thereby expropriate investors because they maximise their own welfare rather than the welfare of outside investors. In doing so, they create what Stulz refers to as “the agency problem of corporate insider discretion”. “These private benefits can take many different forms, from excessive spending on corporate planes to outright theft. Through the rights they grant investors in corporations and the degree to which they protect these rights, states affect corporate insiders’ cost of extracting private benefits from the firms they control. When the cost of appropriating private benefits is low for corporate insiders, diffuse ownership is dominated by concentrated ownership, because co-investment by corporate insiders aligns their incentives better with minority shareholders and, therefore, reduces expropriation of these shareholders” (Stulz, 2005, p. 2). This “twin agency” situation calls for a thorough study of the internal and external factors that influence family firms’ innovation.

To date, few researchers have focussed on the interactive effects of quality of government (QOG) and family firm governance on R&D output in the emerging market. This paper answers the following questions: How does family firms’ governance influence their R&D output through family control (i.e. voting rights on the board) and family management (i.e. the proportion of family managers among top managers)? How does QOG influence R&D output? What are the interactive effects of QOG and family firm governance on R&D output? This study quantitatively analyses the data of all listed non-financial family firms in China from 2001 to 2010.

This paper is organised as follows. Section 1 explains the substantive theory and develops the hypotheses. Section 2 describes the methods, and the results of the study appear in Section 3. Finally, a discussion of the findings and their implications is followed by a description of avenues for future research and managerial implications.

2. Theoretical framework and hypothesis development

Innovation is considered a significant factor in economic growth. Higher levels of R&D enable firms to accumulate stronger technological and market capabilities for their process and product innovations, which may lead to increases in sales, market share and profits (Tsai and Wang, 2004). R&D facilitates the advancement of corporate innovation in products, technologies and services and is widely considered to be critical in gaining and sustaining competitive advantage (Ettlie, 1998). R&D is also relevant to the economy as a whole because it creates new knowledge and jobs and fosters general social prosperity. However, R&D has specific characteristics, such as long-term investment (Mansfield and Romeo, 1980), resource endowment (Lee and O’Neill, 2003), complexity and professionalisation (Hall et al., 2005; Raz et al., 2002), uncertainty (Baysinger et al., 1991; Dahlin and Behrens, 2005; Scherer and Harhoff, 2000) and lag-effect (Griliches, 1998). It is difficult to objectively measure the achievements of R&D due to its high uncertainty and lag-effect.

Consequently, R&D investment reflects agents’ risk-taking attitudes, long-term propensity, professionalisation and stewardship; and R&D projects are especially prone to agency problems (Schmid et al., 2014). R&D output reflects the technological skill and knowledge of the professionals who carry it out. This study adopts patent counts to measure R&D output, which reflects the performance of family firms’ innovation (Sander and Block, 2011).

2.1 Family firms affect R&D via family control and family management

There is a vast body of research on family involvement in businesses (Anderson et al., 2003; Kowalewski et al., 2010; Lee, 2006; Maury, 2006; Miller and Breton-Miller, 2006; Sraer and Thesmar, 2007; Villalonga and Amit, 2006). This study focusses on family control and family management to distinguish between different angles of strategic decision making and management implementation as they influence R&D output. Schmid et al. (2014) adopt these
dimensions to analyse the R&D intensity of German listed family firms. Block et al. (2013) use similar dimensions to study the influence of family firms on innovation. Different theoretical perspectives illustrate the assumption that family control effects are different from family management effects (Chu, 2011; Tsao et al., 2009). These theoretical perspectives are related to the conduct and products of family firms (Gomez-Mejia et al., 2011). Around the world and across several decades, the conclusions are mixed and conflicting; there is no consensus on whether family control and management have a positive or negative impact on firms’ R&D (Miller and Breton-Miller, 2006; Minichilli et al., 2010). Schmid et al. (2014) find that R&D intensity is higher in firms that are actively managed by the family, and the impact of family control (via voting rights) is negative but not significant. They argue that family-owned firms have fewer agency conflicts because they are governed for the long term, and family members do not simply view the family business as a stream of income or a financial investment, but intend to pass it on to their heirs. Using patent citation data, Block et al. (2013) show that family-managed firms receive fewer patent citations than other firms after controlling for R&D spending; many of these family-managed firms focus instead on the pursuit of socio-emotional wealth. Recently, however, Duran et al. (2016) argue that family firms—owing to the family’s high level of control over the firm, concentration of wealth, and emphasis on non-financial goals—invest less in innovation but have an increased conversion rate of innovation input into output and, ultimately, a higher innovation output than non-family firms. The only definite conclusion reached in the literature is that many traditional assumptions and governance mechanisms operate differently when firms are privately controlled and family-managed.

An agency theory view suggests both the asymmetric information problem (Sharma, 1997) and the moral hazard problem (Campbell and Marino, 1994) exist in family businesses (Chen et al., 2014; Jensen and Meckling, 1976; Schulze et al., 2001). The agency theory is a lens widely used to describe differences between family control and family management (Block et al., 2013; Chrisman et al., 2004). The literature distinguishes three types of agency costs: principal–agent agency cost (PAAC), from the separation of owners and managers; principal–principal agency cost (PPAC), from the conflict between dominant and minority shareholders; and altruism agency cost (AAC), from helping other family members (Fernández and Nieto, 2006). Following Chrisman et al. (2004), the different types of agency costs can be integrated into an additive model.

2.1.1 Principal–agent agency cost (PAAC). Long-term orientation and risk-aversion are two sides of the same coin; both shape family firms’ characteristics. Family firms naturally aim to keep the firm alive and in the hands of the family (Ward, 2011). This characteristic leads them to ensure business survival, preserve the status quo and avoid implementing major changes (Chang et al., 2010; Chen and Hsu, 2009). The enormous longevity and success of some prominent family firms have created a popular perception that family-controlled firms embrace a longer-term approach to management. Agency issues in many publicly traded firms include a long-overlooked element: family control (Gomez-Mejia et al., 2014). Family firms controlled by families may try to engage in more innovation to keep a competitive edge and ensure long-term development (Chrisman et al., 2007). Anderson and Reeb (2003) argue that family control is associated with higher firm valuations, reducing the agency problem between owners and managers. From the executive perspective, professional managers may have an incentive to make short-sighted investments to convince the labour market that they have relatively high ability and favour projects with short-term payoffs over uncertain projects with long-term payoffs (Estreicher, 1993). Technocrats and other professionals working in the firm who take on championing roles often place their personal goals before the goals of the firm to the detriment of the projects they promote (De Massis et al., 2016). Furthermore, they have difficulty in gaining the acceptance of top managers within the family. When family members are highly involved in management, there are fewer PAACs between the board controllers and agents, due to
management’s access to relevant internal information and strong incentive to engage in
effective monitoring agent behaviour. As a result, family firms will readily align with an
interest in growth opportunities by reducing agents’ opportunistic behaviour. Agents will
be less eager to pursue private wealth maximisation over the interests of the principal
(Chang et al., 2010; Chrisman et al., 2004; Fernández and Nieto, 2006; Zahra, 2005). These
considerations in family firms will reduce the asymmetric information and moral
hazard issues associated with R&D. We propose the following hypotheses:

H1a. Family control positively influences R&D output.

H1b. Family management positively influences R&D output.

2.1.2 Social-emotional wealth rooted in behavioural agency model and PPAC. There are two
theoretical perspectives that draw on the agency theory approach: behavioural decision
research, as incorporated in the behavioural agency model (Martin et al., 2013; Wiseman and
Gomez-Mejia, 1998); the influence of non-economic forms of utility, as represented by
socio-emotional wealth (Gomez-Mejia et al., 2014). According to the above model, the greater
the wealth at risk, the more risk-averse the agent will be (Martin et al., 2013). Behavioural
agency model relaxes the agency theory assumption that decision makers have consistent risk
preferences and utility-maximising behaviours (Wiseman and Gomez-Mejia, 1998). Wiseman
and Gomez-Mejia (1998) argue that the motivation to preserve Social-emotional Wealth
represents affective wealth at risk, or risk-bearing for family owners, which, according to
behavioural agency model, is negatively related to risk taking. The social-emotional wealth
perspective has its roots in the behavioural agency model (Sciascia et al., 2014). According
to this perspective, family owners consider their endowment of social-emotional wealth, which is
the “non-financial aspects of the firm that meet the family’s affective needs, such as identity,
ability to exercise family influence, and perpetuation of the family dynasty” (Gómez-Mejía
et al., 2007, p. 106), worthy of protection for non-financial reasons (Berrone et al., 2012). When
they face a loss of family control and the non-financial benefits that derive from it, they will
accept higher performance hazard (Berrone et al., 2012). The degree to which family owners
feel affection for and emotional attachment to a particular firm depends on its importance to
the family owners’ total wealth (Miller et al., 2011). The relationship between family control
and R&D is expected to be negative when the majority of the family’s financial capital is
invested in the firm (Gómez-Mejia et al., 2007; Zellweger and Astrachan, 2008). Moreover,
investment in R&D typically entails ceding shares to other shareholders, thus implying a
restriction of family control and a threat to the family’s social-emotional wealth. The firm is
consequently expected to be less inclined to spend on R&D. With high family control, family
firms look beyond the financial aspect of investments because of concerns about the family’s
name, status and reputation that have often been established over several generations
(Gómez-Mejia et al., 2007). Family firms may thus confront a dilemma. Whereas more
investment in significant innovations might enhance competitiveness and sustainable
performance, it could also reduce a family’s ability to preserve its social-emotional wealth by
reducing family control. Block et al. thus expect that family firms will not only invest less in
R&D, but, more importantly, choose only modest innovation projects that are less likely to
challenge family financial and managerial control (Block, 2012). These socio-emotional
decision considerations are argued to play a more prominent role among family firms and to
lower their R&D spending intensity. Brinkerink and Bammens (2018) recently argued that the
overall association between family firm status and R&D spending is indeed negative, and this
negative effect is fully explained by family firms’ preoccupation with long-term preservation.
PPAC may arise due to a conflict of interest between dominant and minority shareholders,
and dominant shareholders may expropriate from minority shareholders (Gomez-Mejia et al.,
2001; Johnson et al., 2000; Morck and Yeung, 2003). When PPAC occurs between majority and
minority shareholders, it may have a negative impact on R&D behaviour because family wealth is mostly tied up in the existing capital, and investment in R&D destroys the value of old capital (Fernández and Nieto, 2006). Dominant family shareholders who control the board may be able to extract private benefits at the expense of minority shareholders (Chang et al., 2010). Matzler et al. (2015) argue that the impact of different types of owners can be explained by their motivation, control, and capabilities. Motivation and control reflect agency considerations and essentially follow the logic that the intention to keep control is likely to reduce the amount a family is willing to invest in innovation.

2.1.3 **Altruism agency cost (AAC)**. Personalism stems from the fact that the family acts as a unique agent in which both ownership and management are concentrated, determining a personalization of authority that gives family members extremely high power and legitimacy within the organization. Consequently, the agents involved in the product innovation process can be exempted from the internal bureaucratic constraints (De Massis et al., 2016). Asymmetric altruism agency problems result in decreased family firm performance (Eddleston et al., 2010; Wright and Kellermanns, 2011) or create additional agency costs as governance mechanisms to monitor and assess behavior are implemented (Chua et al., 2009).

AAC underlies the tendency to undertake actions that help another family member; this action may lead family members to negatively affect the firm’s wealth, given that their desire to help other family members may lead the former to overstate the latter’s needs (Fernández and Nieto, 2006). Those family members who receive help have an incentive to overstate their needs and thus divert resources away from the firm to the family, resulting in loss of value to the firm (Sciascia et al., 2014). The idea that a culture based on strong family ties may impede economic development is not new (Bertrand and Schoar, 2006). Fukuyama argues that in societies in which people are raised to trust close family networks, they are also taught to distrust people outside the family, which impedes the development of formal institutions in society (Fukuyama, 1995; Gomez-Mejia et al., 2001). Some authors maintain that family firms are poorer performers than non-family firms; for example, managers who run family firms are mainly chosen not for their outstanding competence but because of family ties (Gomez-Mejia et al., 2001; Herrero, 2011; Schulze et al., 2001). Such inefficient selection of managers leads to weak decisions about whom to promote within the firm (Herrero, 2011). Family firms might exhibit weaker performance because family managers chosen through family ties may lack the education and professionalism needed for their role, especially in knowledge-intensive firms such as high-tech firms. In a typical Chinese family business, family members fill most management positions, and high family cohesiveness is critical (Yen, 1994). Family members often take leadership roles in new product development projects but lack the technical background to fill those roles successfully (De Massis et al., 2016). All of these patterns have been observed in lower-performing new product development programmes. We propose the following hypotheses:

**H2a.** Family control negatively influences R&D output.

**H2b.** Family management negatively influences R&D output.

2.2 **QOG, family firms and R&D**

2.2.1 **City-level QOG vs firm-level governance.** Academic studies by international organisations such as the World Bank and the United Nations have emphasised that only through high QOG can a country reap the benefits of economic growth and social development (Acemoglu et al., 2005; Rothstein and Teorell, 2008). Some economists have narrowed the concept of good governance by defining it as “good for economic development” (La Porta et al., 1999). Rothstein and Teorell (2008) use the term “QOG” instead of “good governance”. Higher (lower) levels of QOG increase (reduce) human development and
economic behaviour. One trend of the economic reforms in China over the past three decades has been to decentralise administrative rights and to increase local governments' autonomy (Chen et al., 2014). Ayyagari et al. (2010) note that local governments in China have strong discretionary power and can implement national laws according to their need to compete in regional economic development. The literature generalises that government has two effects: a supporting effect (Knack and Keefer, 1995) and an expropriating effect (Shleifer and Vishny, 1994). Knack describes the supporting effect as follows: “the security of property and contractual rights and the efficiency with which governments manage the provision of public goods, and the creation of government policies are significant determinants of the speed with which countries grow” (Knack and Keefer, 1995). Shleifer and Vishny (1994) indicate that the government engages in expropriation through corruption and taxes. Stulz advances a “twin agency” concept: in addition to company insiders (i.e. managers and controlling shareholders) expropriation of owners and outside minority investors (i.e. the insider agency problem), the state also uses its discretionary powers to expropriate firms and their investors (i.e. the state agency problem) (Chen et al., 2014; Stulz, 2005). Stulz’s two-agency model highlights the importance of state agency cost (SAC) as it affects investors’ investment strategy and corporate ownership. This model supports the hypothesis that city-level government policies and interaction with firm-level managerial incentives influence firms’ performance. The study thus examines interactive agency cost using the following model.

Levels of QOG are measured using different and highly correlated proxies, such as the rule of law, government effectiveness and control of corruption (Gupta et al., 2002), Johnson et al. (2000) use taxation, corruption and confidence in the courts as measures to investigate why firms engage in unofficial activities. The literature on law and finance has shown that solid property rights protection (PRP) and respect for the rule of law fundamentally determine macroeconomic stability, capital market development, business-sector development and investment in innovation (Acemoglu and Robinson, 2005). Besley and Persson (2009) measure QOG, which describes the origin of state capacity, through property rights, taxation and politics. Fan et al. (2007) use PRP, government efficiency, tax burden and corruption as measures in their examination of the impact of government quality on FDI inflow (Chen et al., 2014; Fan Joseph, 2007). La Porta et al. (1999) and Levine (2005) argue that a good government can protect property rights by facilitating private contracting, applying laws and rules fairly to everyone and providing efficient public services and will refrain from excessive expropriation through taxes and corruption (Chen et al., 2014). This study uses a unique World Bank survey containing data on city-level QOG; Chen et al. (2014) made use of these data in their research on the effect of government quality on corporate cash holdings. The survey report manifests QOG through the following three dimensions: the effectiveness of local government (i.e. PRP, cleanliness and efficiency, tax burden and an aggregated index) (Chen et al., 2014); the education and technology (i.e. GDP per capita, IT index, educated labour ratio, high-educated TMT ratio); and the effort of government to achieve a harmonious society (as measured by urban population ratio, industrial waste disposal, permanent workers with health insurance, green space per capita, infant mortality, employment rate, days with good or excellent air quality, education expenses per capita and city roads) (China Governance, 2006). Based on the literature, high QOG may reduce SAC in general. In this paper, the QOG indexes are grouped by category, which is consistent with methods in the previous literature on QOG with a similar set of data (Chen et al., 2014; Fan et al., 2013).

2.2.2 PRP affects R&D in family firms. Chen Lin and Zou (2012) find that secure property rights lead to greater corporate demand for property insurance, suggesting that property rights security is an essential determinant of corporate risk management decisions. They examine the effects of PRP on corporate R&D and conclude that PRP is positively and significantly related to corporate R&D activity (for both process and product R&D) and that
government services and help are conducive to corporate R&D, while informal payments to
government officials are not. By empirical investigation of the potential determinants of
business-sector R&D intensity, using the findings of an OECD panel, Falk (2006) finds that
countries characterised by strong patent rights protection, as indicated by the Kaufmann
rule of law index, have higher R&D intensities. Under strong PRP, family firms do not have
to worry constantly about whether their innovations will be copied or stolen by outsiders or
insiders. In family firms, controlling families intend to keep the firms in their hands for the
long run and are thus likely to increase the firm’s intangible assets to achieve high
enterprise value by increasing the numbers of patents; however, they are averse to the
uncertainty risk of R&D due to existing PAAC. High PRP may be expected to give
controlling families the confidence to pursue long-term enterprise value by investing in
high-risk/high-return R&D by reducing both PAAC and PPAC. According to the previous
analysis, family management may reduce PAAC in areas with higher PRP; the advantages
of lower PAAC for family management are less clear in areas with lower PRP. Also, the
AAC of family firms with higher family management may be worse compared with family
firms with lower family management, due to the lower professional abilities of family
managers. PRP may thus even have a negative effect on the R&D output of family firms
managed by family members. We propose the following hypotheses:

H3a. PRP positively influences the R&D output of family firms.

H3b. PRP may have a positive interactive effect with family control on R&D output.

H3c. PRP may have a positive/negative interactive effect with family management on
R&D output.

2.2.3 Government efficiency index (GEI) affects R&D in family firms. Chinese firms must
frequently interact with government to obtain licenses or permission to conduct business or
undertake projects. If government efficiency is low, the outcome may have to be postponed.
Alternatively, the firm may expend extra resources to “speed up” the approval process when
dealing with low-quality government (Chen et al., 2014). “Bureaucratic delays” (La Porta
et al., 1999) increase agency costs and the uncertainty of firms’ operations. If firms controlled and
managed by families are in an area with lower government efficiency, they may reduce R&D
due to more uncertainty and higher costs. A more efficient government with lower SAC may
also reduce PAACs between controlling families and agents by reducing controlling families’
uncertainty about agents’ moral hazard problem, in the same way, that they reduce PPACs
between dominant families and minority shareholders. We propose the following hypotheses:

H4a. GEI positively influences the R&D output of family firms.

H4b. GEI may have a positive interactive effect with family control on R&D output.

H4c. GEI may have a positive interactive effect with family management on R&D output.

2.2.4 Government cleanness index (GCI) affects R&D of family firms. Powerful business
families can play a significant role in sustaining a high level of political corruption within an
economy. Due to family firms’ long-term orientation, politicians might wish to exchange
“favourites” with family firms. Therefore, the prevalence of strong family firms might
endogenously lead to extensive “cooperation” between business and government (Morck
and Yeung, 2004). The managers of Chinese-listed firms often use such expenditures as
“informal payment” to bribe government officials. SAC is thus higher in areas with lower
GCI. Consequently, corruption may cause family firms to invest in political relationships
instead of R&D to maintain their competitive superiority. Fan et al. (2013) use entertainment
and travel costs to measure corruption because these reflect a government’s discretionary
spending power. The hypothesis is that government cleanness will be a positive influence
on family firms’ R&D output (Richardson et al., 2016). High SAC may increase PAAC and PPAC inside firms because “informal payment” may increase the asymmetry and moral hazard between owners and executives and between dominant and minority shareholders. Thus, in areas with the cleaner government, family firms with family control or family management may have more R&D output. We propose the following hypotheses:

H5a. GCI positively influences the R&D output of family firms.
H5b. GCI may have a positive interactive effect with family control on R&D output.
H5c. GCI may have a positive interactive effect with family management on R&D output.

2.2.5 Lightness of the tax burden (LTB) affects R&D of family firms. In China, all taxes and fees except the value-added tax (VAT) and part of the income tax are directly collected by local governments. Taxation and fee collection are considered an essential means of government expropriation (Cull and Xu, 2005; Stulz, 2005). SAC is higher in areas with a higher tax burden. Therefore, a low-quality government can use this tool to extract a firm’s resources, while good government can use it to foster a conducive business environment. Innovation-specific policies give businesses incentives to innovate, counteracting private underinvestment in such activity. Tax incentives for R&D can take various forms, but they are all market-based instruments that leave firms to decide which R&D activities to fund. Because R&D relies heavily on resource consumption, and governments can use high tax rates to extract resources from firms, family firms in areas with high tax burdens may reduce R&D. High tax burdens may also increase PPAC inside family firms between dominant and minority shareholders because controlling families maintain Social-emotional Wealth by reducing valuable investment such as R&D due to the increased wealth risk posed by high SAC (Chen et al., 2010). We propose the following hypotheses:

H6a. LTB positively influences the R&D output of family firms.
H6b. LTB may have a positive interactive effect with family control on R&D output.
H6c. LTB may have a positive interactive effect with family management on R&D output.

2.2.6 Aggregate QOG (AQOG) index. According to the literature, PRP, GEI, GCI and LTB are essential factors that influence the decisions and behaviours of enterprises. The measure of AQOG follows Francis (2004), Fan et al. (2013) and Chen et al. (2014). This measurement first ranks each QOG proxy (i.e. PRP, GEI, GCI and LTB) into decile groups and then calculates the mean ranking of these proxies to form an AQOG. A higher value in the aggregate index indicates a higher QOG. Based on Stulz’s (2005) “twin agency” concept, the hypothesis is that AQOG and family firm governance have an interactive influence on R&D output. Family firms may achieve higher R&D output if they are in areas with supportive and protective governments with low SAC. The significant contribution of this paper is to close the theoretical gap concerning the interactive effects of QOG and family firm governance on R&D output. We propose the following hypotheses:

H7a. AQOG may positively influence the R&D output of family firms.
H7b. AQOG may have a positive interactive effect with family control on R&D output.
H7c. AQOG may have a positive interactive effect with family management on R&D output.

3. Methodology
3.1 Independent variables: family firm governance
3.1.1 Definition of family business and me. The nascent literature on family firms lacks an accepted definition of what constitutes a family business (Schulze and Gedajlovic, 2010).
Family firms are a very heterogeneous group (Dean, 1992; Klein, 2000). Some scholars define family firms by ownership (Barry, A. 1975; Lansberg, 1988) or ownership and the owning family’s involvement in management (Johnson, 1973). Although there is no universal definition of a family firm, most definitions share the following characteristics: family-controlled ownership and family members serving as executives or board members (Anderson et al., 2003; Morck and Yeung, 2003; Villalonga and Amit, 2006). This paper, therefore, defines family firms according to the percentage of family board control and family involvement in management. It defines a firm as a family firm if there is at least one family member other than the founder who sits on the board and holds a senior management position. The assumption is that when at least one family member other than the founder is involved in the firm’s operations, the family owners have both stronger ability and a stronger incentive to pass the firm on to the next generation. Based on the level of family involvement, a family-controlled firm is defined as a firm in which there is at least one family member, by birth or marriage, other than the founder who is a director, executive or block holder, either individually or as part of a group. Cannella et al. (2015) distinguish between family companies that involve multiple family members as owners/directors/managers, which “inherently contain a familial component to their identity”, and family companies that are “more concerned about image, reputation, and preserving family control” (p. 4).

This study focuses on family control (i.e. voting rights held by family members on the board) and family management (i.e. the ratio of family managers among top managers) as two different influences on R&D output. The measurement is consistent with Thomas Schmid et al. (2014). Due to the variables’ skewness and the kurtosis of the distribution, after a normality test, the square roots of the original family management and family control ratios are adopted in the further analysis as measurements that meet the Gaussian distribution.

3.1.2 Measurement of Family firm governance.

(1) Family control: square root of the ratio of family directors with voting rights to total board members.

(2) Family management: square root of the ratio of family member managers to senior managers.

3.2 Dependent variable: R&D output

The patent count is a widely used proxy for the volume of a technology firm’s knowledge assets (Block et al., 2013; Bottazzi and Peri, 2003). Despite the difficulties and imperfections of this measure, patent statistics remain a unique resource for the analysis of firm innovation and the process of technical change (Griliches, 1998). Because R&D is regarded as a risky long-term investment, this study uses patent count as an objective measurement of R&D output that makes it easier to define and measure the lag-effects of R&D. The patent count includes only invention and utility patents and excludes design and reissued patents (Hall et al., 2005). Data on patent counts are collected from the Chinese National Patents Office. Because the data show high skewness and kurtosis, the logarithm of the number of patents is adopted.

R&D output: logarithm of patent quantity (winsorised at the 1 and 99 per cent levels).

3.3 Independent variables and moderators: QOG

This study uses a data set from the China Governance (2006) survey report. The survey covers 12,400 firms in 120 major cities in China and provides details city-level data on government effectiveness and progress towards a harmonious society, among other characteristics (Chen et al., 2014). These cities are distributed across all provinces except Tibet, and their combined GDP accounts for about 80 per cent of China’s total GDP. The
survey questions reflect how firms perceived the QOGs in 2004, and firm-level replies are then aggregated into various city-level average indexes (Chen et al., 2014). These indexes are adopted by Ayyagari et al. (2010), Cull and Xu (2005), Lin et al. (2010) and Chen et al. (2014). This study constructs the following measurements of QOG based on the World Bank Survey and the direct/indirect effects on firms' R&D behaviour.

3.3.1 Property rights protection (PRP). The PRP index is obtained from the World Bank survey (World Bank, 2006), which collected data from firms to assess their confidence in the local courts. The index ranges from 0 to 1, with a higher value indicating better PRP by law and through contract enforcement.

3.3.2 Government efficiency index (GEI). This study uses the average number of days in a year that a firm needs to spend interacting with government bureaucracies (multiplied by −1) to measure the efficiency of government provision of public services. A higher value indicates a higher GEI.

3.3.3 Government cleanliness index (GCI). The GCI is a firm’s average expenditure on travel and entertainment scaled by the firm’s total sales in a city, multiplied by −1. A higher value indicates a higher GCI.

3.3.4 The lightness of the tax burden (LTB). The LTB is the taxes and fees that a firm pays as a percentage of its sales, multiplied by −1. This measure includes not only the taxes but also the various fees collected by the government (Chen et al., 2014): it includes VAT; income tax and business, resource, land and real estate taxes; plus miscellaneous administrative levies and charges (Chen et al., 2014).

3.3.5 AQOG index. The literature has shown that PRP, GEI, GCI and LTB are essential factors in the decisions and behaviour of enterprises. This measurement first ranks each QOG proxy into decile groups and then calculates the mean ranking of seven proxies to form an AQOZ. A higher value in the aggregate index indicates a higher QOG. The measure of AQOG follows Francis (2004), Fan et al. (2013) and Chen et al. (2014).

3.4 Control variables
This study uses several control variables for its multivariate analysis of firms’ R&D output. The tests reveal and solve the multicollinearity problem among the control variables. In the final models, the included control variables are firm size, firm age, cash flow, leverage, sales growth, profitability, intangible assets ratio (IAR), minority shareholders ratio and Tobin’s Q. Following the normality test of the skewness and kurtosis of the variables’ distribution, the natural logarithm of total assets is adopted for firm size and the number of years since the firm’s incorporation is used for firm age; the logarithm of the proportion of IAR, sales growth and the inverse of Tobin’s Q is used in the analysis. Industry dummies based on two-digit SIC codes are included to control for industry peculiarities. Furthermore, time effects are accounted for by including year dummies in the analysis (Schmid et al., 2014). Non-reported results for a more detailed industry classification confirm the reported results. This study also includes education and technology index (ETI) (education and technology level) and harmonious society index (HSI) (infrastructure progress towards a harmonious society) as control variables when examining the influence of QOG on family firms’ R&D performance. According to the QOG categories, ETI and HSI are not key factors that manifest state agency problems. ETI and HSI are accounted for in this research as city-level control variables for firms’ R&D performance, which indicate the level of the labour market, the degree of technological and economic development, and the harmoniousness of a city’s society.

3.4.1 Education and technology index (ETI). R&D involves professionalisation and requires highly educated managers with exceptional knowledge and technology. The World Bank (2006) survey report uses the following proxies to indicate the education
and technology level of a city: GDP per capita, which indicates an area’s economic development level; IT index, which indicates the quality and efficiency of research and communication in the area; educated labour ratio, which indicates the supply of highly qualified R&D professionals in the area; and TMT educated degree, which indicates the education level of top managers. These variables are used in this study as control variables for firms’ R&D performance, which indicates the level of the labour market and the technological and economic development of the area.

3.4.2 Harmonious society index (HSI). Firms need to attract many highly educated professionals who care about both the circumstances supporting their R&D and an environment that gives them a safe and happy life. The World Bank (2006) report instruments other variables that measure government efforts to develop the infrastructure of a harmonious society: urban population ratio, adequate industrial waste disposal, permanent workers with health insurance, green space per capita, infant mortality, employment rate, days with good or excellent air quality, education expenses per capita and city roads (in km). This measurement first ranks each harmonious society proxy into decile groups and then calculates the mean ranking of eight proxies to form an HSI. Unlike previous studies, which have mainly focussed on input orientation, this study focusses on R&D output. The harmonious society proxies are thus examined as factors that influence QOG, based on the World Bank report. These variables are accounted for in this study as control variables for firms’ R&D performance, which indicates the amount of effort made by local governments to improve social welfare (Chen et al., 2014; Nugent and Sukiassyan, 2009).

The control variables’ measurements are listed in Table I.

<table>
<thead>
<tr>
<th>Control variables</th>
<th>Description</th>
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<tbody>
<tr>
<td>Education and technology index (ETI)</td>
<td>First rank each education and technology proxy (i.e. GDP per capita, IT index, educated labor ratio, and TMT educated degree) into decile groups, and then calculate the mean ranking of four proxies to form an ETI</td>
</tr>
<tr>
<td>Harmonious society index (HSI)</td>
<td>First rank each harmonious society proxy (i.e. urban population ratio, adequate industrial waste dispose, permanent workers with health insurance, green space per capita, infant mortality, employment rate, days with good or excellent air quality, education expenses per capita and city road (KM)) into decile groups, and then calculate the mean ranking of eight proxies to form an HSI</td>
</tr>
<tr>
<td>Firm size</td>
<td>Natural logarithm of the firm’s total assets</td>
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<tr>
<td>Firm age</td>
<td>Natural logarithm of the number of years since the firm’s incorporation</td>
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<tr>
<td>Cash flow</td>
<td>Cash and cash equivalents divided by total assets</td>
</tr>
<tr>
<td>Leverage</td>
<td>Total liabilities divided by the sum of market value of equity and total liabilities</td>
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<tr>
<td>Sales growth</td>
<td>Logarithm of current sales minus last year’s sales divided by last year’s sales</td>
</tr>
<tr>
<td>Profitability</td>
<td>Logarithm of Earnings before interest, taxes, depreciation, and amortization divided by total assets</td>
</tr>
<tr>
<td>Minority shareholders ratio (MSHR)</td>
<td>The proportion of minority shareholders against all shareholders</td>
</tr>
<tr>
<td>Intangible assets ratio (IAR)</td>
<td>Logarithm of the proportion of total intangible assets against total assets</td>
</tr>
<tr>
<td>Tobin Q</td>
<td>Inverse of Tobin Q (= 1/Tobin Q)</td>
</tr>
<tr>
<td>Industry</td>
<td>Dummy variable</td>
</tr>
<tr>
<td>Year</td>
<td>Dummy variable</td>
</tr>
</tbody>
</table>

Table I. Control variables
4. Sample selection and data resources
The data are collected from the China Stock Market and Accounting Research (CSMAR) database; the research sample includes all non-financial family firms listed in China from 2001 to 2010, and the data of firms that simultaneously issued A shares and B shares are dropped. The 5,010 firm-year observations contain 814 family firms. Financial data are also collected from the CSMAR database. Patent data are collected from the Chinese National Patents Office from 2001 to 2010, based on official reports and records. Typically, the patents include invention, utility and design patents. Only invention and utility patents are counted in this paper because design patents are not regarded as a critical factor in financial performance. The analysis uses data on QOG from a World Bank (2006) survey, and firm-level replies are aggregated into city-level average indexes (Chen et al., 2014). In this research, QOG is assumed to be static during the research period.

5. The empirical design
The data set is organised as an unbalanced panel. This study exploits random-effects GLS regression, analysing both cross-sectional and time variation and estimating the mean effects. The GLS model corrects the variance- and sequence-related problems of linear model random items and remains consistent and robust when the error term is heteroscedastic and non-normally distributed. This study also adopts the Heckman two-step treatment effects models for binary response data analysis by dichotomising the observations of patents (1 or 0). See Figure 1 for the conceptual model design. All t-statistics reported in the tables are based on robust standard errors clustered at the firm level (White, 1980). All variables are winsorised at the 1 and 99 per cent levels to restrict the influence of outliers.

5.1 Regression model of family firm governance types and R&D output
This study constructs the following random-effects GLS regression model to analyse the coefficient between family firm governance type and R&D output:

\[
\text{Patents}_{it} = \mu_{it} + \alpha_1 \text{Family type}_{it} + \alpha_2 \text{Control Variables}_{it} + \alpha_3 \times \text{Industry dummy} + \alpha_4 \times \text{Year dummy} + \varepsilon_{i}, 
\]

where \(\mu_{it}\) and \(\varepsilon_{i}\) are the stochastic disturbance to indicate time effects and individual effects. The independent variables of family type are family control and family management. The results are presented in Table III.

![Conceptual model](image-url)
5.2 Regression model of QOG indexes and R&D output

\[
\text{Patents}_{it} = \mu_{it} + x_1 \text{ QOG index}_{i} + x_2 \text{ Control Variables}_{it} + x_3 \times \text{Industry dummy} + x_4 \times \text{Year dummy} + \epsilon_{i}.
\]

where \(\mu_{it}\) and \(\epsilon_{i}\) are the stochastic disturbances to indicate time effects and individual effects, respectively. Because QOG (reported in 2006) is assumed to be constant over ten years, the study uses random-effects models that allow the inclusion of time-invariant variables. The independent variables of the QOG indexes, including PRP, LTB, GCI and AQOG, are hypothesised to have positive effects on R&D output. It is theoretically presumed that the R&D output will be higher if the family firm is in a city with a higher AQOG index. Thus, the hypothesis is that \(\alpha_1\) is greater than 0. The results for the QOG indexes and R&D output are presented in Table IV.

5.3 Regression model of the interactive effects of family type \(\times\) QOG

\[
\text{Patents}_{it} = \mu_{it} + x_1 \text{ QOG}_{i} + x_2 \text{Family type}_{it} + x_3 \text{Family type}_{it} \times \text{QOG}_{i} + x_4 \text{ Control Variables}_{it} + x_5 \times \text{Industry dummy} + x_6 \times \text{Year dummy} + \epsilon_{i},
\]

where \(\mu_{it}\) and \(\epsilon_{i}\) are the stochastic disturbances that respectively indicate time effects and individual effects. This study mainly measures the regression coefficient of the interactive variation of family type \(\times\) QOG to estimate the moderating influence of QOG and family type on R&D output. The results for the interactive effects of QOG and family control are presented in Table V, and the results for interactive effects of QOG and family management are presented in Table VI. The models also include industry dummies and year dummies to control for the effects of time-related industry patterns and macroeconomic uncertainties.

6. The results

6.1 Summary of variables

Table II gives a basic statistical summary of all variables, including observation, mean value and minimum and maximum value. The datasets include 5,010 firm-year observations involving 814 family firms. The median ratio of family members on the board to all board members is 14 per cent, and among the senior managers, the median ratio of family members to all board members is 7.9 per cent.

6.2 Regression results for family governance type and R&D output

The regression results in Table III indicate the influence of family management and family control on R&D output. Among family firms, greater levels of family management and family control positively affect patent quantity to a significant extent. Due to their long-term orientation, family firms with high family control and family management engage in more innovation to keep the firm competitive and high-valued. The results are consistent with \(H1a\) and \(H1b\) but refute \(H2a\) and \(H2b\). When the family management and family control variables are put in the formula at the same time, the coefficients are no longer significant. This result indicates a possible replacement effect among the independent variables due to repeat count, as some family board members simultaneously serve as family managers.
<table>
<thead>
<tr>
<th>Variables</th>
<th>(1) n</th>
<th>(2) Mean</th>
<th>(3) SD</th>
<th>(4) Min</th>
<th>(5) Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>Family</td>
<td>5,010</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Family management</td>
<td>3,411</td>
<td>0.0788</td>
<td>0.116</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Family control</td>
<td>3,414</td>
<td>0.140</td>
<td>0.135</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Family control (sqrt)</td>
<td>3,414</td>
<td>0.309</td>
<td>0.210</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Family management (sqrt)</td>
<td>3,411</td>
<td>0.182</td>
<td>0.214</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>High family management under high family control</td>
<td>1,403</td>
<td>0.309</td>
<td>0.127</td>
<td>0.218</td>
<td>1</td>
</tr>
<tr>
<td>High family management under low family control</td>
<td>185</td>
<td>0.340</td>
<td>0.103</td>
<td>0.218</td>
<td>0.707</td>
</tr>
<tr>
<td>Patents</td>
<td>3,808</td>
<td>2.577</td>
<td>13.50</td>
<td>0</td>
<td>377</td>
</tr>
<tr>
<td>Patents (log)</td>
<td>3,808</td>
<td>0.362</td>
<td>0.893</td>
<td>0</td>
<td>5.935</td>
</tr>
<tr>
<td>Firm size</td>
<td>4,989</td>
<td>20.79</td>
<td>1.070</td>
<td>10.84</td>
<td>24.60</td>
</tr>
<tr>
<td>Firm age</td>
<td>5,010</td>
<td>2.866</td>
<td>0.311</td>
<td>1.609</td>
<td>3.466</td>
</tr>
<tr>
<td>Cash flow</td>
<td>4,989</td>
<td>0.188</td>
<td>0.164</td>
<td>1.90e-05</td>
<td>1</td>
</tr>
<tr>
<td>Leverage</td>
<td>4,989</td>
<td>0.0734</td>
<td>0.274</td>
<td>0.121</td>
<td>1.440</td>
</tr>
<tr>
<td>MSHR</td>
<td>4,989</td>
<td>0.0703</td>
<td>0.342</td>
<td>0.0469</td>
<td>1.884</td>
</tr>
<tr>
<td>Tobin Q</td>
<td>4,115</td>
<td>0.734</td>
<td>0.274</td>
<td>0.121</td>
<td>1.440</td>
</tr>
<tr>
<td>IAR</td>
<td>4,985</td>
<td>0.0438</td>
<td>0.0551</td>
<td>0</td>
<td>0.519</td>
</tr>
<tr>
<td>Sales growth</td>
<td>4,985</td>
<td>0.00163</td>
<td>0.725</td>
<td>-1.900</td>
<td>1.800</td>
</tr>
<tr>
<td>Profitability</td>
<td>4,985</td>
<td>0.0110</td>
<td>0.252</td>
<td>-0.312</td>
<td>1.332</td>
</tr>
<tr>
<td>PRP</td>
<td>3,649</td>
<td>0.642</td>
<td>0.167</td>
<td>0.269</td>
<td>0.982</td>
</tr>
<tr>
<td>GEI</td>
<td>3,649</td>
<td>47.02</td>
<td>28.18</td>
<td>3</td>
<td>109.5</td>
</tr>
<tr>
<td>GCI</td>
<td>3,649</td>
<td>0.0438</td>
<td>0.0551</td>
<td>0</td>
<td>0.519</td>
</tr>
<tr>
<td>GDP per capita</td>
<td>3,649</td>
<td>0.0122</td>
<td>0.0058</td>
<td>0.00300</td>
<td>0.0270</td>
</tr>
<tr>
<td>IT index</td>
<td>3,649</td>
<td>0.116</td>
<td>0.0218</td>
<td>0.0380</td>
<td>0.182</td>
</tr>
<tr>
<td>Educated labour ratio (%)</td>
<td>3,649</td>
<td>9.579</td>
<td>0.595</td>
<td>7.800</td>
<td>10.51</td>
</tr>
<tr>
<td>TMT educated degree (%)</td>
<td>3,649</td>
<td>0.298</td>
<td>0.143</td>
<td>0.151</td>
<td>0.739</td>
</tr>
<tr>
<td>Green area per capita (m²)</td>
<td>3,649</td>
<td>15.68</td>
<td>1.382</td>
<td>4.950</td>
<td>16.77</td>
</tr>
<tr>
<td>Good air quality days</td>
<td>3,649</td>
<td>11.11</td>
<td>7.735</td>
<td>2.500</td>
<td>77.20</td>
</tr>
<tr>
<td>Education spending per capita (RMB)</td>
<td>3,649</td>
<td>83.68</td>
<td>12.05</td>
<td>26</td>
<td>100</td>
</tr>
<tr>
<td>Unemployment ratio (%)</td>
<td>3,649</td>
<td>980.4</td>
<td>915.3</td>
<td>93</td>
<td>4,222</td>
</tr>
<tr>
<td>Infant death ratio (%)</td>
<td>3,649</td>
<td>3.649</td>
<td>7.424</td>
<td>3.600</td>
<td>24.30</td>
</tr>
<tr>
<td>Urban population</td>
<td>3,649</td>
<td>9.579</td>
<td>0.595</td>
<td>7.800</td>
<td>10.51</td>
</tr>
<tr>
<td>City road (km)</td>
<td>3,649</td>
<td>2.154</td>
<td>0.479</td>
<td>1.099</td>
<td>3.800</td>
</tr>
<tr>
<td>Adequate industrial waste dispose</td>
<td>3,649</td>
<td>0.948</td>
<td>0.0515</td>
<td>0.520</td>
<td>1</td>
</tr>
<tr>
<td>Permanent workers with health insurance</td>
<td>3,649</td>
<td>0.831</td>
<td>0.152</td>
<td>0.420</td>
<td>0.990</td>
</tr>
<tr>
<td>PRP</td>
<td>3,649</td>
<td>5.311</td>
<td>2.833</td>
<td>1</td>
<td>10</td>
</tr>
<tr>
<td>GEI</td>
<td>3,649</td>
<td>5.371</td>
<td>2.886</td>
<td>1</td>
<td>10</td>
</tr>
<tr>
<td>GCI</td>
<td>3,649</td>
<td>5.121</td>
<td>2.912</td>
<td>1</td>
<td>10</td>
</tr>
<tr>
<td>LTB</td>
<td>3,649</td>
<td>5.280</td>
<td>2.748</td>
<td>1</td>
<td>10</td>
</tr>
<tr>
<td>ETD</td>
<td>3,649</td>
<td>5.077</td>
<td>2.886</td>
<td>1</td>
<td>10</td>
</tr>
<tr>
<td>HIS</td>
<td>3,649</td>
<td>5.323</td>
<td>2.836</td>
<td>1</td>
<td>10</td>
</tr>
<tr>
<td>AOGO</td>
<td>3,649</td>
<td>5.264</td>
<td>2.781</td>
<td>1</td>
<td>10</td>
</tr>
<tr>
<td>Family management × AOGO</td>
<td>3,649</td>
<td>1.000</td>
<td>1.414</td>
<td>0</td>
<td>8</td>
</tr>
<tr>
<td>Family control × AOGO</td>
<td>2,500</td>
<td>1.649</td>
<td>1.545</td>
<td>0</td>
<td>8.819</td>
</tr>
<tr>
<td>Family control × PRP</td>
<td>2,500</td>
<td>1.651</td>
<td>1.569</td>
<td>0</td>
<td>8.819</td>
</tr>
<tr>
<td>Family control × GEI</td>
<td>2,500</td>
<td>1.695</td>
<td>1.569</td>
<td>0</td>
<td>8.819</td>
</tr>
<tr>
<td>Family control × GCI</td>
<td>2,500</td>
<td>1.616</td>
<td>1.565</td>
<td>0</td>
<td>7.937</td>
</tr>
<tr>
<td>Family control × LTB</td>
<td>2,500</td>
<td>1.608</td>
<td>1.499</td>
<td>0</td>
<td>7.454</td>
</tr>
<tr>
<td>Family management × PRP</td>
<td>2,497</td>
<td>0.977</td>
<td>1.409</td>
<td>0</td>
<td>7.071</td>
</tr>
<tr>
<td>Family management × GEI</td>
<td>2,497</td>
<td>1.055</td>
<td>1.472</td>
<td>0</td>
<td>8</td>
</tr>
<tr>
<td>Family management × GCI</td>
<td>2,497</td>
<td>0.963</td>
<td>1.428</td>
<td>0</td>
<td>9</td>
</tr>
<tr>
<td>Family management × LTB</td>
<td>2,497</td>
<td>0.967</td>
<td>1.391</td>
<td>0</td>
<td>9</td>
</tr>
<tr>
<td>High family management under high family control × AOGO</td>
<td>1,007</td>
<td>2.284</td>
<td>1.309</td>
<td>0.224</td>
<td>8</td>
</tr>
<tr>
<td>High family management under low family control × AOGO</td>
<td>103</td>
<td>1.919</td>
<td>1.130</td>
<td>0.224</td>
<td>4.472</td>
</tr>
</tbody>
</table>

Table II. Basic statistics summary of variables.
As shown by the regression results in Table IV, the AQOG index has a significantly positive effect on patents. These results test \( H_7a \), which proposes that AQOG has a positive influence on R&D output in family firms. PRP, GEI and GCI have a significantly positive effect on patents, which confirms \( H_{3a}, H_{4a} \) and \( H_{5a} \). However, the LTB index has

| Family control | 0.069** (2.34) | 0.075** (2.11) | 0.002 (0.23) |
| Family management | 0.002 (0.81) | 0.001 (0.34) | 0.006 (0.74) |
| ETI | 0.002 (0.70) | 0.000 (0.07) | −0.000 (−0.27) |
| MSHR | −0.035 (−0.75) | −0.022 (−0.48) | −0.002 (−0.19) |
| Cash flow | 0.054 (0.98) | 0.060 (1.03) | 0.004 (0.30) |
| Leverage | −0.012 (−0.65) | −0.015 (−0.77) | −0.002 (−0.34) |
| Firm age | −0.206*** (−4.30) | −0.205*** (−4.00) | −0.016 (−1.23) |
| Firm size | 0.033*** (4.51) | 0.034*** (4.35) | 0.002 (1.08) |
| IAR | −0.225* (−1.93) | −0.229* (−1.94) | −0.014 (−0.49) |
| Tobin Q | 0.013 (0.55) | 0.008 (0.32) | −0.001 (−0.12) |
| Sales growth | −0.006 (−0.78) | −0.006 (−0.66) | −0.001 (−0.26) |
| Profitability | 0.008 (0.29) | 0.008 (0.26) | 0.001 (0.15) |
| Industry Dummy (omitted) Dummy (omitted) Dummy (omitted) |
| Year Dummy (omitted) Dummy (omitted) Dummy (omitted) |
| _cons | −0.064 (−0.31) | −0.047 (−0.21) | 0.013 (0.24) |
| n | 1,385 | 1,382 | 1,390 |

Adj. \( R^2 \)

Notes: \( t \)-statistics in parentheses. *\( p < 0.10; **p < 0.05; ***p < 0.01 \)

### 6.3 Regression results for QOG indexes and R&D output

As shown by the regression results in Table IV, the AQOG index has a significantly positive effect on patents. These results test \( H_7a \), which proposes that AQOG has a positive influence on R&D output in family firms. PRP, GEI and GCI have a significantly positive effect on patents, which confirms \( H_{3a}, H_{4a} \) and \( H_{5a} \). However, the LTB index has

| (1) Patents | (2) Patents | (3) Patents | (4) Patents | (5) Patents |
| PRP | 0.008** (2.53) | 0.011*** (2.99) | 0.005* (1.92) | −0.002 (−0.68) | 0.009*** (3.01) |
| GEI | 0.003 (0.95) | 0.001 (0.22) | −0.000 (−0.03) | 0.001 (0.15) |
| GCI | 0.007** (2.13) | −0.001 (−0.34) | 0.005 (1.38) | 0.007** (2.20) | 0.002 (0.54) |
| LTB | 0.007 (1.43) | 0.003 (1.66) | 0.088* (1.68) | 0.080 (1.47) | 0.068* (1.70) |
| AQOG | −0.109* (−1.82) | −0.104* (−1.77) | −0.114* (−1.93) | −0.109* (−1.81) | −0.101* (−1.73) |
| EGI | 0.079 (1.43) | 0.090 (1.66) | 0.088 (1.68) | 0.080 (1.47) | 0.068 (1.70) |
| MSHR | −0.011 (−0.57) | −0.009 (−0.43) | −0.009 (−0.43) | −0.008 (−0.41) | −0.011 (−0.51) |
| Cash flow | −0.223*** (−4.94) | −0.231*** (−5.14) | −0.223*** (−4.87) | −0.225*** (−4.93) | −0.226*** (−5.00) |
| Leverage | −0.100 (−0.83) | −0.119 (−1.03) | −0.127 (−1.05) | −0.137 (−1.13) | −0.109 (−0.90) |
| Firm age | −0.036 (1.50) | 0.034 (1.40) | 0.035 (1.39) | 0.032 (1.34) | 0.038 (1.50) |
| Firm size | 0.057* (1.89) | 0.055* (1.86) | 0.053* (1.70) | 0.037 (1.25) | 0.058* (1.86) |
| IAR | 0.061*** (6.97) | 0.060*** (7.03) | 0.059*** (6.74) | 0.068*** (6.62) | 0.061*** (6.94) |
| Tobin Q | −0.006 (−0.72) | −0.006 (−0.69) | −0.006 (−0.64) | −0.006 (−0.68) | −0.006 (−0.65) |
| Sales growth | 0.053*** (1.89) | 0.055*** (1.86) | 0.053*** (1.70) | 0.037 (1.25) | 0.058* (1.86) |
| Profitability | Dummy (omitted) Dummy (omitted) Dummy (omitted) Dummy (omitted) Dummy (omitted) |
| Industry | Dummy (omitted) Dummy (omitted) Dummy (omitted) Dummy (omitted) Dummy (omitted) |
| Year | Dummy (omitted) Dummy (omitted) Dummy (omitted) Dummy (omitted) Dummy (omitted) |
| _cons | −0.065*** (2.65) | −0.056*** (2.54) | −0.056*** (2.41) | −0.052*** (2.10) | −0.062*** (2.58) |

Adj. \( R^2 \)

Notes: \( t \)-statistics in parentheses. *\( p < 0.10; **p < 0.05; ***p < 0.01 \)
an insignificantly negative effect on patents. This result shows that it is quite difficult for some cities with a low comprehensive economic development level to use low tax rates to promote innovation because family firms are too concerned about comprehensive QOG to decide to invest in risky R&D. In high QOG cities, the inside agency costs of family firms decrease with the decline of SAC, and they may have more confidence and more cash to fund long-term, risky innovation.

6.4 Interactive effects of QOG and family firm governance type on R&D output

The regression results in Table V indicate that all QOG indexes (i.e. PRP, GEI, GCI, LTB and AQOG) have a significantly positive influence on R&D output in family firms with family control. In areas with higher QOG, family firms may be more willing to maintain control, and higher family control may cause higher R&D output. The results statistically support H3b, H4b, H5b, H6b and H7b: the interactive effects of family control × QOG positively influence R&D output.

The regression results in Table VI indicate the coefficient of family management × GEI with patents is positive at the 10 per cent level for family management. The results only partially support H4c.

<table>
<thead>
<tr>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
<th>(5)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Patents</td>
<td>Patents</td>
<td>Patents</td>
<td>Patents</td>
<td>Patents</td>
</tr>
<tr>
<td>Family control</td>
<td>−0.009 (−1.23)</td>
<td>−0.049 (−1.11)</td>
<td>−0.019 (−0.37)</td>
<td>−0.072 (−1.21)</td>
</tr>
<tr>
<td>PRP</td>
<td>−0.006 (−0.13)</td>
<td>0.025** (2.27)</td>
<td>−0.002 (−0.45)</td>
<td>0.025*** (2.60)</td>
</tr>
<tr>
<td>Family control × PRP</td>
<td>0.017* (1.83)</td>
<td>0.017* (1.83)</td>
<td>0.028*** (2.83)</td>
<td>−0.006* (−1.84)</td>
</tr>
<tr>
<td>GEI</td>
<td>−0.006 (−0.12)</td>
<td>−0.016 (−0.38)</td>
<td>−0.022 (−0.47)</td>
<td>−0.026 (−0.50)</td>
</tr>
<tr>
<td>Family control × GEI</td>
<td>0.000 (0.15)</td>
<td>0.055 (0.94)</td>
<td>0.058 (1.00)</td>
<td>0.000 (0.15)</td>
</tr>
<tr>
<td>GCI</td>
<td>0.000 (0.15)</td>
<td>0.055 (0.94)</td>
<td>0.058 (1.00)</td>
<td>0.000 (0.15)</td>
</tr>
<tr>
<td>Family control × GCI</td>
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<td>0.028*** (2.83)</td>
<td>−0.006* (−1.84)</td>
</tr>
<tr>
<td>LTB</td>
<td>−0.006 (−0.12)</td>
<td>−0.016 (−0.38)</td>
<td>−0.022 (−0.47)</td>
<td>−0.026 (−0.50)</td>
</tr>
<tr>
<td>Family control × LTB</td>
<td>0.000 (0.15)</td>
<td>0.055 (0.94)</td>
<td>0.058 (1.00)</td>
<td>0.000 (0.15)</td>
</tr>
<tr>
<td>AQOG</td>
<td>−0.006 (−0.12)</td>
<td>−0.016 (−0.38)</td>
<td>−0.022 (−0.47)</td>
<td>−0.026 (−0.50)</td>
</tr>
<tr>
<td>Family control × AQOG</td>
<td>0.000 (0.15)</td>
<td>0.055 (0.94)</td>
<td>0.058 (1.00)</td>
<td>0.000 (0.15)</td>
</tr>
<tr>
<td>ETI</td>
<td>0.004 (1.56)</td>
<td>0.003 (1.27)</td>
<td>0.003 (1.03)</td>
<td>0.001 (0.61)</td>
</tr>
<tr>
<td>HIS</td>
<td>0.001 (0.22)</td>
<td>−0.002 (−0.75)</td>
<td>0.000 (0.15)</td>
<td>0.001 (0.27)</td>
</tr>
<tr>
<td>MSHR</td>
<td>−0.006 (−0.12)</td>
<td>−0.016 (−0.38)</td>
<td>−0.022 (−0.47)</td>
<td>−0.026 (−0.50)</td>
</tr>
<tr>
<td>Cash flow</td>
<td>0.076 (1.27)</td>
<td>0.054 (0.97)</td>
<td>0.062 (1.17)</td>
<td>0.055 (0.94)</td>
</tr>
<tr>
<td>Leverage</td>
<td>−0.004 (−0.21)</td>
<td>−0.007 (−0.39)</td>
<td>−0.008 (−0.40)</td>
<td>−0.010 (−0.56)</td>
</tr>
<tr>
<td>Firm age</td>
<td>0.004 (1.56)</td>
<td>0.003 (1.27)</td>
<td>0.003 (1.03)</td>
<td>0.001 (0.61)</td>
</tr>
<tr>
<td>Firm size</td>
<td>0.001 (0.22)</td>
<td>−0.002 (−0.75)</td>
<td>0.000 (0.15)</td>
<td>0.001 (0.27)</td>
</tr>
<tr>
<td>IAR</td>
<td>−0.006 (−0.12)</td>
<td>−0.016 (−0.38)</td>
<td>−0.022 (−0.47)</td>
<td>−0.026 (−0.50)</td>
</tr>
<tr>
<td>Tobin Q</td>
<td>0.000 (0.15)</td>
<td>0.055 (0.94)</td>
<td>0.058 (1.00)</td>
<td>0.000 (0.15)</td>
</tr>
<tr>
<td>Sales growth</td>
<td>−0.007 (−0.96)</td>
<td>−0.008 (−1.15)</td>
<td>−0.008 (−0.99)</td>
<td>−0.007 (−0.99)</td>
</tr>
<tr>
<td>Profitability</td>
<td>0.018 (0.62)</td>
<td>0.020 (0.69)</td>
<td>0.014 (0.47)</td>
<td>0.004 (0.14)</td>
</tr>
<tr>
<td>Profitability</td>
<td>0.018 (0.62)</td>
<td>0.020 (0.69)</td>
<td>0.014 (0.47)</td>
<td>0.004 (0.14)</td>
</tr>
<tr>
<td>Industry</td>
<td>Dummy (omitted)</td>
<td>Dummy (omitted)</td>
<td>Dummy (omitted)</td>
<td>Dummy (omitted)</td>
</tr>
<tr>
<td>Industry</td>
<td>Dummy (omitted)</td>
<td>Dummy (omitted)</td>
<td>Dummy (omitted)</td>
<td>Dummy (omitted)</td>
</tr>
<tr>
<td>_cons</td>
<td>−0.192 (−0.93)</td>
<td>−0.146 (−0.70)</td>
<td>−0.159 (−0.74)</td>
<td>−0.150 (−0.70)</td>
</tr>
<tr>
<td>_cons</td>
<td>1,395</td>
<td>1,395</td>
<td>1,395</td>
<td>1,395</td>
</tr>
</tbody>
</table>

Table V.
Regression results for QOG multiplying family control

Notes: t-statistics in parentheses. *p < 0.10; **p < 0.05; ***p < 0.01
Further test for high family management in situations of high and low family control

To some extent, family control and family management are water-tight compartments. In some family firms, family members hold executive director positions and also own stakes in the firm; thus simultaneously, they are involved in ownership, governance and management of the firm. Multicollinearity may therefore exist. In such a situation, further tests are adopted to segregate family control and family management to test for possible spill-over effects. The tests separately analyse two different situations: high family control and high family management, low family control and high family management. Among family firms with higher family control and higher family management, QOG has a negative effect on the relationship of family management and R&D output. This result suggests that under higher family control, in areas with higher QOG, family management has a negative influence on R&D output; the controlling family consequently prefers to hire outside professionals with high knowledge and capability as top management, instead of family members. Higher QOG with lower outsider agency costs may reduce the PPAC and PAAC inside family firms, but higher family management may increase AAC and cause lower R&D output.

Table VII shows that in the group with lower family control and higher family management, QOG has a significantly positive effect on the relationship of family management and R&D output. This result suggests that under lower family control, in areas with higher QOG, family firms with higher family management may have a higher R&D output. Without dominant family control, PPAC and PAAC are not prominent inside the firms. In areas with higher QOG, Table VI.

<table>
<thead>
<tr>
<th></th>
<th>(1) Patents</th>
<th>(2) Patents</th>
<th>(3) Patents</th>
<th>(4) Patents</th>
<th>(5) Patents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Family management</td>
<td>0.066 (0.92)</td>
<td>-0.022 (−0.42)</td>
<td>0.056 (0.97)</td>
<td>0.046 (0.69)</td>
<td>0.052 (0.83)</td>
</tr>
<tr>
<td>PRP</td>
<td>0.008** (2.38)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Family management × PRP</td>
<td>-0.001 (−0.05)</td>
<td>0.005 (1.59)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GEI</td>
<td></td>
<td></td>
<td>0.019* (1.67)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Family management × GEI</td>
<td></td>
<td></td>
<td></td>
<td>0.002 (0.82)</td>
<td></td>
</tr>
<tr>
<td>GCI</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.003 (0.88)</td>
</tr>
<tr>
<td>Family management × GCI</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LTB</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Family management × LTB</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.004 (0.35)</td>
</tr>
<tr>
<td>AQOG</td>
<td></td>
<td></td>
<td></td>
<td>0.007** (2.26)</td>
<td></td>
</tr>
<tr>
<td>Family management × AQOG</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.004 (0.31)</td>
</tr>
<tr>
<td>ETI</td>
<td>0.003 (1.14)</td>
<td>0.004 (1.49)</td>
<td>0.002 (0.71)</td>
<td>0.001 (0.48)</td>
<td>0.004 (1.44)</td>
</tr>
<tr>
<td>HSI</td>
<td>0.001 (0.28)</td>
<td>-0.005 (−1.39)</td>
<td>-0.001 (−0.25)</td>
<td>-0.001 (−0.45)</td>
<td>-0.003 (−1.16)</td>
</tr>
<tr>
<td>MSHIR</td>
<td>-0.021 (−0.45)</td>
<td>-0.016 (−0.37)</td>
<td>-0.019 (−0.38)</td>
<td>-0.017 (−0.34)</td>
<td>-0.021 (−0.43)</td>
</tr>
<tr>
<td>Cash flow</td>
<td>0.056 (0.95)</td>
<td>0.053 (0.98)</td>
<td>0.053 (0.97)</td>
<td>0.058 (1.02)</td>
<td>0.050 (0.89)</td>
</tr>
<tr>
<td>Leverage</td>
<td>-0.006 (−0.35)</td>
<td>-0.010 (−0.53)</td>
<td>-0.014 (−0.70)</td>
<td>-0.012 (−0.59)</td>
<td>-0.007 (−0.38)</td>
</tr>
<tr>
<td>Firm age</td>
<td>-0.194*** (−3.93)</td>
<td>-0.198*** (−4.10)</td>
<td>-0.199*** (−3.92)</td>
<td>-0.197*** (−3.88)</td>
<td>-0.192*** (−3.87)</td>
</tr>
<tr>
<td>Firm size</td>
<td>0.039*** (4.93)</td>
<td>0.030*** (4.64)</td>
<td>0.035*** (4.49)</td>
<td>0.035*** (4.37)</td>
<td>0.038*** (4.72)</td>
</tr>
<tr>
<td>IAR</td>
<td>-0.217* (−1.87)</td>
<td>-0.234*** (−1.99)</td>
<td>-0.231* (−1.90)</td>
<td>-0.206* (−1.66)</td>
<td>-0.223* (−1.84)</td>
</tr>
<tr>
<td>Tobin Q</td>
<td>0.018 (0.76)</td>
<td>0.012 (0.52)</td>
<td>0.010 (0.42)</td>
<td>0.010 (0.40)</td>
<td>0.021 (0.91)</td>
</tr>
<tr>
<td>Sales growth</td>
<td>-0.007 (−0.82)</td>
<td>-0.008 (−1.00)</td>
<td>-0.006 (−0.67)</td>
<td>-0.006 (−0.66)</td>
<td>-0.007 (−0.91)</td>
</tr>
<tr>
<td>Profitability</td>
<td>0.016 (0.54)</td>
<td>0.011 (0.39)</td>
<td>0.008 (0.27)</td>
<td>0.006 (0.19)</td>
<td>0.012 (0.41)</td>
</tr>
<tr>
<td>Industry</td>
<td>Dummy (omitted)</td>
<td>Dummy (omitted)</td>
<td>Dummy (omitted)</td>
<td>Dummy (omitted)</td>
<td>Dummy (omitted)</td>
</tr>
<tr>
<td>Year</td>
<td>Dummy (omitted)</td>
<td>Dummy (omitted)</td>
<td>Dummy (omitted)</td>
<td>Dummy (omitted)</td>
<td>Dummy (omitted)</td>
</tr>
<tr>
<td>_cons</td>
<td>-0.244 (−1.96)</td>
<td>-0.144 (−0.64)</td>
<td>-0.119 (−0.50)</td>
<td>-0.113 (−0.48)</td>
<td>-0.218 (−0.91)</td>
</tr>
<tr>
<td>n</td>
<td>1,392</td>
<td>1,392</td>
<td>1,392</td>
<td>1,392</td>
<td>1,392</td>
</tr>
</tbody>
</table>

Adj. R²: 0.90

Notes: t-statistics in parentheses. *p < 0.10; **p < 0.05; ***p < 0.01

6.5 Further test for high family management in situations of high and low family control

To some extent, family control and family management are water-tight compartments. In some family firms, family members hold executive director positions and also own stakes in the firm; thus simultaneously, they are involved in ownership, governance and management of the firm. Multicollinearity may therefore exist. In such a situation, further tests are adopted to segregate family control and family management to test for possible spill-over effects. The tests separately analyse two different situations: high family control and high family management, low family control and high family management. Among family firms with higher family control and higher family management, QOG has a negative effect on the relationship of family management and R&D output. This result suggests that under higher family control, in areas with higher QOG, family management has a negative influence on R&D output; the controlling family consequently prefers to hire outside professionals with high knowledge and capability as top management, instead of family members. Higher QOG with lower outsider agency costs may reduce the PPAC and PAAC inside family firms, but higher family management may increase AAC and cause lower R&D output.

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6.6 Robustness tests

This study classifies the empirical studies according to the following robustness tests.

6.6.1 Model selection. The original assumption of the regression method is pooled ordinary least squares (pooled OLS), which exploits cross-sectional and time variation and allows mean effects to be estimated. This study processes the panel models’ estimation for POLS, RE and FE, including tests for individual effects and time-series effects based on the analysis of cross-sectional and time-series data. Because most of the independent variables are time-invariant dummy variables, the FE model is dropped due to collinearity problems. For the variance in the preceding test, first, FGLS is estimated. Individually, on the original regression model to do the OLS estimates, a square variable “uhat2” residual is first constructed, then the logarithm is taken and applied to the original model of the explanatory variable; second, an exponential transform is performed with the countdown weight, and a weighted least squares estimate of the original model is obtained. The FGLS model corrects the variance and sequence-related problems of linear model random items and remains consistent and robust when the error term is heteroscedastic and non-normally distributed.

6.6.2 Sample selection. Probit models are used for binary response data analysis, by dichotomising the observations of patents (1 or 0).
patent count greater than zero. The analysis uses Heckman’s (1979) two-step treatment effects model. The model results show that none of the inverse Mills ratios ($\lambda$) are statistically significant, indicating that the sample selection is not biased to a severe degree.

**6.6.3 Industry and year issues.** Industry dummies are individually controlled according to two-digit primary SIC code, due to concern about the deviation of R&D output levels in different industries; the results correspond to the range estimated across individual industries. The analysis also individually controls the year dummies to avoid deviation caused by the macroeconomic cycle.

**6.6.4 Variable corrections.** This study processes the tests and corrections for the variables with high kurtosis and skewness by dropping extreme values and winsorising all variables and tests the heterogeneity of the variance and endogeneity problems among important variables and control variables.

**6.6.5 Cities’ consistency of QOG indexes.** In further, the research estimates the different coefficients of QOG indexes and patents between subsamples of cities with lower indexes and others with higher indexes. Following the regressions, the $F$-test result indicates that the difference between the two groups’ coefficient is insignificant. The QOG indexes are stable among cities.

**6.6.6 Control variables.** Control variables with high multicollinearity are dropped.

### 7. Conclusions

#### 7.1 Implications

Innovations are critical to firm performance and economic prosperity (Aghion and Howitt, 1996). To date, most family firm innovation research has concentrated upon governance and R&D behaviour (Block, 2012; Brinkerink and Bammens, 2018; Chrisman and Patel, 2012; Lee and O’Neill, 2003). Few studies, however, have been performed from the major strategic (control) and operational (management) orientations, into the influence of outside (QOG) and inside (governance) factors upon innovation. This study attempts to fill that gap. It uses patent counts to measure the economic and technological importance of innovation. It argues that different QOG may lead major controllers or executives in family firms to have different motivations, and hence to approach innovation differently from the agency perspective.

The regression results provide several empirical findings. First, family control and family management positively influence R&D output. Second, family firms in higher QOG areas have greater R&D output. Third, as a moderating factor, QOG significantly amplifies the effects of family control on R&D output but has no significant effect on the R&D output of family management. Fourth, when family control remains strong, QOG and high family management have negatively interactive effects on R&D output; conversely, when family control is weak, QOG and high family management have a significantly positive interactive effect on R&D output. These results match the “twin agency” model (Stulz, 2005), which holds that city-level agency (i.e. SAC) and firm-level agency (i.e. PAAC, PPAC and AAC) problems have an interactive influence on R&D output. The results demonstrate that QOG has more influence on the R&D of family firms with family control than family firms with family management.

The main contribution of this study is to show that in areas with a higher QOG, higher R&D outputs of family firms depend on higher family control rather than family management, due to the interactive influence of inside and outside agency problems. When family management is high, the direct effect is high, because family management may reduce the PAAC, but the interactive effect of QOG and family management is not significant. In areas with high QOG, although family management may reduce PAAC, PPAC and AAC may increase. Based on the twin agency theory, differing inside expropriation issues between strategic (family control) and operational (family management) orientations are the main differentiator, one accentuated by the external expropriation issues of QOG.
Controlling families engage in more innovation to maintain their competitiveness and achieve long-term development (Block et al., 2013; Chrisman et al., 2004). Controlling families are averse to risk and are sensitive to social and political circumstances, including PRP, government efficiency, government cleanliness and tax burdens. In cities with higher QOG, lower SAC may reduce the PAAC, PPAC and AAC of family firms with higher family control. In areas with better QOG, families are more willing to maintain control of their firms and leave the firms’ management to professional managers, with relatively little concern for the agency costs between owners and managers. To keep firms in families’ hands across generations, they are likely to engage in more R&D to maintain their competitiveness and firm value (Block, 2012). However, in areas with lower QOG, dominant families give up their control of family firms by cashing out to keep their wealth safe instead of investing in innovation, and they may also hire more family members as top managers due to risk-aversion. These behaviours may lead to inside agency costs, including increases in PAAC, PPAC and AAC (Martin et al., 2013).

To more closely examine the interactive effect of family management and QOG, the samples were divided into two groups: high family control and low family control. Among family firms with high family control, QOG and family management had a negatively interactive influence on R&D output; conversely, among family firms with low family control, QOG and family management had a positively interactive influence on R&D output.

When firms with high family control are located in cities with high QOG, the AAC of family management is probably higher; controlling families are willing to hire capable outsiders instead of family members to achieve high R&D output. The situation is quite different for the group with lower family control, for which family management becomes an advantage in achieving R&D output. In areas with high QOG, family managers may wish to run the business for the long term; they manage firms by sharing consistent goals and a similar social context and may achieve higher R&D output than short-sighted outside managers.

From this point of view, one possible avenue to foster innovation is to improve QOG, which benefits family firms with a long-term orientation. High QOG makes family members more willing to maintain control of the family firm and invest in R&D without worrying about inside and outside expropriation. Under more protective and supportive governments, controlling families may leave management to professionals to achieve higher R&D output. In contrast, in situations where they experience higher expropriation and less support from the government, controlling families may hire more non-professional family members, which leads to lower R&D output. These results contribute to a better understanding of family firms in general and their R&D output in particular across different cities. The findings are also of interest to government policy makers, who should be aware of the significance of family firms’ characteristics for innovation and their incentives to conduct R&D projects.

7.2 Limitations
The study has some practical implications. The “twin agency” theoretical framework elucidates the interactive effects of city-level QOG and firm-level governance on R&D output by distinguishing between strategic and operational orientations. This study informs governors and practitioners about the logical outcomes of R&D decisions of family firms located in different cities. In this study, QOG is assumed to be static over ten years. An interesting extension would be to examine the influence of dynamic QOG in the future. From the cross-cultural perspective, another future research may be extending the findings based on China firms and cities to other countries.

In conclusion, the different effects of inside and outside agency conflicts have a predictive value with regard to family firms’ R&D output. This study suggests the possibility for government policy makers to understand the potential for family controllers
and managers to innovate. This approach has proven useful for explaining the R&D outcomes of different types of family firms and provides a platform for future research examining family firm strategic and operational orientations towards R&D.

References


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Corresponding author
Feng Xiaoti can be contacted at: fkathryn@ceibs.edu

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The impact of sociocultural context on strategic renewal
A twenty-six nation analysis of family firms

Kevin Au
Management, Chinese University of Hong Kong, Shatin, Hong Kong
Center for Entrepreneurship, Chinese University of Hong Kong, Shatin, Hong Kong

Stone Han and Hsi-Mei Chung
Graduate School of Management, I-Shou University, Kaohsiung, Taiwan

Abstract
Purpose – The purpose of this paper is to contribute a multilevel, cross-national analysis of the role that sociocultural context may play to enrich the understanding of strategic renewal in family firms. The authors conceptualize sociocultural context as consisting of firm-level social contexts and national culture, and propose that: heterogeneous social contexts in family firm management, i.e. family CEO and multigenerational involvement, give rise to mindsets that have differential effects on renewal efforts and that the proposed effects are subject to variation due to the moderation of national cultural dimensions of uncertainty avoidance and power distance.

Design/methodology/approach – The authors use unique data set consisting of 959 family firms from 26 countries drawn from a cross-national, quantitative study of family firms.

Findings – The authors found that family CEO is negatively related to renewal across cultures, and this relationship is attenuated by uncertainty avoidance and power distance. In addition, multigenerational involvement is positively related to renewal, and this relationship is enhanced by the two cultural dimensions.

Practical implications – The authors suggest that decision makers examine how different contexts, practices and cognition contribute to overall dominant logics that exist in firm. In doing so, they can evaluate how logics as a whole affect renewal, and also how different parts of the logics play a role. This overall evaluation will afford managers a holistic picture of renewal forces that operate in family firm and allow managers to make precise changes to enhance strategic renewal.

Originality/value – The findings support the contention that there is cultural-dependent countervailing effects on strategic renewal within family firms.

Keywords Multi-level analysis, Family firms, National culture, Dominant logic, Strategic renewal

Paper type Research paper

Introduction
Business families intend to sustain their businesses over generations. Hence, strategic renewal, defined as an entrepreneurial process in which organizations anticipate or adapt to changing environmental demands to ensure long-term prosperity and survival (Burgelman, 1983, 1991), should be fundamental to their operations. However, there is still much debate as to whether the business family is keen to engage in strategic renewal. Some researches portray family firms as generally rigid, strategically inertial and resistant to change (Konig et al., 2013; Schulze et al., 2002). Others attest to their ability to initiate renewal actions (Cucculelli et al., 2016; Dieguez-Soto et al., 2016). To reconcile these opposing descriptions, family business scholars have pointed to firm differences in organizational culture (Hall et al., 2001; Zahra et al., 2004), organizational capabilities (Hatun et al., 2010), commitment to status quo (Ward, 1997), and performance issue framing (Gomez-Mejia et al., 2007), among others, as sources of variation in strategic renewal efforts across family firms.
While these studies have enriched our understanding of family firm organizational practices and cognition that contribute to strategic renewal, we find two gaps in this literature. First, it has not accounted for diversity within family firms. There exist diverse social contexts in family firms, following various demographic lines, such as family/nonfamily or generation. Each of these contextual variations pertains to firm members with different experiences, values and goals (Basco, 2017). As a consequence, disparate orientations and mindsets likely operate within family firms (Ling and Kellermanns, 2010). Presently, we have little knowledge of what such diversity may mean for firm renewal tendencies and behavior. Second, family businesses in different countries reside under dissimilar national cultures. National cultures are known to dictate how individual think, behave, and relate to each other (Hofstede, 1980). As such, they can impact the way family firm members make strategic decisions. Hence, renewal efforts may be further subject to the influence of cultural context. While extant literature has focused on organizational culture within family firm as determinant of strategic renewal (Hall et al., 2001; Zahra et al., 2004), there have been few studies focusing on the role that national culture may play.

To address these two gaps, our paper poses two research questions:

**RQ1.** How do different social contexts among managers affect strategic renewal within family firms?

**RQ2.** Does the effect of such social contexts on strategic renewal in family firms vary across national cultures?

We attempt to answer these questions by developing and testing an overarching reasoning on how sociocultural contexts affect strategic renewal behavior in family firms, and take on a multilevel approach to sociocultural context, conceptualizing it as both firm-level social context and national culture. To investigate the linkage between social context and strategic renewal, we examine two particular settings of family firm management: family CEO and multigenerational involvement. Our argument, invoking dominant logic (Prahalad and Bettis, 1986), is that these two social contexts engender forces that exert different effects on strategic renewal. To explore the role of national culture, we look at two national cultural dimensions, uncertainty avoidance and power distance, due to their ubiquitous influences on strategic actions (Crossland and Hambrick, 2011; Hui et al., 2004). We suggest that these two dimensions shape the cognition and relations among managers, such that they moderate the relationship between managerial contexts and strategic renewal in family firms. These propositions involving social and cultural contexts are empirically tested using unique data collected from 959 family firms from 26 countries. Robustness tests on alternative cultural measures (such as those of GLOBE) and against institutional factors provide further support to the findings.

Our paper makes important contributions to the literature on strategic renewal in family business. First, we provide insights toward lingering questions about family firms’ tendencies to strategically renew. Our study demonstrates that competing views on this subject may not only be due to firm differences in organizational processes and cognition, but also within-firm complexity involving social contexts. We identify two such factors as family CEO and multigenerational involvement. In making this argument, we provide a new explanation for why family firms differ in their strategic renewal behaviors. Also, we highlight the role of national culture since there are few investigations of the influence of national culture in family business literature (Basco et al., 2018; Chrisman et al., 2002). There has been even less systematic examination of the impact of national culture on strategic renewal in family firms. Scholars have stressed that to realize the potential of business families for renewal processes, more complex combinations of family-related and environment-related factors need to be investigated (Sciascia and Bettinelli, 2013). Our paper answers this call by bringing attention to the multilevel, cross-cultural intricacies that social and national cultural context can play in strategic renewal of family firms. In the following, we explicate the nature of social contexts in
family firms and draw on the concept of dominant logic (Prahalad and Bettis, 1986) to explain how social contexts in family firms translate into strategic renewal before discussing the hypotheses.

The social contexts of family firms and dominant logic

Involvement of family members in the business creates particular social contexts (Le Breton-Miller and Miller, 2006). Prevailing notion is that these contexts take on the quality of being distinctive and heterogeneous. By distinctive, first, we mean that business family members are generally distinctive from nonfamily members. Family members have ties that lead to common values, identities and goals (Miller et al., 2011). These qualities cause them to think and behave differently. Numerous family business studies have examined how this difference in family firms matters for firm behaviors and outcomes. Researchers do so by operationalizing social contexts of the family firm in terms of whether certain positions (e.g. board director, CEO, etc.) are held by family members, or the number of family members working in various levels of the firm (e.g. Basco and Calabro, 2017; Le Breton-Miller et al., 2011).

Besides, by heterogeneous, we mean that within the business family itself, one can find characteristics that bring about contrastive thinking and behavior. One such characteristic is generation. Researchers have found that first generation and later-generation family members can differ in many aspects, e.g., style of management (Sonfield and Lussier, 2004) and market orientation (Beck et al., 2011). Due to differences such as these, family firms with multiple generational involvement are known to operate differently from those that are run by only one generation (Sciascia et al., 2013; Zahra, 2005).

In light of this extensive research in family business on how social contexts in family firms can be indicative of firm behavior, we propose that social contexts also impact strategic renewal in family firms. Yet, one question remains: How do such contextual variations translate into renewal tendencies and behavior? We answer this question by drawing on the concept of dominant logic (Prahalad and Bettis, 1986). In their seminal work, Prahalad and Bettis (1986) suggest that decision makers’ experiences and values lead to formation of knowledge structure, called dominant logic, that inform how their organization will operate and compete. As such, dominant logic can be described as a “recipe” (Grinyer and Spender, 1979) or “DNA” (Prahalad, 2004) for organizational processes and management. Dominant logic is crucial to how organizations operate, since it filters into firm via strategy, organizational routines, procedures and capabilities (Kor and Mesko, 2013). The idea of dominant logic has been applied to various organizational contexts, such as entrepreneurship (Kuratko and Audretsch, 2009), international acquisitions (Verbeke, 2010) and innovation (Sammut-Boncici and Paroutis, 2013). From these studies, scholars have shown that dominant logics may facilitate or hinder organizational renewal, pending their nature (von Krogh et al., 2000).

While dominant logics are key to renewal, they also have the drawback of being not easily changed. When a dominant logic has provided a certain level of success, inertia can set in Prahalad (2004). In these cases, researchers offer management team absorptive capacity as a mechanism by which dominant logic can be revitalized. Managerial absorptive capacity is defined as “the collective capacity of managers to absorb new knowledge and combine their existing knowledge repositories with new insights, assumptions, and knowledge systems” (Kor and Mesko, 2013, p. 237). The greater this absorptive capacity by management, the more likelihood prevailing dominant logic in firm will shift, leading to strategic renewal actions. Scholars show that management absorptive capacity can increase by two paths. The first way involves recruiting new personnel and reconfiguring the management team in a way that aligns the skills and knowledge of the managers with what is necessary to anticipate or respond to
environmental changes (Kor and Mesko, 2013). A second way is constant learning on the part of managers through communication, feedback and sharing of different ideas (Kor and Mesko, 2013).

Hence, in the dominant logic perspective, whether strategic renewal takes place in organizations is a function of two factors: the nature of dominant logics and managerial absorptive capacity. In this paper, we suggest that having family member in the position of CEO engenders a particular dominant logic, namely long-term orientation, in family firms and having multigenerational involvement in management engenders knowledge diversity, a mechanism for logic revitalization. As such, these two social contexts can lead to different consequences regarding renewal efforts in family firms. In the next section, we develop hypotheses on how they are translated into renewal outcomes.

Hypotheses development

Effects of social contexts in family firms

Business families are known to possess a long-term orientation in their management of business, which manifests in “far-sighted decisions, future pay-offs, and exercise of patience” (Lumpkin and Brigham, 2011, p. 1158). Scholars have found that due to this long-term perspective, family businesses tend to be conservative with resource allocation and take less strategic risk (Lumpkin et al., 2010). Recently, scholars propose that long-term orientation in family firms is evidence of a dominant logic (Brigham et al., 2014; Gentry et al., 2016). They define long-term orientation as “tendency to prioritize the long-range implications and impact of decisions and actions that come to fruition after an extended time period” (Lumpkin et al., 2010, p. 245). We suggest that family CEO, a proxy of this long-term orientation, has negative effect on strategic renewal in family firms.

Scholars recognize that basically there are two types of renewal processes: autonomous and induced (Burgelman, 1983). In autonomous renewal, a bottom-up process, lower-level managers conceive renewal ideas that fall outside current scope of corporate strategy. They advocate their ideas to top decision makers, who provide the needed resources to commence with exploration projects. In induced renewal, renewal actions are initiated via a top-down process. Top executives become aware of stress from poor firm performance and make efforts to renew organization in hope of reversing firm performance (Schmitt et al., 2018).

We argue that the dominant logic of long-term orientation can lead to reduction in both types of renewals in family firms. For autonomous renewal, potential renewal projects, in their initial stages, require funding without certainty of their success, as well as engender certain levels of risk taking. Given family firms’ tendency to be conservative with resource allocation and to take less strategic risk, there would be less likelihood of these projects coming to fruition. For induced renewal, family business scholars find that family firms’ focus on non-economic goals leads top managers to be more acceptable of low performance (Gomez-Mejia et al., 2007), hence delaying stress that triggers firms to make strategic renewal. Therefore, a willingness on the part of the business family to “wait out” less-than-optimal performance reduces instances of induced renewal initiatives.

When family members assume the role of CEO, they are likely to embrace this long-term orientation. As leaders of business families, family CEOs have to protect family interests and legacy, with sustainability over generations as the ultimate goal. Their responsibilities to the family put them in long-term perspective. Furthermore, family CEOs tend to have long tenure (Ward, 2004). Long tenure allows family CEOs to be patient with decision making and refrain from shortsighted goals. Scholars point to long CEO tenure as a key driver of long-term orientation in family firms (Le Breton-Miller and Miller, 2006). In short, the presence of family CEOs likely means that family firms will be...
aligned with long-term orientation, which constricts renewal actions. These arguments lead to our first hypothesis:

\[ H1. \text{Having a family CEO is negatively related to strategic renewal tendencies and behavior in family firms.} \]

While family CEO engenders long-term orientation in family firms, multiple generational involvement leads to revitalization of this dominant logic by encapsulating knowledge diversity (Sciascia et al., 2013). Members of different generations bring different ideas to management team, enriching existing knowledge base (Chirico et al., 2011). In doing so, more strategic options can be considered, thereby increasing innovative solutions to problems (Zahra et al., 2007). Research in family business supports multigenerational involvement as a firm revitalizer. Studies have shown that presence of second generation in founder-based family firms increases the likelihood of recognizing and pursuing entrepreneurial innovation (Salvato, 2004; Zahra et al., 2007). To summarize, multigenerational involvement, as proxy of knowledge diversity, can be key driver behind innovations in family firm management. It enhances managerial absorptive capacity and leads to more renewal actions. Thus, our second hypothesis is as follows:

\[ H2. \text{Having multigenerational involvement in management is positively related to strategic renewal tendencies and behavior in family firms.} \]

National culture and strategic renewal

National culture is “collective programming of the mind that distinguishes the members of one group or category of people from others” (Hofstede and Hofstede, 2005, p. 4). Defined in this way, it is a form of mental model, based on values and beliefs, similar to dominant logics (Lane and Sirmon, 2003). Whereas dominant logics determine strategic renewal through organizational processes, national culture largely impacts strategic renewal via its influence on the cognition of decision makers as well as how they relate to each other. Hofstede identified several cultural dimensions. We anticipate two dimensions as particularly relevant to strategic action (Crossland and Hambrick, 2011) for our discussion: uncertainty avoidance and power distance. Uncertainty avoidance refers to a society’s tolerance for ambiguity (Hofstede, 1980). In cultures high in uncertainty avoidance, uncertainty is generally felt as a threat and individuals prefer situations where there is clarity and structure (Hofstede, 2011). Power distance is defined as the extent to which individuals in organizations and institutions accept unequal distribution of power (Hofstede, 1980). In cultures high in power distance, status differences are perceived as legitimate facts of society. Followers expect leaders to lead and tend to be obedient (Hofstede, 2011).

Moderating effects of uncertainty avoidance

Existing studies have shown that high uncertainty avoidance exerts positive influence on strategic renewal. First, decision makers in high uncertainty avoidance society are inclined to perceive environmental changes as threat, rather than opportunity (Barr and Glynn, 2004; Sallivan and Nonaka, 1988), causing them to take action that are risk-seeking (Chattopadhyay et al., 2001) and radical in magnitude (Dutton and Jackson, 1987), in order to prevent losses. Second, managers scan the environment more in high uncertainty avoidance society than managers in low uncertainty avoidance society (Schneider, 1989), giving them better chance of detecting renewal opportunities. These studies provide evidence that managers in general are more likely to take renewal actions in high uncertainty avoidance culture.

To explain the moderating effect of how uncertainty avoidance may impact managers in the family firm context, we draw on the “value-as-moderator” framework (Oishi et al., 1999). According to this framework, values that individuals deem more important have more impact
on outcomes than values that are deemed less important. For example, Flatten et al. (2015) argue that whether transactional leadership or transformational leadership has greater effect on absorptive capacity depends on cultural values. In high uncertainty avoidance society, individuals value procedures and rules, which endear them to transactional rather than transformational leadership. Hence transactional leaders, under high uncertainty avoidance cultures, are found to be more effective in influencing absorptive capacity than transformational leaders (Flatten et al., 2015).

Such logic can be applied to reason about family business. Although firms with a family CEO tend to “wait out” to see if renewal action needs to be taken to deal with problems, such tendency is affected by uncertainty avoidance. Specifically, because family managers in high uncertainty avoidance society do not value ambiguous conditions, they tend to value “wait out” less than those in low uncertainty avoidance culture. Hence, we predict that in high uncertainty avoidance society, due to less interest to “wait out,” family CEOs take on more strategic renewals. Based on the above findings and arguments, we make the following hypothesis:

\textit{H3a.} Cultural uncertainty avoidance dampens the negative influence of family CEO on strategic renewal of family firms.

In high uncertainty avoidance society, research has shown that dislike for uncertainty can lead individuals to seek stability in career paths (Hofstede and Hofstede, 2005). Accordingly, Zellweger, Sieger, and Englisch (2012) found that later generations are more likely to choose working for family business in high uncertainty avoidance culture, since career paths in family’s business are deemed less certain, which appeals to those in cultural setting that values certainty. In light of their finding, we argue that later-generation family members, who rely on the family business to start a career, would be committed and more involved in the family business. In their effort to establish presence in the family firm, they tend to be involved with projects that institute capacity for innovation and act as change champions (Aldrich and Cliff, 2003; Au et al., 2013). Hence, we predict that in high uncertainty avoidance society, due to their interest to join and make impact, the incoming members would bring about more ideas and changes to their family firms, which enhance greater likelihood of these firms enacting strategic renewal. This leads to the following hypothesis:

\textit{H3b.} Cultural uncertainty avoidance heightens the positive influence of multigenerational involvement on strategic renewal of family firms.

\textit{Moderating effects of power distance}

In cultures with high power distance, authority in decision-making tends to be concentrated in a few individuals at the top (Hofstede and Hofstede, 2005). Such tendency would moderate our argument above that firms with a family CEO tend to “wait out” in taking renewal actions. Based on the “value-as-moderator” framework (Oishi \textit{et al.}, 1999), given family CEOs in high power distance society can enjoy having more power, they could choose to “wait out” more so as they wish, since followers tend to follow superiors and expect them to give order (Hui \textit{et al.}, 2004). In comparison, family CEOs in low power society have less power. They would find it less able to resist strategic renewal, as “waiting out” may be a more difficult option to keep. In light of these arguments, we predict that high power distance enhances the relationship between family CEO and strategic renewal and make our hypothesis as follows:

\textit{H4a.} Cultural power distance heightens the negative influence of family CEO on strategic renewal of family firms.

As to multigenerational involvement, we argued above that multiple generational involvement can help revitalization of family business. However, since in high power
distance society, hierarchical relations are more valued than individual orientation (Hofstede and Hofstede, 2005), power distance would weaken the relationship between multigenerational involvement and strategic renewal. The moderating effect of power distance happens because: deference for authority figures lessens communication between leaders and subordinates (Khatri, 2009); and firms have less knowledge sharing and feedback when subordinates expect to receive orders from their leaders rather than challenging or disagreeing with those who have seniority (Hui et al., 2004). The combined effect of these factors caused by high power distance is less input of new ideas and perspective in family firms, which reduces managerial absorptive capacity and less change for renewal. In comparison, for family firms in low power distance society, diverse knowledge from multigenerational involvement is better received, augmenting managerial absorptive capacity, so the family firm is more likely to engage in strategic renewal. For these reasons, we propose the following hypothesis:

H4b. Cultural power distance dampens the positive influence of multigenerational involvement on strategic renewal of family firms.

Method

Sample

Data used to test our hypotheses were drawn from a cross-national, quantitative study of family firms conducted from September 2013 to February 2015 by the Successful Transgenerational Entrepreneurial Practices (STEP) Project. The STEP Project is a global initiative consisting of scholars seeking to explore STEP in family businesses in four continents of the world. STEP affiliates, in the form of 35 university teams representing 32 countries, participated in the research. Using data previously collected by STEP members, scholarly works have been published (e.g. Basco et al., 2018; Au et al., 2013; Zellweger, Nason and Nordqvist, 2012).

The survey research consisted of a two-part data collection process. First, the leaders of university teams received a link to fill out a survey. In this so-called “affiliate survey,” team leaders were asked to nominate firms that they had recruited to participate in the study. These family firms were recruited via peer network and snowball sampling. To be approved for participation, firms had to meet the following criteria: owners identified themselves as family businesses; at least 2nd generation was involved in management or ownership; business family held the largest or dominant block of voting shares of at least one company; at least one business controlled by the business family was medium to large in its industry/region; and two members of the business family involved with strategic decision making were willing to answer questions for the study.

Upon approval, Cornell University’s Survey Research Institute (SRI), which was commissioned by the STEP, contacted the approved family firms and provided them with internet link, whereby they filled out an online survey. The survey was designed by STEP scholars in English and then translated into 14 languages by SRI, taking note of language cultural equivalence. SRI supervised the entire survey development process, making sure validity and measurement equivalence were achieved. Basco et al. (2018) tested several important measures and demonstrated validity of the survey.

In all, STEP researchers nominated 3,900 eligible respondents for participation; 1,344 surveys from 960 firms were completed. Overall response rate was 34.5 percent. There was no information on those who were nominated, but did not fill out the survey. Although two respondents from each firm was requested, only 384 firms had two respondents. In the cases where there were two respondents, we aggregated the data to take one score on each item. In total, responses were received from firms in 27 countries (see Table I). India was dropped since only one firm responded. The number of firms from each country ranges from 4 (Australia and Japan) to 191 (the USA).
Respondents were business family members who were in a position to have direct knowledge about the strategies and strategic direction of the business. Their tenure within the family business at management or above level averaged 18 years. Chairmen of the Board made up 10.8 percent; CEOs, 14.5 percent; board directors, 14.9 percent; top management team members, 18 percent; founders, 5.7 percent; shareholders, 17.4 percent. In total, 59.5 percent of the respondents did not reveal the positions they assumed in their firms. Of the 959 business families represented, 44.3 percent operated one company; 12.1 percent operated two; 11.3 percent operated three; 16.6 percent operated four to nine companies; 6.3 percent operated 10 to 20 firms. When respondents belong to large family business groups, they were asked to answer questions in the survey with their primary company in mind. The primary company was defined as the largest firm within the family business group in terms of sales volume. Most of family firms sampled in this study were privately owned (91.6 percent, 879 firms). In 80 percent of the firms studied, the business family owned 50 percent or more equity; in 63.6 percent (611) of the sampled firms, the business family owned 100 percent equity. The average equity owned by business families in publicly traded firms was 48 percent.

Measures

Dependent variable. We identified items from the survey that were related to the domain of strategic renewal as a form of corporate entrepreneurship. Strategic renewal involves recognizing new product-market opportunities and recombining resources in new ways that lead to innovation (product, service, organization, technologies, etc.) and changes in competitive/market focus (Covin and Miles, 1999; Guth and Ginsberg, 1990; Sharma and Chrisman, 1999). We selected and then conducted factor analysis on items falling onto this domain. Three factors were recognized in the analysis. One factor was grouped by items related to bold, aggressive posture, and a second factor was grouped by items on participative management[1]. A third factor was grouped by seven items on disposons and outcomes relating to entrepreneurial opportunity, internal development (product, service, technology, innovation), and external changes (in relations to market and competitors). These items aligned with action and propensity that is mentioned in the literature on strategic renewal. Examples of some of these items are, “Favor a strong emphasis on the marketing of tried and true product/service” and “Favor a strong emphasis on R&D, technological leadership, and innovations.” We call this factor strategic renewal and use it as dependent variable for this study. These items are in line with strategic renewal measure used in Kearney and Morris (2015) and Zahra (1991, 1993). See the items in the Appendix section.

Independent variables. Family CEO was measured with a single item asking if the CEO was a family member. Data were dummy coded (1 indicating yes, and 0 indicating no) and

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of firms</th>
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<tbody>
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<td>Puerto Rico</td>
<td>13</td>
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Table I. Number of firms sampled for participating countries
21.3 percent of the respondents had family CEO. Multigenerational involvement was measured by asking respondents to check which generations were active as managers/executives. Generation choices ranged from 1st to 9th. We counted the numbers of generations checked and coded as such. Number of generations ranged from 0 to 5, and 81.2 percent of the respondents had multigenerational involvement in management.

**Moderators.** Each firm was assigned their country’s cultural index for uncertainty avoidance and power distance as provided by Hofstede’s official website (see Table II)[2]. We chose Hofstede’s because in developing our theory, we drew from corporate entrepreneurship and strategic management literature mainly relying on his framework (e.g. Crossland and Hambrick, 2011). Recent, comprehensive world surveys (e.g. World Value Survey, European Value Survey) have validated Hofstede’s dimensions (Minkov and Hofstede, 2012a, 2014). Besides, robustness tests using the GLOBE data replicated the findings.

**Control variables.** Past studies from family business literature indicate that a variety of factors at the firm level can influence strategic behavior of family firms. To account for these effects, so that we could better isolate the impact of our main constructs under study, our control variables were as follows. At the firm level, first, firm age (log) was measured as Year 2014 minus founding date (Kellermanns and Eddleston, 2006). Studies have shown that firm age can be a major source of inertia, which affect strategic renewal (de Figueiredo et al., 2015). Second, firm size (log) was measured as total number of firm workers (Eddleston et al., 2012). Researchers have found that firm size contributes to organizations’ ability to strategically renew (Damanpour, 1992).

Third, family’s equity in firm was recorded as reported from the respondents. Family’s equity is a measure of the degree of control that the business family has over the firm (Eddleston et al., 2012). The greater the control of the business family, the greater the extent to which strategic renewal effort are susceptible to the social context of management in family firms. Finally, we controlled for industry-level influences in the form of market competitive intensity (Cui et al., 2006). In highly competitive markets, firms are pressured to provide customers with unique and high quality products (Cui et al., 2006), which is likely to bring about increased innovation and new product development. Perceived market competitive intensity was measured through four items listed in the Appendix. At the country level, we controlled for three other national culture dimensions, individualism, masculinity, and long-term orientation.

<table>
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<tr>
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<th>PD</th>
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**Table II.**

Hofstede’s cultural measures for participating countries

**Notes:** UA, uncertainty avoidance; PD, power distance

**Source:** Index taken from Hofstede’s website
**Common method concerns**

Scholars have noted that utilization of self-reports is understandable in “large-scale research projects involving multiple countries where obtaining separate data sources for all the countries is impossible” (Chang et al., 2010, p. 182). In this sense, common method variance (CMV) in cross-national studies may be “tolerated” (Chang et al., 2010). Also in the study, we’ve attempted to reduce CMV in three ways. One, we’ve avoided using perceptual variables in both predictor and outcome variables. With our independent variables being factual data, this lessened CMV problems (Crampton and Wagner, 1994). Two, our predictor and outcome variables were measured using different scale formats, which is a suggested practice for reducing CMV effects (Podsakoff et al., 2003). Finally, the main focus of this study is the interaction effects of national cultural dimensions and social context of family firms. Research has shown that interaction effects cannot be artifacts of CMV (Siemsen et al., 2010).

**Results**

Tables III and IV present means, standard deviations, and correlations for the study variables, respectively. To avoid issues of multicollinearity in testing our data, we used the standardized values of all variables (control, independent, and dependent) except for firm age and size, which took natural log values. Due to the nested nature of our data (firms nested within countries), we used hierarchical linear modeling to estimate the proposed relationships using HLM 6 software (Raudenbush et al., 2011). We followed a multi-step strategy to examine a series of models to test the hypotheses, following another cross-national entrepreneurship study (Autio et al., 2013). Descriptive statistics for the HLM analysis are shown in Tables IV and V for level-1 and level-2 variables, respectively.

Our first step, the null model, contained no predictors. It enables calculation of intraclass correlation coefficient, which indicated the proportion of between-group variance in strategic renewal. Estimation yielded a group-level variance component of 0.03 ($p < 0.01$), which gave an ICC value of 0.03. As indicated in Model 1 of Tables VI and VII, this means that 3 percent of the variance in strategic renewal resided between countries. Following

<table>
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<tr>
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<td>0.02</td>
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<tr>
<td>5 Family CEO</td>
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<td>0.41</td>
<td>0.04</td>
<td>0.00</td>
<td>0.01</td>
<td>−0.02</td>
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<td>−0.11**</td>
<td>0.06</td>
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<tr>
<td>7 Strategic renewal</td>
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<td>0.06</td>
<td>0.01</td>
<td>0.00</td>
<td>0.03</td>
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**Note:** **Significant at the 0.01 level (two-tailed)**

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<th>Level 2 variables</th>
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<tr>
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<td>−0.76**</td>
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<td>−0.06**</td>
<td>−0.06</td>
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</table>

**Note:** **Significant at the 0.01 level (two-tailed)**

The impact of sociocultural context
LeBreton and Senter (2008), this group-level effect lies somewhere between “small” and “medium.” Although this effect is not large, it is noticeable and more importantly, statistically significant; hence providing a basis for us to examine country-level as well as cross-level effects in strategic renewal (Gavin and Hofmann, 2002).

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Mean</th>
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<th>Minimum</th>
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<tr>
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<td></td>
<td></td>
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<td>3.11</td>
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<td>0.10</td>
<td>1.11</td>
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**Table V.**
HLM descriptive statistics

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<th>Model 2</th>
<th>Model 3</th>
<th>Model 4</th>
<th>Model 5</th>
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</thead>
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<td><strong>Fixed parts estimates</strong></td>
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<tr>
<td>Level 1</td>
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<td></td>
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<td></td>
</tr>
<tr>
<td>Age</td>
<td>−0.03* (0.07)</td>
<td>−0.03 (0.08)</td>
<td>−0.02 (0.08)</td>
<td>−0.01 (0.08)</td>
<td></td>
</tr>
<tr>
<td>Size</td>
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<td>0.06** (0.02)</td>
<td>0.06** (0.02)</td>
<td>0.06** (0.02)</td>
<td></td>
</tr>
<tr>
<td>Family’s equity</td>
<td>0.04 (0.04)</td>
<td>0.04 (0.04)</td>
<td>0.04 (0.03)</td>
<td>0.04 (0.04)</td>
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</tr>
<tr>
<td>Market competitive intensity</td>
<td>0.02 (0.03)</td>
<td>0.02 (0.04)</td>
<td>0.02 (0.04)</td>
<td>0.02 (0.04)</td>
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</tr>
<tr>
<td>Level 2</td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Power distance</td>
<td>−0.07 (0.06)</td>
<td>−0.07 (0.06)</td>
<td>−0.07 (0.06)</td>
<td>−0.07 (0.06)</td>
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</tr>
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<td>0.04 (0.04)</td>
<td>0.04 (0.04)</td>
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<td>Uncertainty avoidance</td>
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<td>0.13* (0.05)</td>
<td>0.13* (0.05)</td>
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<tr>
<td>Long-term orientation</td>
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<td>−0.05 (0.03)</td>
<td>−0.06 (0.03)</td>
<td>−0.05 (0.03)</td>
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<td>Predictor</td>
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<tr>
<td>Family CEO</td>
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<td>−0.07** (0.02)</td>
<td>−0.04 (0.04)</td>
<td></td>
<td></td>
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<tr>
<td>Interactions</td>
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<tr>
<td>Family CEO × UA</td>
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<tr>
<td>Family CEO × PD</td>
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<td></td>
<td></td>
<td></td>
<td>0.07* (0.03)</td>
</tr>
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<tr>
<td>Number of observations</td>
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<td>667</td>
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<td>667</td>
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<td>0.02</td>
<td>0.02</td>
<td>0.02</td>
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<tr>
<td>% of variance</td>
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<td>0.84</td>
<td>0.84</td>
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<td>Model fit statistics</td>
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<tr>
<td>Degree of freedom</td>
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<td>Prob &gt; χ²</td>
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<td>*</td>
<td>*</td>
<td>*</td>
<td>*</td>
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<td>1,871</td>
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</tbody>
</table>

**Table VI.**
Effects of family CEO on strategic renewal

**Notes:** Standard errors in parentheses. *p < 0.05; **p < 0.01
Our next step was to estimate the proportion of variance explained by our control variables by adding firm- and country-level controls. We group-mean centered level-1 variables and grand-mean centered level-2 variables (Enders and Tofighi, 2007). Estimation from this step is shown in Model 2 of both Tables VI and VII. Comparison between Model 1 and Model 2 (Tables VI and VII) showed that random intercept variance component decreased from 0.03 to 0.02 (before rounding off, the figure was actually 0.0194). This suggests that up to 35 percent of the country-level variance detected in Model 1 was explained by our controls.

Then we took the third and fourth steps, which looked at the predictors and moderators, respectively. For these two steps, we examined predictors separately. Table VI shows models testing family CEO as predictor. We group-mean centered the independent variable. As can be seen in Model 3 of Table VI, the relationship between family CEO and strategic renewal is found to be negative and significant ($b = -0.07$, $p < 0.05$), thus, $H1$ is supported. In Model 4 of Table VI, we added the moderating effect of uncertainty avoidance. Results show that higher uncertainty avoidance significantly dampens the negative relationship between family CEO and strategic renewal ($b = 0.08$, $p < 0.01$). Hence, $H3a$ is supported.

The moderating effect of power distance is shown in Model 5 of Table VI. We found that power distance had significant, positive effect on the relationship between family CEO and strategic renewal ($b = 0.07$, $p < 0.05$). Even though the result is significant, the direction is opposed to that of $H4a$. We plotted the interaction effects in Figure 1 (uncertainty avoidance) and Figure 2 (power distance). As shown, the simple slope of family CEO is positive for high uncertainty avoidance culture, as predicted. However, the simple slope of

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<th>Model 1</th>
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<th>Model 3</th>
<th>Model 4</th>
<th>Model 5</th>
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<td></td>
<td>Fixed parts estimates</td>
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</tr>
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<td>$-0.01$ (0.07)</td>
<td>$-0.01$ (0.07)</td>
<td>$-0.02$ (0.07)</td>
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<tr>
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<td>$0.10^{**}$ (0.03)</td>
<td>$0.11^{***}$ (0.03)</td>
<td>$0.10^{**}$ (0.03)</td>
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<tr>
<td>Family’s equity</td>
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<td>$0.05$ (0.03)</td>
<td>$0.05$ (0.03)</td>
<td>$0.05$ (0.03)</td>
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<td>$0.02$ (0.03)</td>
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<tr>
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<td>Level 2</td>
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<td></td>
</tr>
<tr>
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<td>$-0.06$ (0.06)</td>
<td>$-0.06$ (0.06)</td>
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<td>$-0.05$ (0.03)</td>
<td>$-0.05$ (0.03)</td>
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<td>$0.07$ (0.05)</td>
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<tr>
<td>Multigenerational involvement × UA</td>
<td>$0.09^{*}$ (0.04)</td>
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<tr>
<td>Multigenerational involvement × PD</td>
<td>$0.10^{*}$ (0.05)</td>
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<td></td>
<td>Random parts estimates</td>
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<tr>
<td>Number of observations</td>
<td>745</td>
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<td>671</td>
<td>671</td>
<td>671</td>
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<td>*</td>
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<td>Log likelihood</td>
<td>$-1,036.8$</td>
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<td>$-919.3$</td>
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<td>$-918.7$</td>
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<tr>
<td>AIC</td>
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<td>1,867.4</td>
<td>1,882.6</td>
<td>1,882.4</td>
<td>1,881.3</td>
</tr>
</tbody>
</table>

Table VII. Effects of multigenerational involvement on strategic renewal

Notes: Standard errors in parentheses. *$p < 0.05$; **$p < 0.01$; ***$p < 0.001$
family CEO under high power distance culture is also positive, opposing our hypothesis. We will explain this unexpected finding in the Discussion.

Table VII shows models testing multigenerational involvement as predictor. Model 3 in Table VII show that there is no significant relationship between multigenerational involvement and strategic renewal ($b = 0.06$). Hence $H2$ was not supported, but this level-1 effect should be interpreted in light of the significant cross-level moderation effects. $H3b$ predicted that uncertainty avoidance would heighten the positive relationship between multigenerational involvement and strategic renewal. The findings as shown in Model 4 of Table VII support this hypothesis ($b = 0.09, p < 0.05$).

Further, $H4b$ predicted that power distance would dampen the positive relationship between multigenerational involvement and strategic renewal. This moderation effect was shown to be significant ($b = 0.09, p < 0.05$), but it contradicted the hypothesis in terms of direction. Hence, $H4b$ is not supported. Figure 3 (uncertainty avoidance) and Figure 4 (power distance) illustrate these two interaction effects. As shown, the simple slope of multigenerational involvement is positive under high uncertainty avoidance culture, as predicted. However, different from the prediction, the simple slope of multigenerational involvement is also positive for high power distance culture (see explanation below).

**Robustness tests**

We conducted a series of robustness checks to substantiate the results. First, we tested the effect of cultural dimensions in the presence of institutional influences. In the models we
presented earlier, institutional elements were not included, due to a concern of low power[3]. Here, we tested if GDP per capita and WGI had significant impact as moderators of the two direct effects that we examined in the paper. Results show that GDP per capita indeed had significant moderating effect. For WGI, of the six dimensions tested, only political stability showed significant effect as moderator. Next, we ran a model in which the baseline model contained level-1 controls and level-2 institutional variables. Then we added uncertainty avoidance and power distance to level-2 as main and interaction effect. Estimations from these models showed that national cultural dimensions effect still remained significant after controlling for institutional elements. Hence, evidence supports that national cultural dimensions as have influence above and beyond those of institutions.

Second, we tested our model using alternative national cultural measures of GLOBE dimensions (House et al., 2004). We tried five of the dimensions that are relevant, uncertainty avoidance, power distance, gender egalitarianism, in-group collectivism, and future orientation. In this robustness test, we found only partial replication using GLOBE dimensions. Direct effects held for GLOBE measures, as for Hofstede measures. For contextual effect, however, only uncertainty avoidance’s moderation of the relationship between family CEO and strategic renewal remained significant using GLOBE dimensions but not power distance. One reason is that the two sets of dimensions may not refer to the same constructs (Venaik and Brewer, 2010), and such differences might have contributed to partial replication. Another reason is we lost five countries in using the GLOBE data. These reasons may account for partial replication with GLOBE dimensions.
Third, we tested for cultural clusters instead of national cultural measures. Scholars have argued that due to globalization phenomena, variation in organizational practices may be drawn not along national borders, but cultural lines due to historical roots, religious beliefs, or economic and political alliances (Gupta et al., 2002; Minkov and Hofstede, 2012b). We wanted to see if our data might indicate that the effect of social context on strategic renewal in family firms might differ along the line of cultural clusters as well. We assigned each country to a cluster, based on taxonomy of Ronen and Shenkar (2013), and then ran a model with these clusters as moderating variable. Test indicated that conclusions regarding whether cultural clusters had impact on the relationship between social context and strategic renewal in family firms could not be drawn.

Moreover, we tested for the influence of four outlying nations that had small sampled firms to ensure that the results were robust against taking out these outliers. Australia and Japan had four firms. Malaysia and Netherlands had five firms. Since we had to preserve power, we were not able to take all four countries out at the same time. Instead, we took them out one by one. For contextual effect, only moderation of family CEO-strategic renewal involving uncertainty avoidance did not hold in the case of taking out Australia. Thus, the findings seem to hold with small disturbance due to change in sample.

Finally, we ran a multi-level bootstrapping modeling. Our sample of 26 cultures is not too small (<20 stated as small), and a small second-level sample should give only under-estimation of variance components and cross-level effects (van der Leeden et al., 2008; Wang et al., 2006). In any case, the findings related to H3a and H4b are significant but those of H3b and H4a are not in the bootstrapping modeling. Thus, the findings are partially repeated by using repeated re-sampling. They boost confidence but also alert us in interpreting the results[4]. Overall, multiple robustness tests lend us support regarding cross-level cultural impact on family firms.

**Discussion**

Family firms’ proclivity to renew strategically has been a contested topic in the family business literature (Duran et al., 2016). In investigating this issue, prior research has largely examined why some family firms are more successful than others in fostering renewal (Kellermanns and Eddleston, 2006). We built on past effort in this paper. Drawing upon the dominant logic perspective and the research on national culture, we work to provide a better understanding of the role that diverse social contexts within family firms may play for renewal outcomes and examine to see if this role varies across national cultures. We argue that two social contexts of family firm management, family CEO and multigenerational involvement, have consequences for strategic renewal tendencies and behavior. On one hand, family CEO, as a protector of business family legacy, encapsulates long-term orientation, which has negative effect on strategic renewal. On the other hand, multigenerational involvement brings knowledge diversity, which enhances managerial absorptive capacity, thereby increasing strategic renewal. Furthermore, we posit that national cultural dimensions of uncertainty avoidance and power distance moderate the effects of these two social contexts on strategic renewal.

The findings partially support our hypotheses. For effects of social contexts, the relationship between family CEO and strategic renewal is significant and negative, as predicted, but the relationship between multigenerational involvement and strategic renewal is less conclusive. One reason may be that in this study we examined whether the number of generations matters for strategic renewal in family firms. However, perhaps what also matters is which generations are involved. Future research can examine this factor in relations to strategic renewal in family firms.

For the moderating effects of national culture, hypotheses regarding uncertainty avoidance were supported. Uncertainty avoidance’s interaction with both social contexts
was found to positively influence strategic renewal. Hypotheses involving power distance, however, were not supported. Power distance's impact was found to be significant, but in the positive direction, opposite of what we anticipated. A possible explanation for why power distance dampens, rather than heightens, the relationship between family CEO and strategic renewal is that centralized authority, such as family CEO, in family firms under high distance culture may be able to bring about more renewals because they are in a better position to institutionalize innovation process, overcome resistance to new idea, and bring in resources to solve problems (Nakata and Sivakumar, 1996).

As for power distance's positive influence on the relationship between multigenerational involvement and strategic renewal, a possible explanation is that culture high in power distance may allow business family members across different generations to relate and communicate with each other in accordance with “hierarchical relations” naturally found in family life. Given this cultural acceptance for unequal power relations, intergenerational members are able to exchange knowledge without overstepping boundaries and roles, leading to greater acceptance of new ideas, which enable renewal efforts. Certainly, further research into the implications of power distance for strategic renewal in family firms is warranted.

Our study makes several contributions to the family business literature. First, we highlight the effect of heterogeneity within family firms on strategic renewal. Previous studies tend to portray family firms as either wholly facilitating or impeding strategic renewal, but recently scholars have suggested that such descriptions do not reflect the complexities that exist within family firms (Chirico et al., 2011). In particular, studies have shown that renewal processes in family firms require various factors to work in complementary fashion in order to take effect (Chirico et al., 2011). We add to this literature by providing evidence that there may also be factors that work against each other in renewal processes in family firms. We show that social contexts in family firm management can embody mindsets that create opposite influences for renewal.

Second, our study shed some light on previous work that offered mixed findings regarding family firms' proclivity to renew strategically (Duran et al., 2016). The evidence gives support to national cultural context as moderating the effects of family CEO or multigenerational involvement on strategic renewal. Based on the sample in our study, family CEO is found to have a general negative influence on strategic renewal across national boundaries. However, under conditions of high uncertainty avoidance and high power distance cultures, it can exert positive effect on renewal. Multigenerational involvement’s impact on strategic renewal is also moderated by national culture. We find multigenerational involvement’s impact on strategic renewal to be insignificant across national borders. However, in high uncertainty avoidance and high power distance society, its positive effect on renewal becomes salient.

In examining Hofstede’s cultural dimensions, our study lends support to the validity of the uncertainty avoidance and power distance constructs. Based on models estimated as part of robust tests we conducted for this study, we find that whereas uncertainty avoidance has particular salience for family CEO-strategic renewal relationship, power distance has greater effect for generational involvement-strategic renewal. This is in accordance with the nature of these two cultural dimensions. Uncertainty avoidance shapes mainly individual cognition (family CEO), meanwhile power distance impacts relations between individuals (interaction between members of different generations).

**Theoretical implications**

The present study adds to the emerging research stream of dominant logic perspective in family business context. Our work extends understanding of dominant logic in family firms by exploring the role that one particular type of dominant logic and its revitalization may play in strategic renewal. We suggest that the dominant logic perspective is an appropriate
theoretical lens with which to examine family firm renewal. Prior studies in this area of research have focused on organizational practices and cognition that facilitated or impeded renewal. Identification of these practices and cognition only afford piecemeal picture of the complex processes of family firm renewal. Very early on, strategic management scholars recognize that organizational practices and cognition tend to be aligned in accordance with top decision makers’ dominant logics (Prahalad and Bettis, 1986). To provide a more holistic picture of how different organizational practices and cognition may work, in conjunction or opposition, to enhance/hinder family firm renewal requires scholars to identify the dominant logics (and revitalization mechanisms) that exist in family firms and then to delineate how various practices and cognition are connected to these logics. In this study, we took a first step in doing this work, by associating social contexts in family firm management with dominant logic of long-term orientation and its revitalization mechanism of managerial absorptive capacity. Future research can identify other logics and related mechanisms that may play a role in strategic renewal of family firms.

Practical implications
Results from this study have important practical implications. Since this study and prior research together have shown that various factors work in complementary or contradictory fashion in strategic renewal processes of family firms, it is important that decision makers carefully examine how different contexts, practices, routines, and cognition contribute to overall dominant logics that exist in firm. In doing so, they can evaluate how logics as a whole affect renewal, and also how different parts of the logics, in the form of contexts, practices, routines, and cognition, play a role. This overall evaluation will afford managers a holistic picture of renewal forces that operate in family firm and allow managers to make precise changes to overall logics and their components to enhance strategic renewal.

Future research
This study has implications for future research. For one, we argue that the social context of family CEO gives rise to the dominant logic of long-term orientation, which has negative effect on strategic renewal. Brigham et al. (2014) have recently developed scale to measure long-term orientation in family firms. Future cross-national studies can directly measure long-term orientation and investigate how different levels of long-term orientation may be related to strategic renewal. To investigate other dominant logics that may exist in family firms (e.g. Johannisson and Huse, 2000; Reay et al., 2015), researchers can use causal mapping method that has also been developed recently (Schraven et al., 2015).

Second, scholars have noted that the effect of culture on strategic renewal can come from different levels, including national and organizational levels (Payolle et al., 2010).Several studies have looked at organizational culture as an antecedent of strategic renewal. In this study, it would have been ideal to control for organizational culture. There is a possibility that, in this study, we have confounded the effect of organizational culture with that of national culture, since organizational culture and national culture have been argued to overlap (House et al., 2004). However, scholars have been at odds about the relations between organizational and national culture. Some say that there is very little national culture in organizational culture (Gerhart, 2009; Nelson and Gopalan, 2003). Others say there are connections, but organizational culture operates at different order (Hofstede et al., 1990). In future studies, researchers can incorporate measurement of organizational as well as national culture to further delineate their individual and combined effect on strategic renewal.

Limitations
The present study has limitations that interpretation must be cautioned. First, we have argued that long-term orientation and knowledge diversity are determinants of strategic
renewal efforts in family firms and have used family CEO and multigenerational involvement as proxies to get at these effects. We suggest that future studies can make precise measurement of the conditions associated with family CEO and multigenerational involvement such as to delineate mechanisms that impact strategic renewal in family firms.

Second, collecting data from family businesses is hard, especially those involving cross-cultural context. Some of the limitations in this study come from these difficulties. For example, to survey large number of firms across multiple countries, we were limited to ask only one or two top decision-makers to respond to questionnaire. The data provided by one or two participants may not be a good representation of the family firms. Another limitation has to do with samples from the country. The number of countries is relatively small, and there is much greater percentage of firms from Americas and Europe than from Asia. This may limit the generalizability of our results. Lastly, we collected our data from self-reports, so interpretation of causality must be careful.

To conclude, family business researchers have only recently begun to understand variation in strategic renewal among family firms. While extant literature focuses on differences in organizational practices and cognition to reconcile competing views regarding whether the business family is conducive to family business renewals, we suggest that sociocultural context can play a role in this matter. In particular, we propose that the social contexts of family firm management, in terms of family CEO and multigenerational involvement, can have countervailing effects on strategic renewal in family firm, and national cultural dimensions of uncertainty avoidance and power distance moderate such effects. Our findings reveal that strategic renewal tendencies and behavior are not uniform within family firms, but are subject to complexity involving contradictory forces and moderating influences of national culture.

Notes

1. We did not consider these items for the study, as risk-taking tendencies do not necessarily effect fundamental changes to strategic ideas and processes on which organizations are built (Guth and Ginsberg, 1990; Miller, 1983). Also, participative management is an antecedent of strategic renewal, not outcomes of strategic renewal. Hence, we did not include these items in our dependent variable as well.

2. Hofstede’s index was developed from a study on IBM subsidiaries involving 88,000 workers in 40 countries in the 1960s and 1970s. Hofstede’s national culture model is the predominant framework in quantitative societal cultural research (Peterson and Sondergaard, 2011). Although it has been criticized over the years, we believe that it has stood up against some major criticisms. Some challenged Hofstede’s index as being outdated, not reflecting current cultural changes. Studies have shown that Hofstede’s index is stable over time (Beugelsdijk et al., 2015; Tang and Koveos, 2008). Furthermore, Hofstede’s dimensions have been correlated with key economic and institutional indicators, as according to accepted nomological network (Minkov, 2013).

3. Extant literature in international business defines institutional environment to include economic, financial, administrative, legal, regulatory and political forces (Berry et al., 2010). For economic and financial institutions, we used GDP per capita as proxy. For administrative, legal, regulatory and political forces, we used World Governance Indicators (WGI). WGI consist of composite indexes that measure six dimensions: voice and accountability, government effectiveness, political stability and absence of violence/terrorism, regulatory quality, rule of law and control of corruption (Kaufmann et al., 2011). These indexes have served adequately as proxies for various aspects of the institutional environment in international business as well as strategic management studies (Li and Zahra, 2012; Shinkle and Kriauciunas, 2012). As robustness check, we wanted to see if the effect of national cultural dimensions still holds when controlling for institutional variables.

4. Multi-level bootstrapping can be done using different methods (Wang et al., 2006). We adopted the model behind MIXED procedure in SPSS and used REML estimation. Different models vary in their assumptions and carry different merits (van der Leeden et al., 2008).
References


The impact of sociocultural context


Appendix

Items in strategic renewal scale.

On a five-point scale, respondents were asked to respond to the following statements where a 1-2 indicates complete to intermediate agreement with the left-hand side statement; a 3 is neutral; and a 4-5 indicates intermediate to complete agreement with the right-hand side statement:

1. Typically respond to actions which competition initiate […] Typically initiate actions to which competitors then respond.
2. Have a strong tendency to “follow the leader” in introducing new products or ideas […] Have a strong tendency to be ahead of other competitors in introducing novel ideas or products.
3. Favor a strong emphasis on the marketing of tried and true product/services […] Favor a strong emphasis on R&D, technological leadership, and innovations.
4. Play a major role in identifying and selecting the entrepreneurial opportunities my firm pursues […] Encourage employee initiatives and input in identifying and selecting entrepreneurial opportunities.
5. Is very seldom the first firm to introduce new products/service, technologies, etc […] Is very often the first firm to introduce new product/services, technologies, etc.
6. Has not introduced any new lines of products or services in the last 5 years […] Has introduced many new lines of product or services in the last 5 years.
7. Has introduced only minor changes in product or services in the last 5 years […] Has introduced quite dramatic changes in product or services in the last 5 years.

Items in market competitive intensity.

On a five-point scale, respondents were asked to respond to the following statements, where 1 indicates strongly disagree and 5 corresponds to strongly agree:

1. Competition in our market is intense.
2. Our company has relatively strong competitors.
3. Competition in our market is extremely high.
4. Price competition is a frequent strategy of our market.

Corresponding author
Stone Han can be contacted at: stonehan1@gmail.com
Family business, 
transgenerational succession 
and diversification strategy

Implication from a dynamic socioemotional wealth model

Na Shen
Business Administration, Hong Kong Shue Yan University, 
Hong Kong, Hong Kong

Abstract

Purpose – The purpose of this paper is to enhance the existing socioemotional wealth (SEW) theory. Particularly, the current research proposes a dynamic SEW model using insights from prospect theory. The application of the proposed dynamic SEW model leads to several propositions that will reveal the relationship amongst family business, transgenerational succession, business risks and diversification strategy.

Design/methodology/approach – This study is mainly a theoretical research. A dynamic SEW model is proposed in which the SEW is not static and can be increasing or decreasing. SEW is framed as a gain or loss under different scenarios, and the shift in reference point will change the framing or value of SEW.

Findings – The current research presents several interesting propositions based on the dynamic SEW model. Generally, family firms are less likely to diversify than non-family firms. However, when family firms face business risks, they are more likely to diversify than those that do not face business risks. Family firms with second generation involvement in management are more likely to diversify than those without second generation involvement. The dynamic SEW model can also be applied to analyse R&D and IPO underpricing for family firms.

Originality/value – This study builds a dynamic SEW model, which is totally new to the literature. The conceptual framework that reveals the relationships amongst family business, transgenerational succession, business risks and diversification strategy also contributes to the literature and has empirical implications to researchers, policy makers and family business owners.

Keywords Family business, Transgenerational succession, Diversification, Business risks, Dynamic socioemotional wealth model

Paper type Conceptual paper

1. Introduction

Family firms are essential for economic growth and represent the predominant form of business organisation in the world (La Porta et al., 1999). For example, over 50 per cent of the publicly traded medium-sized firms in the Asia-Pacific region are family controlled (see Figure 1). In Hong Kong, family controlled firms account for 70 and 90 per cent of all publicly traded large and medium-sized firms, respectively.

Scholars worldwide recognise the ubiquity and complexity behind family enterprises (Sharma et al., 2012). A major difference between family and non-family businesses is that the former tends to pursue not only economic but also non-economic goals (Zellweger et al., 2013). Scholars have coined the construct of socioemotional wealth (SEW) to describe the broad spectrum of non-economic utilities that family firms cherish other than financial benefits. Thereafter, scholars have used this construct to explain a variety of phenomena, including but not limited to R&D investments (Chrisman and Patel, 2012), environmental performance (Berrone et al., 2010) and diversification decision (Gomez-Mejia et al., 2010). Yu et al. (2012) emphasised that nonfinancial performance and non-economic goals are amongst the primary areas that deserve considerable attention in future family business research.

This paper forms part of a special section: “Transgenerational entrepreneurship in the global world”.
To advance the aforementioned line of research, the current study develops a dynamic SEW model by augmenting the SEW perspective using insights from prospect theory. The existing SEW theory faces several challenges when analysing the effects of SEW on the strategic decision-making of family firms. Miller and Le Breton-Miller (2014) called for substantial exploration with considerable predictive consequences of the different varieties of SEW. After examining the literature in depth, the current study proposes that SEW theory should be extended to provide an improved explanation of the complicated strategic behaviour of family firms and reconcile existing inconsistencies.

In the proposed dynamic SEW model, SEW is regarded as a dynamic instead of static endowment and can be increasing or decreasing along different dimensions. Particular situations, such as conflict amongst family members, can reduce SEW. SEW can be framed as a gain or a loss under different contingency factors. Moreover, the shift in reference point with respect to different business contexts and risk levels will change the framing or value of SEW. The proposed dynamic SEW model will provide a clear and powerful explanation of the complicated strategic decisions faced by family firms.

This study uses the dynamic SEW model to analyse the diversification strategies of family firms and transgenerational succession issues. Diversification is the most debated issue in strategy management (Shen et al., 2016). The relationship between diversification and firm performance is extremely heterogeneous and has been extensively explored (Benito-Osorio et al., 2012). However, the relationship between family business and diversification has only received research attention recently. Anderson and Reeb (2003) and Gomez-Mejia et al. (2010) found that family firms diversify less than nonfamily firms in developed economies. Moreover, Chung (2013) discovered a negative relationship between diversification and family management in Taiwan. Institutional voids often make diversification strategies attractive in emerging economies (Benito-Osorio et al., 2012). Therefore, a study worth conducting involves whether family firms are willing to diversify to compensate for market imperfections or unwilling to diversify to preserve SEW. Moreover, it is interesting to investigate whether business risk will make family firms willing to diversify.

Notes: The large firm sample is collected from the top 20 firms in each country and are ranked by market capitalisation of common equity at the end of 1995. The medium-sized firm sample comprises the 10 smallest firms in each country with market capitalisation of common equity of at least $500 million at the end of 1995. This figure uses 10 per cent as the criterion for control.

Source: La Porta et al. (1999)
The link between family business and diversification becomes substantially interesting and complex when the second generation enters the family business. The second generation’s involvement in a family business (e.g., appointed to a senior position and trained by the incumbent owner/CEO) is an important step to ensure a seamless business transfer (Santora, 2004). In the European Union, approximately one-third of small and medium-sized enterprises (SMEs) will need to be transferred to new owners in the next ten years (1). In Mainland China, approximately two million family firms will face succession problems in the next five to ten years (Wang, 2013). Succession is arguably the most important issue in family business management (Ayers, 1990; Shen and Su, 2017). However, succession is often problematic and conflict during succession can impair SEW. Additionally, transgenerational succession intentions can change the framing of SEW. Therefore, an interesting aspect to study is whether family businesses with second generation involvement are likely to diversify. Only a few studies have analysed how SEW will relate to strategic choice by family firms that face succession problems.

The current study fills in these gaps in the existing research. This study uses the proposed dynamic SEW model to present several propositions on the diversification choice of family firms with transgenerational succession intentions. To the best of the author’s knowledge, the current study is the first to combine the central issues of family business, business risks, diversification strategy and business succession in one theoretical discussion using SEW perspective. The proposed theoretical model has theoretical contribution and empirical implications.

The remainder of this paper is organised as follows. Section 2 introduces the theoretical background. Section 3 discusses the dynamic SEW model and its implications on diversification strategy. Section 4 discusses the implications and future applications of the dynamic SEW model. Lastly, Section 5 discusses and concludes this study.

2. Theoretical background of the dynamic SEW model

Although SEW theory provides important insights, scholars are becoming aware of the problems with the conceptual and empirical specifications of the SEW construct. This section will first introduce SEW theory and its limitations. To move forward, this study proposes a dynamic SEW model with ideas borrowed from prospect theory. Prospect theory will be introduced as part of the current study’s theoretical background.

2.1 SEW theory and its limitations

A distinctive characteristic of family businesses is the strong preference for a broad spectrum of non-economic utilities (Bellone et al., 2010). Gomez-Mejia et al. (2007) collectively labelled these non-economic utilities as SEW. However, the existing SEW theory faces several challenges when analysing the effects of SEW on the strategic decision-making of family firms. Chrisman and Patel (2012) argued that family firms often invest minimally in R&D to preserve SEW. However, such a minimal investment contradicts the well-accepted premise that family firms have a long-term investment orientation. An increasing number of researchers have realised the limitations of the current SEW (e.g., Schulze and Kellermanns, 2015). Several concerns are summarised as follows.

First, SEW is criticised to be considerably simple because it does not distinguish between stocks and flows (Chua et al., 2015). The current SEW theory generally focusses on stocks whilst neglecting changes in socioemotional endowments through flows. Moreover, the relative importance of stock or flows may be an important source of heterogeneity amongst family firms. For example, family firms that care more on the stocks of SEW are likely to be conservative, whereas those that are driven by flows may behave more aggressively.

Second, SEW should be improved because SEW preferences can vary substantially amongst family members (Miller and Le Breton-Miller, 2014). Gu et al. (2016) divided SEW into “focussed SEW” and “broad SEW” to overcome the oversimplification of SEW.
“Focussed SEW” emphasises on the welfare of family members who are in the inner circle of business management, whereas “broad SEW” is concerned with the interest of an extended group of family members. “Focussed SEW” and “broad SEW” will generate completely different strategic preferences for family firms. Similarly, Miller and Le Breton-Miller (2014) proposed to differentiate “restricted” and “extended” SEW. Restricted SEW refers to priorities that are highly family centric and often run counter to the long-term interests of nonfamily stakeholders and the firm. By contrast, the extended SEW priorities will benefit the family and other stakeholders, as well as provide possible long-term benefits to the business.

Third, the existing SEW literature assumes that all the SEW dimensions are associated with positive valence (Berrone et al., 2012). However, Kellermanns et al. (2012) explained that the dimensions can be positively and negatively valenced. For example, family control and strong identification with the family firm can cause heirs to feel locked into and dependent upon the family and firm (Schulze et al., 2001), thereby suggesting negative valence for these SEW dimensions. When family members face negatively valenced SEW dimensions, they are inclined to substantially emphasise on activities that benefit an individual family member or branch(es) of the family rather than the stakeholders.

Fourthly, SEW itself will imply diverse outcomes (Miller and Le Breton-Miller, 2014), thereby requiring a contingency approach that identifies the environmental conditions and consequences of SEW (Naldi et al., 2013). Gomez-Mejia et al. (2007) found that family-owned olive mills are willing to join coops (lose SEW) as the volume of olive oil sales decreases. Naldi et al. (2013) revealed that designating a family member to lead the organisation improves the financial performance of family firms located in industrial districts but harms that of family firms listed on the stock market. We should be aware of the heterogeneity amongst family firms and the different impacts on performance and strategic choice by SEW.

To conclude, existing SEW theory appears to require further investigation and extension to provide an improved explanation of the complicated strategic behaviours of family firms and reconcile the inconsistencies in the existing research.

2.2 Prospect theory

Kahneman and Tversky (1979) first proposed prospect theory. This theory has emerged as a leading model to explain decisions under risk and scholars apply this theory in explaining individual as well as organisational decisions (e.g. Fiegenbaum and Thomas, 1988). The key premises of prospect theory include the following notions: alternatives are framed as either gains or losses compared with a reference point; utility function is an S-shaped curve, in which the function is concave for gains and convex for losses, thereby suggesting that losses loom larger than the corresponding gains; individuals show tendencies towards risk aversion when facing gains and risk seeking when facing losses (i.e. a probable loss is preferred to a sure loss); and the reference point corresponds to an asset position one expected to attain, whilst the shift in reference point will change the preference order for prospects.

Prospect theory has had a profound influence on economics, finance and strategy management. Researchers applied the theory and build new theory based on prospect theory. One example is behavioural agency theory, which is built based on agency theory and prospect theory (Wiseman and Gomez-Mejia, 1998). Unlike the traditional agency model, in which agents are assumed to exhibit risk aversion, the behavioural agency model (BAM) assumes that agents are loss averse. BAM predicts that self-interested agents adjust their risk preferences relative to how they frame prospects for changes to personal wealth. Agents who anticipate losses to personal wealth (calculated as current wealth plus contractually promised future income) are more likely to accept riskier investments than those who do not anticipate threats to personal wealth. Conversely, those who anticipate
gains to personal wealth are likely to prefer conservative alternatives that promise to protect
such gains.

BAM is used for many analyses and has received empirical support. Pepper and Gore
(2015) used BAM to analyse executive compensation. However, the assumptions on which
BAM is based illustrate the inappropriateness of explaining agents’ risk preferences at
family-owned and managed firms (Lim et al., 2010). BAM assumes a separation of
ownership from control, thereby showing the presence of conflict between the principal
and agent. However, agency problem is often non-existent in family firms because the
agency’s personal wealth is no longer a contractual income but a proportion of the family
firm’s wealth.

Therefore, this study will borrow ideas from prospect theory. Prospect theory is proposed
as an alternative to the expected utility model of decision-making under risk. Framing effects,
new utility function, risk preference under different domains and possible shifts in reference
points provide insights for us to analyse the strategic decision-making for family firms. 
However, one difficulty when applying prospect theory to SEW is that this theory does not
specify where the reference point should be set (Chua et al., 2015). Regardless of the reference
point, the decision can be framed differently by various decision makers.

2.3 Dynamic SEW model
This study proposes a completely novel and interesting “dynamic SEW model” based on
the insights from prospect theory. The proposed new model is a response to the call to
move the existing SEW theory forward. The characteristics of the dynamic SEW models
are as follows.

First, SEW in the dynamic SEW mode can increase or decrease along different
dimensions and amongst different family members. This characteristic is unlike the existing
SEW theory, which regards SEW as a static endowment and collective whole. Kellermanns
et al. (2012) explained that the positively and negatively valenced dimensions of SEW will
increase and decrease endowments, respectively. Therefore, SEW should be regarded as a
dynamic endowment that can increase or decrease along different dimensions. Kellermanns
et al. (2012) also argued that involvement in a prominent family business may cause family
members to feel asphyxiated. Thus, the involvement of family members in the family
business can be associated with negative emotions/valence and reduced SEW. Other
situations, such as conflict amongst family members, also can reduce SEW. The dynamic
SEW model considers the “flow” nature in addition to the “stock” nature of SEW, as
suggested by Chua et al. (2015). The dynamic SEW model also considers the dynamics
amongst family members.

Second, family firms preserve their SEW in the existing SEW theory, thereby implying
that such SEW is positive and beneficial to family firms. In the dynamic SEW, preserving
SEW can benefit or harm a family firm’s performance in different business contexts. SEW is
regarded as both an asset and a liability, as Naldi et al. (2013) proposed. SEW is associated
with positive or negative valence, as Kellermanns et al. (2012) proposed. Accordingly, SEW
should be framed as either a gain or loss under different contingency factors. Moreover, the
utility function is concave for gains and convex for loss based on prospect theory.

Third, the existing SEW occasionally fails to explain the heterogeneity amongst family
firms and the literature calls to investigate the behavioural differences amongst family firms
(Sharma et al., 2012). The dynamic SEW model is associated with changing reference points.
The proposed model will have different effects on family firm behaviours because the
reference point changes with respect to different business contexts and risk levels. The shift
in reference point will change the framing or value of SEW, thereby generating various
SEW outcomes. The dynamic SEW model has remarkable predictive power on various
strategic behaviour amongst family firms.
Table I summarises the comparison between the existing SEW theory and proposed dynamic SEW model. The proposed dynamic SEW model will improve the existing SEW theory and provide a clear and powerful explanation of the complicated strategic decisions faced by family firms.

3. Dynamic SEW model and its application
This section explains and applies the dynamic SEW model to analyse the diversification strategy for family firms. We will also consider two contingency factors, namely, business risk and transgenerational succession.

3.1 Dynamic SEW model and diversification for family business
Diversification can assist firms increase market power, create internal markets for capital and other resources, reduce business risk and decrease tax burden (Berger and Ofek, 1995; Palich et al., 2000). Particularly, family business owners who have invested a substantial proportion of their wealth in the business have an incentive to diversify their wealth portfolio by diversifying the family business (Miller et al., 2010). However, diversification can also result in value loss owing to the inefficient allocation of capital amongst businesses (Rajan et al., 2000), high management costs (Palich et al., 2000) and high agency costs (Claessens et al., 1999). Another disadvantage of diversification relates to SEW, which has become an important issue in family business research over the past several years.

SEW is a broad construct that encompasses a variety of nonfinancial factors of a family business that relate to the family’s emotional needs (Gomez-Mejia et al., 2010). These factors include family identity and reputation (Zellweger et al., 2013), autonomy and control (Olson et al., 2003), perpetuation of the family dynasty (Casson, 1999), harmony and belonging and trustful relations (Sharma and Manikutty, 2005). Family businesses often strive for nonfinancial goals (Zellweger et al., 2013). Hence, family firms are likely to perpetuate the owners’ direct control over the firm’s affairs to preserve SEW (Gomez-Mejia et al., 2007). Therefore, SEW in the dynamic SEW model is framed as a loss with respect to the decision to diversify.

To diversify, firms often need to acquire external funds. However, outsiders (e.g. new debtors or shareholders) can endanger the family’s full control of the business. In fact, family businesses often have a smaller leverage ratio than nonfamily businesses (Gallo et al., 2004), whilst family firms prefer to expand by utilising internal resources (Casson, 1999). Moreover, firms need additional management talents and considerable management capabilities to diversify. However, family firms are most likely to appoint family executives, reluctant to incorporate outsiders’ perspectives and opinions in their decision-making and typically rely on unstructured and informal communication styles (Schulze et al., 2001; Anderson and Reeb, 2003; Gomez-Mejia et al., 2010). Accordingly, these factors lead to overreliance on family members in management. Family firms tend to have a significantly

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<tr>
<th>SEW nature</th>
<th>Existing SEW theory</th>
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<td>Family firm’s</td>
<td>SEW is a static endowment and a collective whole</td>
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<td>attitude towards</td>
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<td>SEW can be positive or negative and framed as gain or loss. Utility function is concave for gains and convex for losses</td>
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<td>SEW</td>
<td>Fails to explain heterogeneity amongst family firms</td>
<td>Reference point may change under different situations. This idea is powerful in explaining the behavioural differences amongst family firms</td>
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Table I. Comparison between the existing SEW theory and proposed dynamic SEW model
lower proportion of independent directors than nonfamily firms (Villalonga and Amit, 2006). Therefore, family firms generally lack enthusiasm to diversify because they want to maintain family control to protect the family's SEW.

Thus, family business faces a trade-off, whereby retaining SEW requires minimal diversification, whilst the pursuit of economic benefit and risk spreading favours considerable diversification. Which force will prevail in making the diversification decision needs to be explored. The proposed dynamic SEW model draws on the implications of prospect theory. The value function in prospect theory is generally concave for gains and convex for loss and is steeper for the latter than for the former (Kahneman and Tversky, 1979). That is, the pain associated with losing a sum of money is greater than the pleasure associated with gaining the same amount. In applying dynamic SEW model to family business diversification decisions, the loss of SEW has greater magnitude than the gains from diversification. Figure 2 shows that A and B represent the gains and losses (mainly SEW losses), respectively, from diversification. Evidently, B > A. Therefore, family businesses are not likely to diversify.

Using S&P 500 industrial firms from 1993 to 1999 and a sample of 360 firms from the Compustat database from 1998 to 2001, Anderson and Reeb (2003) and Gomez-Mejia et al. (2010), respectively, found that family firms engage in substantially less diversification than nonfamily firms. Chung (2013) used the top 100 family businesses in Taiwan from 1988 to 2002 and obtained similar results. Therefore, the current study presents the following proposition:

\[ P1. \] As predicted by the dynamic SEW model, SEW is framed as a loss with respect to the decision to diversify for family firms in normal time. Therefore, family firms are generally less likely to diversify than nonfamily firms.

### 3.2 Dynamic SEW model and diversification for family businesses under firm risk

To develop the dynamic SEW model, this study borrows an important concept from prospect theory: gains and losses are defined in relation to a reference point. The change in the location of the reference point will change the coding of the outcomes as gains or losses, thereby affecting the final decision. In normal periods, family businesses use their current wealth (often a positive value) as a reference point (0 in Figure 2). In this case,
diversification will bring a few economic gains but large SEW losses. Therefore, diversification is unattractive for firms. However, when firms face performance hazards or business risks, their reference point will shift to zero or even a negative value (Kahneman and Tversky mentioned that the reference point can be an asset position that the firm expected to attain). In this case, diversification will result in a high probability of improved performance and increased wealth, whilst the SEW loss is relatively unimportant. In Figure 2, $A'$ and $B'$ represent the new reference point, gains from diversification and losses from diversification, respectively. Owing to the shift in reference point, $A' > B'$. If a firm fails to survive, then SEW would be completely lost (Gomez-Mejia et al., 2010). Therefore, family businesses are willing to diversify when business risk increases.

The proposed dynamic SEW indicates that the shift in reference point will change the perceived SEW value. Moreover, business risks places firms in danger of losing family wealth, including SEW. Thus, family firms become risk taking for wealth preservation and asset protection. This reasoning is similar to the reflection effect in prospect theory, which describes risk aversion in the positive domain and risk seeking in the negative domain. In normal periods, the reference point is the wealth of the family business, which represents the positive domain. Therefore, family businesses are risk averse and unwilling to diversify. In crisis periods, the reference point is zero or negative, which represents the negative domain. Therefore, family businesses are risk seeking and willing to diversify. This argument is consistent with BAM proposed by Wiseman and Gomez-Mejia (1998), who indicated that when the forecast performance is unsatisfactory, executives may anticipate losses in wealth and entertain considerable strategic risks.

The current study presents the second proposition based on the preceding argument:

**P2.** As predicted by the dynamic SEW model, the shift in reference point changes the perceived value of SEW. SEW will be under threat from business risks. Thus, firms become risk takers to preserve their SEW. Therefore, family firms that face business risks are more likely to diversify than those that do not face business risks.

### 3.3 Dynamic SEW model, second generation involvement in family businesses and diversification

In the proposed dynamic SEW model, certain situations, such as conflict amongst family members, will reduce SEW. Similar to the previous argument, family firms become risk takers to preserve their SEW. Additionally, family firms with succession intentions will frame SEW as a gain with respect to diversification strategy. Therefore, this study considers the specific issue of second generation involvement in family businesses, which can cause conflict and serve as a signal of business succession.

Conflict is typically unhealthy, disruptive and damaging to SEW. In the case of Nadia Corporation, the conflict amongst the three brothers has caused the company to consider dividing the business into three, thereby enabling each sibling to possibly go their respective directions (Kets de Vries, 1989). Conflict can impair the succession process (De Massis et al., 2008) and firm performance (Olson et al., 2003) and even threaten the survival of the firm (Kets de Vries, 1989). A family business may favour diversification to avoid conflict that can cause socioemotional damage. Levinson (1971) suggested that sibling rivalry can be abated by providing each of the children with an operation to lead. The founder of the Veronesi Group (a large family firm in Italy) stated that the group diversified into the financial sector “to enhance the succession process by giving shares to all my five children and in particular an increasing responsibility to the three males, who were actively involved in the business” (Lassini and Salvato, 2010, p. 74). Therefore, family conflict will make the option of diversification attractive.
In the dynamic SEW model, long-term family goals also change the framing of SEW. Intentions for the transgenerational control of a firm can influence family goals and behaviour (Chua et al., 1999). As the relative importance of long-term family goals increases, family owners and managers will tend to favour actions that increase SEW in the long term even if short-term wealth is placed at risk (Chrisman and Patel, 2012). In the dynamic SEW model, SEW can be framed as a gain or a loss. In the short run, SEW is framed as a loss with respect to the decision to diversify. However, SEW is framed as a gain in the long run with respect to diversification because diversification will facilitate the preservation of SEW and increase SEW in the long term. Figure 2 shows that SEW and SEW' are framed as short-term loss and a long-term gain, respectively.

Generally, the entry of the second generation into the family business is a signal of business succession and an indication of the long-term goals of a family business. Therefore, family businesses with second generation involvement will tend to favour diversification. Moreover, an individual founder may experience difficulty in formulating innovative ideas without the fresh momentum that second-generation members can add to a firm (Salvato, 2004). Research has indicated that founders are generally strategic conservative (Levinson, 1974), whereas sons are generally impatient for strategic change, personally independent and willing to prove their worth (Seymour, 1993). Zahra (2005) found that a family firm is more willing to take entrepreneurial risks when more generations are involved.

The current study presents the third proposition based on the preceding arguments:

\[ P_3 \]: As predicted by the dynamic SEW model, with business succession intentions, SEW is framed as a gain with respect to diversification. Moreover, family firms become risk takers to preserve their SEW when family member conflict impairs SEW. Therefore, family firms with second generation involvement in management are more likely to diversify than those without second generation involvement.

In conclusion, the proposed dynamic SEW model provides detailed and accurate prediction on family firms’ choices concerning diversification in various situations. The proposed model reveals the difference between family and nonfamily businesses. Moreover, this dynamic model reveals the difference amongst family firms, such as those with and without business risks, and those with and without second generation involvement. The proposed dynamic SEW model immensely enhances the prediction power of the existing SEW theory.

4. Discussions
4.1 Implications

The interest to study non-economic motives (Birch et al., 2018) or sociocultural context on strategy for family business (Han et al., 2018) is increasing. Following this direction, this study analyses how SEW affects family firms’ strategy. SEW in the dynamic SEW model is not static and can be increasing or decreasing. Moreover, SEW is framed as a gain or loss under different scenarios and the shift in reference point will change the SEW framing or value. The dynamic SEW model indicates that family businesses are less likely to diversify than nonfamily businesses when SEW is framed as a loss in normal time. However, business risks will change the reference point and the perceived SEW value, thereby making the family firm behave in a risk-taking manner. Thereafter, this study investigates the potential conflicts between family members that can reduce SEW. The new model further proposes that family firms with succession intentions frame SEW as a gain when pursuing diversification strategies. Therefore, this research considers the specific issue of second generation involvement in family business as a cause of conflict and a signal of business succession. The dynamic SEW model predicts that family firms with second generation involvement in management are more likely to diversify than those without second generation involvement.
These implications from the dynamic SEW model is consistent with those of the existing literature. For example, Gu et al. (2016) demonstrated that controlling owners are likely to reduce new industry entries to exercise their family influence but perform the opposite to resolve the challenge of family dynasty succession. The implications from the dynamic SEW model will be beneficial for researchers and business practitioners.

4.2 Future research directions
Apart from the application of the dynamic SEW model on diversification strategy, the proposed model can also be used to analyse other strategic choices faced by family firms. This section briefly discusses this model’s application on R&D and IPO underpricing, thereby shedding light on a few future research directions.

4.2.1 Dynamic SEW model and R&D. The existing SEW theory indicates that family firms invest less in R&D than nonfamily firms because R&D spending is associated with threats to family control and, subsequently, SEW (Chrisman and Patel, 2012). Gomez-Mejia et al. (2014) suggested the possibility that family owners are influenced by the potential SEW gains when making R&D investments. The dynamic SEW model can be used to analyse R&D investment and solve the inconsistency in literature.

In the dynamic SEW model, SEW is framed as a gain or loss along with the preference points change. Similar to the analysis in Section 3.1, SEW is often framed as a loss to family firms from R&D strategy. Thus, family firms are less likely to invest in R&D than nonfamily firms. However, when firm performance is unsatisfactory, the shift in reference point changes the perceived SEW value. Similar to our analysis in Section 3.2, R&D is favoured under business risks and performance hazards. Therefore, family firms will increase R&D investment under this scenario. Moreover, business succession is an indication of the long-term goals of a family business. SEW is framed as a gain under a long-term horizon and family firms should invest substantially in R&D.

Most of the predictions on R&D investments derived from the dynamic SEW model is consistent with the existing empirical findings (Chrisman and Patel, 2012; Gomez-Mejia et al., 2014). The relationship between business succession and R&D needs additional empirical support. This study argues that the consideration of dynastic succession encourages firms to pursue long-term viability through R&D. However, Lee et al. (2015) found that sons in succession tournaments decrease long-term R&D expenses. Further exploration of the relationship between business succession and R&D investment will definitely be a future research direction in family business studies.

4.2.2 Dynamic SEW model and IPO underpricing. The existing SEW theory indicates that family firms willingly sell shares at a higher discount than nonfamily firms to preserve SEW (Leitterstorf and Rau, 2014). However, this idea contradicts the evidence that SEW in family firms influences the financial value attached to these firms by the family owners (Zellweger et al., 2012). From this standpoint, SEW would decrease rather than increase IPO underpricing. Hence, the dynamic SEW model can be applied to analyse IPO underpricing and solve the contradiction in the literature.

Leitterstorf and Rau (2014) argued that family firms have high IPO underpricing to protect their reputation to reduce the risk of lawsuits based on “litigation risk” and reduce risk of a failed IPO because of an “informational cascade”. However, when the issuer holds more assets, issuers, underwriters and investors are better able to evaluate the ex ante uncertainty of the issue (Jithendranathan and Daugherty, 2012). The litigation risk and informational cascade will be reduced with increased asset size. Therefore, the larger the asset base, the less the underpricing.

In the application of the dynamic SEW model, when asset base is small, family firms care more for their SEW and less for their financial wealth. Family firms are risk averse to
lose SEW, thereby forcing them to accept a high level of underpricing. When asset base is large, the reference point changes. Family firms care more for their financial wealth and less for SEW because the threat of losing SEW is not that important compared with financial wealth loss. Evidently, family firms have a low level of underpricing under this scenario.

Issues on family firm IPO underpricing are receiving increased attention. Kotlar et al. (2018) used a two-stage gamble model to analyse the IPO underpricing in family firms. Additional research is needed to disentangle the competing theoretical explanations and conflicting empirical evidence.

5. Conclusion
An increasing interest has been observed in using the SEW perspective to analyse family firms in business research. However, SEW theory should be extended to provide an improved explanation of the complicated strategic behaviour of family firms. The current study builds a dynamic SEW model by drawing on insights from prospect theory. Moreover, this research applies the dynamic SEW model to investigate the relationship amongst family business, transgenerational succession, business risks and diversification strategy.

In conclusion, this study contributes in three aspects. First, this research develops SEW theory, which is at the frontier in terms of the family business research but is currently limited and faces inconsistency problems. Borrowing ideas from prospect theory, the dynamic SEW model has improved the existing SEW theory to a large extent. Additionally, the proposed model has the potential to explain family firms’ behaviour and strategic decision-making under various situations. The proposed dynamic SEW model is powerful in analysing diversification decisions for family firms. Moreover, this dynamic SEW model will be beneficial in analysing other issues that are related to family firms, such as R&D and IPO underpricing. Second, this research provides new perspective on the impact of business succession on SEW and diversification. The common knowledge is that diversification jeopardises SEW. However, this study argues that when family firms face transgenerational succession, diversification may be a remedy to reduce family conflicts and preserve SEW in the long run. Third, the theoretic analysis in this study provides many empirical research directions in the future. Researchers can test the propositions presented under different institutional contexts and economic conditions. The empirical study derived from this paper may confirm the predictions and provide other contingency factors beyond the proposed model. Lastly, this study will contribute to the literature, provide future research directions to scholars and benefit policy makers, business practitioners and family firm owners.

Note
1. Final report of the expert group on the transfer of SMEs, European Commission, May 2002.

References


About the author
Dr Na Shen is Assistant Professor in Department of Business Administration, Hong Kong Shue Yan University. Her publications appear in *Journal of Corporate Finance, Asia Pacific Journal of Management, Asia-Pacific Journal of Financial Studies, Pacific-Basin Finance Journal, Economic Modelling* and other reputable journals. She participated in projects granted by National Natural Science Foundation in China (NSFC). She has received several awards such as Endeavour Research Fellowship granted by Australia Government. Her research interests include corporate finance, strategy, entrepreneurship and Chinese family business. Dr Na Shen can be contacted at: shenna668@gmail.com

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Expatriates adjustment through transformation of social identity of Chinese expatriates working in Pakistan

Sadia Nadeem
FAST School of Management,
National University of Computer and Emerging Sciences,
Islamabad, Pakistan, and

Sana Mumtaz
National University of Computer and Emerging Sciences, Islamabad, Pakistan and
Shaheed Zulfikar Ali Bhutto Institute of Science and Technology,
Islamabad, Pakistan

Abstract

Purpose – The purpose of this paper is to investigate the process of Chinese expatriates’ adjustment in Pakistan through integrating the U-curve model and social identity theory. It has also highlighted the importance of engaging in strong social ties and their contribution in expatriates’ adjustment.

Design/methodology/approach – Data were collected through semi-structured interviews from 30 Chinese expatriates working as directors, deputy directors, senior managers, managers and assistant managers in Chinese organizations in Pakistan. After verbatim transcription of all the interviews, data were analyzed using the NVivo software.

Findings – The findings of this paper indicate that expatriates’ identities somewhat changed in terms of their behaviors and work habits, while fewer changes were observed in their belief and value system. These changes were related to expatriates’ perceptions of host country groups, attraction to these groups and similarity in beliefs, which resulted in the development of interdependent beliefs and depersonalization. However, a few Chinese expatriates predominantly interacted among themselves at work, and their reduced socialization with Pakistanis lessened their chances of change.

Research limitations/implications – The results of the study suggest that expatriates’ adjustment is a multi-stage process and social identity change is one of the powerful mechanisms through which they adjust in the host country’s environment; hence host organizations should facilitate expatriates in strengthening their bond with local people.

Originality/value – This paper has proposed a model that explains the mechanism of Chinese expatriates’ adjustment in Pakistan through improved interactions between expatriates and host country nationals, resulting in minor social identity changes, leading to further positive relationship building, and then major social identity changes.

Keywords Pakistan, Cultural differences, Expatriate adjustment, Social identity, Chinese expatriates, Social ties

Paper type Research paper

Introduction

Recent years have witnessed China’s growing investments in different countries around the globe (Buckley et al., 2007; Jackson and Horwitz, 2017) which have resulted in the movement of a large number of Chinese expatriates throughout the world (Cooke et al., 2017; Zhang and Fan, 2014). One of the major developments of China’s international investments is the Belt and Road Initiative in 2013 (Huang, 2016). Focusing on regional connectivity and economic growth, projects under this initiative cover a large number of countries, starting from China to South East Asia, East Africa, West Asia, Greece, Venice and then till Rotterdam (Ahmad, 2016). A large number of Chinese companies and expatriates have moved to Pakistan since...
the initiation of the Belt and Road initiative (Zhang and Fan, 2014), and are adjusting in the
Pakistani work environment. Thus, Chinese expatriates’ adjustment in Pakistan, and across
the globe, is a promising and well-timed area for management research.

Expatriate adjustment has been one of the dominant research areas in the cross-cultural
literature (Abdul Malek et al., 2015; Bruning et al., 2012; Kawai and Mohr, 2015; Kraimer
et al., 2016; Selmer, 2006; Selmer and Lauring, 2015; Takeuchi, 2010; Tung, 1998; Zhang and
Oczkowski, 2016). The most common topic discussed in this literature is the factors which
lead to expatriate adjustment (Abdul Malek et al., 2015; Mahajan and Toh 2014; Selmer and
Lauring, 2015). These include role and work clarity, cultural distance between the two
countries, spouse and family adjustment of expatriates in host countries, and the support
and facilitation from local people, i.e., host country nationals (HCNs) (Abdul Malek et al.,
2015; Kraimer et al., 2016; Mahajan and Toh, 2014; Sonesh and DeNisi, 2016). However, these
topics have been investigated predominantly in Western countries (Jackson, 2014;
Takeuchi, 2010), with expatriate adjustment in Asian countries as one of the neglected areas
(Bruton and Lau, 2008). Moreover, most studies on expatriate adjustment describe the key
factors rather than investigating the mechanisms of expatriates’ adjustment (Tao et al.,
2017); recent literature has suggested examining the “how” of expatriate adjustment, rather
than describing “what” factors contribute to their adjustment (Ang and Tan, 2016;
Caligiuri and Bonache, 2016).

To explain the process of expatriate adjustment, the stages which expatriates undergo in
adjustment have been explained through the U-curve theory that was originally proposed
by the Norwegian Sociologist Sverre Lysgaard in 1955 and later expanded by other
theorists (Dowling, 2008; Lysgaard, 1955). The U-curve model suggests four stages of
challenges and anxiety till adjustment in the new environment (Dowling, 2008; Lysgaard,
1955). Similarly, social learning theory has been used for understanding how expatriates
adapt and learn new aspects in host country environments (Black et al., 1991; Rienties and
Nolan, 2014), psychological stress models have been used for understanding the stress that
expatriates experience and how they cope up with stressors (Mendenhall et al., 2002; Stahl
and Caligiuri, 2005), however expatriates identity changes in adjustment process is one of
the less examined areas (Toh and DeNisi, 2007) and can be studied through the application
of social identity theory (Olsen and Martins, 2009).

It is in this context that this paper examines Chinese expatriates’ adjustment, particularly the process of adjustment and social identity changes of expatriates, as they
continue to work in Pakistan. We aim to explore “what” factors facilitate adjustments, but
more importantly, “how” adjustments take place. That is to say, we are interested in the
process of adjustment that an expatriate goes through, and the factors affecting
these processes. Further, we are interested in understanding the identity changes an
expatriate experience.

The paper adopts social identity theory as a framework. Social identity theory states that
when people work or live with a different group of people in changed settings, they develop
new identities because of interactions with these people (Osman-Gani and Rockstuhl, 2008;
Stets and Burke, 2000), and they like to be identified as part of that group (Ashforth and
Mael, 1989). The theory has been recommended as a valuable framework for understanding
the mechanism of expatriate adjustment (Bond and Hewstone, 1988; Olsen and Martins,
2009; Osman-Gani and Rockstuhl, 2008) and has been used in different studies in the
international context (Ishii, 2012; Olsen and Martins, 2009). For example, Ishii (2012) used it
to understand the adjustment of Japanese expatriates in the USA, while Li et al. (2002) took
support from it while examining how expatriates’ interactions with parent organizations
helped them retain their previous identities. The application of social identity theory in
Asian settings is particularly recommended (Tajfel and Turner, 1986), as the theory predicts
that there is a higher probability of experiencing identity changes in collectivist cultures.
The paper thus integrates the stages of U-curve with the dimensions of social identity theory to contribute to the literatures on expatriate adjustment, through focusing on the process, and on social identity changes. Moreover, this study focuses on management-level Chinese employees working in Pakistan, as the process of adjustment differs for expatriates working at different levels (Al Ariss et al., 2014; Shaffer et al., 1999; Wang et al., 2014). The focus on Asian countries makes it a useful contribution to the body of literature which is dominated by the Western literature. Further, as the number of Chinese expatriates is likely to grow considerably in the coming years, the paper provides insight into their adjustment in a new culture; many of the lessons many be useful for adjustments of Chinese expatriates in other societies.

This paper has been organized in four sections. The first section provides a brief review of the key literature, while the second section describes the methodology, providing information about the discussions with the Chinese expatriates who were interviewed, and how the data were analyzed. Then the findings have been reported, followed by discussion of the results in the last section.

Literature review

Two key areas of “expatriate adjustment” and “social identity theory” have guided this paper in developing initial frames of reference. In this section, these areas have been reviewed in detail as well as relevance of these concepts in Pakistani and Chinese contexts have been elaborated.

Expatriate adjustment

Multinational corporations consider international assignments as one of the important elements for employees’ progression in their career nowadays (Shortland, 2015; Takeuchi, 2010). However, a growing number of studies provide evidence regarding the inefficiency of expatriates in host countries (Caligiuri and Bonache, 2016; Toh and DeNisi, 2007) and highlight difficulties for expatriates while adjusting in different settings (Black et al., 1991; Kawai and Mohr, 2015; Mendenhall and Oddou, 1985; Shay and Baack, 2004; Shortland, 2015; Takeuchi et al., 2002; Varma et al., 2012; Zhang and Fan, 2014; Zhang and Guttormsen, 2016). Dominant models used for investigating expatriate adjustment have primarily discussed “work factors” (Bhaskar-Shrinivas et al., 2005; Shay and Baack, 2004; Takeuchi, 2010), particularly, the role of work factors was confined to just understanding the impact of role clarity for expatriates (Kawai and Mohr, 2015). A few studies have highlighted that positional differences also play a key role in work adjustment of expatriates, e.g., top management expatriates are generally involved in strategic decision making, and hence role clarity may not be as important for them as compared to middle and low-level management (Shaffer et al., 1999). Similarly, working in different functions or departments may impact the adjustment process of expatriates due to the different level of stress and pressure in each function (Al Ariss et al., 2014; Shaffer et al., 1999); however, positional- and hierarchical-level differences and their impact on work adjustment remained less examined in literature (Shaffer et al., 1999).

The need to consider “non-work” factors has also been highlighted (Haslberger et al., 2013; Lee et al., 2013; Selmer and Lauring, 2015; Shortland, 2015; Tenzer et al., 2014; Wang et al., 2013). One of the significant challenges faced by expatriates is the importance of building social support through enlargement of social ties (Bader, 2017; Osman-Gani and Rockstuhl, 2008; Shaffer et al., 2001; Varma et al., 2016), that may be minimized by the provision of intercultural trainings to them (Liu et al., 2018). Moreover, positive perceptions help them in adjustment through developing bonds (Caligiuri et al., 2001; Farh et al., 2010; Harrison et al., 2004; Takeuchi, 2010; Varma et al., 2016). Spouse and family adjustment of expatriates also plays a key role in their adjustment (Black and Stephens, 1989;
Similarly, gender (Lee et al., 2017; Madsen and Scribner, 2017) and personality differences also play a role in expatriates’ adjustment in host country (Haslberger et al., 2013; Takeuchi, 2010; Wang et al., 2013; Ward and Ravlin, 2017). Despite a number of studies on expatriate adjustment, the concept of expatriate adjustment has remained relatively unexamined from the psychological aspect, and has been studied from an external aspect mainly, i.e., socio-cultural adjustment (Selmer, 2002). Hence, there is a need to examine it from the perspective of perceptions, feelings and cognitions as well (Haslberger et al., 2013; Selmer, 2002).

One of the theories that have been used to explain the process of expatriates’ adjustment is the “U-curve theory” (Liu and Lee, 2008; Lysgaard, 1955). According to this theory, expatriates experience different emotions when moved to new settings. Expatriates adjust in new settings in four stages. At the first stage, they experience a greater level of excitement and energy because of high level of expectations. However, because of a high level of uncertainty in the settings, they experience a high level of anxiety at the second stage. As they spend more time, if managed appropriately, they get to understand the new settings and their adjustment level increases at the third stage. As they regain their energy and excitement, they get completely adjusted in the new settings at the fourth stage (Dowling, 2008; Lysgaard, 1955). The W-curve model provides an extension to the U-curve theory and suggests an additional stage, i.e., adjustment challenges faced by sojourns after returning to their home country and how they cope with those challenges over time (Gullahorn and Gullahorn, 1963). The scope of this research is focused on expatriates’ adjustment process; hence “U-curve theory” has been integrated in this study.

Relevance of social identity theory in expatriate adjustment

Since 1990, most of the theories in the literature of expatriation were developed in the domains of socio-cultural, psychological and human resource management (Zhang and Oczkowski, 2016), and include, for example, institutional theory, transaction cost economics, equity theory and resource-based theory (Benito et al., 2005; Colakoglu and Caligiuri, 2008; Toh and DeNisi, 2003; Xu et al., 2004). Most of these theories supported researchers in understanding the concept of expatriation on a broader level (Wang et al., 2004), while there has been an overall lack of clarity regarding the individual-level outcomes of expatriate adjustment (Toh and DeNisi, 2007). Social identity theory provides a useful framework for understanding the individual-level changes in expatriates’ mindset as well as behavior after working with HCNs (Tajfel and Turner, 1979), but has not been sufficiently integrated with the concept of expatriation (Olsen and Martins, 2009).

Social identity theory was originally introduced with the basic idea of intergroup relations (Tajfel and Turner, 1979) and how they influence identity changes; this theory was refined in the late 1970s considering broad social factors and how they influence an individual’s identity (Turner et al., 1987). It proposes that when people work or live with a particular group of people, they are more likely to accept a number of perceptual and behavioral changes in themselves, e.g., change in perceptions, reduced biasness, close connections with people and change in their habits (Jackson and Smith, 1999). All such changes indicate changes in their social identity through the development of strong social ties with different people (Jackson and Smith, 1999; Oakes et al., 1991; Stets and Burke, 2000). Thus, social identity theory provides a useful framework for understanding how expatriates adjust and adapt identities over a period of time (Olsen and Martins, 2009; Osman-Gani and Rockstuhl, 2008).

In general, expatriates feel more comfortable working in host countries, if they work at higher management positions in the host country organizations (Al Ariss et al., 2014; Elenkov and Manev, 2009). They adjust easily in the settings of host country if they have clearly defined job positions and decision-making authority (Madsen and Scribner, 2017;
Hence, the process of expatriate adjustment is different for expatriates working at different positions (Bhaskar-Shrinivas et al., 2005; Shaffer et al., 1999). Expatriates attempt to build social networks in host countries (Bader, 2017; Olsen and Martins, 2009), as their adjustment is largely dependent on their connections and relationships in host country (Bhaskar-Shrinivas et al., 2005; Varma et al., 2006), and they prefer interacting with HCNs for reducing their anxiety and uncertainty in a host country (Bader, 2017; Ismail, 2015). Positive interventions by host country organizations also help in improving the expatriate–HCNs relationship (Wang and Varma, 2018). This is especially relevant in the context of Chinese expatriates, as they rely on relationship building in their work environment even in a cross-cultural context (Ang and Tan, 2016).

According to social identity theory, “cultural distance” between the two countries plays a significant role in understanding employees’ adjustment process in the host country (Ellemers, 1993; Harrison et al., 2004; Varma et al., 2006), as lower cultural differences leads to expatriates adjustment in a relatively shorter time (Harrison et al., 2004; Tajfel and Turner, 1979; Zhang and Oczkowski, 2016) through healthy interactions with the local people (Bhaskar-Shrinivas et al., 2005; Zhang and Guttormsen, 2016). As there are cultural similarities in Asian countries (Franke et al., 1991; Khilji and Matthews, 2012; Osman-Gani, 2000), expatriates who move for work purpose within Asia may not perceive major differences (Khilji and Matthews, 2012; Osman-Gani, 2000; Pichler et al., 2012). For example, the cultures of Pakistan and China are considered as highly collectivistic and people prefer working in groups in work as well as non-work settings (Hofstede, 1983); hence Chinese expatriates moving to Pakistan may not experience a lot of adjustment issues (Varma et al., 2006).

Social identity theory also helps in understanding the sequential process of change in expatriates (Jackson and Smith, 1999). Literature has emphasized upon four key dimensions that lead to social identity change of individuals including perception of groups, attraction to groups, interdependent beliefs and depersonalization (Jackson and Smith, 1999). Adjustment and identity changes are not two distinct phenomena, rather adjustment process supports identity changes with time (Kohonen, 2004), hence U-curve theory (Dowling, 2008; Lysgaard, 1955) has been integrated with the different stages of social identity theory for understanding the process of expatriates’ adjustment and identity changes over time.

Perception of groups. When people start communicating with the particular group, one of the major factors that impact their decision of joining that group is their overall perceptions about that group (Macrae and Bodenhausen, 2000). According to U-curve theory, when expatriates starts communicating with the people of host country, their anxiety level reduces (Dowling, 2008) and, they tend to demonstrate characteristics of those groups in a favorable way (Kawai and Mohr, 2015; Rubin and Hewstone, 1998). If colleagues are supportive and help expatriate employees in understanding their tasks, their social identity is more likely to be changed in terms of changes in their mindset about the other group (Shaffer et al., 1999; Varma et al., 2016).

Attraction to group. Attraction to the group is characterized by the desire of an individual to engage in informal and friendly conversations with people of in-group employees (Bond and Hewstone, 1988; Salk and Shenkar, 2001). When expatriates perceive positively about their groups after initiation of communication between them, they feel more adjusted and may build positive, friendly and informal relationships with members of that group over time, which may be reflected through a change in the attitude (Farh et al., 2010; Haslam et al., 2000; Oakes et al., 1991). Hence, they are more likely to trust the local people (Ang and Tan, 2016; Bruning et al., 2012; Macrae and Bodenhausen, 2000).

Interdependent beliefs. Social identity theory also addresses the importance of different belief systems of individuals and posits that people are more likely to be a part of particular group, if their individual beliefs and values are somewhat congruent with the members of that group (Tajfel and Turner, 1979). This stage of their identity changes is related to
accepting the beliefs and overall values of other people (Kohonen, 2004; Maertz et al., 2009).

If people perceive that their views and perceptions are similar with the members in a group, they are likely to be a part of that group and social settings (Jackson and Smith, 1999; Oakes et al., 1991; Stets and Burke, 2000; Varma et al., 2012; Zhang and Guttormsen, 2016) and those feelings help them in creating strong social ties (Osman-Gani and Rockstuhl, 2008).

Depersonalization. Depersonalization refers to the situation when people experience change in their behavior, feelings or routine as a result of interacting with a specific group (Ellemers, 1993; Jackson and Smith, 1999; Salk and Shenkar, 2001; Stets and Burke, 2000). When expatriates get adjusted in new settings they are more likely to embrace changes in them and their ways of work (Haslam et al., 2000; Salk and Shenkar, 2001; Zhang and Oczkowski, 2016); however their willingness plays a key role in this process (Ward and Ravlin, 2017). At the last stage of identity changes, they start adopting characteristics of people in that group that signifies a major change in their identity; hence, such changes may be evidently visible to others (Ashforth and Mael, 1989; Bond and Hewstone, 1988; Haslam et al., 1999; Hogg et al., 1995). Expatriates from collectivistic societies generally experience higher level of identity changes in them, i.e., “depersonalization” as they can easily derive identity from new groups (Pichler et al., 2012).

Chinese expatriates in the Pakistani context
Chinese culture and work practices are acknowledged for their uniqueness throughout the world (Chuang et al., 2015; Franke et al., 1991; Varma et al., 2016). An example of such a practice is “Guanxi” that distinguishes Chinese way of working from people of other countries, which manifests itself in the form of increased emphasis on relationship building (Farh et al., 1998; Tsui and Farh, 1997). Guanxi promotes shared exchanges among Chinese people (Chatterjee et al., 2006; Xin and Pearce, 1996), suggesting that Chinese expatriates may experience identity change by developing positive relationships with people. Similarly, Chinese key work ethics include dedication and loyalty above any other criteria (Chatterjee et al., 2006; Varma et al, 2016). They value “hard work” and punctuality in their organizations (Leung, 2010; Lin et al., 2016).

The Chinese “Confucian value” focuses on an individual’s responsibility to prefer his/her family above his/her individual needs and valuing teamwork and harmony in business (Leung, 2010; Rarick, 2007); Pakistan’s culture is also characterized by such values like in-group collectivism (Nadeem and de Luque, 2018), harmony and collaboration (Franke et al., 1991; Khilji, 2004). Moreover, Pakistan and China have a strong bond since the last many decades and “Pak–China friendship” (Wolf, 2016) may play a significant role in Chinese expatriate adjustment in Pakistan.

With this perspective, this study used social identity theory for understanding the identity change process of Chinese expatriates working in Pakistan. The study is specifically focused on Chinese expatriates working at relatively higher management positions, since expatriate adjustment process varies across hierarchical levels (Shaffer et al., 1999), and expatriates who work at higher management positions in host country organizations engage in deeper intercultural communication with HCNs after their adjustment (Ang and Tan, 2016; Ismail, 2015). Hence, they may experience more identity changes in them after their adjustment through frequent interactions with HCNs (Maertz et al., 2009; Kohonen, 2004). Therefore, the concentration of the study is on understanding the adjustment and identity change process of Chinese expatriates working at high managerial positions in Pakistan.

Methodology
Most of the previous studies investigating expatriate adjustment relied on quantitative research methods (e.g. Abdul Malek et al., 2015; Caligiuri et al., 2001; Lee et al., 2013;
Shaffer et al., 1999), while a few have used qualitative methods as well (Salk and Shenkar, 2001; Wang et al., 2013; Zhang and Guttormsen, 2016). Qualitative methods provide opportunity for understanding the mechanisms of adjustment across cultures in greater depth (Birkinshaw et al., 2011; Yin, 2015); hence “qualitative methods” were used for investigating the process of Chinese expatriates' adjustment in greater depth and detail in this study. Data collection through qualitative research helped researchers in overcoming “language barrier” (Selmer, 2006), since researchers helped Chinese expatriates in understanding research questions by answering their queries. Though “generalized qualitative research” (Yin, 2015) was conducted through interviews of Chinese expatriates working in Pakistan, two specialized approaches have also been integrated in the research design including “narrative inquiry” (Murray, 2009; Silverman, 2011) that has been used while opening the interview sessions with respondents to make them comfortable in sharing their stories and experiences (Yin, 2015), and “critical incident technique” which has been integrated to draw out details about particular experiences of Chinese expatriates in Pakistan to better understand about their values and attributes.

The research setting. A few Chinese companies have been working in Pakistan since 1990s. However, a large number of additional Chinese companies (more than 60) have shifted to Pakistan after 2015 (Chaziza, 2016; Siddiqui, 2017), and estimates suggest the movement of more than 20,000 Chinese expatriates to Pakistan since 2016 at different management positions (Siddiqui, 2017). While these companies are operating in different sectors in Pakistan, most of them are working in power, services, construction, manufacturing, engineering, petroleum, telecommunication and information technology (IT). A large majority of these companies are located in the federal capital of Pakistan, i.e., Islamabad due to provision of strong security arrangement, while others are located in Lahore, Karachi and other cities (Arduino, 2017; Sial, 2014). As the researchers kept their focus on Chinese expatriates working at relatively high management positions in a variety of industries in Islamabad, the sample reflects the key characteristics of the population.

Interviews were conducted with 30 Chinese expatriates working in different Chinese organizations in Islamabad, in the telecommunication, manufacturing, power and IT industries. The main reason behind selection of Chinese expatriates in these industries was that most of the companies located in these sectors are operating at a large scale, and a large number of Pakistani and Chinese employees are working together in these companies. Hence, the Chinese managers and employees interact frequently with a large number of Pakistani employees in these organizations, which may explain identity changes with more clarity. “Purposive sampling technique” was used for approaching Chinese expatriates, as this technique is useful for accessing respondents particularly in qualitative research, where data can only be collected from a limited number of people (Marshall, 1996). Hence the researchers accessed those participants who were willing to participate actively in the study and could provide information that was aligned with the research objectives (Patton, 2002). Three criteria were specified for selecting Chinese expatriates. First, the participants should have a minimum of one-year work experience in Pakistan. Second, they should be working at the managerial-level position in the organization. Third, as the interviews were conducted in English, English-speaking Chinese employees were selected. Further, although Pakistani employees who were working in these organizations were contacted (often as gatekeepers or focal persons for appointments), the researchers interviewed these Pakistanis informally for understanding their overall experiences with Chinese expatriates, and they were not a formal part of the study.

The research informants. Accessing Chinese management employees was a major challenge as most of them work in a highly secure environment and no one was allowed to access them without verified professional contacts. Hence, research access was gained
through professional contacts. The interviewees were Chinese directors, senior managers, team leaders, managers and assistant managers in different organizations. A majority of the interviews were conducted in organizations, while a few were conducted in different restaurants of Islamabad. The interview duration was between 20 and 50 min.

Before interviewing, most of the interviewees were sent an e-mail regarding details of the project, while some were contacted via their (Pakistani) colleagues. The researchers audio-taped all the interviews after getting details about identity of the interviewees in order to maintain anonymity. All interviews were transcribed verbatim for maintaining objective results. Also, each interviewee signed a “consent form” for participation in the research during the interview session. The sample comprised of 22 male and 8 female participants. The average age of the participants was 32.5 years, while the average work experience in Pakistan was 3.4 years. Details regarding interviewees and interview duration are provided in Table I.

The interview process and the semi-structured interview guide. Initially, the focus was on understanding the expatriate adjustment process of Chinese working in Pakistan for more

<table>
<thead>
<tr>
<th>Participants identity (Participant number-Designation-Working experience in Pakistan)</th>
<th>Industrial sector</th>
<th>Experience in Pakistan (years)</th>
<th>Duration of recorded interviews (min)</th>
<th>No. of transcribed words</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stage 1</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>1 P1-MTO-4</td>
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<td>4</td>
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<tr>
<td>3 P2-Senior Officer-1</td>
<td>Telecommunication</td>
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<td>817</td>
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<td>3 P3-Project Controller-1</td>
<td>Telecommunication</td>
<td>1</td>
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<td>1,540</td>
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<td>Telecommunication</td>
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<td>Telecommunication</td>
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<td>7 P7-Project Manager-3</td>
<td>Telecommunication</td>
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<td>750</td>
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<td>8 P8-Project Manager-6</td>
<td>Telecommunication</td>
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<td>25</td>
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<td>9 P9-Program Manager-7</td>
<td>Telecommunication</td>
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<tr>
<td>10 P10-Senior Program Analyst-4.5</td>
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<td>16 P16-Legal Manager-2.5</td>
<td>Power</td>
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<td>Power</td>
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<tr>
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<td>Telecommunication</td>
<td>9</td>
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<td>28 P28-Chief Engineer-5</td>
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<td>Average values</td>
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<td>101</td>
<td>827</td>
<td>57,000</td>
</tr>
</tbody>
</table>

Social identity of Chinese expatriates

Table I. Participant’s profile details
than a year with changes in social identities as one of the areas discussed in the interview. After semi-structured interviews with 15 Chinese expatriates, and informal interviews conducted with their Pakistani colleagues, the data indicated that the Chinese expatriates’ adjustment process was significantly linked to their social identity changes. Hence the interview guide was refined. Phase II interviews probed deeper into understanding the social identity change of Chinese expatriates, though basic questions on expatriate adjustment remained a part of the interview guide.

The interview guide was designed to gain insights about Chinese expatriates’ experiences. Questions were framed to make interviewees comfortable in providing answers and thus lead to “thick descriptions” rather than just surface explanations (Flick, 2009). The interview guide was designed in two main parts. In the first part, pre-screening and attribute questions were asked, e.g., whether s/he had voluntarily decided to work in Pakistan and since how long had s/he been working in Pakistan. The second section focused on experiences of Chinese, e.g., their initial feelings when they came to Pakistan, the difficulties they faced in the beginning, support they received from their Pakistani team members and how Chinese work environment was different as compared to Pakistan’s work environment. Finally, they were asked about reflecting on “changes in their behavior and work routines” as a result of working in Pakistan’s environment. The key difference between Phases I and II interviews was extensive probing questions about social identity (i.e. perception of group, attraction to group, interdependent beliefs and depersonalization) while discussing the above-mentioned questions.

Data analysis procedure. Data were analyzed through NVivo 10 using a five-stage process, i.e., compilation, disassembling data, re-assembling data, interpretation and conclusion (Yin, 2015). Prior to conducting interviews, a coding structure was designed based on the literature review for “template analysis,” which were later refined through a systematic examination of transcriptions and coding (King, 2004). The final version of the hierarchical coding structure has been provided in Figure 1. The analysis section follows the structure of hierarchical coding where discussion under each sub-heading provides the summary of findings under each key category, and the narrative arrays (Flick, 2009) present the quotations of participants[1]. To maintain anonymity of interviewees, each quotation is followed by a code with three parts. The first part represents the participant number, the second part is the job title, while the third is the number of years a participant has spent in Pakistan. Thus, “P8-Manager-6” represents participant no. 8 (Table I) who is a manager and has been in Pakistan for six years.

Analysis and results
In this section, findings have been presented on three key areas. First, discussion on Chinese expatriates adjustment in Pakistan over a period of time is provided. Second, the paper has elaborated how social identities of high management Chinese expatriates have changed after working in Pakistan. In particular, the process of perceptual and behavioral changes in Chinese expatriates after their stay in Pakistan has been explained. Third, the process of Chinese social identity change has been discussed through proposing a model that contributes to the process of Chinese expatriates’ identity change over time.

Chinese expatriates’ adjustment in Pakistan
Most of the respondents expressed their positive feelings toward Pakistanis and commented on their easy adjustment in Pakistan. Researchers asked questions on two dimensions, i.e., non-work factors and differences in organizational work culture to understand adjustment of Chinese expatriates in Pakistan. This section has elaborated the significance of these two factors. Selected quotes on the two areas are presented in Table II.
Non-work factors. Results have highlighted “language barriers” and “gap between beliefs” as the most significant challenges for Chinese expatriates in Pakistan. Language barriers were highlighted by more than 20 out of the 30 participants as the hurdle in their adjustment. Many commented that their working experience in Pakistan had played a significant role in improving their English and minimizing this barrier (Table II). The second factor that had acted as an obstacle in Chinese expatriates’ adjustment in Pakistan was the gap between beliefs of Pakistanis and Chinese people. Participants commented that there were a few similarities in culture, for instance, being family oriented. However, significant differences existed in ways of working toward goals, i.e., Chinese being aggressively goal oriented. Chinese people were more concerned about their future, and money was one of the significant priorities for them.

Two factors that helped Chinese expatriates in adjusting in Pakistan’s environment were the friendliness of Pakistani people and security conditions. Most of the participants believed that there was a sense of peace and calmness in the personality of people in Pakistan. Many commented that the friendliness of people inside and outside of work was refreshing and created a positive energy. However, a few participants did not feel positively
Themes Supporting quotations for each theme

**Non-work factors**

**Language barriers**

"Many Chinese people come here and they cannot speak English. Communication problem" (P23-CSR Team Lead-1)

"Even reading is no problem but when you want to talk, it is difficult. If there is something in my mind I couldn’t properly express in right way, especially in first few months, but now it is fine" (P24-Senior Manager-1.5)

"I came across language barrier. I have been working here for almost two and half years now but my English has not improved. So, communicating with the Pakistanis not only in the office, but at restaurants and with drivers is hard. It takes me a lot of time to make them understand my message" (P5-Junior Program Analyst-2.5)

"Considering the fact that Pakistanis are so amiable and almost all the educated class can understand English, I have never faced a problem in conveying my ideas" (P8-Project Manager-6)

**Gap between beliefs**

"The first thing comes to my mind is this is a religious country, it is Islamic and I don’t have any religion for myself" (P26-Assistant Manager-1)

"Chinese are more focused on long term orientation as compared to Pakistanis. And understandably Pakistan is a developing nation where industrial sector is not that well established yet and most businesses are in their initial stages where short term goals count more" (P8-Project Manager-6)

"Chinese like to eat pork but as this is Muslim country the pork is not halal (allowed) here, so we cannot find it and eat here" (P21-Technical Director-7)

"The way you talk to ladies is totally different in Pakistan, for example in China most ladies work. During some chat, everyone jokes with each other but here if you are not familiar, then you cannot have any jokes with ladies and also you should maintain some distance with ladies, this is different" (P24-Senior Manager-1.5)

"Chinese and Pakistanis have the same belief system. First thing in China is family and I think for Pakistanis, also same. I think belief system is same" (P21-Technical Director-7)

**Friendliness of people**

"This culture just makes you peaceful and all the Pakistani have this expression on their faces which makes you peaceful; always smiling" (P21-Technical Director-7)

"Here in Pakistan more people like to talk a lot; in China people just sit and work for the whole day and not say a single word. But in Pakistan, if they stay and work for whole day without saying one word, it is very difficult. Also people are very friendly to Chinese. This is a very important thing; if the people are friendly this will feel like home, because only friend and your families can give you such kind of feelings. I visited many countries but only Pakistanis give me these feelings and others didn’t give me these feeling" (P21-Technical Director-7)

"I am here as a foreigner. Every day in office the security guards passes me a smile and they are all friendly to me. I don’t know just as a foreigner, it is easier for us to adjust to live because people like foreigners, people like different things" (P26-Assistant Manager-1)

**Security conditions**

"I think it’s a nice country because I check a lot in the website and I see many documentaries about Islamabad, I feel it’s very nice but you know in China the media says here its terrorism and just not safe, so it’s not like that" (P19-Accounts Manager-3)

"I think here security is very good, sometimes other country report that Pakistan is very dangerous but I don’t think so. I think here is very soft" (P22-CSR Team Lead-2)

"For Chinese people the main concern is security, they don’t allow Chinese people to go alone very frequently and even now that more Chinese are working here, so on weekend 2 or 3 people together go to the shopping mall" (P17-Senior Manager-3)

"When I came here one year has passed it is better and Islamabad is ok. My colleague from Indonesia worked in Pakistan for more than a year and he told me that it is fine in Pakistan. Don’t listen to the news it is ok there because we only work in Islamabad, Karachi and Lahore. Most of time we spent in Islamabad is ok" (P29-Technical Manager-2)

Table II.
Supporting data for expatriate adjustment

(continued)
about their calmness, as they associated it with Pakistani employees giving priority to their personal time more than work. Contrary to the expectations[2], security concerns were not cited as an adjustment problem of Chinese in Pakistan (Table II). While, most of the informants said that they were really concerned about security conditions in Pakistan before coming to Pakistan, however, they felt a sense of security while working in Islamabad. Hence, the security provided to them had helped them in adjusting in Pakistan.

Distinctiveness of Chinese work culture

Two distinct values of the Chinese work culture had an impact on Chinese expatriate adjustment in Pakistan (Table II). First, more than 80 percent of the participants talked about the hardworking nature of Chinese and believed that Chinese are more hard-working than any other nation in the world; hence they faced adjustment issues in Pakistan, as they believed their standards of work were difficult to match. They labeled “hard work” as a lifestyle value, not simply a work habit. Second, cultural difference was reflected through the Chinese distinguishing trait of Guanxi. A few participants commented that Guanxi was present not only in China, but in Pakistan as well. However, several participants believed that relationship building was difficult in Pakistan, i.e., Guanxi style deep relationship building between Pakistan and Chinese was difficult.

Changes in social identity

Of course there is some change. After working for nine years, the feeling is also different, I have visited a lot of places in Pakistan and people are very kind in all areas, and personally for me it is good, and I like it here, and if I go back to China I will miss here and friends (P27-Logistics Manager-9).

<table>
<thead>
<tr>
<th>Themes</th>
<th>Supporting quotations for each theme</th>
</tr>
</thead>
<tbody>
<tr>
<td>Distinctiveness of Chinese culture</td>
<td></td>
</tr>
<tr>
<td>Hard work</td>
<td>“The Chinese are too much work oriented, workaholic you can say. We make work priority. Professional relationships are also something that we build as it is a part of our culture” (P10-Senior Program Analyst-4.5)</td>
</tr>
<tr>
<td></td>
<td>“The Chinese employees are more work oriented. They work effectively and efficiently in achieving their target and are always trying to go an extra mile” (P10-Senior Program Analyst-4.5)</td>
</tr>
<tr>
<td></td>
<td>“Chinese focus just on results, not on how much you work hard, just results. It is a very important factor. Even if you are working hard and not producing good results, it affects your image” (P4-Senior Program Analyst-3)</td>
</tr>
<tr>
<td></td>
<td>“Chinese give full dedication to work. We maintain a professional work environment and prioritize our life as we make goals then we make the steps to achieve the goals and then we stick to the path until our goal has been achieved” (P9-Program Manager-7)</td>
</tr>
<tr>
<td>Guanxi</td>
<td>“Guanxi I observed more in China than over here. We base business on networks and links. Here it is more on individual basis” (P11-Sales Manager-4)</td>
</tr>
<tr>
<td></td>
<td>“Guanxi is now an old concept in my opinion. As you have heard ‘think locally, act globally’. We Chinese are moving towards this. We do regard relationships, but at the speed with which trends are changing it will be difficult to survive if we limit ourselves to these relationships so I think most Chinese won’t admit but they are taking on an individualistic approach” (P13-General Manager-2)</td>
</tr>
<tr>
<td></td>
<td>“Guanxi, yes, it is very important for the Chinese at work place. We make strong work relations with people to give us some benefit in our work and they get help from us in return. I think it is a big factor at Chinese work places because it is a big part of our culture” (P5-Junior Program Analyst-2.5)</td>
</tr>
<tr>
<td></td>
<td>“I think in both China and Pakistan the relationship is the most important thing for our business. If we have a good relationship with the customer I think we will have good business” (P16-Legal Manager-2.5)</td>
</tr>
</tbody>
</table>

Table II.
Overall results have reflected some changes in social identities of most of the Chinese expatriates after their stay in Pakistan. In order to understand how the social identity of Chinese expatriates has changed over time, the researchers focused on understanding even minor changes in their perceptions, attitudes and habits after working in Pakistan under four headings, i.e., perception of groups, attraction to group, interdependent beliefs and depersonalization. A narrative array of selected quotes is presented in Table III.

**Perception of groups.** Two key perceptions about Pakistani people’s friendly behavior and selfless nature resulted in positive interactions and social identity change of Chinese expatriates. Most of the participants talked about the hospitality and friendliness of Pakistani people in their interviews; 27 out of the 30 participants identified that this friendliness attribute is becoming a part of their personality with time, as illustrated by one of the directors working in the telecommunication industry:

> In 2011, in Central region in Sahiwal city, there was a village and there was a very old man. He wanted me to go to his room, have a cup of tea and have some biscuits. He was very friendly, I was very happy, and when I was going he came out of his house and said goodbye, and at that time I felt very different. Very old man, very friendly; I had nothing to do with him. I just crossed his home but he wanted me to go in his home. Very friendly. At that time I told this story to many of my friends (P30-Technical Director-5).

Many Chinese expatriates were deeply moved by the selfless nature of Pakistanis and wanted to inculcate this attribute in them as well, which reflected a positive change in their beliefs. One of the experiences shared by the Chinese director is an example of this selfless nature:

> Two years ago something went wrong with my car on my way to home and the car shutdown on the road and I myself was driving the car. I called department colleagues; they said that it may take half an hour to send someone to help me. One person on the road said that it is not very safe and he asked someone else to (to help him) push the car on the side. They did not know each other, and still helped me. I was touched by this. I didn’t know anyone and didn’t ask for any help from them; still they came to me and helped me. I try to imagine that if this happens in China what will happen but maybe most of the people will not notice. They will just focus on their own thing. When you especially ask for help, some of them may help you, but I think Pakistani people are more sincere to help you (P25-Deputy Director-4).

Two negative perceptions highlighted by the Chinese expatriates’ employees were “poor time management” and “delaying of tasks” in Pakistan. While most Chinese were overall comfortable working and living in Pakistan, a large majority expressed their concerns regarding poor time keeping and time management of their Pakistani co-workers. They commented that Pakistani people were often late, and spent a lot of time in socializing and networking in their offices, hence taking longer to complete their tasks. Most Chinese commented that their values would never allow them to behave in such a manner, hence implying that their perceptions remained unchanged in this aspect (Table III).

**Attraction to group.** Positive relationships with Pakistani colleagues and Pakistan–China friendship had made Pakistani work environment attractive for many Chinese expatriates and brought some changes in them. Many of them commented they had made good friends over time and interacted with Pakistani families over family dinners and other events. However, many of them expressed that they spent most of their time with Chinese colleagues, because of their Chinese in-groups and shared accommodation. Also, many of the Chinese expatriates talked with passion about Pak–China friendship in their interviews. Most of them felt that they were responsible for strengthening as well as protecting this friendship, and they needed to be careful in their conduct in Pakistan to ensure that their behavior did not reflect negatively on Pak–China friendship. This positive bond between the two countries had not only helped Chinese expatriates to adjust in Pakistan, but also resulted in them becoming more open to experience the Pakistani culture.
<table>
<thead>
<tr>
<th>Themes</th>
<th>Supporting quotations for each theme</th>
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<tr>
<td><strong>Perceptions of groups</strong></td>
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<tr>
<td>Friendly behavior</td>
<td>“Pakistan has been very good to me. People are extremely hospitable. It was difficult adjusting of course, but the hospitality of Pakistani people made it a lot easier for me” (P8-Project Manager-6)</td>
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<td>“My Pakistani colleagues started talking to me in a very friendly way they ask questions like where is your hometown in China, how many siblings you have. This make me feel very warm. It gives me this feeling that I am at home and make me feel that this is something good and people are very nice to me” (P8-Project Manager-6)</td>
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<td>“When we walk on the street, people see that we are Chinese and they smile, shake hand with us. Similarly, when we go to any mall, people feel happy to see us and take photos with us” (P18-Land Acquisition Manager)</td>
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<td>“When I jog, Pakistani people say Ni Hao to greet me, even without knowing me. This happened very often in last 4 years” (P25-Deputy Director-4)</td>
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<td>Selfless nature</td>
<td>“Pakistani people are very sincere they would like to help from their heart not pretend to be something” (P25-Deputy Director-4)</td>
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<td>“They are very kind people. When they meet people, they are not like the average people; they help me as much as they can facilitate me. They would not try to get something from me, that’s very different” (P16-Legal Manager-2.5)</td>
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<td>“Yes people are very nice and most help me more and more. If I face any issue they help me” (P22-CR Team Lead-2)</td>
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<tr>
<td>Delay in tasks</td>
<td>“Most Pakistani people say tomorrow, tomorrow and keep delaying. But in China tomorrow means tomorrow” (P23-CR Team Lead-1)</td>
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<td>“There are absolute cultural differences. Most Chinese like to do things on time; they don’t want to delay things. Sometime you feel there is always delay here” (P20-Products Manager-5)</td>
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<td>“Even though, I press them but they cannot sense that pressure. They would be like first my tea time, later I would call a friend and may be something else and the last is the assignment” (P16-Legal Manager-2.5)</td>
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<td>“I want them to have a target and complete tasks in time without delay. They think it is not important to delay something” (P27-Logistics Manager-9)</td>
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<td>Poor time management</td>
<td>“Pakistani do not have the time concept, what I face here is, they don’t come on time, what we say, they don’t do on time, and they don’t deliver on time. I feel I cannot rely on them” (P19-Accounts Manager-3)</td>
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<td>“In Pakistan, if you tell you will come after five minutes I don’t know how long five minutes are. Chinese people manage the time. For example we arrive at 9 o’clock or 8:50 but Pakistanis come five minutes after our arrival” (P1-MTO-4)</td>
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<td>“If Pakistanis focus more on time management, they will be much better” (P20-Products Manager-5)</td>
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<td>“One thing I want to say is the time management, for Pakistanis it is not punctual but for China it is different when you arrange the meeting at 3 o’clock you will see everyone before 3 o’clock in the meeting, but here everyone is 15 minutes late, no one worry about it, and no one care about it” (P24-Senior Manager-1.5)</td>
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<tr>
<td>Attraction to group</td>
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<tr>
<td>Relationship with colleagues</td>
<td>“They helped me a lot and now I show a lot of interest in Pakistani culture so during the spare time I also ask about the culture and wisdom and even the religion” (P24-Senior Manager-1.5)</td>
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<td>“They helped me like friend. Even they invite me to their home, to have dinner or even picnic or get together on weekend. So this makes me feel like home they are nice and they treat me like family, so I didn’t felt lonely at that time and even now” (P19-Accounts Manager-3)</td>
</tr>
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</table>
|                     | “Normally for most of Chinese companies here, or in other countries, we always live together and we move together. With the Chinese they are like my families. We live together, we eat together, we move together. Normally we would go out together. They (continued)
Themes | Supporting quotations for each theme
--- | ---
**Pakistan–China friendship** | are like my families. For the local co-workers just a work mix. We just coordinate with each other and get work done” (P16-Legal Manager-2.5)  
“I like to make local friends, so I have more Pakistani friends” (P19-Accounts Manager-3)  
“Our Chinese people know that Pakistan is a very good friend of China and Pakistani and Chinese people are called brothers” (P17-Senior Manager-3)  
“You know all Chinese people know that Pakistani and Chinese are friends. I know people are very friendly to Chinese. I just heard this information before coming to Pakistan, but when I came here, I feel that is true” (P21-Technical Director-7)  
“Pakistani people are very friendly especially to Chinese and most Chinese feel good about Pakistani people” (P28-Chief Engineer-5)  
“When I was in China, I read that there is a job opportunity for me to work here. I also read news that China and Pakistan shares a long term friendship. My friends also suggested me that working in Pakistan will be a very precious experience” (P18-Land Acquisition Manager-1)

**Interdependent beliefs** | “I am seeing that it’s a very good opportunity for me because I am young and just graduated, I don’t want to work in headquarters. I think for young people you should go out to see the world” (P17-Senior Manager-3)  
“My understanding is that till the age of 30, most Chinese people’s priority is work. But for Pakistanis their family is first priority but after 30 years age, Chinese people also prioritize family first” (P30-Technical Director-5)  
“There are some personal issues like that, maybe you don’t know that in Beijing, it’s a very big city but its area is also very costly. I don’t have a house in Beijing; my hometown is not in Beijing” (P17-Senior Manager-3)  
“I think some people have their own beliefs regarding working in another country. They think about living with families. I am free. I can decide to go anywhere. I think I am little different” (P19-Accounts Manager-3)

**Personal beliefs** | “I think in the whole world, Chinese people can work very hard, 30 to 40 years ago Chinese were very poor country and people worked very hard and developed china very quickly. Here in Pakistan most people like to talk a lot. In China, people can just sit and work for the whole day and not say a single word but in Pakistan working for whole day without saying one word is very difficult” (P21-Technical Director-7)  
“Pakistani people enjoy more, but Chinese people are always busy” (P22-CSR Team Lead-2)  
“In Pakistan life pace is very slow, but in China it is very quick” (P23-CSR Team Lead-1)  
“We don’t have the tea time, tea boy is here to serve tea for local staff normally not for us, and we don’t use to ask tea boy to serve the tea to us, if I need a tea I will go and get tea by myself” (P16-Legal Manager-2.5)  
“Chinese have no God so they try to work hard to achieve their target and they say that I can achieve the target if I work hard I should work proactively to achieve this job but Pakistanis always say Insha-Allah to achieve that. But people in China say that I will do this to achieve that target” (P25-Deputy Director-4)

**Beliefs as a Chinese** | “I have become a little lazy” (P23-CSR Team Lead-1)  
“Punctuality for example, in China I have a meeting at 4, everyone will be there at 3:55 so at 4:00 we can start the meeting but here if tomorrow I have a meeting at 4 and no one is here, I come back later at almost 4:10. So that was the challenge for me in first 2 years but now I can understand this” (P25-Deputy Director-4)  
“Yeah I think so, we will be fine with the slow pace of life. May be like in one month or two months, there will be no change.” (P16-Legal Manager-2.5)  
“Nothing changed; my standards are always the same” (P30-Technical Director-5)  
“My work habits have changed I stopped working overtime, since my 3rd month working over here” (P26-Assistant Manager-1)

Table III. (continued)
Interdependent beliefs. Results regarding interdependent beliefs reflected participants’ perceptions regarding differences in Pakistani and Chinese people through two areas, i.e., “personal beliefs” and “beliefs as a typical Chinese.” Overall participants commented on religious differences as the biggest difference between Pakistani and Chinese people, and commented that this was a topic most Chinese were reluctant to raise with Pakistanis because of the sensitivity of the topic. Additionally, in work environment, Chinese perceive themselves as a hardworking nation because of the influence of their culture; differences in this regard remained a barrier. However, over time, values such as Guanxi vs collectivism facilitated them in understanding the Pakistani beliefs about family values and in-group practices, which were reflected in the working styles. Thus, Chinese expatriates experienced the development of overlapping beliefs in some areas with time.

Depersonalization. Acceptance of change in behavior, feelings or routines was analyzed at two levels: “change in work habits” and “change in beliefs.” Regarding the first factor, changes in work habits and routines, a majority of the respondents experienced these changes. Although, most of them illustrated these changes through minor examples like having tea with their colleagues during breaks or indulging in informal discussions with colleagues during work (Table III), these changes were evident in their behavior and potentially lead to overall changes in identities without conscious awareness. Also, more than half of the participants had volunteered for a posting in Pakistan and these individuals had experienced more identity changes in them through changes in their behavior; fewer identity changes were reported by Chinese expatriates who did not volunteer for the posting.

The second factor focused on how Chinese expatriates’ beliefs shaped after working in Pakistan. Most participants expressed the view that their Chinese values and traditions strongly influenced them, and hence their overall value system was not likely to change (Table III). However, several reported changes in personality, e.g., being more friendly and open to others, caring more about others, which may be taken as a reflection of change in some of their beliefs and values.

Also, as the length of experience of participants increased, they felt a greater sense of attachment and happiness in Pakistan. Chinese expatriates who had spent less than three years in Pakistan faced some challenges in adjustment compared to those who had spent more than three years. Moreover, the Chinese expatriates who had spent more time with their Chinese colleagues in Pakistan had experienced fewer changes in their beliefs due to less interaction with Pakistanis.
Toward the development of a theory of social identity change process

Based on the research findings, a process of Chinese expatriates’ adjustment and identity change has been developed. Figure 2 illustrates the stepwise process that led to identity changes in Chinese expatriates over time.

At the initial stage, when Chinese expatriates were new in settings of the host country, they experienced a few adjustment issues because of language barriers and different belief systems. However, factors such as friendliness of local people and strong security systems helped them in their adjustment. Additionally, existence of a collectivistic culture in the host country facilitated them in interacting with the local people.

At the second stage, better adjustment facilitated interaction between Chinese expatriates and HCNs. Improved communication between them led to a better understanding regarding each other’s ways of work and culture. This led to a positive relationship building between them as well as “changes in their perceptions” regarding each other as reflected by one of the interviewees as well:

Sometimes we have coffee, tea or we just hang out and talk, and always with my Pakistani colleagues, and nowadays I think I am closer to my Pakistani colleagues than my Chinese colleagues, this is why all my Chinese friends always get jealous (P26-Assistant Manager-1).

Thus as communication between expatriates and HCNs improved “attraction to the group,” it led to changes in their perceptions and attitudes, which were reflected through minor identity changes in Chinese expatriates at the third step. Key factors that led to positive perceptual and attitudinal changes in the expatriates were friendliness and selfless nature of Pakistanis, positive relationships with Pakistanis and Pakistan–China friendship. Two factors that impacted their perceptions negatively were task delaying and poor time management by Pakistanis. Changes in way of living or working were reflected in small alterations, e.g., one of the senior Chinese expatriate highlighted changes in personal habits after working:

Every morning around 10:30, I take tea. Previously in China I didn’t have tea habit, but here I take two. I think I have experienced this change (P24-Senior Manager-1.5).

These changes assisted expatriates in their adjustment process by minimizing their language barriers and reducing the gap between beliefs as well. Thus, the next stage of the change process was reflected through the development of a positive bond between expatriates and HCNs. A number of factors facilitated the process of development of social ties, e.g., the time period of expatriates stay in Pakistan and their willingness of working in Pakistan. Moreover, Pak–China friendship also strengthened this bond.

Positive relationships between Chinese expatriates and HCNs helped the expatriates in changing their beliefs about the local people and that led to the identification of some more similarities in their belief systems, and through that, in the “development of inter-dependent beliefs.” Further, such changes led to major identity changes in (a few) Chinese expatriates over time, and were reflected through changes in their work habits, personal habits or beliefs at the last stage, i.e., a process of “depersonalization.” Hence, Chinese expatriates experienced identity changes in them over time. One of the examples of the process of “personal change” experienced by a Chinese expatriate in Pakistan is quoted below:

When I started here, I just liked to stay home alone, but now my personality has become open and I can communicate with others and joke with others (P22-CSR Team Lead-2).

Discussion

The findings of this study have highlighted the process of Chinese expatriates’ adjustment through identity change in the context of Pakistan. The following section discusses how this study adds to the current literature on expatriate adjustment and social identity.
Change in perceptions

- Interdependent beliefs
  - Relationship with colleagues

- Chinese expatriates' adjustment
  - Improved interaction between expatriates and HCNs
  - Interdependent beliefs

- Gap in beliefs
  - Poor time management

- Guanxi/collectivism
  - Security condition
  - Language barriers

Change in attitudes

- Depersonalization
  - Delaying of tasks
  - Selfless nature

- Positive relationships building
  - Time spent in Pakistan

- Volunteering for a posting
  - Change in personal habits
  - Change in work habits
  - Change in beliefs

Figure 2. Chinese expatriates' identity change process
Theoretical significance

Our study has contributed by highlighting change in identity as a major part of the process of expatriates' adjustment for Chinese working at high management positions in Pakistan. This process is supported by the literature and adds to the literature by establishing a stepwise process for understanding expatriates' adjustment. Literature suggests that expatriates face a number of challenges in their adjustment in the host countries (Abdul Malek et al., 2015; Varma et al., 2012; Zhang and Fan, 2014; Zhang and Guttormsen, 2016). Major challenges of adjustment for Chinese expatriates in Pakistan were language barriers and gap between beliefs. However, they adjusted well because of support from a number of factors, i.e., strong security of Chinese expatriates, friendliness of local people as well as similarities between Chinese and Pakistani cultural values such as Guanxi and collectivism.

For the negative perceptions, we identified an inverse link between perceptions of task-delaying behavior and poor time management with expatriates' identity changes, where the Chinese expatriates perceived that Pakistanis delayed their project completion because of their work habits, resulting in a distance in the relationship. Past research has also suggested that identity change is less likely to be experienced when people perceive other groups to be negative (Bond and Hewstone, 1988; Haslam et al., 2000; Jackson and Smith, 1999; Lee et al., 2013). However, in the case of Chinese expatriates' adjustment in Pakistan, this negative perception was counter balanced by four factors, i.e., Pak–China friendship, positive relationship building, friendliness and selflessness of Pakistani people. Chinese expatriates' perceptions of friendliness and selflessness helped them in making good friends in Pakistan, facilitating their adjustment, which led to positive relationship building with HCNs. Thus, we contribute to the literature on expatriation and social identity by establishing how Chinese expatriates adapted in Pakistan through positive perceptions (Bruning et al., 2012; Jackson and Horwitz, 2017; Takeuchi, 2010), which were built when they engaged in positive interactions with local people (Ellemers, 1993; Lee et al., 2013), which resulted in positive changes in them (Haslam et al., 2000; Osman-Gani and Rockstuhl, 2008; Turner et al., 1987).

This paper also identified one additional dimension that played a key role in this process of identity change – Pak–China friendship. Chinese expatriates were more open to their Pakistani colleagues because of positive perceptions of this relationship. Moreover, their knowledge about Pakistan's culture and people facilitated them in improving their relationship (Liu et al., 2018). We contribute in this regard, explaining how positive relationships between nations may lead to expatriates identity changes through facilitating their adjustment.

We deduce from our findings that working at higher management positions facilitated expatriates in adjustment, as they were equipped with autonomy and decision-making authority at these positions (Shaffer et al., 1999). As these expatriates spent more time in the host country, they started learning native ways of interactions, especially because of their management positions, as they needed to continuously interact and motivate HCNs. Willingness of host group also plays a major role in this process (Toh and DeNisi, 2007), and most of the Pakistanis who had informal discussions with the researchers also highlighted their deep interest in strengthening the relationship with the Chinese expatriates. They shared that several Chinese expatriates had developed a good comfort level in Pakistan, as they often went out with their Pakistani colleagues, e.g., to weddings and other cultural events. Hence their continuous interactions decreased their communication gap and helped in building strong social ties, hence leading to positive relationship building between them (Ang and Tan, 2016; Bader, 2017).

The changes observed in the beliefs of Chinese expatriates were scarce. One possible explanation of stable beliefs is the strong influence of Chinese culture that has kept its values and beliefs stable over a long period of time (Farh et al., 2010; Lin et al., 2016;
Rarick, 2007) and made them less willing to accept changes in their beliefs (Ward and Ravlin, 2017). An alternative explanation is that Chinese people lived in their in-groups most of the time, which inhibited them from mingling with Pakistani people. However, minor changes in beliefs of Chinese expatriates were found to result in identity changes in Chinese expatriates’ behavior with time. Additionally, expatriates’ ability to accept major social identity changes was contingent upon their ability to develop social ties, hence only those Chinese expatriates developed major identity changes in them who willingly built healthy relationships with Pakistanis over time. Major identity changes in Chinese expatriates were reflected through changes in their work and personal habits. Overall, these results are consistent with the literature which supports that behaviors can be changed relatively easily after interacting with new groups (Jackson and Smith, 1999; Oakes et al., 1991; Olsen and Martins, 2009; Wang and Varma, 2018), but beliefs are more difficult to change (Jackson and Smith, 1999).

The findings in this study add novelty in the literature in a number of ways. First, this study focused on the consequences of expatriate adjustment process, unlike a number of the previous studies that were limited to antecedents of expatriate adjustment (Abdul Malek et al., 2015; Canhilal et al., 2015; Takeuchi, 2010). Finally, this study has developed a unique process model for understanding expatriates adjustment at multiple stages through incorporation and integration of two models, i.e., “U-curve model” and “social identity theory,” hence adds value in the literature on cross-cultural management. Finally, incorporation of social identity theory in this paper particularly helps in understanding the role of various factors that may leads to changes in expatriates beliefs, behavior or both of them over time.

Western context and Chinese expatriate adjustment. This study suggests strong ties formation as a reason behind Chinese expatriates adjustment in Pakistan. This model’s application may be different in Western countries because of a greater cultural gap between the Chinese and the Western context (Lin, 1995). Chinese culture and society values harmonious connections with people (Chuang et al., 2015; Leung, 2010; Rarick, 2007), while Western culture is characterized by self-interest and personal benefits more than relationships (Chuang et al., 2015). Based on our proposed framework, Chinese expatriates may not experience similar social identity change in Western countries because of the lack of bonding with Western people. Hence, expatriate adjustment process of Chinese may differ in different cultures.

Managerial implications
There are various insights for managers of multinational corporations. First, organizations should provide cultural and language trainings to expatriate employees before assignments, since trainings enable them in understanding a country’s culture and people, and hence helps them in adjustment (Caligiuri et al., 2001; Liu et al., 2018; Selmer, 2009; Selmer and Lauring, 2015). Interpersonal interaction between expatriates and HCNs facilitates expatriates in strengthen bonding with HCNs; hence host country organizations should introduce different initiatives for improving expatriate–HCNs communication (Wang and Varma, 2018). Moreover, organizations should involve HCNs in this process, so that HCNs can make conscious efforts for expatriates’ adjustment in their country, including developing social ties (Toh and DeNisi, 2007; Varma et al., 2016). Second, employees may have diverse perceptions about the host country’s culture (Bruning et al., 2012; Harrison et al., 2004); hence organizations should give more consideration to employees’ willingness for the posting, as employees volunteering for an assignment are more likely to adjust and develop new identities.

Limitations and suggestions for further research
This paper has several limitations. First, the data were collected through in-depth interviews of management-level expatriate Chinese working in Pakistan in 2016 and 2017. While the
focus on managerial-level employees helped in developing an in-depth understanding of their adjustment, the adjustment of expatriates working at different hierarchical levels and in different functions varies. Thus, future researchers can conduct research which covers multiple levels, e.g., comparing adjustment process and identify changes in blue and white collar expatriates. Also, at the time of data collection many Chinese expatriates had recently moved to Pakistan after the initiation of the CPEC project. Thus locating Chinese expatriates with several years of experience was difficult. However, this also opens up opportunities for future researchers to conduct longitudinal studies for examining how social identity of expatriates may change over a period of time.

Second, results of this study supported identity changes in Chinese expatriates through changes in their behavior and minor changes in their beliefs; changes in beliefs may require considering additional difficulties to observe factors. Hence, future researches may examine expatriates’ social identity change through changes in their belief systems using different qualitative research designs like ethnography.

Third, this study collected data from Chinese expatriates only, with some informal discussions with the Pakistanis’ working with these Chinese. In order to enhance the validity of the data, future studies can focus on data triangulation by conducting interviews with Pakistani employees regarding their perceptions of identity changes of their Chinese co-workers and managers, in order to compare self-perceptions of Chinese with observations of HCNs. An additional related area could include examining how the social identity of Pakistani employees is changing as a result of a large number of Chinese expatriates moving to Pakistan, i.e., the impact of Chinese expatriates on identity changes of HCNs.

Further, this study has applied the U-curve theory for understanding adjustment of Chinese expatriates. However, in order to understand how identity changes may be affected when the expatriates travel back to their home country, future studies may focus on applying the W-curve theory to understand expatriates’ ability to retain these identity changes in their home countries. Finally, the scope of Chinese expatriates in this study is limited to Pakistan only, i.e., we have conducted this research to understand Chinese expatriates’ adjustment process in Pakistan. Future research works may compare how the social identity of Chinese expatriates changes in different contexts, and whether they are having an impact on the identity of HCNs.

**Conclusion**

Based on the qualitative research conducted in Pakistan, the current paper has provided insight into the process of management-level Chinese expatriates’ adjustment in Pakistan and the mechanism of changes in their identity over time. Overall, Chinese expatriates’ perceptions of friendliness, open-heartedness, Pak–China friendship and family-focused culture in Pakistan led to changes in their behavior and work habits, reflecting their adjustment in Pakistan through identity changes. As Chinese companies are expanding operations in various countries across the globe, including Central Asia and Africa, we have recommended future research to understand Chinese expatriates’ adjustment through social identity changes in multiple contexts. We also endorse social identity change as a useful mechanism which can enhance understanding of and improve adjustment of expatriates.

**Notes**

1. Some refinements have been made in the quotations of Chinese expatriates to improve English. Most refinements were for correcting tenses and propositions. The meaning of the sentences has not been altered.

2. While the researchers tried to remain neutral throughout designing the research, data collection and analysis, they would like to highlight that this was contrary to all expectations.
References


Further reading

About the authors
Sadia Nadeem is Associate Professor and Director of Management Advancement Research Center (MARC) at FAST School of Management, National University of Computer and Emerging Sciences, Islamabad, Pakistan. She received her MBA and PhD Degrees from Cass Business School, City University, London, UK. Her research interests are cross-cultural HRM, performance management, leadership, discrimination and disadvantage in the labor market and work–life balance. She is the Author of numerous articles and reports, and regularly presents her work at national and international conferences, including the Academy of Management Conference and the British Academy of Management Conference.

Sana Mumtaz is PhD Scholar at FAST School of Management, National University of Computer and Emerging Sciences, Islamabad, Pakistan. She completed her Master’s, with a distinction, from Air University, Islamabad, and is serving as Lecturer at Shaheed Zulfikar Ali Bhutto Institute of Science and Technology (SZABIST), Islamabad. She has presented her research papers at many international conferences, and is serving as Reviewer for several international journals. Her research interests include cross-cultural HR, organizational behavior and leadership. Sana Mumtaz is the corresponding author and can be contacted at: sana_mumtaz91@hotmail.com

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A process model of how interpersonal interaction leads to effectiveness of the expatriate-host country national relationship

An intergroup contact perspective

Chun-Hsiao Wang
Graduate Institute of Human Resource Management, National Central University, Taoyuan City, Taiwan, and
Arup Varma
Department of Management, Quinlan School of Business, Loyola University Chicago, Chicago, Illinois, USA

Abstract
Purpose – The purpose of this paper is to develop and present a conceptual model of expatriate–host country national (HCN) interaction that explains how organizations can help increase cooperation between expatriates and HCNs by facilitating interaction between expatriates and HCNs.
Design/methodology/approach – The authors draw upon intergroup contact theory to develop a process model which describes the processes critical to “the effectiveness of the expatriate–HCN relationship,” from both the expatriate and HCN perspectives.
Findings – HCN–expatriate interactions are critical to the success of both expatriates and HCNs, but such interactions should not be left to chance – instead, organizations should intervene and facilitate conditions that foster such interactions, which can lead to better understanding and appreciation of each other. This would ensure that both expatriates and HCNs have a better understanding of the critical role played by the other party, and thus be willing to offer relevant and necessary support at the right time.
Practical implications – Prior research reveals that most expatriate–HCN interactions are left to the individuals themselves and are thus subject to stereotypes, misperceptions and even unfulfilled expectations. By intervening in this process, and providing relevant information about each other to both parties, organizations can facilitate higher quality interactions, help reduce or remove stereotypes and increase the chances that both parties receive required and relevant information on a timely basis from each other.
Originality/value – The authors specifically discuss how interpersonal expatriate–HCN interactions allow the two parties to become acquainted with each other, when the effects of such interactions can be strengthened, and what the resultant effects are in terms of expatriate–HCN relationships.

Keywords Expatriates, Effectiveness of expatriate–HCN relationship, Expatriate–HCN interaction, Host country nationals, Intergroup contact theory

Paper type Research paper

Introduction
The ability to draw upon their worldwide resources in order to be globally competitive is very important for multinational corporations (MNCs). Indeed, participants in a recent survey of 143 MNCs (Brookfield Global Relocation Services, 2015) reported that 56 percent of their revenues were generated outside of their headquarters. Not surprisingly, 87 percent of the respondents in this survey further indicated that they anticipated future expatriate populations to likely increase, despite the obvious pressures to reduce expenses. Supporting this, researchers found that MNCs rely heavily on expatriates to carry out their strategic missions (e.g. Riaz et al., 2014). At the same time, the incidence of expatriate failure is often quite high, resulting in significant loss of investment for MNCs (Tungli and Peiperl, 2009). Indeed, reducing expatriate failure and/or premature return rates is also considered...
by MNCs to be a critical factor in maintaining their competitive advantage abroad, and can also help increase the willingness of other employees in the organization to accept expatriate assignments (Bolino et al., 2017).

Given the criticality of the expatriate to MNCs’ success, a significant body of research has concentrated on identifying the antecedents of expatriate adjustment and performance (see meta-analytic reviews by Bhaskar-Shrinivas et al., 2006; Hechanova et al., 2003). These studies reported that the frequency of interaction between expatriates and host country nationals (HCNs), and the amount of support that expatriates receive from HCNs are two important determinants of expatriate adjustment and performance. As we note later, both interpersonal interaction and support are clearly critical for creating positive expatriate–HCN relationship, but there is little consensus on how interpersonal interactions between expatriates and HCNs affect interpersonal support between expatriates and HCNs, as well as the broader expatriate–HCN relationship. Consistent with research that attests to the need to differentiate types of expatriates (for a discussion on the need to clarify the expatriate types, please see Tharenou, 2015), we refer to expatriates in this paper as company-sponsored expatriates. However, given that prior research has suggested that there are potential differences between company-sponsored and self-initiated expatriates (Tharenou, 2013), for instance, Doherty et al. (2011) found that self-initiated expatriates are more likely to work in a host country where they have the ability to adapt to the country than company-sponsored expatriates—a topic we further explore in the section on Suggestions for empirical testing. HCNs are defined as local colleagues of the expatriate—holding subordinate, peer or supervisory positions relative to the expatriate in the host organization, and who are critical sources of informational and emotional support in the adjustment and performance of expatriates (Toh and DeNisi, 2007), due to their familiarity with, and intimate knowledge of, the host country.

With regard to the critical role played by HCNs, it is important to acknowledge here that the knowledge and support that HCNs can offer may not be available in expatriate-only support networks (Bruning et al., 2012; Johnson et al., 2003), and thus, several scholars have argued that gaining the support of HCNs is critical to expatriate success (Black et al., 1991; Liu and Shaffer, 2005; Mahajan and Toh, 2014). Indeed, Black (1988) drew upon the tenets of social learning theory to argue that expatriate–HCN interactions were positively correlated with expatriate adjustment. Subsequently, several scholars (Bruning et al., 2012; Froese et al., 2012; Johnson et al., 2003) have relied upon the social network perspective to examine how network ties (e.g. number of HCNs in the network and the frequency of interaction with HCNs) impact the expatriates’ experience. Not surprisingly, these scholars reported numerous positive outcomes for expatriates, including adjustment, knowledge transfer and psychological well-being (see also Liu and Shaffer, 2005; Wang and Kamungo, 2004). In their review of the literature, Yamazaki and Kayes (2004) have identified building relationships with HCNs as one of the needed competencies for successful cross-cultural adjustment for expatriates.

In the primary theoretical literature and the parallel wisdom among scholars of the expatriate experience, there is growing consensus that the phenomena of HCN–expatriate interactions requires closer attention (e.g. Bonache et al., 2016; Froese et al., 2012; Luo, 2016; Maertz et al., 2009; Selmer, 2001a; Toh and DeNisi, 2007; Vance et al., 2014; Wang and Varma, in press). These scholars argue that the expatriate–HCN interactions, when properly configured, could result in a significantly more productive adjustment and performance experience for expatriates. The logic here is clear—HCNs have the knowledge needed by expatriates and can offer them the support they are in need of, while expatriates can bring new knowledge, practices and exposure to a global perspective for the HCN. Thus, the expatriate–HCN interactions can simultaneously exploit complementary synergies and promote mutually beneficial supportive behaviors.
Ironically, the limited empirical evidence in favor of this argument has primarily concentrated on examining the antecedents of HCN categorization of expatriates (see Varma et al., 2006). Along the same lines, researchers have also raised the possibility that expatriate–HCN interactions could strengthen or worsening relationships between expatriates and HCNs (Bonache et al., 2016; Maertz et al., 2016; Toh and DeNisi, 2007).

To address this lacuna, our paper departs from published expatriate and HCN literatures and contributes to the literatures in two key ways. First, we not only recognize and emphasize the importance of creating opportunities for interactions between expatriates and HCNs, our work also answers the call for research to explore the underlying mechanisms through which expatriate–HCN interactions influence both expatriates and HCNs (Takeuchi, 2010). Second, we extend this line of inquiry by examining whether expatriate–HCN interactions can be best utilized to lower the likelihood that both HCNs and expatriates will consider the other party as outgroup members. In this connection, prior research has primarily drawn upon the social categorization perspective (cf. Bader, 2017; Toh and DeNisi, 2007) to examine expatriate–HCN relationships and argued that characteristics such as nationality, ethnicity and status difference are salient to HCNs. In other words, if HCNs categorize expatriates as outgroup members, they will be less likely to offer support to expatriates (see Varma et al., 2006; Varma, Budhwar and Pichler, 2011). More specifically, we seek to contribute to research on expatriate–HCN interactions by drawing upon Allport’s (1954) intergroup contact theory to help inform how and when the critical and complex roles of expatriate–HCN interactions as a process unfold over time and arrive at what we call the effectiveness of the expatriate–HCN relationship. This is a perspective that has been neglected in previous examinations, which we explain in more detail below.

The remainder of this paper is structured as follows. First, we discuss intergroup contact theory and its implications for expatriate–HCN relationships. More specifically, we focus on the actual face-to-face interaction because it is these interactions that have been studied most frequently in the intergroup contact literature (Pettigrew and Tropp, 2006) and argued to be the most effective form of interaction to improving intergroup relations (MacInnis and Page-Gould, 2015). Such focus also corresponds to how researchers in the expatriate literature examine expatriate–HCN interactions (e.g. Froese et al., 2012; Wang and Varma, in press). Thereafter, we present a process model of expatriate–HCN interpersonal interactions to effectiveness of expatriate–HCN relationship and justify our propositions. Finally, we discuss theoretical and practical implications, as well as offer suggestions for future empirical tests of our proposed model.

**Theoretical background**

*Intergroup contact theory*

For well over a half century, Allport’s (1954) intergroup contact theory has informed the study of intergroup relations (for reviews, see Al Ramiah and Hewstone, 2013; Pettigrew, 1998). Written at the time of increasing inter-racial conflicts in the USA following the Second World War, the general principle of the theory is that frequent interactions between members of different racial groups (i.e. ingroup vs outgroup) can lead to more positive intergroup attitudes. To test this theory, Pettigrew and Tropp (2006) conducted an extensive meta-analysis of 515 studies and reported a significant and negative relationship between intergroup contact and intergroup prejudice. We argue that intergroup contact theory may help shed light on creating positive expatriate–HCN relationship because the majority of the sample in the Pettigrew and Tropp’s (2006) meta-analysis was racial or ethnic groups, which corresponds closely to the majority of expatriate–HCN relationships where racial identity and national origin are salient. Furthermore, it should be pointed out that positive effects of intergroup are not simply determined by the quantity of contact – instead, the quality of
contact is also a key determinant. As Allport (1954, p. 261) himself noted, “The case is not so simple,” emphasizing the complex nature of intergroup contact whereby proper configurations of expatriate–HCN interactions are critical, otherwise interactions between the two parties involved could actually decrease, and/or lead to increase in intergroup prejudice and conflict as previously suggested (e.g. Maertz et al., 2016).

In the next section, we apply the components of intergroup contact theory in the context of expatriate–HCN interactions and develop propositions regarding how and when such interactions lead to less negative stereotypes, and what effects are beneficial to the effectiveness of the expatriate–HCN relationship. More specifically, we develop a process model that explains how the interactions between expatriates and HCNs reduce their negative stereotypes about each other (e.g. lessen feelings of anxiety about interactions with each other), when the effects of these interactions can be strengthened (e.g. a high level of perceived common goals and cooperation with each other) and the resultant effects on what we term the effectiveness of the expatriate–HCN relationship (e.g. the improved adjustment and performance of the expatriate/HCN). In addition, the improved effectiveness of the expatriate–HCN relationship would increase future interactions between the expatriate and the HCN, as well as motivate other expatriates and HCNs to engage in interactions with each other. Please see Figure 1 for a depiction of our proposed model.

**How do interpersonal expatriate–HCN interactions allow the HCN and the expatriate to become acquainted with each other?**

Pettigrew and Tropp (2008) highlighted three mechanisms that mediate the effect of intergroup contact on prejudice, which can be drawn upon to explain how the expatriate and the HCN become acquainted with each other as a result of their interactions. In addition, we also propose adding a fourth mechanism, self-disclosure directed toward the other person in the expatriate–HCN dyad.

*Learning about the other member of the dyad*

It is quite likely that without previous experience, either through working with another expatriate (or HCN) or living for a reasonable period of time in a foreign country, HCNs (expatriates) may likely hold knowledge of the expatriate (HCN) based on his or her national origin, which is often inaccurate or outdated (Bonache et al., 2016; Selmer, 2001a).

![Figure 1. A process model of expatriate–HCN interpersonal interactions to effectiveness of expatriate–HCN relationship](image-url)
Indeed, studies from the intergroup contact literature have found that interactions with outgroup members allow ingroup member to gain new and non-stereotypic views about the outgroup and recognize the similarities that they share (Pettigrew and Tropp, 2008; Wright et al., 1997). In other words, interactions with an outgroup member could lead to personalization of that outgroup member, which brings the two together. Black (1988) argued that interactions with HCNs allowed expatriates to obtain better understanding of the host country context-specific knowledge. In a qualitative field study, Vance and Paik (2005) found that frequent interactions with expatriates enable HCNs to develop cultural understanding of expatriates’ behaviors. Researchers have also suggested that interactions with the expatriate could provide the needed opportunities for HCNs to learn about the cultural values of expatriates and to even realize that they have more in common with expatriates than they once thought (Toh and DeNisi, 2005, 2007).

Moreover, Nardon and Steers (2014) recently discussed the importance of developing awareness of the different contexts (e.g. cultural–institutional, organizational and situational) in the expatriate–HCN relationship which depends on expatriates and HCN constantly negotiating with and learning from each other about the most effective ways of collaborating together. Further support for this proposition comes from an experimental study by Thomas and Ravlin (1995), whereby frequent interactions with the expatriate allowed the HCN to observe the expatriate engaging in behaviors that matched the norms of the host country. Similarly, Varma, Pichler and Budhwar (2011) reported that perceptions of values similarity are likely to increase the probability that HCNs would offer support to expatriates. Therefore, the following is proposed:

**P1.** Frequent interpersonal expatriate–HCN interactions will result in an increase in the quality and quantity of information gathered about each other, by both the HCN and the expatriate.

Reduced anxiety

When anticipating meeting someone from a different group identity, there is often a feeling of anxiety which is exacerbated when such individuals actually meet and interact with another person (Stephan and Stephan, 1985). Similarly, researchers in the expatriate literature have long known that there is some degree of anxiety when expatriates and HCNs interact, as each might see the other as a member of an outgroup (Black and Stephens, 1989). In these cases, the goal of both individuals would be to work toward reduced anxiety, which refers to the extent to which the HCN and the expatriate feels less anxiety when interacting with each other.

There is some evidence that suggests that frequent interactions with HCNs lead to greater interaction adjustment with HCNs for expatriates (Johnson et al., 2003; Liu and Shaffer, 2005), which refers to the degree of comfort felt by expatriates when interacting with HCNs (Black and Stephens, 1989). Examining the interaction from the HCN standpoint, Wang (2007) found that the amount of interaction HCNs had with expatriates in a week was positively related to the degree of psychological comfort experienced by HCNs in interacting with expatriates. In this connection, intergroup research suggests that the feeling of anxiety can be reduced by frequent interactions with outgroup members (e.g. Paolini et al., 2016). Therefore, the following is proposed:

**P2.** Frequent interpersonal expatriate–HCN interactions will lead to reduced anxiety being experienced by members of the dyad about interacting with each other.

Perspective taking and empathy

Given the unique contextual realities of working in a new country, expatriates often experience greater levels of difficulties than at home in numerous critical matters—for
instance, issues of differences in language, cultural values, political systems and work
requirements (Brookfield Global Relocation Services, 2015; Shin et al., 2007). Similarly, HCNs
often go through a period of uncertainty, intensive socialization and low perceived
adjustment when working with expatriates because of differences in cultural values and
managerial preferences (Shay and Baack, 2004; Vance and Ensher, 2002). In this connection,
empirical studies in the intergroup literature have demonstrated that frequent interactions
with the outgroup members can induce greater perspective taking about them and empathy
toward them (Abbott and Cameron, 2014; Aberson and Haag, 2007; Batson et al., 1997).
Perspective taking and empathy occur when the HCN takes the perspective of the expatriate
and develops empathic feelings toward the expatriate and, similarly, when the expatriate
takes the perspective of the HCN.

Related to expatriate–HCN interactions, Caligiuri (2000) suggested that the more
interaction a person has with people of other cultural backgrounds, the more positive his or
her attitudes toward that cultural group will be. Similarly, Liu and Shaffer (2005) found the
level of closeness that expatriates felt to have with HCNs to be positively correlated with the
degree of empathy that expatriate perceived HCNs have about them. Taking this idea a step
further, Farh et al. (2010) recently proposed that the HCN’s ability to help the expatriate is a
function of both the HCN’s host country expertise and empathic feelings toward the
adjustment of the expatriate. Thus, it is not surprising that researchers have often
conceptualized social interactions to go hand in hand with cultural empathy when
measuring one’s cross-cultural effectiveness (Cui and Van Den Berg, 1991). Therefore, the
following is proposed:

**P3.** Frequent interpersonal expatriate–HCN interactions will lead to the HCN’s
(expatriate’s) development of perspective taking about the expatriate (HCN) and
empathic feelings toward the expatriate (HCN).

**Expatriate and HCN self-disclosure**

Self-disclosure refers to the expatriate and the HCN disclosing personal information to the
other party, especially information of a personal nature, such as a cultural-adjustment
problem that is causing anxiety to the expatriate (Miller, 2002). Similarly, the HCN might
disclose being upset about a compensation-related equity issue, since she/he is probably well
aware that the expatriate is being compensated at a higher rate for the same task (see Toh and
DeNisi, 2003, for a detailed discussion of expatriate compensation-related issues).

Although expatriates often face great difficulties over the course of the assignment, there
is increasing evidence to suggest that HCNs may not be aware of the difficulties, needs and
sacrifices that expatriates bear (Chao and Sun, 1997; Bonache et al., 2009). Similarly,
expatriates may not always be aware of the emotions experienced by HCNs as result of
becoming aware of the differential treatment given to expatriates. Given that self-disclosure
has been linked with several indicators for positive interpersonal relationships, for instance,
liking (Collins and Miller, 1994) and helping (Dovidio et al., 1997), we expect that expatriate
and HCN’s self-disclosure may be of particular value in improving their working
relationships. In this regard, Pettigrew (1998) suggested that frequent interactions with
outgroup members make self-disclosure possible and more likely. Indeed, in later intergroup
studies (Tam et al., 2006; Turner et al., 2007), a positive relationship between intergroup
contact and self-disclosure was observed. Building on the above evidence, we surmise that it
is likely that frequent interactions with each other could provide opportunities for the HCN
and the expatriate to disclose some of the difficulties being faced by each other when
brought together by the company to work. Therefore, the following is proposed:

**P4.** Frequent interpersonal expatriate–HCN interactions will result in increased
self-disclosure to the other.
Under what mechanisms do interpersonal expatriate–HCN interactions lead to less stereotypical beliefs about each other?

In the previously mentioned meta-analysis by Pettigrew and Tropp (2008), they found that intergroup contact reduces the ingroup’s prejudice toward the outgroup through three mechanisms: the enhancement of knowledge about the outgroup, the reduction of anxiety about intergroup interaction and the enhancement of empathy and perspective taking. In the intergroup contact literature, these mediating effects were later confirmed in a longitudinal study by Swart et al. (2011). Moreover, Turner et al. (2007) conducted multiple studies and found that the outgroup’s self-disclosure (as well as the reduced anxiety) mediated the effects of intergroup contact on the ingroup’s prejudice toward the outgroup. The results of these studies conform the mediating role of our four proposed mechanisms in the intergroup contact–prejudice relationship. Therefore, building on the intergroup contact literature and what we proposed earlier, taken in combination, we expect that in the context of expatriate–HCN dyads, frequent interpersonal interactions will allow each individual to see the other less stereotypically because the interactions allow them to know more about each other, to reduce the anxiety about interacting with the other, to think from the perspective of the other member of the dyad, to develop empathic feelings about the other and to engage in self-disclosure to the other. Therefore, the following is proposed:

P5. Frequent interactions between the HCN and the expatriate will reduce their stereotypical beliefs about each other because frequent interactions help them to learn about each other, experience reduced anxiety about interactions, develop perspective taking and empathy, and engage in more self-disclosure.

When will interpersonal expatriate–HCN interactions become more effective?

Allport (1954) proposed that the positive effects of intergroup contact rest on four optimal conditions: the group status needs to be equal when members of different groups interact, groups need to have common goals, groups need to demonstrate interdependent cooperation to achieve those common goals and the external environment needs to be supportive. Meta-analytic evidence in the intergroup contact literature supports his argument – intergroup contact has been found to lead to significantly higher prejudice reduction when levels of these four conditions were high as opposed to low (Pettigrew and Tropp, 2006). Next, we apply these optimal conditions in the expatriate–HCN context to illustrate when the effects of interpersonal expatriate–HCN interactions would be more effective.

The HCN’s perceived equal status with the expatriate

To motivate employees to accept and complete the expatriate assignment, MNCs often increase their compensation and offer them various allowances and bonuses (Bonache et al., 2009), such as hardship allowances, since they may have to live in a country where the conditions may be rather different from that they are used to back home. Consequently, on average, the income of an expatriate can be two to five times as much as his or her host counterparts. This approach often results in some HCNs being compensated at a much lower level than expatriates even when they hold similar jobs and possess similar qualifications as those expatriates. As a result, perceived pay inequities are likely to be an inevitable attribute in the context of expatriate–HCN relationships and a major concern in the expatriate–HCN relationship building, especially for HCNs (Toh and DeNisi, 2003). We argue that one of the most critical determinants of the HCN’s perceived equal status with the expatriate is the extent to which the HCN perceives the expatriate’s compensation to be fair and justified.
There are two critical reasons behind this argument. First, as Chen et al. (2002) found, HCNs perceived less compensation fairness when they compared their compensation with expatriates than with other HCNs. Indeed, Toh and DeNisi (2003) argued that when HCNs interact with expatriates more frequently, HCNs would more likely to compare their compensation packages with expatriates, and they are likely to experience relative deprivation. This relative deprivation possibly causes HCNs to withdraw their support to expatriates or even to engage in counterproductive work behaviors toward expatriates (see also Toh and DeNisi, 2005). Other researchers have also found that HCNs’ perceived compensation-oriented inequity with expatriates to be positively related to HCNs’ turnover intention (Chen et al., 2002). In keeping with the rationale described here, it is likely that the effects of expatriate-HCN interactions will be heavily dependent on the HCN’s perceptions of expatriate compensation fairness. More specifically, the effects of expatriate-HCN interactions are likely to be more effective when the HCN perceives the expatriate counterpart’s compensation to be fair and justified. For instance, Bonache et al. (2009) argued that knowledge of expatriates’ unique contributions and their special needs can offset the negative impact of compensation gap between expatriates and HCNs.

Finally, the evidence for the moderating effect of perceived equal status can be taken from Leonardelli and Toh (2011), whereby the authors found, in two independent samples, that social categorization led to greater cooperation toward expatriates only when HCNs reported high levels of procedural justice. Thus, we expect that the expatriate-HCN interactions will be moderated by the HCN’s perception of equity, such that when the HCNs perceived equitable status when comparing with expatriates, the expatriate-HCN interactions will be more effective, compared to the interactions under conditions where the HCN perceives inequity. Therefore, the following is proposed:

P6. The expatriate-HCN interpersonal interactions will be more effective when the HCN perceives that she/he is accorded equitable status with the expatriate, through pay fairness.

Perceived common goals and cooperation with each other
The positive effects of intergroup contact have been demonstrated across a variety of contexts in previous intergroup contact literature, in environments as diverse as athletic teams to classroom groups (Pettigrew, 1998). What is common is the fundamental notion that contact is more effective when members of different groups have a common goal that requires interdependent effort, instead of intergroup competition. Thus, to maximize the effects of contact, intergroup contact researchers have argued that common goals and cooperation are interdependent and should be implemented together (Pettigrew and Tropp, 2006). Further, intergroup contact researchers have also demonstrated the importance of having both conditions present for intergroup contacts to be most effective (Gaertner et al., 1990). Recently, researchers in the expatriate area have also pointed out the importance of having expatriates and HCNs work interdependently while the two parties trying to achieve the common goal – that is, two-way knowledge sharing (Heizmann et al., 2018). In this sense, we combine the original two separate conditions as one in the context of expatriate-HCN interactions simply because having a common goal when it is isolated from interdependent effort is not sufficient enough for the positive effects of expatriate-HCN interactions to emerge (or vice versa).

We propose that when the levels of common goals and cooperation are high, expatriates and HCNs will respond more positively to the four mechanisms proposed earlier (i.e. P1–P4). Previous expatriate studies have found that expatriates reported greater levels of adjustment, socialization, performance and intention to complete the assignment when they engage in mentoring relation with HCNs (Carraher et al., 2008;
Feldman and Bolino, 1999; Mezias and Scandura, 2005). Toh and Srinivas (2012) found a similar relationship from the HCN standpoint where the perceived task cohesiveness with the expatriate was positively related to HCNs going above and beyond their job descriptions to share information with the expatriate. Moreover, researchers have also proposed that assigning common goals and interdependent tasks to expatriates and HCNs helps in creating a superordinate organizational identity that overcomes the "us vs them" mentality and, instead, generates an important sense of shared experiences and fate between the two groups (Bonache et al., 2016; Toh and DeNisi, 2005). On the other hand, even when the expatriate and the HCN are in frequent interactions with each other, we believe that when both sides perceive low levels of common goals and experience low levels of cooperation, they would feel less motivated to engage in further information gathering, perspective taking or self-disclosure during their interactions with each other. In this connection, van Bakel et al. (2016) found that expatriates who were not assigned an HCN as a local host received less support than expatriates who were assigned a HCN host. Thus, we propose that interactions between HCNs and expatriates will be more effective, under conditions of high goal and task interdependencies. In other words, the expatriate–HCN interactions will be moderated by the perceptions of goal commonality and experienced cooperation. As such, we propose:

P7. The expatriate–HCN interpersonal interactions will be more effective when they both perceive common goals and cooperation with each other.

Perception of a supportive work environment

The initial prerequisite condition of a supportive environment in the intergroup contact literature is often deemed critical in the context of societal norms, such as social sanction, desegregation or egalitarianism (Dovidio et al., 2003). In the case of expatriate–HCN interactions, we focus on the supportive norms within the organization, especially the avoidance of ethnocentric policies that favor either the expatriate over the HCN or vice versa, as well as ethnocentric attitudes that indicate one’s (the HCN or the expatriate) tendency to view his or her cultural values and behaviors to be superior to those of others. Why would a supportive work environment enhance the effects of expatriate–HCN interactions? Here, organizational support theory suggests that when employees experience high levels of support from the organization, supervisors and coworkers, they reciprocate with strengthened commitment and increased citizenship behaviors that are helpful to others in the organization (Kurtessis et al., 2017). On the other hand, an unsupportive environment (i.e. high degree of ethnocentric policies and attitudes) is likely to be harmful to expatriate–HCN relationships. Previous research has examined this from both expatriate and HCN standpoints and found ethnocentrism to be negatively associated with expatriate adjustment and commitment to the host unit (Caligiuri et al., 2016; Florkowski and Fogel, 1999; Shaffer et al., 2006; Templer, 2010), specifically impacting the expatriates’ levels of comfort when interacting with HCNs. Furthermore, researchers have proposed that ethnocentric attitudes could negatively impact cross-cultural interactions between expatriates and HCNs (Thomas, 1996), and that ethnocentric policies could decrease the willingness of HCNs to offer support to expatriates (Toh and DeNisi, 2005, 2007). In support of this view, Varma et al. (2012) found HCNs’ ethnocentric attitudes to be negatively related to their willingness to offer support to expatriates. Recently, Bonache et al. (2016) also argued for the importance of promoting diversity in MNCs to minimize HCNs’ (or expatriates’) negative stereotypes toward expatriates (HCNs). In summary, it is clear that expatriate–HCN interactions will be more effective when both parties perceive, and experience, low levels of ethnocentrism, both in terms of organizational policies and co-worker attitudes/behavior. Again, as earlier, the expatriate–HCN interactions will be
moderated by the expatriate and HCN perceptions of ethnocentrism in the workplace. Accordingly, we propose:

\[ P8. \] The expatriate–HCN interpersonal interactions will be more effective when both perceive and experience lower levels of ethnocentrism in the workplace, in terms of policies, as well as from each other.

How do the reduced stereotypes about each other enhance the effectiveness of the expatriate–HCN relationship?
In the following sections, we take on a broader perspective on expatriate–HCN relationship effectiveness. More specifically, we not only include the commonly investigated outcomes of expatriate–HCN relationship (i.e. adjustment, performance and knowledge transfer of the expatriate and HCN; Takeuchi, 2010), but we also integrate a discussion of how the expatriate–HCN relationship can be understood as a continuous (i.e. the feedback loop) and a spreading (i.e. the spillover effect) process whereby positive outcomes of the expatriate–HCN relationship will lead to more and wider expatriate–HCN interactions in the future.

The success of expatriates and HCNs
In this section, we argue that as a result of frequent interpersonal expatriate–HCN interactions, the expatriate and the HCN should not only experience high levels of adjustment and performance, but also engage in higher levels of knowledge transfer with each other as well, which we refer to as “expatriate and HCN success” here. Furthermore, this relationship will be mediated by the support they receive from each other. Support is chosen for two reasons. First, past intergroup research has argued that negative stereotypes about the outgroup are related to the lower level of support to the outgroup (Dovidio et al., 1997; Fiala et al., 1999). Second, the support that the expatriate and the HCN receive from each other has been the most studied factor, whether as antecedents or as outcomes, in the expatriate literature (Heizmann et al., 2018; Takeuchi, 2010). With regard to the support, past expatriate studies have found HCN support to be positively associated with having positive emotions and attitudes toward the expatriate, such as interpersonal affect (Varma, Budhwar and Pichler, 2011) and trust (Toh and Srinivas, 2012). In a recent conceptual paper, Bonache et al. (2016) suggested that HCNs’ stereotypes about expatriates are associated with lower levels of adjustment and performance for expatriates. As previously mentioned, past expatriate studies have provided strong empirical evidence for the associations between the HCN support and expatriate success (Bhaskar-Shrinivas et al., 2005; Liu and Shaffer, 2005; Mahajan and Toh, 2014; Toh and DeNisi, 2007), and between the expatriate support and HCN satisfaction (Shay and Tracey, 2009) and commitment (Shay and Baack, 2006). Taken together, the previous arguments and evidence seem to suggest that reduced negative stereotypes about each other positively enhance expatriate and HCN success through greater levels of support to each other.

Finally, accumulating evidence suggests that expatriates are increasingly viewed as knowledge transfer agent among MNC units (Shin et al., 2017; Harzing et al., 2016). More importantly, the knowledge transfer process between expatriates and HCNs is two-way and extends beyond the duration of the expatriate assignment (Oddou et al., 2013). For example, in a longitudinal investigation, Reiche (2012) found that HCNs play a prominent role in expatriates’ access to and transfer of host-unit knowledge upon repatriation. With regard to the willingness of HCNs to engage in information sharing with expatriates, Toh and Srinivas (2012) found it to be positively associated with HCNs’ trust toward expatriates. Vance et al. (2014) suggested that HCNs are able to assist expatriates to not only transfer knowledge from headquarters to host units and but also to obtain both internal (formal and informal) and external knowledge that expatriates could go on to transfer among units of a MNC. To do this more effectively, Vance et al. (2014) further argued that HCNs are best able to support

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expatriate and engage in knowledge transfer process with the expatriate when they are aware of his or her specific needs. Along the same lines, Heizmann et al. (2018) suggest that both expatriates and HCNs need to show empathetic feelings toward each other if they wish to increase the two-way knowledge sharing between them. All of these conditions are reflected in our four mechanism propositions (i.e. P1–P4). Accordingly, we propose:

**P9.** A reduction in the HCN’s (expatriate’s) stereotypes about the expatriate (HCN) would lead to higher levels of support provided to the other party which improves the adjustment and performance of the expatriate (HCN) and the knowledge transfer between the expatriate and HCN.

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*The dynamic nature of interpersonal expatriate–HCN interaction: the feedback loop and the spillover effect*

Researchers in the intergroup contact area have traditionally examined intergroup contact and its effect on prejudice without considering the important role of time. Only recently has the notion of intergroup contact as a dynamic process been acknowledged in the literature (Pettigrew and Tropp, 2013). In the context of expatriate–HCN interactions, researchers have also provided some evidence and arguments for the idea that the end result of frequent expatriate–HCN interactions – higher levels of expatriate and HCN success – could lead to more interactions between the HCN and the expatriate in the future and creates a positive expatriate–HCN working relationship that promotes other expatriates and HCNs to interact with each other. For instance, Shay and Baack (2006) found that expatriate adjustment was positively related to HCN evaluations of contextual performance from expatriates. On the other hand, Selmer (2001b) found that the inability to adjust to the host culture was negatively linked with expatriates’ desire to be socially involved with HCNs. Taking this argument one step further, Farh et al. (2010) argued, from a social exchange perspective, for the influence of enhanced expatriate adjustment as the result of HCN support on the expatriate’s reciprocal support to the HCN, as well as, the HCN’s willingness to support the expatriate when requested in the future. Thus, we argue that the success of expatriate and HCN eventually leads to a creation of a feedback loop from the enhanced adjustment and performance of the expatriate and HCN, as well as effective knowledge transfer between the expatriate and HCN back to expatriate–HCN interpersonal interaction, most likely resulting in higher willingness to engage in future interactions for both parties. Accordingly, we propose:

**P10.** There is a mutually reinforcing feedback loop between expatriate and HCN success and the expatriate–HCN interpersonal interaction, whereby positive initial interactions can lead to better and more productive future interactions.

One ongoing stream of research in the intergroup literature is concerned with the extended contact effect (Vezzali et al., 2017), which suggests that knowing that members of one’s own group (e.g. expatriates) have friends in another group (e.g. HCNs) would enhance one’s positive attitudes and expectancies about interacting with members of another group. Accumulating evidence in intergroup literature suggests this to be the case (e.g. Gómez et al., 2011; Turner et al., 2007). In the context of expatriate–HCN relationships, Joardar et al. (2007) found that HCNs were more likely to show greater acceptance of expatriates who have demonstrated appropriate cultural behaviors toward other HCNs in an experimental study. Hence, we argue that seeing an expatriate and a HCN have enjoyed the benefits of their interpersonal interactions (e.g. high levels of performance and knowledge transfer), other expatriates and HCNs would be more likely to engage in similar interactions of their own too. Accordingly, we propose:

**P11.** There is a spillover effect from expatriate–HCN interaction success, such that other expatriates and HCNs would want to engage and interact with the other party.
Discussion

Theoretical implications

Given that HCNs play a critical role in facilitating the adjustment and performance of expatriates and are also impacted by the presence of expatriates in their mindset, our process model of expatriate–HCN interactions offers a number of important theoretical contributions to the understanding of the effectiveness of the expatriate–HCN relationship. At a broader level, addressing the recurring calls for researchers to examine how HCNs impact expatriate success (Takeuchi, 2010; Toh and DeNisi, 2007), this paper adopts the intergroup contact theory, one of the most effective means to improving intergroup relations (Al Ramiah and Hewstone, 2013). As such, our first major contribution lies in suggesting not only increased but also constructive expatriate–HCN interactions as a possible strategy to facilitate positive expatriate–HCN communication and relationships.

As discussed earlier, because of the nature of the expatriate assignment, HCNs often categorize expatriates as outgroup members, and when they do engage in such categorization behavior, they become less willing to offer support to expatriates (Toh and DeNisi, 2007; Varma et al., 2006). The present model extends the dominant social categorization view of the expatriate–HCN relationship by drawing upon the intergroup contact literature to suggest that interpersonal expatriate–HCN interactions are effective in reducing their negative stereotypes about each other, which, in turn, should increase their willingness to offer support to and engage in knowledge transfer with each other. We suggest that even when expatriates are perceived as outgroup members by HCNs, organizations can get HCNs to support expatriates (or vice versa) by configuring and promoting interactions between the two.

Next, the present model also provides additional insights into how and when expatriate–HCN interactions lead to greater effectiveness of expatriate–HCN relationship. In a review of the expatriate literature, Takeuchi (2010) noted that previous studies have often taken the social network perspective when examining the HCN’s role on expatriate adjustment and performance, yet little is known about “the specific mechanisms that link variables associated with HCNs to expatriates’ cross-cultural adjustment” (p. 1057). We propose that frequent interpersonal interactions between expatriates and HCNs will help both to become better acquainted with each other (i.e. P1–P4), thus leading to reduced negative stereotypes. As previously noted, researchers in the past have argued that expatriate–HCN interactions could strengthen or worsen relationships between expatriates and HCNs (Bonache et al., 2016; Maertz et al., 2016; Toh and DeNisi, 2007). In the present model, we offer three distinct ways that the effects of expatriate–HCN interactions could be positive: the HCN’s perceived equal status with the expatriate, perceived common goals and cooperation between the expatriate and the HCN and perception of a supportive work environment for both the expatriate and the HCN. In other words, we believe that these moderators play a critical role in determining the outcome of expatriate–HCN interactions. Next, by highlighting the conditions where interpersonal expatriate–HCN interactions might have the most productive impact on expatriate and HCNs, we have not only helped to identify circumstances where interactions might be negatively affecting their attitudes about each other (Bonache et al., 2016; Maertz et al., 2016; Toh and DeNisi, 2007; van Bakel et al., 2016), but also added to examinations of the influence of expatriates on HCNs and vice versa which has been lacking in the expatriate literature (cf. Takeuchi, 2010).

Finally, our model proposes a new concept, the effectiveness of the expatriate–HCN relationship, that is to say that frequent expatriate–HCN interpersonal interactions will not only enhance the adjustment and performance of the expatriate and the HCN, and the knowledge transfer between the two parties, but also these perceptions of expatriate and HCN success will then cycle back into more future interactions between the expatriate and HCN (i.e. the feedback loop), as well as more incentives for other expatriates and HCNs to engage in expatriate–HCN interpersonal interactions (i.e. the spillover effect).
Suggestions for empirical testing

As we can see, our model proposed that expatriate–HCN interactions evolve over time. Accordingly, we suggest that the model should be tested with a longitudinal design (e.g., Swart et al., 2011). Furthermore, measurements should be obtained from both HCNs and expatriates. Such multiple-source data set would contribute greatly to the expatriate literature, given that hitherto most studies have examined expatriate–HCN relationships using single-source data (Takeuchi, 2010).

Next, two unique contextual factors that can impact expatriate–HCN interactions should be acknowledged and examined by future research. The first is to explore our propositions in diverse cultural environments and with different HCN and expatriate types. For instance, we argue that equal status is important for HCNs, however, how this issue operates in high vs low power distance is worthy of attention (Carl et al., 2004). Second, as Pittinsky and Montoya (2009) argued, in some cases, HCNs may be motivated to befriend and support expatriates due to feelings of “allophilia (i.e. positive attitudes or unqualified liking for a specific outgroup).” In this case, HCNs would likely go out of their way to help the expatriate as she/he would be seen as an outgroup member for whom the HCN feels an unexplained affinity (for a discussion of the different HCN types, please see Caprar, 2011).

Third, future researchers should be mindful of potential differences between company-sponsored and self-initiated expatriates on our proposed model[1]. For example, when compared to company-sponsored expatriates, self-initiated expatriates likely already possess superior cross-cultural interaction skills and knowledge about the host country (Tharenou, 2013), and these characteristics are likely to lower the effects of $P1$–$P5$ for self-initiated expatriates. Moreover, self-initiated expatriates are often hired at the host country and on a local compensation package which suggest that HCNs will likely perceive pay fairness (i.e. $P6$) less of an issue when working with self-initiated expatriates, as opposed to company-sponsored expatriates. On the other hand, what we refer to as the success of expatriates and HCNs is likely to be more critical for company-sponsored expatriates because they are commonly tasked with transferring knowledge among MNC units and also developing HCNs (Tungli and Peiperl, 2009). As researchers have shown that HCNs were more likely to provide support to expatriates of similar rank than higher rank (Varma, Pichler and Budhwar, 2011), future empirical work should also consider the relative status of the expatriate and HCN.

Last, but not the least, researchers (e.g. Black and Mendenhall, 1991; Johnson et al., 2003) have suggested that expatriates could also interact with other HCNs, in general, outside of work to learn about the host culture. Although this paper focuses on HCNs as the expatriate’s colleagues within the organizational setting, we believe that most of our propositions should be appropriate in examining the interactions between expatriates and HCNs outside the organization and could be adapted where and as necessary. For example, Takeuchi et al. (2007) suggested that participating in their children’s school functions allows expatriates to interact with HCNs outside of work and to work with those HCNs to achieve common goals of addressing the needs of their children. We would encourage future research to consider the effects of both expatriate–HCN interactions at work and outside of work.

Managerial implications

Our model offers practitioners several valuable insights on expatriate–HCN management, if supported empirically. First, the present model illustrates how expatriate–HCN interpersonal interactions can be viewed as a continuous process that can lead to effectiveness of the expatriate–HCN relationship (see Figure 1). From the onset, MNCs should increase the interaction between expatriates and HCNs both during (e.g., work projects) and after (e.g., social events) work (see Toh and DeNisi, 2005; Wang and Varma,
in press, for discussion). More specifically, MNCs could ask managers to develop and implement projects where expatriates and HCNs could work side by side. Some of these projects could also be consciously designed to require both the expatriate and the HCN to seek help from the other party. Similarly, each expatriate could be assigned one (or more) HCN “buddy” on arrival. It would be this HCN’s responsibility to ensure that the expatriate is provided with any and all information that he/she may stand in need of—either in terms of work or regarding living in the community. In keeping with this theme, HCN managers should ensure that expatriates are seated in close proximity to HCNs as this would foster informal interactions. Finally, expatriate should be invited to all social events, to help them feel comfortable and part of the new “family” so to say.

Second, besides suggesting that MNCs should configure more formal and informal opportunities for HCNs and expatriates to interact, the present model points out that MNCs should also ensure the conditions where these interactions take place are constructive to help reduce their stereotypes about each other, rather than increase those. First, HCNs should perceive the expatriate’s compensation to be relatively fair and justified, so they may perceive group status between the expatriates and themselves to be equal. To do this, MNCs can exercise a number of tactics to increase the HCN perceptions of pay fairness, such as enhancing expatriates’ interpersonal sensitivity toward HCNs (Chen et al., 2002) and creating a trusting climate within the organization (Leung et al., 2014), involving HCNs in decision-making processes with expatriates (Leung et al., 2011), and highlighting expatriate contributions and their special needs during the assignment (Bonache et al., 2009). Second, MNCs should establish clear, common goals, and promote cooperation within the expatriate–HCN relationships. To achieve this, MNCs may find it worthwhile to use practices such as formal (Carraher et al., 2008) or informal (Mezias and Scandura, 2005) mentoring, buddy (Toh and DeNisi, 2005), knowledge liaison (Vance et al., 2014) and hosting (van Bakel et al., 2016) systems where both the expatriate and the HCN are instructed to pursue common goals. Furthermore, MNCs may consider the use of group-based pay, where practical and appropriate, as it has been linked to fostering cooperative effort in teams (Kim and Gong, 2009). Third, MNCs should minimize ethnocentric policies and attitudes that might be harmful to the expatriate–HCN relationships. To do this, the headquarters of MNCs should avoid filling key positions in host organizations only with expatriates, without justification (Harzing, 2001). The host subsidiaries should avoid giving HCNs information or training about the expatriate that might increase HCNs’ ethnocentric attitudes toward the expatriate and in general, select HCNs lower on ethnocentrism, especially if there is a large presence of expatriates in subsidiaries. Finally, when offering information to both parties (HCNs and expatriates) about the other’s culture and country, MNCs should make sure to emphasize the similarities—this may help to make both recognize that they are not that different, after all.

Conclusion
As the demand for qualified professionals to take on expatriate assignments continues to increase, the critical role played by HCN in expatriate success deserves critical attention. Since every expatriate assignment requires expatriates to navigate a series of expatriate–HCN interactions, it is critical that organizations monitor and manage these interactions well. When managed well, these expatriate–HCN interactions have the potential to raise performance levels of both individuals, and the organization—left alone, these interactions could result in a number of possible outcomes—from productive to neutral to negative. As Liu et al. (2018) argued, “Understanding intercultural dynamics in competition and cooperation can help individuals and managers in multinationals and born global organizations navigate cultural complexity and foster cooperation” (p. 2).
1. The authors thank an anonymous reviewer for this insightful suggestion.

References


**Further reading**


**About the authors**

Chun-Hsiao Wang is Assistant Professor at the National Central University. He received a PhD Degree from the McMaster University. His research interests include international assignments, organizational citizenship behavior and strategic human resource management. Chun-Hsiao Wang is the corresponding author and can be contacted at: wangch@cc.ncu.edu.tw

Arup Varma is Professor at the Quinlan School of Business, Loyola University Chicago. He received a PhD Degree from the Rutgers University. His current research interests are in the areas of expatriate issues, performance management and leader–member exchange.

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Embracing localization: evidence from Western MNEs in Ghana

Theophilus Azungah
Department of Management Studies, Bolgatanga Polytechnic, Bolgatanga, Ghana

Snejina Michailova
Department of Management and International Business, University of Auckland, Auckland, New Zealand, and

Kate Hutchings
Department of Employment Relations and Human Resources, Griffith University, Nathan, Australia

Abstract

Purpose – Despite the growing economic importance of Africa, the region has received scant attention in the international human resource management literature. The purpose of this paper is to address the gap in examining human resource management (HRM) practices in Western multinational enterprises’ (MNEs) subsidiary operations in Ghana, which is a significant foreign direct investment market in Africa. Focusing on recruitment and selection, training and development, performance management, and rewards management viewed through the ability, motivation and opportunity (AMO) framework, the research emphasizes that effectiveness of the MNEs’ cross-cultural operations has necessitated embracing localization across a range of practices in accordance with the Ghanaian cultural landscape and specificities.

Design/methodology/approach – The paper draws on 37 in-depth interviews with managers and employees in eight subsidiaries of British, European and US MNEs in Ghana. Interviews were conducted in 2015 in three locations – the capital city Accra, Tema (in the south) and Tamale (in the north).

Findings – The research reinforces earlier literature emphasizing the importance of paternalism and family and to a lesser extent patronage, but presents new findings in highlighting the erstwhile unexplored role of local chiefs in influencing HRM practices in Western MNEs in Ghana. Utilizing the AMO framework, this paper highlights practices within each HR area that influences performance through impact on employee AMO.

Practical implications – The research informs MNE managers about the strategic importance of observing local cultural practices and designing appropriate strategies for ensuring both operational effectiveness and successful cross-cultural collaboration with local managers and employees in Ghana. It is suggested that if managers implement practices that foster and enhance employee AMO, subsidiaries may benefit from employee potential and discretionary judgment.

Originality/value – This paper contributes to a dearth of literature on HRM practices of Western MNEs’ subsidiaries in Africa by examining the extent to which MNEs strategically localize their practices to accommodate specificities of the host country cultural context and operate successfully.

Keywords HRM practices, Ghana, MNE, Localization, Multinational enterprises

Paper type Research paper

Introduction

Many strategies that have worked elsewhere have failed dismally in Africa because investors have failed to recognize that Africa has a very different landscape and frame of reference to the rest of the world. (Wandile Qokweni, Development Director for Sub-Saharan Africa, Carat; cited in KPMG, 2016)

This paper examines the localization of human resource management (HRM) practices (recruitment and selection, training and development, performance management, and rewards management) in Western multinational enterprises (MNEs) in Ghana. Ghana is an attractive foreign direct investment (FDI) destination. Located in Sub-Saharan Africa, the country is the second largest economy in West Africa and has risen to the fourth position on the Africa

All three authors contributed equally to the paper.
Attractiveness Index as a result of an improvement in the country’s macro-economic environment and strong governance track record (Ernst and Young, 2017). The growth in FDI is significant because of the associated expansion of employment opportunities (Ghana Investment Promotion Center (GIPC), 2016) and the probable implementation of competitive HRM practices. Thus the country is an important location for the study of HRM practices.

As suggested in the opening quote, MNEs that seek to unilaterally implement business practices from their home country in their African subsidiary operations will be very ineffective and suffer commercially. Thus being competitive in African markets requires adjusting practices and rising to the challenges of the specificities of the local cultural context. Despite the continuously increasing interest in emerging economies, HRM in Africa remains under-researched (Dibben et al., 2017) and “silence” is “[…] the one word that has best categorized the strategic management and international business literatures when it comes to Africa” (Mol et al., 2017, p. 3). Irrespective of developed countries holding most of the FDI stocks in Africa (UNCTAD, 2017), there is a “certain “shallowness” of the literature on both HRM and HRD [human resource development] in Western companies in Africa” (Horwitz, 2015, p. 2799). In addition to this, Kamoche et al. (2012) observed that the extant literature on Africa has systematically portrayed Western management practices as incompatible with the African context and noted that a major limitation of this research is its inability to explain specifically the cultural characteristics that trigger the incompatibilities and inappropriateness of Western practices. This paper seeks to add to the limited literature on HRM in Africa by specifically examining HRM practices in Ghana.

As an important economy and location for MNE subsidiaries in Africa, Ghana warrants study in itself. Yet, we contend that our research also has implications for Africa more generally. Though representativeness is not a selection criterion in interpretive case studies research (Stake, 1994) we argue that our findings can, to some extent, be generalized to other countries within Africa with similar cultural features and that cultural practices could be similarly expected to influence HRM practices and as such our research findings may also inform expected experiences in MNEs in some other parts of Africa. This suggestion is in line with what Kvale (1996, p. 233) describes as analytical generalization that “involves a reasoned judgment about the extent to which the findings from one study can be used as a guide to what might occur in another” (see also Sartorius et al., 2011).

Within the limited prior research about HRM practices in Ghana it has been said that, given a British colonial legacy, Ghana has demonstrated limited localization of HRM practices in MNEs’ subsidiaries. Ayentimi et al. (2017) found that some discretion was given to MNCs’ subsidiaries in Ghana for some HRM practices but this was only applicable when headquarters’ (HQ) practices conflicted with local labor laws – and where there was silence in local labor laws HQ policy or practice was replicated without modification. It could also be argued that where there are not specific local labor laws and MNEs are not aware of local practices; they are more likely to use HQ practices. Yet, Debrah (2001, p. 196) cautioned that “traditional Ghanaian behavior, beliefs, practices, and attitudes […] often militate against Western modern management systems and practices.” For instance, certain Ghanaian cultural specifics diverge significantly from the West with regards to the rules of the game pertaining to recruitment and selection. The latter is not necessarily based on merit but on tribalism, corruption, in-group collectivism associated with family ties, religion or ethnic background (Muchiri, 2011), government ministers influencing selection processes and opting for persons who speak the same language. There is also selective patronage with regards to training and development instead of these HR functions being based on needs analysis (Kuada, 2010).

In contributing to the limited research on HRM in Ghana (and to a lesser extent Africa more generally), this research is positioned within broader debates about the extent to which MNEs should adapt their practices cross-culturally and how such practices may contribute to effectively using employees’ abilities, opportunities and motivation to perform
strategically important tasks (Buller and McEvoy, 2012). It is well established that often MNEs’ HQ practices have to be adjusted to comply with local cultural norms and preferences (Björkman and Lervik, 2007; Farndale, 2010; Hannon et al., 1995). Moreover, Laurent (1986, p. 97) emphasizes that “while the global nature of the business may call for increased consistency, the variety of cultural environments may be calling for differentiation.” In this paper, we take the argument a step further and respond to the noted need for context-specific research (Jackson, 2015; Michailova, 2011; Nkomo et al., 2015), by asking:

RQ1. What are the local cultural specificities that shape the application of HRM practices in Western MNEs’ subsidiaries in Ghana?

RQ2. How can local practices contribute to MNE success through strategic utilization of employees’ abilities, motivation and opportunities (AMO)?

The paper is structured as follows: We first outline key issues in the existing literature about the transfer of HRM practices from developed to developing countries. We then draw a sketch of Africa and Ghana with respect to economic importance and cultural characteristics that are likely to influence the transfer and application of HRM practices. This is followed by introducing the AMO framework as our chosen theoretical tool. The methods, results and discussion are then presented. The paper concludes with specifying the research contributions, practical implications, limitations of the study, and future research directions. We demonstrate via the AMO framework how managers can achieve MNEs’ strategic goals through HR practices that are skill-enhancing, motivation-enhancing and opportunity enhancing. HR practices that promote employee abilities, motivations and opportunities may influence business gains in terms of productivity, quality, service, safety and financial returns. The practical implications of this research point to the need for HQ executives in the parent country to carefully evaluate the Ghanaian cultural context before making decisions on the suitability of transfer of particular HRM practices. Cultural characteristics of the host context such as paternalism, high power distance and in-group loyalties will be discussed in relation to implications for HRM functions.

**Transfer of HRM practices from developed to developing countries and why culture matters**

Transfer of HRM practices from the HQ of developed countries’ MNEs to their subsidiaries in developing countries often assumes an aura of ethnocentrism focused on standardization of practices throughout their international operations (Chang et al., 2009). Western MNEs tend to presume to have “advanced practices and a source of competitiveness, corroborated by the global status of the home country” (Chung et al., 2014, p. 551). In an exploratory study into the applicability of Western HRM practices in Algeria, Mellahi and Frynas (2003, p. 75) argue that “while management justifications for the transfer of Western HRM practices capture the economic and technical rationale for Western HRM practices, they fail to identify local conditions under which these HRM practices might be transferred.” Tayeb (2005, p. 102) found that MNE cannot easily change “its host-country employees’ cultural attitudes, values and beliefs from a distance and through rules and regulations.” As HRM deals with people and people are the main carriers of cultural values and dispositions, “the transfer of parent HRM in culturally distant subsidiaries may be not only ineffective but also counterproductive” (Kim and Gray, 2005, p. 823). Mellahi and Frynas (2003, p. 74) further point out that management preposterously and paradoxically argue that the incongruity between cultural norms and work values emanates from the failure of workers to leave “their cultural baggage at the entry point of the company.” Zhao et al. (2005) emphasize that the large cultural gaps between developed and developing countries
contribute to this incongruity. Yahiaoui (2015, p. 1667) views the transfer of HRM practices as a “dual process of contextualization (what meaning do practices have outside their original context?) and re-contextualization (what meaning do they have in a new context?).” Gamble and Huang (2009, p. 1700) emphasize that the “transfer of organizational practices is not an event, but a dynamic, contested and shifting process.” Arguably, transferring Western HRM practices to Africa is likely to be even more contested considering the fact that these MNEs are entering a continent where practices differ considerably from their own.

This paper argues that the transfer of Western MNEs’ HRM practices to their subsidiaries in Ghana potentially creates tension and puts at risk the normative “guardrails” of the host context institutions in terms of local cultural values and practices. In order to gain legitimacy, MNEs localize some of their practices. Nonetheless, MNEs are not passive pawns (Tempel and Walgenbach, 2007); they act strategically to achieve their goals, despite being constrained by normative institutions (Jackson and Deeg, 2008). The latter influences the meaning, interpretation and implementation of foreign practices in these organizations (Anakwe, 2002). It is for these reasons that the transfer of HRM practices is considered a disputed terrain.

The context of the study: a glance at Africa and Ghana

Economic importance
Africa presents significant strategic investment opportunities. Despite a slower growth of FDI globally (Ernst and Young, 2016), Africa’s growth remains relatively strong, attracting large projects in terms of both capital and jobs creation. The capital value of FDI throughout the continent “rose 30 percent, with the average capital investment per project increasing from US$ 97 m to US$ 145 m in the first half of 2015” (Ernst and Young, 2016, p. 5). This is not surprising given Africa has an estimated 30 percent of the world’s mineral resources with rapid growth in the consumer, technology, and service markets (George et al., 2016). MNEs from developed economies remain the major investors in Africa (UNCTAD, 2017); in 2015, the leading investors in Africa were the USA, the UK and France (UNCTAD, 2017).

Ghana, in particular, is an attractive FDI destination. Located in Sub-Saharan Africa, Ghana is the second largest economy in West Africa and has risen to the fourth position on the Africa Attractiveness Index as a result of an improvement in the country’s macro-economic environment and strong governance track record (Ernst and Young, 2017). Ghana was also among the top five host economies in Africa for FDI in 2016, with FDI inflows to the country increasing “by 9 percent to $ 3.5 billion in 2016” (UNCTAD, 2017, p. 47). Ghana advanced to lower middle income status in 2011, with relatively strong democratic institutions, discoveries of oil and gas, and an economic growth rate of 8 percent per annum (Ghana Investment Promotion Center, 2013; IMF, 2013).

Africa: a few cultural specificities
Part of the fascination with Africa is due to her immense cultural diversity – the continent is considered by far the most ethnically and socio-culturally diverse region of the world (Kamoche, 2002; Michalopoulos and Papaioannou, 2015; Osabutey et al., 2015). The huge ethnic, cultural, and linguistic differences have profound influences on “how individuals, groups and organizations relate to one another” (George et al., 2016, p. 381) and impact on how MNEs do business in Africa. European colonization of Africa led to the partitioning of several ethnic groups into different countries and forced heterogeneous groups to share resources. The state of border arbitrariness between African countries has contributed to civil conflict, ethnic rivalries, hatred and violence (Michalopoulos and Papaioannou, 2015). Due to the absence of strong institutions, the role of cultural beliefs and norms, unwritten
rules of behavior, and familial ties has increased (Gardner, 2011; Luo and Tung, 2007),
greatly forming the basis for social contracts and shaping prevailing culturally driven
practices – both in society generally and in business in particular.

Jackson and Horwitz (2017) argue that the instrumental value of employees in a Western
context that serves as the basis for recruitment and selection, training and reward practices
is contrary to the humanistic view which prevails in many African nations where the
individual is valued intrinsically as a member of a community. Moreover, cultural rules
based on tribalism, in-group collectivism, corruption, religious and spiritual orientations,
patriarchy and patrimony (Wanasika et al., 2011) tend to influence all HR functions and how
they are managed. Collectivistic values in Africa emphasize an in-group centered on family
ties and religious or ethnic background with managers focusing on satisfying the interests
of these groups (Muchiri, 2011). Thus, top management are likely to put family and personal
interests first, ethnic interest second and corporate interests third (Wanasika et al., 2011).
Dibben et al. (2017) note that whilst there is use of informal “on the job” approaches, there is
also an extensive reliance on general workforce verbal meetings which are managed
top-down and which limit employee expression of views. Africa’s communal humanism
contrasts markedly with Western individualism/instrumentalism (Horwitz, 2017) in
recognizing the organization as a “nurturing community” (Dobson, 1997, p. 148) that
requires management to be caring and protective of their employees.

Ghana’s cultural distinctiveness
Ghana has over 50 ethnic groups, with each group having its own cultural traditions that
provide identity, self-respect, and pride (Ghana National Commission on Culture, 2004).
Around 50 languages are spoken in the country (Dakubu, 1996), with English being the de
facto lingua franca (Adika, 2012) although only 20.1 percent of the population aged 11 years
and older can read and write in English (Ghana Statistical Service (GSS), 2013). In 2010
71.2 percent of the population were Christians, 17.6 percent were Muslim and 5.2 percent were
traditionalists. While Ghana is a multicultural, multi-ethnic and multilingual society, Gyekye
(2014, p. 161) notes that cultural contacts, exchanges and borrowing or appropriation of
values, ideas, practices and institutions have resulted in “the emergence of common or shared
cultural values and practices that would justify one’s talking of ‘Ghanaian cultural values.’
Social mobility has led to a mix of people from various ethnic groups throughout the country
who maintain ethnic bonds. Yet, ethnic rivalries, coupled with the uneven distribution of both
social and economic amenities during the colonial and post-independence era, have
contributed to some present-day ethnic conflicts. The British colonial powers imposed a
system of indirect rule developed around tribes and chieftaincy and promoted the
development of politicized ethnic identities competing for political and natural resources.
“Ghana has a history of ethnic tensions with individuals and groups have sought ‘alternative
means of protecting their interests’” (Talton, 2003, p. 195). Some ethnic groups felt as second
rate citizens while others are equally fragmented and characterized by internal rivalries
(Asante and Gyimah-Boadi, 2004). Notwithstanding these internal rivalries, certain key
cultural characteristics such as high power distance, paternalism, collectivism, respect for age
and elders and chieftaincy play important roles in the Ghanaian social fabric.

A salient cultural feature pervasive in Ghana is high power distance (Ohemeng, 2009).
Ghanaian workers are submissive to authority and “senior managers perceive the
conspicuous exercise of power as a source of respect and status within their immediate
environment” (Kuada, 1994, p. 172). Managers tend to provide extra opportunities and
privileges to subordinates who are closest and subservient to their interests (Kuada, 1994).
The high power distance fosters top-down communication and centralized decision making,
employees finding it difficult to communicate directly to their superiors and “most
managers fail[ing] to tolerate dissenting views” (Abugre, 2013, p. 36).
Paternalism is another important cultural trait. Managers are expected to provide social, financial, and emotional support to employees (Amoako-Agyei, 2009). Welfare of employees’ families extends to health, education, and rent. Gyekye (2014, p. 227) notes a Ghanaian proverb: onipa ne asem: mef re sika a, siak nnye so, mef re ntama a, ntama nnye so; onipa ne asem which means: “it is the human being that counts: I call upon gold, it answers not; I call upon cloth; it answers not; it is the human being that counts.”

Collectivism, associated with particularism, is another important Ghanaian cultural trait. Kuada (2010, p. 17) likens collectivism in the Ghanaian context to familism where social values are linked to the “maintenance, continuity and functioning of the family group.” Moreover, loyalty to extended family may lead a person to sacrifice organizational goals in order to fulfill the expectations to their family[1]. According to Haybatollahi and Gyekye (2015, p. 27), Ghanaian workers “have a high need for social interconnectedness and mutual dependence and place premium on interpersonal harmony and loyalty, all of which make them feel bound to one another.” The Ghanaian maxim onipa firi soro besi a, obedsi onipa kurom which, in translation, means: “when a human being descends from the heavens, he alights into a human town” implies that the individual is implicated “in a web of moral obligations, commitments, and duties to be fulfilled in pursuit of the common good or the general welfare” (Gyekye, 2014, p. 237). Though many countries are characterized by collectivism, this norm may not extend to formalized institutions or organizations due to deep seated negative feelings about past powerful colonial institutions (Wanasika et al., 2011). Talton (2003, p. 192) argued that "the antagonism that characterise relationships among certain ethnic tribes in Ghana is a product of the British indirect rule which the British developed around “tribe” and “chieftaincy." Groups whose system of authority satisfied British definitions of tribe and chieftaincy were recognized as politically legitimate. “Those that did not were largely disenfranchised. […]” The British fostered the development of politicized ethnic identities. Additionally, ethnic rivalries might also be due to the strength of one’s ethnic identity, which is often equal to (or even stronger) than national identifies (Michalopoulos and Papaioannou, 2015). Social identification characteristics such as ethnicity and languages may serve to reinforce perceived in-groups and out-groups through creating and reinforcing shared social experiences.

Another key Ghanaian cultural value is respect for age and elders. Age is considered a blessing and is correlated with wisdom (Mangaliso, 2015). A long-serving individual is believed to have accumulated valuable experience and important tacit knowledge. Honoring seniority and age encourages individuals to stay longer in their organization (Chen and Miller, 2010). As the elderly are revered in Ghana, it is particularly difficult for younger managers to reprimand, appraise or discipline an elderly person (Ohemeng, 2009).

Chiefs play an active role in resolving conflicts between different individuals within the communities. The Ghanaian legal system is perceived to be corrupt and expensive and as a result, recourse to the court system is avoided (Amoako and Lyon, 2014). Under such circumstances certain cultural specificities take on importance in settling disputes. For instance, the king of Asante commands allegiance of a group of paramount chiefs who rule the federated Asante states (aman)[2]. A hierarchy operates down to the village chief level with many sub-chiefs under the king’s jurisdiction. In Ghana there is often disillusionment with the tardy procedures of formal courts; thus aggrieved parties usually fall back on traditional chiefs as a method to resolve disputes. When a resolution is unsuccessful, it is referred to the Regional House of Chiefs or National House of Chiefs (Otumfuo Osei Tutu II, 2009). A gerontocracy which comprises the chief and his elder kinsmen tends to constitute the law courts in the community, and the paramount chief performs the role of a
chief justice (Zoogah et al., 2015). Dia (1996, pp. 109-110) summarizes the role of chiefs in Ghana as follows:

In Ghana the chief is the symbol of unity among his people, the spiritual and secular head of the clan, the sovereign ruler, the commander in chief, and the highest judicial authority. [...] It is his job to preserve peace and harmony among his people and to protect and preserve stool property and interests, be they material, cultural, spiritual, or symbolic.

Among certain ethnic groups in Ghana, chiefs play a major role in providing land for development projects devised by the government, non-governmental organizations or their own communities. Individual households cultivate the land and grow crops on it, but their rights over the land do not include the full bundle of rights we typically call ownership. [...] The farm is my property, the land is the chief’s” (Bubb, 2013, p. 559). This is a local specificity that has not been considered: we know little about how the chiefs’ prominence and given rights affect organizational practices.

Researchers have suggested that as culture arises from shared experiences, knowledge and meaning systems, it is common to have variations of culture within nations (Au, 2000; Erez and Earley, 1993). Moreover, Nkomo et al. (2015) stressed the importance of considering comparisons between urban, more modern environments, and rural, more traditional ones. Ghana is characterized by a relatively developed business sector in urbanised areas which are more individualistic and similar to western cities in design and life style while rural people are more likely to evidence collectivism and interdependence (Zoogah et al., 2015). Rural areas are dominated by chieftaincy, councils of elders and agricultural production and lineage-based inheritance. However, it is important to emphasize that modern practices are also found in rural areas in Ghana while features of informal traditional practices and ethnic identities/heritage can be found in urban areas (Zoogah et al., 2015).

The AMO model as a theoretical tool for analyzing HRM practices in MNE subsidiaries

In this paper, we employ the AMO model (Appelbaum et al., 2000) to analyze HRM practices in the MNE subsidiaries. HRM performance research has suggested that particular HRM practices drive AMO and this affects performance. Yet it is important to recognize that employees bring their national cultural values into the workplace and this in turn affects their work. As Khilji (2003) notes, employees carry their socialized experiences of the macro-environment to workplace values and expectations. This leads to cultural facets serving as the criteria by which the legitimacy of organizational practices is evaluated (Erez and Earley, 1993). Thus, organization structures and practices tend to mirror the macro-environments in which they applied. As discussed in the literature about Ghanaian HRM, practices are influenced by the cultural context – familial relations underpin selection, promotion and training practices, task-related decisions are more influenced by interpersonal relations than by job demands, and managers adopt an authoritarian style and have a penchant toward nonparticipation, centralized and paternalistic management. HRM practices utilized in MNEs must reflect these cultural values in order to enhance employee ability (e.g. recruitment and selection, training and development), motivation (e.g. performance management and rewards management), and opportunity (e.g. required support for employee expression/participation).

The AMO model suggests that effective employee performance is a function of the abilities, motivation and opportunity to engage in discretionary behaviors towards the achievement of an organization’s strategic goals (Appelbaum et al., 2000; Jiang et al., 2012; Lepak et al., 2006); and that employee behaviors result from the application of specific HRM practices (Bos-Nehles et al., 2013). These HRM practices usually tend to overlap in terms of their influence on employees’ AMO to participate. For instance, training and development
practices are designed to enhance employees’ knowledge, skills, and abilities and “may also be used to communicate a commitment to employees that elicits motivation” (Obeidat et al., 2016, p. 590). Rigorous recruitment and selection practices can bring in new skills required to perform strategic tasks whilst training and development programs can also enhance the skills of existing employees (Obeidat et al., 2016). The degree of subsidiaries’ investment in HRM practices reflects the ability dimension which is intended to enhance employees’ knowledge, skills, and aptitudes (Lepak et al., 2006). Yet, it is also important to ensure that employees are incentivized to do so. Motivation-enhancing HRM practices include competitive rewards, employee benefits, promotion, career development and job security (Lepak et al., 2006). Similarly, subsidiaries should provide the necessary organizational support for employees to do their work and managers should clearly define and communicate work assignments with regular feedback to employees (Buller and McEvoy, 2012). Performance management practices serve as useful feedback mechanisms and can motivate employees. Opportunity-enhancing HRM practices are designed to permit employees to use their knowledge, skills, and abilities to attain subsidiary strategic goals. Some of these strategies include work teams, employee involvement, and information sharing (Jiang et al., 2012; Lepak et al., 2006). The provision of opportunities to employees to participate is likely to increase employees’ confidence and autonomy in their task performance (Jiang et al., 2012). Organizational policies, work culture, and norms must also include the ability to engage in flexible and discretionary behaviors that help the organization achieve its strategic objectives in a dynamic business environment (Buller and McEvoy, 2012). Thus, it is not only enough for employees to have the necessary abilities, but also the motivation and opportunity to utilize them.

Methods
Given the lack of substantive research on the transfer of HRM practices by Western MNEs to Ghanaian subsidiaries, we utilized a qualitative approach to collect and analyze empirical data in order to answer the two research questions that we posed in our study. We avoided hypothesizing relationships in a context that is rather unexplored in regard to HRM issues until more accumulated knowledge “has pinned down factors to measure” (Edmondson and McManus, 2007, p. 1171). As Klingebiel and Stadler (2015, p. 197) point out, “in-depth studies of decidedly African phenomena often hold greater promise than traditional surveys, at least as an initial step towards understanding contexts better.” All authors designed the study, with one responsible for the actual data collection.

Identifying the research sites and gaining access
Although we anticipated challenges in gaining access to Ghanaian subsidiaries of Western MNEs, purposeful sampling was important for the selection of cases. We sought access to subsidiaries that were operating in different sectors, of a size that allowed them to have an HR department, preferably located in different regions in Ghana and headquartered in various Western countries.

We encountered considerable difficulties in gaining access to organizations despite three months of preparatory fieldwork in Ghana. Gaining access involved one of the researchers visiting the GIPC to gather information about current subsidiaries of foreign MNEs operating in the country. The GIPC list of registered wholly foreign projects totaled 339. More than 40 phone calls resulted in no access. Some subsidiaries had very few employees and no HR manager/department and some organizations’ contact details were inaccurate. Obstacles in gaining access included receptionists refusing to make managers aware of the researcher waiting for hours for an appointment. Only one call was answered directly by a manager and after the researcher introduced the study, the manager bluntly replied: “I will not allow you to use my company for research purposes” and hung up the phone.
A possible explanation for the unwillingness of organizations to grant access may be attributed, despite the provision of university ethical clearance documentation, to the suspicion by managers that one, under the disguise of research, could be carrying out quality audits of their practices. Managers may also have worried that employees would be questioned about unacceptable practices such as environmental pollution or that information may flow to competitors. Further, Zhang and Guttormsen (2016) suggest that a power imbalance is created when the researcher and research participant belong to different ethnic groups or speak different languages. Skin color, too, presents difficulties in gaining access to organizations. In our study the person who contacted potential interviewees and undertook the interviews was Ghanaian. On reflection, it is possible that a non-Ghanaian researcher may have been better positioned to gain access as Ghanaians generally extend courtesies to foreigners.

Realizing that other strategies had to be applied to gain access, we started approaching directly some known foreign subsidiaries but again, many advised that they did not want to participate in our study. We then turned to pre-existing personal networks. Clubs were visited to provide reconnections with old contacts. The various approaches resulted in finally being granted access to eight subsidiaries operating in the manufacturing, service, and resources sectors. These sectors account for the greatest part of FDI in Ghana (Sutton and Kpentey, 2012) and the choice of subsidiaries across these sectors was intended to minimize the effects of industry-specific practices affecting the findings. Six subsidiaries are located in Accra (the capital city), one in Tema (home to numerous factories and in the south of the country), and one in Tamale (in northern Ghana). The subsidiaries belong to three British MNEs (coded as UK1, UK2, UK3), two US MNEs (US1, US2), one French (F1), one German (G1), and one Swiss (S1) MNE.

Collecting and analyzing interview data
Based on our research questions developed from extensive reading of literature on cross-border transfer of HRM practices, we developed two separate interview guides – one for subsidiary managers and one for subsidiary employees. Semi-structured interviews were designed to highlight how interviewees understood and interpreted HRM practices in their organizations. Moreover, semi-structured interviews provided us with the option to crosscheck and validate information across interviews (Bryman and Bell, 2015) and to reproduce and analyze "the voice of those at the receiving end" (Gamble, 2006, p. 331). The interview approach was deemed particularly suitable – people belonging to African cultures are more willing to provide information through oral narration as this is a traditional way of imparting and sharing knowledge rather than answering structured questions in writing (Oppong, 2017).

In all, 37 interviews were conducted with Ghanaian HR directors, HR managers, and employees in the eight subsidiaries in 2015. Table I provides details of the subsidiaries and interviewees using codes/pseudonyms. The interviews were conducted in English as this is the business language in the subsidiaries and all participants were fluent in English. All but five participants agreed to have their interviews recorded. For these five interviews detailed notes were taken during and after the interview. Interviews with managers lasted approximately an hour and a half whilst interviews with employees lasted between 50 minutes and one hour.

We used both deductive and inductive approaches for analyzing the data. The deductive approach provided an organizing framework comprising of themes for the coding process (Bradley et al., 2007; Miles and Huberman, 1994). We applied the framework, often referred to as a start list (Miles and Huberman, 1994), in the analysis in anticipation that we would be able to identify certain core concepts in the data (Bradley et al., 2007). Engaging in an inductive approach, on the other hand, meant working from the participants' experiences...
and letting them drive the analysis. This involved the members of the research team going through the transcribed data thoroughly line by line and assigning codes to segments of texts as concepts unfolded (Saldaña, 2016).

We were aware that in the process of analyzing data, it was not unlikely that we may intuitively search for data that confirm our views and the knowledge we possess and fail to notice data that contradict what we know or expect to find (Smith and Noble, 2014). Thus, we asked a fellow researcher, who also examined MNE operations in Africa, to check our coding schemes.

<table>
<thead>
<tr>
<th>Type of entry</th>
<th>Staff in Ghana</th>
<th>Position</th>
<th>Gender</th>
<th>Years working in subsidiary</th>
</tr>
</thead>
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<tr>
<td>US1 Resources</td>
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<td>HR Manager</td>
<td>Female</td>
<td>5</td>
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<td></td>
<td></td>
<td>Employees</td>
<td>Male</td>
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<td></td>
<td></td>
<td>Survey department</td>
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<td>6</td>
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<td></td>
<td></td>
<td>Geology department</td>
<td>Male</td>
<td>8</td>
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<td></td>
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<td>Communications department</td>
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<td>3</td>
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<td></td>
<td>Transport</td>
<td></td>
<td></td>
</tr>
<tr>
<td>US2 Service</td>
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<td>HR manager</td>
<td>Female</td>
<td>8</td>
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<tr>
<td></td>
<td></td>
<td>Employees</td>
<td>Male</td>
<td>9</td>
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<tr>
<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>Delivery services department</td>
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<td></td>
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<tr>
<td>UK1 Manufacturing</td>
<td>149</td>
<td>HR manager</td>
<td>Female</td>
<td>9</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Marketing manager</td>
<td>Female</td>
<td>7</td>
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<tr>
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<td></td>
<td>Employees</td>
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<tr>
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<td></td>
<td>Research and development</td>
<td></td>
<td></td>
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<tr>
<td>UK2 Acquisition</td>
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<td>18</td>
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<td></td>
<td></td>
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<td>Female</td>
<td>13</td>
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<td></td>
<td></td>
<td>Employees</td>
<td>Female</td>
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<td></td>
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<td></td>
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<td>Transport</td>
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<td>Area Manager</td>
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<td>30</td>
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<td></td>
<td>Employees</td>
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<td></td>
<td></td>
<td>Customer services department</td>
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<tr>
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<td>Customer services department</td>
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<td></td>
<td></td>
<td>Customer services department</td>
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<td>Customer services department</td>
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<td></td>
<td></td>
<td>Customer services department</td>
<td></td>
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<tr>
<td>F1 Finance</td>
<td>671</td>
<td>HR Manager at Head Office</td>
<td>Male</td>
<td>3</td>
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<td></td>
<td></td>
<td>Branch Manager</td>
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<td>Employees</td>
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<td></td>
<td>Customer services department</td>
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<td></td>
<td></td>
<td>Customer services department</td>
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<tr>
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<td></td>
<td>Employees</td>
<td>Male</td>
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<td></td>
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<td>Accounts department</td>
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<td></td>
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<td>ICT department</td>
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<td></td>
<td></td>
<td>Employees</td>
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<td>Customer services department</td>
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<td></td>
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<td>Customer services department</td>
<td>Male</td>
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</tbody>
</table>

Table I. Profile of cases and interviewees
Findings
There are a number of important factors that predispose Western MNEs to localize HRM practices in their Ghanaian subsidiaries, albeit to varying degrees. They include the strong influence of traditional leaders as land owners, the presence of unions, and the appointment of host country nationals in key positions in subsidiaries. Table II depicts the localized practices identified through the fieldwork. We now discuss each of these aspects as they relate to the HRM areas of recruitment and selection, training and development, performance management, and rewards management.

Recruitment and selection
Evidence from our interviews suggests that local cultural norms play a crucial role in the implementation of the hiring process. A powerful example is US1 which has developed what the company termed as “our local, local policy” for recruitment and selection. “Local, local” refers to the subsidiary and the regional HQ being located in Ghana. As part of this policy in US1 the following practices have been utilized: job adverts in the community are used in exchange for use of land for resources; community posts are used in remote areas where there is high illiteracy and limited access to newspapers and internet facilities, utilizing whenever possible the influence of chiefs; and apprenticeship trainees and HR development foundations as part of quota required by local chiefs. An employee of US1 explained:

Traditional authorities also influence recruitment. In Ghana, every land belongs to a chief and when mining is done, you take the chief’s land and then you work on it. If the chief says ‘I have somebody who needs employment’, if you don’t employ that person, the chief will give you a hell of trouble.

(JonaUS1-Emp)

The HR Manager in US1 elaborated on the “local, local” policy:

We have a certain quota that we have agreed with the communities that at every point in time, a certain percentage of our workforce will be from the communities that we are working within. Different communities, different sizes have different quotas and different agreements. (Biyar US1-HR Manager)

The chiefs and their communities have given their land (which serves partly as their source of livelihood) to the subsidiary for the resources extraction. In exchange, US1 is

<table>
<thead>
<tr>
<th>Recruitment and selection</th>
<th>US1</th>
<th>US2</th>
<th>UK1</th>
<th>UK2</th>
<th>UK3</th>
<th>F1</th>
<th>G1</th>
<th>S1</th>
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<td>Influential ‘big men’ (subsidiary managers, government officials)</td>
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<td>Training and development</td>
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<td>Paternalism</td>
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<td>Favoritism</td>
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<td>Performance management</td>
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<tr>
<td>Managers set targets</td>
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<td>Arbitrary assessment</td>
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<td>Rewards management</td>
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<td>Paternalism/caring organization</td>
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Table II.
Localized HRM practices in the case study subsidiaries
expected to employ indigenous people who might have lost their source of livelihood which involved farming on those lands. US1 has built a community post that liaises with the mining communities:

We cannot track that quota from a regional perspective. We would have to do that from a site perspective so the site HR group make sure they are tracking that. They make sure that when they are recruiting, they are checking to see that the person is from the community. We have our staff working in the post in the community. There are forms in this office whereby an individual recruited within the quota system of a particular community will have to complete a form which has to be validated by the chief or opinion leader that the person is from the community. (BiyarUS1-HR Manager)

US1 put up notice boards within communities in the mining catchment areas where job vacancies are posted. This also brings transparency into the recruitment process such that no particular community can accuse management of not publicizing job openings or giving favors to some communities to the neglect of others – and the local chiefs validate that applicants are indeed indigenous members of the community.

While one subsidiary had developed a “local, local” policy incorporating a number of aspects relating to the recruitment process, favoritism in relation to recruitment and selection practices was evident in all subsidiaries. The popular saying “you scratch my back and I will scratch yours” was evidenced by persons in responsible positions helping relatives of their colleagues to secure jobs in their workplaces and also expected the same to apply to them. An employee in UK3 stated:

With regards to influencing the employment of relations and cronies, every organization has that aspect. Relationships exist and this contributes to people not being accountable because they know ‘big people’. (WesehUK3-Emp)

There was clear evidence of a relationship between power distance and cronyism through favoritism (US1, US2 and S1) and managers identifying needs (all subsidiaries). No interviewee hid that some employees are hired based on whom they know rather than what they know. Instances were to be found everywhere as is noted by these two quotes:

Favoritism still exists. (JoF1-Manager)

People come in and tell you they don’t know anybody here, but when they get on board, you realize that they know people. So, definitely somebody might have influenced their employment. (BoG1-Emp)

People in positions that entail more responsibilities are usually harassed by relations to secure them jobs and employment of relations is seen as an “obligation” to fulfill duties to in-group members. Individuals may lose their social standing for not fulfilling this role. Only the rate of prevalence of such varies from one subsidiary to another.

Moreover, favoritism is exacerbated in all eight subsidiaries by having “big men” who are influential in the workplace because of contacts they hold outside, including with senior governmental employees. An employee at US1 explained that some job candidates secure employment “through the big men in the company, those who have links with them and some too through government ministers” (GonaUS1-Emp). The influential role of government ministers may be attributed to acquisition and renewal of license to operate and compliance with environmental laws. The interviews suggested that a government minister who is in a position to influence such outcomes for a subsidiary can equally secure job opportunities for his/her cronies.

Training and development

Employee training and development are provided based on needs assessments, but also to a great extent on paternalism and favoritism. The high power distance in Ghana provides
management with a paternalistic role to determine employees’ training needs rather than individuals identifying where they believe they require training or development assistance. Such paternalism was noted throughout all subsidiaries. A participant at US1 stated:

It is my head of department who identifies my training needs. You don’t choose the type of training you need because they [heads of departments] know the training that is suitable and nominate you to go for it. (GonaUS1-Emp)

Employee-centered training is emphasized across the subsidiaries with all but one (S1) having training in groups and all eight subsidiaries having both on-the-job training and coaching/mentoring. Employees are also trained in groups at seminars, conferences, and workshops. In the absence of modern production techniques, training becomes even more important. The US1 HR Manager revealed:

We have our own local trainers who we make sure we invest in to learn more, gain more insight [...] who go to the field and do on the job training, and develop people to be able to work the way that the business would benefit the most. (BiyarUS1-HR Manager)

These trainers are thus in a position to conduct training that is culturally sensitive by designing and incorporating local examples into training materials.

Though on-the-job training, group training and coaching/mentoring are likely to be used in the subsidiaries’ home countries, it is how they are operationalized in respect to who receives training and what is the role of mentors in development that evidences localization of practices. In F1, for instance, management draws up training programs and nominates employees to attend them depending on their work schedules. As a result, not all employees have the opportunity to be trained during the course of a year. As would likely occur in the subsidiaries’ home countries, training depends on one’s rank and responsibilities:

If management believes that your role does not require any training, you are not trained. (RalfS1-Emp)

However, we found strong evidence of localization of practices in that more often than not managers provide opportunities to their favorites. The following quote alerts to this:

If you are not in the good books of your manager, you will not be chosen for training. Expatriates are fair in their choices and employees are selected for training depending upon their competencies and potential. For the Ghanaians, only few are sincere and will select employees for training based on these employees’ competencies. (GeoUS1-Emp)

Employee-centered approaches (e.g. coaching and mentoring) are utilized to train and develop the workforce. New employees usually learn and work under the supervision of more experienced colleagues. Also, when an employee is “identified as a talent, he/she is assigned a coach or mentor. It is the mentor’s job to ensure that the employee gets the right frame of mind” (IsaUK2-HR Manager). The mentor assumes a paternalistic role and establishes a more personal relationship with the mentee, offering support often times beyond official duties. The paternalistic managerial style stems from the Ghanaian traditional expectation that a top management official takes overall responsibility to cater for the interests of her/his employees in both work and non-work contexts (e.g. salary advances in times of financial crisis, visiting sick employees in their homes or hospital and advice on personal issues which might be termed intrusive in the Western context) to ensure that employees are motivated to carry out their work-related responsibilities.

Performance management

We found evidence of arbitrary assessment of performance. Two subsidiaries (US1 and US2) had arbitrary assessments suggesting that some senior managers in Ghana still
perceive conspicuous display of power as a source of respect and status within the work environment, while six subsidiaries (excluding F1 and G1) had managers setting targets even though employees may establish their own performance targets and longer-term goals. The interviews highlight that as establishing performance targets is the responsibility of managers, they alone then establish the criteria for assessment and this often leads to arbitrary evaluations which may not accurately reflect overall individual performance. Managers usually meet as peers and performance targets are given to each department or division; subsequently they meet their subordinates where they discuss how the tasks are to be executed and each employee is then evaluated. Managers hold meetings with employees to understand their current performance, interests, career aspirations and gaps. Employees also carry out their personal developmental goals particularly where subsidiaries have various training and developmental modules as part of their ICT programs. Where these programs are not available internally, employees solicit the help of their managers to allow them enroll in these programs outside the organization. These personal goals are written down and agreed upon by both managers and employees. Of course being authoritative does not imply that managers have static behavior and that is where they also are paternalistic. Thus to a certain degree employees are motivated through career development activities. We found examples of this in US1 and US2. An employee in US1 stated:

The managers and the supervisors have their own way of assessing employees. They know the criteria, so at the end of the year or mid-year, they come out pointing out that you have won a prize or you have been promoted due to your performance. (CharlieUS2-Emp)

As it is assumed that managers will set performance targets, managers are likely to be authoritative, which accords with the high power distance of Ghana. All subsidiaries show evidence of authoritarian management:

We have a general manager who is very authoritative, doesn’t care about other people’s views and suggestions. She is on top and does what she wants to do, nobody challenges her and that is the order of the day. (JonahUS1-Emp)

The authoritative nature of management poses huge barriers to employees being able to freely discuss their performance as managers might interpret this as incompetence. When asked about their role in determining tasks for performance, an employee replied: “Managers have their own criteria.” (CharlieUS2-Emp)

Age correlates with experience and younger employees do not point out mistakes and do not argue with older employees and managers, as noted in the following quote:

When an elderly person does something wrong, you don’t say it, it is always difficult when dealing with adults or leaders or managers who are wrong. It is difficult to talk about them because the person is an elderly person or manager above you and they expect you to respect them. (JonahUS1-Emp)

Thus, performance management as target-setting and top-down assessment by management evidences a localized approach to decision making reflecting local cultural values.

Localizing performance management was also evidenced through all eight subsidiaries being focused on employees helping others to succeed. Employees are assessed on how well they collaborate with each other. Within the subsidiaries terms such as “respect,” “team spirit,” and “cooperation” denote this teamwork. The G1 HR Manager concluded: “we look at how you help others to be successful in their jobs.” (FramG1-HR Mger)

While the paternalistic nature of Ghanaian culture implies that non-performing employees will be protected and kept in their jobs, the collectivist culture also means that employees are expected to help one another to succeed in their individual tasks.
Employees can pursue their personal goals alongside group goals provided the former do not hinder the achievement of the latter. The emphasis on assisting others fits with the notion of family which is deeply rooted in the mindset of employees and managers, as noted in the following reflection:

When you move from your house to the bank, you are a family because we spend more time in the bank than in our various homes. When you go home, how many minutes/hours do we spend before going to bed? So, we are a family, no matter the differences. (SofiF1-Emp)

**Rewards management**

While most of the subsidiaries provide bonuses and leave arrangements consistent with HQ practices, rewards management practices are strongly influenced by employees being considered as members of an extended family. This Ghanaian cultural value results in all subsidiaries having rewards management practices evidencing a paternalistic approach and being caring organizations in exchange for employee loyalty and commitment. Rewards as part of this approach include: salary indexed to USD to cushion against hardships and loss of purchasing power of the Ghanaian cedi (US1); compassionate bonus when employees cannot meet performance targets (UK1); paid school fees up to tertiary level (US1); school fees for children of all employees (UK1) and school fees for directors' children (UK2). US1, UK1, UK2, F1, and G1 provide a 13th month bonus: "every year around November, you are paid an extra salary in addition to your November salary" (GonaUS1-Emp). In UK2 employees receive double pay in December. While it was noted that this is provided in alignment with the HQ performance management processes, the existence of a 13th month cheque is a local practice.

During Christmas each year, US1 and S1 give their employees Christmas chicken. The HR Manager of US1 explained:

We have something we call Christmas chicken. Christmas chicken is a gift that we usually give out to our employees at Christmas time. They [HQ] don't have Christmas chicken in Denver. (BiarUS1-HR Manager)

Free or subsidized lunches are provided in seven subsidiaries (excluding US2) and all eight provide funeral/wedding grants for employees. These are regarded as important occasions in employees' lives in Ghana and the subsidiaries usually send delegations to represent them at such occasions. The G1 HR Manager explained:

In Europe, you cannot give funeral grants, but here in Ghana, an employee loses a relative, they expect to see all colleagues coming to sympathize with them at the funeral. So you need to organize your team to go and sympathize with a team member and all this comes with cost. These are things that sometimes are peculiar to the environment in which you find yourself. If you do not do some of these things, it is interpreted to mean that you do not care about the people. (FramG1-HR Manager)

While the above practices highlight an emphasis on caring organizations that recognize employees' needs outside a work context, the interviews also evidenced that there is favoritism in rewards management practices in six of the subsidiaries, excluding UK2 and F1. An HR manager argued, “it is the directors who do their own thing” (MulkalUS2-HR Manager). There are salary ranges in the subsidiaries like in the HQs, but in the subsidiaries the placement of individual employees within the salary range is not consistently applied – some employees are put on a lower scale, whilst others are put on a higher notch, without it being commensurate to skills, qualifications and experience – and this impacts promotion prospects. An employee notes:

If you are in the good books of your manager, he can promote you. When they promote you, they will also increase your salary, you go to a different salary level. That is on condition that your boss likes you. I know a guy who has been here for more than ten years, he is where he is. People come after him and they are always in front of him. So we don’t know what is the cause of it, maybe his manager doesn’t recommend him. (GonaUS1-Emp)
When the interviewee was quizzed further as to whether this individual was a poor performer, he emphasized “he is not a poor performer, everybody knows the guy is good. He and his manager are maybe not on good terms.” (GonaUS1-Emp)

Discussion
Our analysis revealed that HRM practices in the eight MNE subsidiaries in Ghana are deeply rooted in local Ghanaian cultural norms. Three key themes arose from the findings in relation to recruitment and selection, training and development, performance management, and rewards management practices. These are: paternalism and family orientation in the workplace; patronage of favored employees; and influence of local chiefs on HRM practices. The first theme has already been relatively well examined in research on African business practices and we add to that literature in highlighting how these cultural values impact on HRM practices specifically in MNE subsidiaries, a setting that has received scant prior attention. The theme of patronage has been discussed to some extent, yet we extend this line of inquiry to Western MNEs and their subsidiaries in Ghana. The theme of local chiefs is relatively new. While it was only found in one MNE in a rural setting, there are good reasons to expect that the influence of chiefs is pervasive across MNEs located in rural areas. The influence of chiefs is widespread in Ghana. At the national level, there is a Council of State to advise the President. The President of the National House of Chiefs (also a chief) is a member mandated by the constitution of Ghana to be a member of the Council of State. This governance is analogous to the traditional council of elders playing an advisory role to the chief. We discuss this further in the subsection on local chiefs.

Paternalism and family orientation in the workplace
Whilst an ethnocentric and standardized approach by MNEs to HRM practices in Ghana would result in subsidiaries engaging in training/development or re-deployment/dismissal of non-performing employees, our findings showed that non-performing employees in some subsidiaries remained in their jobs in accordance with a locally practiced paternalism as per the Ghanaian maxim “yetese nti na metese: I live because we live” (Oppong and Gold, 2016, p. 352). Not only does this suggest that poor performing employees have no motivation to work harder as they know they will not be fired, it is also likely to cause low morale, frustration and discontent among high performing employees and for both groups of employees this will impact negatively on productivity.

Our findings support earlier research that local supervisors and managers tend to behave with paternal responsibility towards employees (Amoako-Agyei, 2009) in respect to provision of training, retention of employees, and performance and rewards practices. Gyekye and Salminen (2005) explained that the paternalistic managerial style developed from the traditional belief that managers are responsible for employees’ welfare, and this has continued within the MNE’s workplaces. Amoako-Agyei (2009, p. 335) observed that the African manager will not usually dismiss an employee outright for non-performance because “socially and financially, the communal consequences may be far greater and longer-lasting than the act itself,” particularly where an employee was hired because of the influence of a respected member of a society. Outright dismissal might incur retaliatory responses, particularly if the subsidiary is dependent on resources held by relations of the dismissed employee. Employees’ willingness to reciprocate and to exert more effort and motivation at work (Jiang et al., 2012) are likely to be enhanced through a caring and paternalistic work environment. Managers in parts of Africa rely on general workforce meetings to inform workers of developments (Dibben et al., 2017). Nevertheless, for fear of being victimized employees fail to speak up which negatively affects opportunities for employee involvement in decision making, information sharing, and motivation to innovate. Thus, given the respect for authority and relatively high degree of communal humanism in Western MNEs in Ghana
the Ghanaian context, in order for employees to be encouraged to participate in decision making, management need to create an enabling environment that encourages people to feel comfortable in discussing their views with management.

Associated with such paternalism, subsidiary managers are authoritative which is not conducive to employee development through creativity and opportunity to employ skills (Muchiri, 2011). This situation resonates with Aryee’s (2004) view that while decision making in traditional Ghanaian settings is by consensus, this is largely lacking in organizational life. A possible explanation for this difference in behavior between work and non-work life may be attributable to resources and power given to a manager in the workplace whereas power and resources are vested in the communities in the non-work context. These arguments corroborate Aycan et al.’s (2000) conclusion that while some managers may seek subordinates’ opinions, participatory decision making does not usually occur in a high power distance context. We argue that HRM practices may impact organizational outcomes by affecting employees’ AMO to perform, leading to a mix of both positive and negative outcomes. For instance, biases reflected in training and development, rewards management and performance management can have negative repercussions on the effective utilization of employees’ potential. Employees discriminated against through favoritism of others may feel frustrated, demotivated and dissatisfied. These negative feelings can hamper the development of subsidiary employees’ skills and abilities, and can affect attitudes and behaviors and trigger low productivity, turnover and return on investment.

The overall level of human capital in an organization is affected as HR practices individually and collectively influence employees’ attitudes and behaviors. Thus if employees have the ability and motivation to work toward organizational objectives, subsidiaries should provide the necessary opportunities to use their skills through employee involvement, participation, problem solving groups and suggestion programs (Lepak et al., 2006).

Also associated with paternalism is the notion that employees and managers consider themselves as members of a large extended family and they expect subsidiaries to support their welfare. Ghanaians place much value on the extended family system, which is characterized by the reciprocal exchange of both material and emotional support (Gyekye, 2014). Thus, just as individuals expect to receive material and emotional support from extended family members, similar treatment is expected from the organization that employs them, such as absence from work in times of bereavement, financial assistance and emotional support (Aryee, 2004). In our study the reward activities of MNEs include leave for, as well as managers being involved in, employees’ family bereavements, as well as the provision of a number of other local practices such as Christmas chicken and free/subsidized lunch. These findings support Amoako-Agyei’s (2009, p. 338) suggestion that foreign firms in Africa need to work effectively in a cross-cultural context by “taking employee’s family concerns seriously, listening carefully, and expressing interest and concern” if they want to succeed in such a context. As she highlights, “family ties, not organizational charts, are the ties that bind” (Amoako-Agyei, 2009, p. 339). The notion of family extending to organizations provides the platform for managers to consult employees, and promote their career development (Littrell, 2011). Thus, in our study where MNEs embraced paternalism and the workplace as family, local employees and managers may develop abilities to better perform and are likely to be motivated to exert extra effort to achieve subsidiary goals.

Patronage of favored employees
Patronage of favored employees was evidenced across all HRM functions. Debrah (2001) and Akuoko (2008) observed that in Ghana recruitment and selection are likely to be based on tribalism (and shared language) and that personal contacts play significant
roles in securing jobs for in-group members, sometimes irrespective of merit. Moreover, word-of-mouth complements internal recruitment to fill job vacancies (Sartorius et al., 2011). Job applicants belonging to the same in-group as subsidiary managers are likely to be advantaged in the selection process as employment of relatives is seen as an “obligation” in fulfilling one’s duties. Indeed, as evidenced in our findings, a person may risk being ostracized and vilified for not fulfilling this role.

Training and development practices were based on selective patronage of favored employees. Aycan (2005) observed that, in non-Western contexts, decisions regarding training opportunities depend on employees cultivating good relationships with management, particularly for very attractive programs such as overseas training. Kuada (1994) pointed out that managers in local organizations in Ghana provide extra opportunities such as training programs and promotion for subordinates for whom they have affection. Moreover, managers are benevolent to some employees yet dismissive of others (Kuada, 2010; Wanasika et al., 2011). Thus, one person’s success can foster feelings of resentment in others. As it has been suggested that some employees are more likely than others to use discretionary effort to achieve task goals (Appelbaum et al., 2000) training is likely to be a motivator to perform. Managers in non-Western contexts are expected to provide direction and instructions, and employees are required to show respect and deference in return for support (Aycan et al., 2000; Jackson, 2016). This reciprocity promotes cordial work relationships amongst employees and managers as well as enhancing individual and organizational performance (Kuada, 2010).

Yet, many organizations in Ghana are unable to invest in their employees due to lack of resources and as a result, few opportunities exist for employees to receive training and career planning (Haybatollahi and Ayim, 2015). While MNEs have more resources for training, our findings reveal that cultural values around favoring of individuals for such opportunities also occurs in Ghanaian subsidiaries; and can be expected to impact employees’ abilities and motivation to perform and affect human capital of the organization.

Debrah (2001) argued that the Ghanaian culture has undermined performance management practices by introducing elements of subjectivity. This implies that performance ratings can be based on managers’ and supervisors’ liking of their direct reports. Ghanaian managers are likely to rate highly the performance of their favorite employees and make arbitrary assessments. Such practices were evidenced in our study despite the organizations being headquartered overseas. Debrah (2001) also found that decisions concerning promotions and rewards in Ghana are often subjective and sometimes based on kinship instead of merit – and ethnic rivalries can also affect favoritism. Our findings indicate that the Ghanaian managers in these Western MNEs’ subsidiaries are selective in their patronage to subordinates with regards rewards management. Subsidiary managers make arbitrary decisions around provision of salary within ranges and this also impacts on promotion. In general, if some employees do not see their activities as instrumental to achieving valued rewards that are linked to the success of the organization, they may become less motivated to exercise discretionary behaviors in such a dynamic and competitive work environment. Motivation to exert extra effort is likely to be dampened particularly when employees are arbitrarily assessed and resources allocated based on favoritism (Buller and McEvoy, 2012; Lepak et al., 2006).

Influence of local chiefs on HRM practices
Though the role of chiefs was only significant in the one MNE in the rural area, chiefs in these organizations have an important role to play in influencing HRM practices. The influence of local chiefs on HRM practices emerged particularly in relation to recruitment and selection, as well as training and development. MNEs in rural areas in which resource sector organizations are located are required to advertise a quota of job vacancies on notice boards within the jurisdictions of the local chiefs so as to secure employment of local people.
Job applicants are then validated by the chief to ensure that the individuals are from the community. The validation reassures the MNE of the reliability and trustworthiness of job applicants and serves as a background check. While chiefs may reinforce favoritism and social group membership, they can also contribute to rigor in recruitment and selection in that references that serve as background checks for the recruitment and selection of employees (who are from the mining community) ensures that appropriate personnel with the requisite skills are employed. Pache and Santos (2010) observed that MNEs comply with the demands of institutional actors – such as the local chiefs in this instance – in order to gain access to valuable resources like land and license to operate in the host environment. These cultural norms are particularly strong in Ghana and in many other African countries (Dia, 1996; Zoogah et al., 2015), and the MNEs are adopting such practices to ensure operational effectiveness as well as to mitigate clashes between HQ and locals.

Our findings further suggest that in order to meet the employment quota systems demanded by the local chiefs, training and development practices are localized in rural areas to meet the needs of the largely illiterate population. MNEs’ training programs to develop the skills of locals involve Ghanaian trainers and create job opportunities for local community members through skill enhancement. The local chiefs have also influenced the setting-up of Development Foundations for their communities, one of the aims of which is HR development. This affects how AMO are developed within rural communities. The involvement of traditional chiefs in subsidiary employment and production activities provides opportunities and motivation to curtail gratuitous utilization of community resources and to ensure that subsidiaries carry out their activities in an environmentally sustainable manner. The chiefs’ adjudication of cases arising between ethnic groups or individuals over land in the rural communities promotes harmonious relations in subsidiaries.

Concluding remarks
Contributions to research
This research contributes to the international human resource management and cross-cultural management literature in being one of the few empirical studies on HRM in Ghana, a strategically important FDI location. Although it was extremely challenging to gain access to MNE subsidiaries in Ghana, our data and findings provide valuable insights into HRM practices in Ghana. We validate earlier research about the role of paternalism/family orientation in African/Ghanaian organizations and extend this to demonstrate how employees are motivated through competitive compensation, incentives and rewards, extensive benefits, promotion and career development, and job security. We also extend earlier research on patronage (and how it enhances skills through training and motivates employees through rewards) in relation to Western MNEs in Ghana. We offer new insights into the role of local chiefs in Western MNEs in Ghana, in respect to skill-enhancing recruitment and selection, as well as training and development. Applying the AMO model, we suggest that localization of practices can contribute positively to enhance employee skills, motivation, and opportunity to contribute to enhancing subsidiary performance.

Our study aligns with Suchman (1995) who concludes that organizations gain legitimacy by implementing practices considered appropriate and consistent with local cultural norms and values. Our finding that all eight subsidiaries, despite being of British, US and three European origins, operationalized HRM practices that were in many areas aligned with local practices suggests that these MNEs recognized that employees do not leave “their cultural baggage at the entry point of the company” (Mellahi and Frynas, 2003, p. 74).

Practical implications
Though we did not explicitly explore how local Ghanaian managers may act as a conduit between the subsidiaries and HQ in explaining the necessity of working within the
specificities of the host context, local managers did share their experiences with expatriates and HQ managers at conferences, meetings, training sessions at subsidiaries and during visits by HQ officials. Moreover, the ability of host country nationals to consult with local chiefs (which may be less achievable for an expatriate manager) and employees is likely to result in more harmonious work environments and standing of the subsidiary in the local community and employees being more effective in combining local practice with HRM practices introduced by HQ. Furthermore, consultations with the local chiefs (the subject of chiefs was only found in one subsidiary in the rural area) who adjudicate cases over land between rival ethnic groups in the local communities can promote harmony for subsidiary operations and safeguard wanton exploitation of community resources leading to environmentally sustainable subsidiary practice. Involving employees in decision making can encourage them to engage more meaningfully in their work which can lead to enhanced performance. Local managers are thus able to implement HRM practices considered more appropriate and legitimate for the host cultural context. Foreign MNEs may learn from Ghanaian practices and transfer them to subsidiaries in other (similar) African countries. For instance, during the interviews we learned that some practices that have been developed in some of the subsidiaries were copied by other subsidiaries in Lesotho and Swaziland.

**Limitations and issues for future research**

One of the limitations of this study is the variation across subsidiaries in terms of number of interviewees (the lowest being three; the highest seven). Even though we experienced significant difficulties in gaining access to the subsidiaries, future research should endeavor alternative approaches to achieve a larger sample. For instance, rather than making contact with organizations within Ghana, researchers may instead contact the HQs to facilitate access to the Ghanaian subsidiaries. Such an approach, despite having its own disadvantages, may allow researchers to gain access to subsidiary operations across a range of African countries and thus examine whether some of the cultural practices discussed herein similarly affect other subsidiaries’ use of HRM practices. Such comparison would also allow for studying the impact of other factors, such as economic advancement and political situation that influence HRM practices and their transfer across borders.

We made use of our own contacts (and their availability and willingness) and this may not be representative of the larger population of Western subsidiaries in Ghana and we acknowledge that, as a result, there was a potential bias in the study (see Kerlinger and Lee, 2000). Another limitation of this work is that industry-specific practices may still exist. We endeavored to minimize these effects by crosschecking and validating information from interviewees.

We also acknowledge that selecting research participants who can purposefully inform an understanding of the research problem contributes to self-selection bias as the respondents who choose to participate may not well represent the entire target population. Indeed, those who agreed to be interviewed may not represent the views of others who may have information that they do not want to reveal or may be fearful of discussing their organization with researchers. Olsen (2008) argues that self-selection bias is commonly attributed to institutional review boards’ regulations that researchers are usually subjected to and which often circumscribe the ability of interviewers to secure cooperation from all respondents. Thus researchers have less latitude to convert reluctant respondents and as a result increasing the effect of self-selection via differential cooperation (Olsen, 2008). Finally, we included mostly UK and US subsidiaries and there may be a degree of convergence of practices amongst these predominantly Anglo cultures. Future studies could examine a wider range of MNE home countries.

We focused on how national cultural specificities of the host country shape HRM practices in Western MNEs. We did not explicitly examine whether the MNEs gain
legitimacy for their HRM practices in the Ghanaian context if they use cultural tools to realize their strategic goals. Moreover, we did not specifically analyze how local Ghanaian managers contribute to localization of HRM practices. Future research might explore the processes that local managers adopt to localize HRM practices. Additionally, it would be worthwhile investigating the ethnicities of local managers and employees and how they impact on employee morale and work performance, particularly the coping strategies adopted by employees with no close links with local managers. Further, the role of chiefs was only highlighted in reference to one of the subsidiaries and it was the only one that was operating in a rural area. In order to fully examine whether there are intra-country cultural variations across rural and urban areas affecting the extent to which MNEs’ practices are localized, future research could be conducted in more rural-based organizations.

Notes

1. We are thankful to one of the reviewers for drawing our attention to this issue.

2. Asante was the largest and most powerful of a series of states formed in the forest region of southern Ghana by people known as the Akan. Among the factors leading the Akan to form states, perhaps the most important was that they were rich in gold. A number of villages were organized into a subdivision and these, in turn, formed the state or division. In Ashanti, the several divisions formed the federation whose leader, the Asantehene, as occupant of the golden stool, symbolised the unity and nationhood of the Ashanti people. The paramount chiefs or Amanhene rule the state or division with smaller chiefs or sub-chiefs. It is said that among the Amanhene or Paramount Chiefs of Asanteman (Kingdom of Asante), the Asante King is the primus inter pares (Müller, 2013).

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About the authors
Theophilus Azungah is a Lecturer in Bolgatanga Polytechnic, Ghana, and has undertaken his PhD studies in International Business at The University of Auckland, New Zealand. He obtained a Fulbright Scholarship for his MSc studies at New York Institute of Technology, USA. He also obtained a BCom Management (Honors) at The University of Auckland, New Zealand, prior to enrolling for PhD studies. His research areas include international management, strategic management and cross-cultural studies.

Snejina Michailova (PhD from Copenhagen Business School, 1997) has been a Professor of International Business at The University of Auckland Business School since 2005. She was a Visiting Professor and a Distinguished Visiting Professor at Aalto University School of Business, Finland in 2010 and 2013–2014, respectively. Her research is in the areas of international management and knowledge management and her work has appeared in Academy of Management Review, Academy of Management Executive, International Journal of Management Reviews, Journal of Management Studies, Journal of International Business Studies, Journal of World Business, Global Strategy Journal, Management International Review, International Business Review, The International Journal of Human Resource Management, Journal of International Management, critical perspectives on international business, California Management Review, Long Range Planning, Management Learning, Journal of Knowledge Management, Organizational Dynamics, Technovation, and other journals. Snejina has Co-edited books on cross-cultural management (Routledge), knowledge governance (Oxford University Press), women in international management (Edward Elgar), HRM in Central and Eastern Europe (Routledge) and research methodologies in non-Western contexts (Palgrave Macmillan). She is currently Co-Editor-in-Chief of Critical Perspectives on International Business and serves on the editorial boards of several top-ranked academic journals. Snejina Michailova is the corresponding author and can be contacted at: s.michailova@auckland.ac.nz

Kate Hutchings holds a PhD from the University of Queensland, Australia, and is a Professor of HRM in the Department of Employment Relations and Human Resources, Griffith University, Australia. Kate has held visiting research positions in Denmark, France, the USA and the UK and has taught short courses in China and Malaysia. As an internationally recognized specialist in international human resource management and cross-cultural management, her research has appeared in, amongst others, Human Resource Management, Human Resource Management Journal, International Business Review, International Journal of Human Resource Management, International Journal of Intercultural Relations, Journal of Management Studies, Journal of Organizational Behavior, Journal of World Business, and Management International Review. Her current research interests include: expatriate management; human resource management in developing economies; and women in international management – with a particular focus on Asia and the Middle East.

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The role of human resource practices and managers in the development of well-being

Cultural differences in the changing workplace

Ana M. Lucia-Casademunt
Universidad Loyola Andalucía, Córdoba, Spain, and
Deybí Cuéllar-Molina and Antonia M. García-Cabrera
Universidad de Las Palmas de Gran Canaria, Las Palmas de Gran Canaria, Spain

Abstract
Purpose – Organisational change is increasingly important and interesting to study. Change may affect employees’ attitudes and impact on their well-being. In this regard, it is important to examine how organisations enhance employees’ well-being when the competitive environment requires organisational changes whose implementation could cause well-being to deteriorate. Research suggests that human resource management practices (HRMPs) may have a positive impact on well-being. However, there is little research that analyses how the internal and external contexts of changing organisations may influence the outcome of HRMPs as regards well-being, which is of interest as it pertains to the application of suitable HRMPs in every setting. Thus, to address this research gap, the purpose of this paper is to analyse how employees’ perceptions of HRMPs and support from supervisors enhance well-being, taking into account the national cultural context of organisations.

Design/methodology/approach – Linear regression models tested the proposed hypotheses on a sample of 10,866 employees from 18 European countries who participated in the Fifth European Working Conditions Survey. Of the total sample, 5,646 respondents were involved in substantial restructuring and organisational change.

Findings – Results confirm the importance of national “uncertainty avoidance” values in the choice of the proper HRMPs to enhance employees’ well-being.

Originality/value – The literature highlights that HRMPs and supervisor support have a positive impact on well-being, and it also warns that national culture may condition the outcomes of human resource (HR) interventions. Based on this, the current study analyses how such HR interventions enhance well-being, taking into account national cultural context of organisations in both stable contexts and those involving change.

Keywords Organizational change, National culture, European employees, Human resource management, Well-being

Paper type Research paper

Introduction
Taking the national cultural context of organisations into consideration, the present study seeks to answer the following paradox: how can organisations enhance the well-being that employees need for success in a competitive environment that requires organisational changes, when implementing such changes often erodes well-being? Global changes that are driven by total competition and technological development (Kowalski and Loretto, 2017) require innovations within organisations (Stone and Deadrick, 2015) that represent an antecedent of organisational change. Deloitte’s study, based on more than 130 countries, showed that 92 per cent of 7,000 executive participants indicate that there is a critical need to redesign their organisation, and 45 per cent of survey respondents declared that their companies are either in the middle of (39 per cent) or planning (6 per cent) a restructuring.

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In other words, change in companies is not exceptional or idiosyncratic to any particular country, but is a daily phenomenon that occurs on a global scale.

However, organisational changes are often associated with failure as evidenced from various cases in different countries, e.g., almost 70 per cent of mergers and acquisitions fail in the post-integration stage (Jacobs et al., 2013). Another example refers to job loss, which negatively affects employees’ experiences at work, e.g., Eurofound news reported 350 layoffs due to a restructuring at the chemical manufacturer BASF in Germany and Switzerland (Eurofound, 2017a), and a minimum of 850 jobs were cut in a restructuring at Raiffeisen Polbank in Poland (Eurofound, 2017b).

Thus, when developing changes, organisations experience challenges in adapting to a new business environment while remaining viable and keeping employees healthy and performing well (Kowalski and Loretto, 2017). This is important because the mere process of transformation can have negative effects on many physical and psychological indicators of well-being in the workplace, regardless of whether the changes are planned or unexpected (Kowalski et al., 2014; Veld and Alfes, 2017). This study is based on the premise that such negative consequences of organisational change on well-being will likely emerge unless the organisation applies adequate human resource management practices (HRMPs). Proper HRMPs are those that are congruent with some characteristics of the organisation that are relevant in a change setting, which is, in turn, affected by the country where the organisation is located (i.e. perceived supervisor support and national culture). We will develop and justify our interest in this approach in this study.

Generally, well-being is viewed as a component of a better life (Guest, 2017), but we focus on work-related well-being, that is, “the overall quality of an employee’s experience and functioning at work” (Grant et al., 2007, p. 52). It includes pleasant moods and emotions such as enthusiasm, pleasure or serenity and vitality or strength at work (Schulte and Vainio, 2010). To date, previous research has highlighted that work-related well-being (hereafter referred to as well-being) is important for employees, as well as for public and private organisations and society in general, with lower levels of well-being having “harmful consequences” (Guest, 2017, p. 22). For example, in 2008, experts who worked on the European Pact for Mental Health and Well-being (European Commission, 2008) stated that the workplace is a major driver of a healthy culture and environment when it is psychologically supportive of the workforce. Accordingly, the European Union established that employees’ well-being is a priority with Directive 89/391/EEC, which aims to improve the health and safety of employees and highlights the adaptability of the workplace as an employer’s responsibility. The OECD has also shown interest in this concept. For example, the recent “How’s life” report (OECD, 2015, p. 5) concludes that “while some OECD countries do better than others across a wide range of well-being outcomes, no country has it all”.

Two factors must be highlighted referring the effects of organisational change on well-being. First, for the impacts of change, a systematic review of 39 selected papers by de Jong et al. (2016) identified, among other things, the following negative repercussions for employees resulting from organisational changes (either encompassing staff reductions or not): physical demands, job insecurity and low income. According to cognitive appraisal theory (CAT), the way in which employees interpret events and assess situations will impact on how they react to such events, which in turn will have an impact on well-being (Pahkin et al., 2014). In particular, if the change event is assessed in a negative way, it will have an adverse impact on well-being. Also, positive evaluations of changes will likely result in increased well-being. Thus, although organisational change may occur without eroding well-being and can contribute to long-term increases, previous research shows that the neutral or positive effects of organisational change on well-being are the exception, which was demonstrated in de Jong et al.’s (2016) systematic review. They found that positive effects may be contingent on the management of the change. However, previous authors
have not provided specific organisational frameworks to facilitate change implementation without harming well-being.

Second, for the impact of change on well-being over time, many studies have corroborated that employees who are subjected to changes with a negative influence on well-being do not show signs of recovery in the third year after the change (more details are provided in de Jong et al’s (2016) systematic review). A few studies have used longer follow-up periods, for example, four, five or seven years after the implementation of the change, and have found mixed results, with few findings of recovered well-being (de Jong et al, 2016).

Because of the relevant and continued effect of organisational change on well-being, academics and human resource (HR) professionals are interested in identifying conditions that may intervene in such a relationship. In this sense, we are interested in HRMPs because they may increase well-being (Peccei et al., 2013; Veld and Alfes, 2017). Well-being is affected by the job conditions that employees experience (e.g. job demands and control), and such conditions will depend on the HRMPs that organisations adopt (Peccei, 2004); hence, HRMPs will condition well-being. Specifically, those HRMPs that preserve and improve employees’ stewardship behaviours (e.g. employee participation), rather than those based on control (e.g. performance monitoring), will foster mutual employer–employee interests and will enhance job conditions, which will increase well-being (Davis et al., 1997; Hernandez, 2012). Thus, organisations could incorporate those HRMPs that provide a general organisational context that is favourable to change (Neves et al., 2018) or specifically adopted and used to help employees cope with changes during the process (e.g. Choi, 2011). However, because previous research often analyses HRMPs as a bundle without identifying the specific relationships between a given practice and well-being (Veld and Alfes, 2017), it is important to identify the practices that can be useful for retaining and/or increasing well-being in the changing workplace.

In addition, based on contingent and contextual perspectives, HR management should be consistent with internal and external organisational contexts (Peccei et al., 2013), including the requirements for environmental change (Neves et al., 2018) and international differences (Kowalski et al., 2014; Guest, 2017). Companies must consider international differences because the requirement for organisational change, as well as its likely negative effect on well-being, occurs on a global scale. Each country’s national culture provides an idiosyncratic interpretative framework for employees to interpret and understand organisational change (Jacobs et al., 2013) and, hence, respond emotionally and behaviourally to it (Hofstede, 1984, 2001; Kirsch et al., 2012) and the way firms implement HRMPs (Thite et al., 2012). Consequently, any generic guideline for dealing with changes that attempts to maintain well-being may be insufficient if cultural differences at a national level are not considered. Thus, we propose that the above-mentioned paradox could be resolved with efforts to enhance well-being through HRMPs while accounting for contextual issues in the changing workplace.

First, and with respect to the internal context, a large body of literature highlights the contributions of line managers to organisational effectiveness in HRM (Huo et al., 2018). Because superiors can provide support for employees, they play an influential role in the causal chain of “HRM” – “HRMP application” – “individuals’ performance”, particularly in terms of employees’ well-being (Grant et al., 2007). Specifically, although organisations propose HRMPs, their effect on employees should depend on the support from the supervisor that employees receive and perceive (PSS). In addition, because supervisors can provide more certainty within the organisation, they may contribute to improving the organisational environment in contexts of change (Boonstra, 2013), and so PSS may have implications for well-being. The perception of supervisor support by employees is relevant in the successful application of HRMPs, and consequently any attempt to identify suitable HRMPs for changing organisations must consider the potential moderating effect of PSS on the relationship between HRMPs and well-being.
Second, for the external context, HRMPs that are performed by managers can be effective if they are appropriate for the national culture in which they are implemented (Hofstede, 1984, 2001; Kirsch et al., 2012). Therefore, the organisation must use HRMPs that account for the cultural context (Stone and Deadrick, 2015; Thite et al., 2012). Of the cultural dimensions that are identified in the literature (e.g. power distance, masculinity, individualism and uncertainty avoidance), this study focuses on uncertainty avoidance. This value refers to individual reactions to organisational change and is defined as the extent to which the members of a culture feel threatened by uncertain or unknown situations (Hofstede, 1984), thus, it has more of a relationship with many change-related issues (Kirsch et al., 2012). Along this line, Harzing and Hofstede (1996) indicate that countries that are characterised by a high degree of uncertainty avoidance have a greater resistance to change, while those with a low degree accept changes with less difficulty. Thus, the cultural value of uncertainty avoidance could interfere with the need for HRMPs and even PSS for enhancing well-being in contexts of change.

On the basis of the above, this study aims to analyse how changing organisations can preserve and/or enhance well-being through specific HRMPs, taking into account the support from supervisors as perceived by employees, as part of the internal context of the firm, and the external context of national culture, which has different levels of uncertainty avoidance. To identify the specific effects of HRMPs on well-being in changing organisations, moderating effects of PSS and uncertainty avoidance values are analysed and compared in two settings: restructuring or reorganising the working environment in the three years prior to the empirical study and stability (no organisational changes). Our empirical study used a sample of 10,866 employees from 18 European countries who participated in the Fifth European Working Conditions Survey (EWCS), in which 5,646 of the employees were involved in substantial restructuring and organisational changes. We expect to address four gaps in the current research by: drawing attention to the need to provide guidelines to enhance well-being in specific organisational contexts of change, as highlighted by authors (e.g. Kowalski et al., 2014) in other works, in order to deepen relationships previously founded on HRMPs and well-being; identifying any specific impact that a given practice may have on well-being, as most previous studies analyse HRMPs as bundles (Veld and Alfes, 2017); demonstrating the importance of PSS for these processes, since there is not very much research regarding the impact of supervisor support on well-being as perceived by employees (Huo et al., 2018); and most importantly, highlighting the need to introduce the national context in studies that examine how HRMPs influence well-being (Guest, 2017), because not all employees react to HRMPs in the same way given that national values condition employees’ perceptions, feelings, attitudes and behaviours.

Literature review and hypotheses

HRMPs and organisational change

Organisational change includes a broad range of different updates that lead to the restructuring of an organisation to improve employee performance (Nikolova et al., 2014), e.g., relocation, outsourcing, merging with or acquiring another organisation and redundancies, as well as business expansions or reorganisations (Eurofound, 2012a, b). Employees’ behaviour is at the core of organisational change because the company is transformed through its employees (Choi, 2011) and requires them to assimilate new ways of thinking, acting and/or operating in order for the desired changes to be implemented (Bamberger et al., 2012). Thus, modifications affect employees’ job conditions through changes in job demands and control, job security and the amount of perceived support from the management in the workplace (de Jong et al., 2016; Guest, 2017; Schumacher et al., 2016). In addition, employees are frequently unaware of the process and its consequences, and in these cases, rumours flourish, which increases employees’ vulnerability to insecurity, worry
and stress (Cunningham et al., 2002). Consequently, the way changes are managed often affects workers’ experiences and attitudes towards change (Rafferty and Jimmieson, 2017). When employees perceive that there are negative job conditions or poorly managed change efforts, they perceive that they are treated poorly by their organisations, which may result in negative attitudes towards change, such as resistance (Rafferty and Griffin, 2006). Consequently, there may be conflict between employees (who avoid the change) and managers (who implement the change). This often occurs in organisations in which HRMPs do not create a context that is favourable to change. Indeed, according to Peccei (2004), employees’ experiences are affected by the HRMPs that are followed by the organisation. Thus, it is important to understand the relationship between HRMPs and organisational change, that is, how these interventions can create a context that facilitates the change process.

Of the different HRMPs that are analysed in the literature, several have been identified as essential to the organisational change process (e.g. job participation, internal promotion, job design) (Pahkin et al., 2014). For example, when there is job participation and rumours are overcome with first-hand information, or job security is an important element for internal promotion, there is a decrease in feelings of insecurity, worry and stress, and the resulting firm context may favour a calm and easy acceptance of change (Oreg, 2006). In addition, internal promotion empowers the development of the individual. When an organisation allows employees to fulfil job expectations, they feel rewarded and satisfied and perceive fairness in the organisation. Consequently, they will behave according to the organisational requirements (Hernandez, 2012), for example, during periods change. Job design is defined by a set of characteristics and the content of work-related tasks (Grant and Parker, 2009). An appropriate and effective job design provides employees with clear information about their responsibilities and guidelines for optional interactions with others, as well as requirements for readiness to change (Grant and Parker, 2009). For instance, the job design may dictate the conditions for continuous job improvements; thus, employees must be open and adaptable to new ways of performing tasks in order to facilitate the acceptance of change (Petrou et al., 2018). Finally, work-life balance represents the equilibrium between work and family demands or other responsibilities in life (Hämmig et al., 2009). Because organisations often require a high level of involvement in the job and employees, therefore, prioritise their professional lives over their personal lives, this HRMP is based on recognising the importance of achieving an appropriate “balance” in both professional and personal domains (Hämmig et al., 2009). Consequently, employees feel grateful and provide the organisation with positive and appropriate behaviours, which facilitates the performance of required organisational tasks (Franco-Santos and Doherty, 2017), for example, during peak work periods. Based on the above, and generally speaking, it can be expected that HRMPs that guarantee adequate job conditions will increase employee’s positive attitudes, which will facilitate the acceptance of changes that are required by managers (Schumacher et al., 2016).

In addition, organisations that do not use suitable HRMPs to generate contexts that are favourable to change can confront change processes by selecting and applying HRMPs that facilitate the successful implementation of change. For example, job participation allows employees to feel involved in the change process. It allows employees to better understand the change and facilitates behaviours that are consistent with the new procedures (García-Cabrera and García-Barba Hernández, 2014). In addition, job participation increases an awareness of the outcomes of change on job security (Oreg, 2006) and social integration (Cunningham et al., 2002), among other things, and reduces feelings of insecurity and stress, as well as the resistance to change that is generated by these types of emotions (Rafferty and Jimmieson, 2017). Internal promotion can also be positive in the context of change. An awareness of the promotion opportunities associated with change (e.g. job security, power, prestige or economic benefits) may increase the grace with which employees experience potential adverse consequences, e.g., a more demanding workload (Oreg, 2006). The importance of
these promotion opportunities can positively affect employees’ acceptance of the proposed change (García-Cabrera and García-Barba Hernández, 2014). Job design is also important in the changing workplace when there is task restructuring and employees must understand their new role in the organisation, or the expectations of their position, in order to act accordingly. An unawareness of work expectations generates negative attitudes and stress for employees, as they perceive that it is impossible to develop the new procedures required by the change programme. Finally, for work-life balance in the specific contexts of change, employees may feel the need to work overtime due to the process’ demanding conditions, which may harm work-life balance. Consequently, when the organisation accounts for the employees’ family demands and responsibilities and guarantees the balance between professional and personal domains, there will be a smooth implementation of the changes (Kelly et al., 2014).

Thus, positive effects of HRMPs on organisational change can be expected. Indeed, participation, internal promotion, job design and work-life balance may be essential elements in a well-managed change process. These positive effects may occur when the HRMPs are generally applied by the organisation (Hernandez, 2012) or when they are specifically adopted for the changing organisational context.

Well-being in workplaces that are experiencing change

Employees’ well-being is an essential element in organisational psychology. However, the increasing body of research has failed to reach academic consensus on the definition or measurement indicators of well-being (Franco-Santos and Doherty, 2017), as it is often analysed from a multidisciplinary and multidimensional approach. Although there are several definitions for general well-being or happiness and its role as a component of a better life (Guest, 2017), we focus on work-related well-being – specifically on positive affect (pleasant moods and emotions). Grant et al. (2007, p. 52) define it as “the overall quality of an employee’s experience and functioning at work”. These authors argue that there are three primary facets of work-related well-being that are concerned with psychological, physical and social functioning. In considering psychological well-being, a distinction is often made between hedonic and eudemonic well-being (Guest, 2017). On the one hand, the “hedonic” approach focuses on attaining pleasure and avoiding pain and refers to subjective feelings of happiness. The “eudemonic” approach, on the other hand, focuses on meaning and self-realisation, and often refers to the degree to which a person is fully functioning (Robertson and Cooper, 2011).

The current study utilises the eudemonic perspective of psychological well-being.

Because people spend a significant proportion of their lives at work, changes that occur in organisations can have a profound influence on their health and well-being (Kalliath and Kalliath, 2012) and may decrease well-being (Guest, 2017). When workplaces initiate change efforts, there are modifications in working conditions. For example, organisational change often includes increased job demands (e.g. workload), variations in autonomy and social support and ups and downs in the workplace’s atmosphere (e.g. stress, worries, clashes, etc.) (e.g. Cunningham et al., 2002; de Jong et al., 2016). In addition, these changes encompass the challenge of adapting to new tasks, procedures and functions, and disturb the usual patterns of work that are important because routines help employees develop a sense of control over their environment, which may result in attitudes against the change (Oreg, 2006). Thus, it is not surprising that previous research has found increased emotional exhaustion among employees during these processes (Schumacher et al., 2016). These alterations in job conditions and their effects on employees’ emotions demonstrate that change may erode well-being (Pahkin et al., 2014; Rafferty and Jimmieson, 2017) in cases where the organisation is not characterised by an internal context that is favourable to change, or when it does not manage the change process properly. In this respect, the CAT offers the basis for understanding the effect of change on well-being. This theory states that interpretations of events condition the employees’ emotional reactions (Lazarus and Folkman, 1984), which act as a trigger of
alterations to well-being. According to CAT, if the employees’ interpretations of organisational change are negative, emotions of stress and uncertainty may emerge and lead to lower levels of well-being (Pahkin et al., 2014). On the contrary, positive interpretations will generate optimistic emotions that trigger increased well-being.

Will employees’ well-being increase when HRMPs facilitate the process of organisational change?

Previous authors have analysed how organisations can save and develop well-being in changing contexts (e.g. Kossek et al., 2014; Pahkin et al., 2014). In this respect, Peccei (2004) state that well-being is conditioned by the job conditions that employees experience, which in turn depends on the HRMPs that are used by organisations. Indeed, Peccei (2004) proposes an explanatory model of the impact of HRMPs on well-being that is based on the relationship between these practices and employees’ experiences of job demands, job control and management support. In this regard, stewardship theory (Davis et al., 1997) may facilitate an understanding of the HRMPs–well-being relationship (Franco-Santos and Doherty, 2017). This theory assumes that there is no misalignment between the employees’ and organisation’s interests because there is no problem of opportunism; thus, managers should adopt HRMPs that generate settings that preserve and improve employees’ stewardship behaviours, e.g., high employee participation, opportunities for development, fair and valuable rewards and providing the resources to do a job well (Hernandez, 2012). These practices, in contrast to those based on control (e.g. performance monitoring), foster mutual employer–employee interests, enhance job conditions and so increase individuals’ well-being and facilitate the delivery of organisational assignments and tasks (Franco-Santos and Doherty, 2017), e.g., collaborating on the implementation of a change. Because stewardship behaviours increase employees’ well-being (Davis et al., 1997; Hernandez, 2012), enabling HRMPs are important for maintaining well-being during contexts of organisational change. On the basis of similar arguments, several authors (e.g. Kossek et al., 2014; Pahkin et al., 2014) highlight the importance of job participation and internal promotion or job design, among other things, because these HRMPs can generate working conditions and attitudes to change that facilitate the process.

For example, for job participation, when employees’ opinions are valued, either as an organisational practice or during the change process, individuals develop a positive perception of impartiality and fairness about the process (Choi, 2011). In addition, organisations that provide internal promotion opportunities generate a context in which employees are excited about change programmes because enhancement opportunities are associated with organisational growth, which results from the change (Petrou et al., 2018). Thus, job participation and internal promotion reduce negative attitudes towards change (Oreg, 2006) and increase the perception of well-being at work (Rafferty and Jimmieson, 2017). In addition, job design is also important for maintaining well-being in change contexts because it includes replacing old job routines with new routines not yet established, so employees are likely to experience worry and stress due to uncertainty about their future work outcomes (e.g. Nikolova et al., 2014). Thus, a job design that provides role clarity and confidence will help individuals cope with the change efforts with higher self-confidence, less uncertainty and, therefore, greater well-being. For work-life balance, because the workload and physical demands usually increase during the change process, employees may feel the need to work overtime, and work-life balance may deteriorate (Kelly et al., 2014), thus, eroding well-being (Grant-Vallone and Donaldson, 2001). Consequently, if organisations guarantee that employees have enough time for both work and their social lives, and maintain this policy during changes, there will be a benefit for employees’ well-being (Kelly et al., 2014).
Thus, these HRMPs may facilitate the change process and generate suitable working conditions that reduce the frequent negative attitudes of employees towards change, which will decrease emotional costs and consequently increase employees’ well-being. Because the positive effect of the above-mentioned HRMPs on well-being can be expected in contexts of both stability and change, we state the following hypothesis as a baseline on which the current study is built (i.e. it elucidates the baseline effect that the cultural interaction discussed later on is supposed to modify):

H1. Using HRMPs to increase job participation, facilitate internal promotion, clarify job design and enhance work-life balance will improve well-being, particularly in conditions of organisational change.

Perceived supervisor support and well-being in changing workplaces
Supervisors also have an important role in reducing employees’ perceptions of uncertainty about change, as they can provide individuals with confidence and vision during the process and turn feelings of insecurity into the perception of prospects for a better future (Neves et al., 2018). Research on perceived organisational support (POS) provides a basis for understanding how the behaviours of organisations and managers affect employees. For employees, organisations are often personified by their supervisors (Levinson, 1965) – in fact, since supervisors have the responsibility for directing and evaluating subordinates’ performances, then employees would view their supervisor’s favourable or unfavourable orientation towards them as indicative of the organisation’s support (Eisenberger et al., 1986; Levinson, 1965). In this sense, Armstrong-Stassen and Cameron (2003) state a positive association between POS and PSS. On the one hand, POS is understood as the development of employees’ global beliefs about the extent to which the organisation values its contributions and cares about its well-being (Kurtessis et al., 2017). On the other hand, PSS materialises in the way that employees develop general views concerning the degree to which supervisors value their contributions and care about their well-being (Kottek and Sharafinski, 1988; Kossek et al., 2014).

Research indicates that PSS leads to favourable results for both the organisation and employees, as it buffers the negative effect of stress and consequently improves performance, job satisfaction and well-being (Gilbreath and Benson, 2004).

Given that changing workplaces are often characterised by an uncertainty that generates stress among employees, PSS is important because it could significantly reduce stress (Cunningham et al., 2002). In fact, several studies conclude that PSS could moderate the relationship between stress and well-being (e.g. Kurtessis et al., 2017). Thus, and again because the expected positive effect of PSS on well-being may occur in contexts of both stability and change, we state the second baseline hypothesis the current study is built upon (i.e. it clarifies the baseline effect that the cultural interaction discussed later on is supposed to modify):

H2. The greater the perceived supervisor support, the greater the well-being of the employee in conditions of organisational change.

Perceived supervisor support as a moderator of the influence of HRMPs on well-being
Because the employee has direct contact with supervisors, the supervisor’s practices will have a greater impact on employees than the decision makers who designed the practices (Andersen et al., 2007). Thus, although organisations propose and implement HRMPs, their effect on employees will depend on PSS.

For example, the successful implementation of employee participation depends on supervisors who act as facilitators (e.g. Xanthopoulou et al., 2008). Specifically, Grant et al.
(2007) found that supervisors moderate the relationship between several HPMPs, e.g., internal promotion, job design and well-being. For example, Grant and Parker (2009) argued that PSS is essential for job design because interpersonal interactions are embedded in and influenced by the work, roles and tasks that employees perform.

In the changing workplace, uncertainty perceptions are often higher and, thus, there is a greater challenge because employees may be more reluctant to implement HRMPs when there is a lack of noticeable support from supervisors (Grant and Parker, 2009). Thus, the supervisor should assume a more pro-active role. Boonstra (2013) highlighted the role of superiors in organisational change contexts and claimed that they must support and facilitate the change by promoting participation and building relationships that are based on trust. They must also manage potential conflicts during the change process and use these conflicts to open dialogues. Thus, support for applying HRMPs may be essential for assisting employees with the stress and conflict that result from change. Thus, because the employees’ perceptions of receiving support from their supervisors has a fundamental role in the success of applying HRMPs in conditions of organisational change, PSS may moderate the influence that HRMPs exert on well-being. Thus, we posit a third baseline hypothesis the current study is built upon, which is based on the moderating effect of PSS that is expected in contexts of stability and change (i.e. it clarifies a baseline effect that the cultural interaction argued later on might modify):

**H3.** The greater the perceived supervisor support, the greater the positive influence of HRMPs on well-being in contexts of change.

**National culture and the moderating effect of perceived supervisor support on well-being for HRMPs in a changing workplace**

Culture reflects the values that are shared by individual members of a human group (e.g. societies, nations, etc.), which influence their perceptions, understanding, behaviour and social relations (Hofstede, 1984). National culture represents a reality that is socially and gradually constructed over time (Hofstede, 2001). There are differences between nations at the organisational and individual levels (Hofstede, 1984; House *et al.*, 2004). Specifically, national culture influences the way in which organisations are structured (Hofstede, 1984, 2001), their culture (Boonstra, 2013), and provides interpretative frameworks for understanding organisational events, such as restructuring (Jacobs *et al.*, 2013), thus, conditioning the individual’s emotional and behavioural responses (Hofstede, 1984, 2001). Therefore, culture affects the solutions to organisational challenges and influences the most successful approach to change in different countries (Kirsch *et al.*, 2012). In addition, because the values that affect employees’ behaviours differ from one society to the next, they will not react to the same incentive in the same way (Stone and Deadrick, 2015). Indeed, cultural values can condition employees’ perceptions and reactions to change (Kirsch *et al.*, 2012). Ultimately, the national cultural framework may lead to new conclusions on the interaction effects of specific HRMPs and PSS on well-being in changing workplaces.

Hofstede (1984) identified four cultural values that are useful for understanding job behaviours and attitudes at work: power distance, individualism, masculinity and uncertainty avoidance. The GLOBE project (House *et al.*, 2004) used Hofstede’s framework as the foundation for developing a subsequent and more evolved model, and consequently, our study is based on the Hofstede and GLOBE approaches. Specifically, according to Hofstede (1984), power distance refers to the degree to which less powerful members of organisations within a country expect and accept that power is unequally distributed; individualism refers to differences in the relationship between the individual and the collective and the dependence of the individual on the group; masculinity refers to...
individuals’ aggression and competitiveness in a firm, as well as their determination to pursue economic success; and uncertainty avoidance refers to the extent to which the members of a culture feel threatened by and uncomfortable in unstructured situations, thus, reflecting the individual’s tolerance for uncertain situations (Hofstede, 1984).

The four cultural values may condition employees’ perceptions of change programmes and likely influence how change affects well-being. Power distance and individualism have been related to differences in performance improvements that result from a programme of change, and masculinity correlates with people within the team feeling anger towards changing workplaces (Kirsch et al., 2012). The cultural value of uncertainty avoidance is related to the employees’ perceptions of many change issues, including confidence that the change will lead to improved performance, the pace and speed of the stages of change, the turbulence during the process, the number of changes and their size and shape, the new methods of working, the information received from managers, confidence in the quality of the management of the changes, role clarity and clear responsibilities during the process (Kirsch et al., 2012). Therefore, although all cultural values may affect employees’ perceptions of the change process, the specific value of uncertainty avoidance may be decisive for the process.

The uncertainty avoidance value is tidily related to the fears of uncertainty and risk (Hofstede, 1984) that are expected in any programme of change. Uncertainty avoidance can affect individual feelings about the changes (Harzing and Hofstede, 1996), their need for PSS to maintain well-being and their acceptance of the implemented HRMPs for the change process. When individuals have a high degree of uncertainty avoidance, the stress that is caused by the unknown leads them to avoid risks and seek stability (e.g. staying in the organisation is important because it provides security) (Hofstede, 1984). Norms reduce uncertainty by regulating individuals’ behaviours and generating predictability in the short term and, thus, norms generate security. In the business context, when individuals have high levels of uncertainty avoidance, they have a greater need for these norms to regulate behaviours and relationships in the organisation (Hofstede, 1984).

Thus, this cultural value can affect how employees perceive HRMPs, and their comfort in the application. For example, participating in decision making can be a source of uncertainty and stress for individuals from cultures that have a high degree of uncertainty avoidance, but will not lead to uncertainty for those who belong to countries with lower levels. In this respect, participation can be more valuable to individuals when they have low uncertainty avoidance values because they will be in a better position to exhibit openness and participate in the construction of the change. For example, they will be not afraid to give their opinion or make a mistake when giving it (Hofstede, 1984). However, employees with high uncertainty avoidance values may feel anxious because of their new requirement or responsibility to participate in the process. These employees will respond to the opportunity offered by this HRMP with little enthusiasm or willingness to participate, less readiness to openly share their sincere opinions. Thus, this practice will prove less able to increase well-being in the case of employees with high uncertainty avoidance values.

Similarly, employees from cultures characterised by high uncertainty avoidance could feel insecure when faced with job designs that define their functions in terms that are imprecise, too broad or that are connected to flexible programmes and changing tasks; alternatives to reconcile work and personal life that leave the choice of how to reconcile both obligations at the discretion of the employee, even when the company offers formalised programmes but the individual feels a personal obligation to comply with what they believe to be the company’s expectations of them; or internal promotion opportunities that require them to deal with new and sometimes more demanding and challenging tasks. By contrast, when there are low uncertainty avoidance values, uncertain situations provoked by the mere use of these HRMPs will not result in employee anxiety, which decreases their need to avoid risks (Hofstede, 1984; Harzing and Hofstede, 1996) and increase the potential positive effect of these practices on
well-being. In this case, rules in the organisation are less important for regulating and formalising employees’ actions (Hofstede, 2001), and employees can use their personal self-control and discretionary behaviour to commit to activities incentivised by practices (e.g. accept new job opportunities, decide how to do their work or to accept new tasks set by the HRMP of job design, make the most of opportunities to balance work and life without a sense of worry that duties are not being fulfilled). Low uncertainty avoidance values make them comfortable to adopt a risk approach (Hofstede, 2001). Thus, it is not surprising that some empirical studies have found significant differences in the ways that organisations in different countries implement HRMPs (Thite et al., 2012).

The cultural value of uncertainty avoidance also affects employees’ needs for PSS. For example, in contexts with low uncertainty avoidance, individuals have a stronger desire to learn about their superiors’ opinions and expectations, while in contexts of high uncertainty, more support is needed for confidently facing job tasks (Hofstede, 2001). In cases of organisational change processes, a close relationship with a supervisor can avoid and/or combat the emergence of uncertainty about the process and boost an employee's confidence, which is important in cultural contexts that have high levels of uncertainty avoidance (Harzing and Hofstede, 1996). Given that confidence in the process avoids and/or reduces the anxiety and stress, PSS should increase the employee’s well-being. Thus, in cultural contexts that have high levels of uncertainty avoidance, organisational change has a high probability of deteriorating well-being, while, at the same time, the assistance of a supervisor, as perceived by employees, is more important for applying HRMPs that enhance and maintain or salvage well-being. The final hypothesis is:

\[ H4. \text{In contexts of change, the greater the PSS, the greater the positive influences of HRMPs on well-being; this effect is stronger in cultures with high levels of uncertainty avoidance than in cultures with lower levels.} \]

**Method**

**Data sources and study context**

To test the hypotheses, individual-level data are combined with country data at an international level. Individual-level data were obtained from the Fifth EWCS (EWCS-2010) for the 27 EU Member States. The target population included workers who were aged 15 years and over. The survey respondents completed face-to-face interviews in their homes about their work, for approximately 40 min on average (Eurofound, 2012a, b). For each respondent who was born in a given country, we aggregated territorial data at the national level. Country-level data were obtained from the GLOBE project (House et al., 2004), which uses statistical data about middle managers from 62 societies. Only 18 countries are included in the EWCS (2010): Denmark, the Netherlands, Germany, France, Ireland, Austria, Finland, Sweden, the UK, Greece, Spain, Italy, Hungary, Poland, Portugal, Slovenia, Turkey and Albania.

**Research procedures**

For comparison purposes, to facilitate a deep understanding of how the variables relate in contexts of change, two sub-samples were obtained: one sample consisted of 5,646 employees who had experienced substantial restructuring or reorganisation in their working environments between 2008 and 2010, while the other sub-sample was composed of 5,220 employees who had not seen such restructuring or reorganisation. This distinction allowed the authors to examine the contextual factor of organisational change and its impact on the individual’s immediate working environment for the three preceding years. Specifically, respondents were asked: “During the last three years, has there been a restructuring or reorganisation at your workplace that has substantially affected your work?” When the interviewer asked the question, they clarified related activities, including relocation, outsourcing,
merging with or acquiring another organisation, redundancies and business expansions or reorganisation in the sense of organisational change. Limiting the time frame to three years for the organisational change was chosen by the EWCS-2010, which is consistent with previous research about the enduring effects of organisational change on job characteristics and well-being over time (de Jong et al., 2016). Respondents could choose from one of four response options, i.e., yes, no, do not know/no opinion (spontaneous) and refusal (spontaneous). Participants who answered “yes” were classified in the “change” context sub-sample, and participants who responded “no” were classified in the “stable” context sub-sample. We excluded participants who were self-employed and first- and second-generation immigrants, as they may not have completely assimilated to the national culture of their current country.

**Measurements**

*Independent variable*. Four items from the Fifth EWCS were chosen as proxies of the HRMPs applied in organisations as perceived by employees: job participation, job design, internal promotion and work-life balance. Because there can be a gap between managers’ opinions about the practices they are implementing and employees’ experiences of such practices, Samnani and Singh (2013) warn researchers about the need to gather information from those receiving the HRMP, that is, the employees. According to Nishii and Wright (2008), as the adoption of an HRMP is prior to employees’ perceptions, when researching an HRMP, employees’ perceptions can be more accurate than those of managers. Thus, recent research is increasingly focusing on employees’ perceptions of HRMPs (e.g. Den Hartog et al., 2013; Jensen et al., 2013; Kehoe and Wright, 2013). Based on the above, our research measures HRMPs from the viewpoint of employees. The specific measurement of each dependent variable is shown in Table I.

Although many researchers favour the use of multiple-item measures, this trend has been challenged (Loo, 2002). Indeed, several authors in the management field have demonstrated that single-item measures can have acceptable psychometric properties and are, therefore, a potentially viable alternative to multi-item scales for construct measurement purposes (e.g. Scarpello and Campbell, 1983; Wanous et al., 1997; Drolet and Morrison, 2001; Nagy, 2002; Kwon and Trail, 2005; Bergkvist and Rossiter, 2007; Fuchs and Diamantopoulos, 2009). Moreover, there are several authors who have analysed and found support for the validity of single-item measures (Nagy, 2002). Using a single-item scale to capture the constructs under study has the ability to validly predict outcomes (Wanous and Hudy, 2001). In addition, our review of the empirical literature ratifies the use of a single variable when studying HRMPs through employees’ perceptions, both to examine each HRMP in isolation (e.g. Andreassi et al., 2014; Rosenzweig and Nohria, 1994) and to integrate them as a bundle of HRMPs (e.g. DeGeest et al., 2017; Den Hartog et al., 2013; Guerci et al., 2015).

**Moderator variables**. Perceived supervisor support was measured with the following question: for the following statement, please select the response that best describes your work situation: “Your manager helps and supports you” (Likert scale ranging from “never”

<table>
<thead>
<tr>
<th>Item</th>
<th>Codes</th>
</tr>
</thead>
<tbody>
<tr>
<td>You are involved in improving the work organisation or work processes of your department or organisation</td>
<td>From “never” to “always”</td>
</tr>
<tr>
<td>You know what is expected of you at work</td>
<td>From “strongly” to “strongly agree”</td>
</tr>
<tr>
<td>How much do you agree or disagree with the following statement describing some aspects of your job? My job offers good prospects for career advancement…</td>
<td>From “not at all well” to “very well”</td>
</tr>
</tbody>
</table>
Uncertainty avoidance cultural values were measured by the Globe Project. Specifically, these values evaluated culture by focusing on the aspirations of employees ("should be"). For this model, higher scores indicate more uncertainty avoidance (House et al., 2004).

Dependent variable: Well-being. An index to measure work-related well-being based on pleasant moods and positive emotions from the EWCS questionnaire was developed for this research. The EWCS collected information on self-reported well-being according to the WHO Well-Being Index (1998), which is based on the eudemonic approach. Specifically, the factor analysis, which was conducted (principal components estimation) with varimax rotation, included the following questions: please indicate for each of the three statements the closest to how you have been feeling over the last two weeks: “I have felt cheerful and in good spirits”; “I have felt calm and relaxed”; and “I have felt active and vigorous”.

Control variables. Several authors have suggested that gender and age are important control variables in well-being research (e.g. Nikolova et al., 2014; Veld and Alles, 2017). Women may experience more difficulties than men regarding job insecurity, which affects well-being (Vedina and Dolan, 2012); consequently, we included gender as a control variable in our study. For age, many studies confirm that years of experience garnered by age may allow people to design their jobs better and overcome adversity (Gilbreath and Benson, 2004; Rafferty and Jimmieson, 2017). This assertion is consistent with research that shows positive correlations between age and well-being (Nikolova et al., 2014). Thus, we expect age to positively affect well-being.

Data analysis
We performed several mean difference tests between the change and stability sub-samples to compare the independent and dependent variables between organisations in “stable” and “change” contexts. In addition, we conducted two separate correlation analyses for the independent variables in both contexts. These tests examine the possibility of bias due to multicollinearity with coefficient significance tests. Multiple linear regressions were employed to test the hypotheses. First, the two sub-samples were combined. Then, separate equations were generated for countries with high and low uncertainty avoidance values for each analysed sub-sample (below and above the mean score for the full sample). To evaluate the potential for regression coefficient instability, collinearity diagnostics were also conducted in the linear regressions (i.e. the variance inflation factor (VIF) and condition number).

Results
Sample characteristics
On average, the sub-sample of employees in the stable context was as follows: female (52.0 per cent), 40.69 years of age; 39.7 per cent had completed (upper) secondary education and 4.7 per cent had attained the “first stage of tertiary education”. The employees’ current job tenure was 9.2 years on average, and 32.2 per cent worked in SMEs (10–49 employees). The sub-sample of employees in the organisational change context, on average, was as follows: male (50.6 per cent), 42.09 years of age or younger; 57 per cent had completed (upper) secondary education and 5.3 per cent had attained the first stage of tertiary education. The employees’ current job tenure was 11.65 years on average, and 32.4 per cent worked in medium-sized organisations.

Well-being: factor analysis and reliability assessment
Two factor analyses (principal component estimation with varimax rotation) were run in order to identify well-being factors for both sub-samples. For the sub-sample of employees
who had not had substantial restructuring or reorganisation in their work environments, the Kaiser–Meyer–Olkin (KMO) test and Bartlett’s test of sphericity ($\chi^2$) were adequate (0.728; 7,625.514***), and the variance explained was 78.853 per cent. The scales used to measure well-being had internal consistency ($\alpha = 0.864$). For the sub-sample of employees who had experienced substantial restructuring or reorganisation in their work environments, the KMO test and $\chi^2$ were also satisfactory (0.713; 7,099.598***). The variance explained was 75.993 per cent. The scales used to measure well-being in this second sub-sample also had internal consistency ($\alpha = 0.839$).

Mean difference tests, correlations and multicollinearity analysis in regression analysis

There were significant differences between the employees who had experienced reorganisation in their work environments and those who had not regarding their perceptions of the HRMPs, PSS and well-being (Table II). In organisational change contexts, there were higher levels of job participation, internal promotion, job design and PSS, but lower well-being with respect to being calm and relaxed and active and vigorous. These general results suggest that although some organisations are more likely to use the four HRMPs and PSS to address change processes, obviously not all organisations use such practices or increase supervisor support. In the aggregate, and for the global subsample of change context, employees' well-being suffers when there is organisational change. Again, it does not happen in every organisation, but taken all together, the results show lower levels of well-being in change contexts.

Tables III and IV provide the descriptive statistics (the means and standard deviations (SD)) and correlations among the variables for each sub-sample, which allows for comparisons to provide insight into relations in the data. At the $\sigma = 0.001$ level, perceived supervisor support is positively correlated with job participation ($r = 0.313$) and is higher in the sub-sample of employees in the organisational change context. Furthermore, in the sub-sample of employees in a stable context, these two variables are also positively correlated (0.333).

We conducted linear regression analyses to test the relationships between the five independent variables (job participation, internal promotion, job design, work-life balance and perceived supervisor support) and well-being, as well as the interaction between HRMPs and perceived supervisor support. We performed six regression equations and

<table>
<thead>
<tr>
<th>Variable</th>
<th>Stability context (Employees who did not have substantial restructuring or reorganisation in their working environments)</th>
<th>Change context (Employees who had substantial restructuring or reorganisation in their working environments)</th>
<th>t-test</th>
</tr>
</thead>
<tbody>
<tr>
<td>Job participation</td>
<td>2.9705</td>
<td>3.3889</td>
<td>234.283***</td>
</tr>
<tr>
<td>Internal promotion</td>
<td>2.6200</td>
<td>2.8900</td>
<td>143.726***</td>
</tr>
<tr>
<td>Job design</td>
<td>4.5666</td>
<td>4.5972</td>
<td>4.970*</td>
</tr>
<tr>
<td>Work-life balance</td>
<td>3.0632</td>
<td>3.0522</td>
<td>0.528</td>
</tr>
<tr>
<td>Perceived supervisor support</td>
<td>3.6168</td>
<td>3.7275</td>
<td>23.143***</td>
</tr>
</tbody>
</table>

Well-being: please indicate which is the closest to how you have been feeling over the last two weeks

<table>
<thead>
<tr>
<th>Note: *p &lt; 0.05; **p &lt; 0.01; ***p &lt; 0.001</th>
</tr>
</thead>
<tbody>
<tr>
<td>I have felt cheerful and in good spirits</td>
</tr>
<tr>
<td>I have felt calm and relaxed</td>
</tr>
<tr>
<td>I have felt active and vigorous</td>
</tr>
</tbody>
</table>

Table II. Difference of means tests
differentiated between the stable and change contexts and high and low uncertainty avoidance. All regression equations controlled for socio-demographic variables, such as age and gender, with different effects on the estimated equations. Table V shows the results. The VIF (1.001–1.123) is much lower than the recommended cut-off of 10. The highest condition number for the regressions is 11.428 (Model 3). These statistics suggest that multicollinearity is not a problem in the data.

### HRMPs, PSS and well-being

Model 4 shows the positive influence that specific HRMPs exert on well-being in the change context, which support *H1*. The results demonstrate that when the individual perceives that the organisation allows them to participate in processes that improve their departments or organisations, provides adequate prospects for career advancement, develops suitable job designs that elucidate work expectations and facilitates the ability to balance work and life, there is increased well-being. Models 1 and 4 show that this effect exists regardless of whether or not the organisation is experiencing a process of change.

*H2* is also supported, as the results in Model 4 verify the positive effect of PSS on well-being in change contexts. When individuals perceive the help and support of their supervisors, they have an increased level of work-related well-being. Models 1 and 4 show that this effect exists regardless of whether the organisation is experiencing a process of change.
The interaction between PSS and HRMPs

Model 4 (step 3) estimates PSS’s moderating effect on the relationship between the four HRMPs and well-being in change contexts. PSS does not moderate the job participation–well-being relationship or the internal promotion–well-being relationship. There is a moderating effect of PSS on the relationship between the job design’s effect and well-being in change contexts (which is also found for stable contexts in Model 1). Finally, PSS also moderates the relationship between work-life balance and well-being in contexts of change, with an unexpected negative effect, which marginally supports H3.

The moderating role of uncertainty avoidance cultural values

Table V presents separate regressions for cultures that have low and high uncertainty avoidance values (Models 2 and 3 for stable contexts and Models 5 and 6 for change contexts). Specifically, the low uncertainty avoidance countries are Denmark, Germany, France, Ireland, Austria, Finland, Sweden and the UK, and those with high uncertainty avoidance are Greece, Spain, Italy, Hungary, Poland, Portugal, Slovenia, Turkey and Albania. The only HRMP that has a significant effect on the two cultural contexts is job participation. Specifically, job participation increases well-being in stable contexts when
organisations are in high uncertainty avoidance cultures; however, in change contexts, job participation improves well-being when organisations are in low uncertainty avoidance cultures. There were also differences for the moderating effect of PSS. Specifically, in organisations with stable contexts, well-being moderates the effects of PSS with respect to job design in organisations in cultures that have low uncertainty avoidance values.

Finally, for $H4$ (contexts of change), in organisations in cultures that have high uncertainty avoidance values, PSS moderates the job design–well-being relationship, but there is no effect in the sub-sample of organisations in low uncertainty avoidance cultures. Similarly, PSS moderates the relationship between work-life balance and well-being, but only in organisations in cultures that have high uncertainty avoidance values. Thus, $H4$ is supported because these moderating effects are stronger in high compared to low uncertainty avoidance cultures.

Discussion
We will discuss our results with respect to the three primary areas analysed in the current research. In our discussion, we will refer to stability and change contexts because the comparison between them allows us to better understand how the variables under study relate in change contexts.

HRMPs, PSS and well-being
The results revealed that using HRMPs to increase job participation, facilitate internal promotion, clarify job design and enhance work-life balance, as well as providing more support from supervisors as perceived by employees, improves well-being both in conditions of stability and organisational change.

Perceived supervisor support as a moderator of the relationship between HRMPs and well-being
There is an interaction effect between HRMPs and PSS that is contingent on the internal context of change. On the one hand, when employees do not face substantial restructurings in their work environments (stable contexts), and do not experience challenging and demanding periods, their well-being benefits, for example, from the combined effects of job design and PSS. In other words, job design will have an increased positive impact on well-being when this HRMP is accompanied by sufficient PSS.

On the other hand, in change contexts, there is a negative interaction, for example, between work-life balance and PSS, which is in contrast to our hypothesis. This indicates that for the individual employee, the importance of having support from a supervisor differs depending on whether the HRMP of work-life balance is high or low. Specifically, when the employee perceives a low level of support from his/her supervisor, work-life balance is more important for increasing well-being. Thus, work-life balance compensates for the lack of a supervisor who is supportive and receptive to the employees’ family needs and has a stronger effect on ultimate well-being. In contrast, in the presence of a perception of supervisor support on the part of employees, higher levels of the HRMP of work-life balance reinforce the actions and decisions of the supervisor while incentivising well-being. Strong support from supervisors will draw the employee’s attention away from the HRMP. Importantly, in change contexts, work conditions are often highly demanding and the organisation may require extra effort from employees, which may increase their difficulty in attending to private matters during the working day. Thus, in these change periods, employees will view the support from his/her supervisor as more important than the norm that may have been designed in stable contexts, or employees may view benefiting from work-life balance as a lack of their commitment to the organisation during the demanding process of change.
The moderating effect of uncertainty avoidance cultural values

The results indicate that PSS and practices such as internal promotion, job design and work-life balance increase well-being in contexts of both stability and change, regardless of whether organisations are in high or low uncertainty avoidance cultures. However, these practices and the presence of support from the supervisor as perceived by employees have less effect on well-being in countries with higher levels of the uncertainty avoidance value. In contrast, job participation increases well-being in stable contexts when organisations are located in low uncertainty avoidance cultures and in change contexts when organisations are located in countries with high uncertainty avoidance cultures.

In addition, of the four HRMPs, this study highlights the particular importance of internal promotion and work-life balance for individuals in changing organisations. These practices have the greatest impact on the development and maintenance of well-being in one of the two cultural sub-samples. In detail, the practice of internal promotion, which is often related to job security, increases self-confidence and therefore well-being for those with high uncertainty avoidance cultural values. As such, in countries with low uncertainty avoidance values, internal promotion is the least important practice. This is because individuals in these cultures do not fear risk or losing their job, and changing from one company to another is not viewed as a problem. Moreover, and according to our results, one of the two most important practices for employees in changing organisations is work-life balance, which is the least relevant for the sub-sample of cultures that have high uncertainty avoidance. As such, individuals from cultures that have low uncertainty avoidance work to live and feel comfortable when relaxing; however, those from cultures that have high uncertainty avoidance live to work and feel stressed when resting. Thus, employees in the low uncertainty avoidance sub-sample believe that it is more important to balance work and life, which is critical during the organisational change process as it may be necessary to work longer hours to support restructuring and organisational change.

In addition, PSS is the second most important factor for increasing well-being in changing workplaces in countries that have high uncertainty avoidance values and ranks third in the sub-sample of low uncertainty avoidance (after work-life balance and job design). The moderating effect of PSS is also contingent on the cultural context, as moderation only occurred in the sub-sample of low uncertainty avoidance values in stable contexts and the sub-sample of high uncertainty avoidance values in changing organisations. In the first cultural context, similar to the entire sample, the combined effect of the HRMP and the presence of support from supervisors as perceived by employees suggests that job design and PSS mutually reinforce each other to increase employees’ well-being in stable contexts. However, in such contexts, although employees who have high uncertainty avoidance values experience increased well-being when the organisation provides job design and support from supervisors that they can perceive, the combined effects of these two HR interventions do not increase well-being.

Nonetheless, in high uncertainty avoidance contexts, the combined effects of HRMPs and PSS may be important for allowing employees to face the challenges that are involved in organisational change processes. In these contexts, this study suggests that the variables interact in a manner that is twofold. There is a positive interaction effect through which the variables mutually reinforce each other, as well as a second, compensatory effect in which the absence of one element (HRMPs or PSS) generates more employee attention towards another element that can assist in a context of change.

On the one hand, there is a positive and reinforced effect for job design and PSS. This indicates that well-being that is due to employees’ perceptions of the HRMP for job design differing based on whether there is PSS. Specifically, when the employee perceives high PSS
and effective job design, the combined effects of the two interventions increase the likelihood of greater well-being. However, the effect of job design will be weaker when it is not accompanied by sufficient PSS.

On the other hand, there is a significant and negative interaction between work-life balance and PSS for the entire sample in the change context, which is in contrast to our hypothesis. Thus, the results suggest that the importance that employees attach to PSS when there is strong support will detract from the HRMP. When employees perceive that there is low PSS, work-life balance has a larger influence on well-being, which reflects the compensatory effect of these two HR interventions. In addition to what we argued above, in high uncertainty avoidance cultures, it is not easy for people to stop working and leave the workplace in the middle of the workday to attend to personal matters. Thus, the consent of the supervisor may be more relevant than any norm that is usually in operation at the firm, especially in change contexts. These results reflect the importance that employees assign to supervisor support in contexts of change that occur in countries with high uncertainty avoidance values.

Conclusions
Analysing how organisations can enhance well-being using HRMPs both in specific internal contexts of change with different levels of supervisor support perceived by employees and external national contexts with differing uncertainty avoidance cultural values yields significant conclusions for the interface between societal- and organisational-level frameworks. Therefore, our research can be very useful for HRM research and HR managers and professional practice. Specifically, the current study offers some theoretical and practical contributions to the extant literature on organisational change, HRM and well-being that we detail below.

First, our study provides evidence for the relationships between four specific HRMPs, i.e., job participation, internal promotion, job design and work-life balance and well-being at work. This is important because little is known about the relationships between HRMPs and well-being. For example, Veld and Alfes (2017) highlighted the fact that most previous studies analyse HRMPs as a bundle without identifying the specific relationships of a given practice on well-being. In addition, we can examine the moderating role of the supervisor, which can interfere with the effects of job design and work-life balance on well-being in two ways. Interactions can be positive and, thus, PSS and HRMPs mutually reinforce each other to increase well-being, or negative, which results in a compensatory effect that is based on the absence of an element (HRMPs or PSS), which generates more employee attention towards another factor that can help in a changing context.

Second, we unravel how the specific internal context of change conditions HR interventions’ effect on well-being. Specifically, we demonstrate that HRMPs (i.e. job participation, internal promotion, job design and work-life balance), PSS and their interactions condition employees’ experiences of the change process, which leads to either increased or decreased well-being. Therefore, our research provides guidelines for dealing with organisational change processes in ways that increase the possibility of preserving employees’ well-being in changing organisations.

Third, we elucidate and provide evidence for how the external context of cultural values related to uncertainty avoidance influences the relationship between well-being and HRMPs and PSS, both in “stable” and “change” contexts. Specifically, the findings suggest that job promotion, PSS and its interactions with job design and work-life balance are critical for increasing well-being in contexts of change that occur in countries with high uncertainty avoidance values. However, in countries that have low uncertainty avoidance values, work-life balance is the most important practice for increasing well-being in changing contexts, and internal promotion is the least important. These results suggest that it is critical to use an appropriate combination of HR interventions to increase well-being when changing organisations are in different
cultural contexts. Kowalski et al. (2014) urged researchers to provide guidelines for reinforcing well-being in the changing workplace and, thus, our conclusions are valued and useful because we adapt these guidelines to different cultural contexts.

On a practical level, our work has implications for HR managers and practitioners who must prepare their organisations for the constant changes currently required by environmental conditions. On the one hand, because uncertainty avoidance cultural values moderate the importance of HRMPs and PSS's effects on employees' well-being, managers must attempt to develop and sustain well-being in changing organisations in countries that have high uncertainty avoidance values, because some HRMPs and PSS are less likely to have a positive impact on employees. In addition, we found that the influence of job participation is affected by cross-cultural differences and has no effect on well-being in changing organisations in countries with high uncertainty avoidance values. Thus, managers should choose a suitable combination of practices based on the national culture of the specific country to properly manage HRs in changing workplaces.

In contrast, there are also practical implications from the moderating effects of PSS on the relationship between HRMPs and well-being. First, HR managers and practitioners in organisations in countries that have high uncertainty avoidance values should send clear messages to employees through different but congruent HR interventions in order to address the uncertainty that is associated with changes to job conditions. For example, if their posts are redesigned, employees should be clearly informed about new tasks and functions and should receive supervisor support to successfully perform these new tasks. Second, supervisors should be advised about their important role in organisational change processes, specifically when organisations are in cultures that have high uncertainty avoidance values. They can complement and substitute the lack of HRMPs focused on guaranteeing the employee's work-life balance by restructuring time. In addition, individuals' well-being will greatly increase if they feel supported by their supervisors in these contexts, rather than if their organisations, through the HR department, provide practices to guarantee balance and, thus, influence their well-being. This is consistent with Rafferty and Jimmieson (2017), who focused on the importance of managing employees' perceptions of change and highlighted the challenge to managers of implementing restructuring within their organisations without increasing any negative side effects.

Limitations and future research
Generalisations about the study conclusions are subject to several limitations. Initially, the reader should be mindful that although the data for this research were compiled from 18 European countries, the results should not be generalised without first determining whether the geographical context (i.e. the western world) contributes to the role of cultural values in the influence that HRMPs and PSS exert on well-being. Consequently, it is important to examine these results in comparison to other geographic locations (e.g. the Arab world, Asian cultures, etc.) in which there are different cultural values. Second, details about the content and specifics of change are not included in this study, as this information was not provided in the secondary database. Because the content of change may affect how favourable the process and its outcomes are for employees and, thus, affect employees' perceptions and reactions to the change events and well-being (de Jong et al., 2016), further research should analyse whether content influences well-being and whether that influence is conditioned by national cultural values. Finally, we do not exclude the possibility of continuing to advance research on multi-item scales for construct of HRMPs as a future improvement. In this sense, Robinson (2018) provides a detailed and comprehensive guide to the use of multi-item psychometric scales for HRM research. It would thus be interesting for future research to collect data taking into consideration multi-item psychometric scales of the different HRMPs analysed.
References


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Corresponding author
Ana M. Lucia-Casademunt can be contacted at: alucia@uloyola.es

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Managerial assignments of credit and blame: a five-country study of leadership desirability

C. Lakshman
Department of Management, University of Texas Rio Grande Valley, Brownsville, Texas, USA
Kubilay Gok
College of Business, Winona State University, Winona, Minnesota, USA, and
Linh Chi Vo
Ecole de Management de Normandie, Caen Cedex, France

Abstract

Purpose – Although the international business literature has examined leader traits that are desirable in different cultures, it has not examined critical behaviors or managerial attributions of credit and blame. Credit and blame attributions have important consequences for the desirability of leadership across cultures. Arguing that these types of managerial attributions are likely to have a strong impact on what constitutes desirable leadership, the authors examine them in five countries, namely, USA, France, India, Turkey and Vietnam. The purpose of this paper is to contribute by examining the influence of credit and blame attributions on subordinate satisfaction and leadership perceptions (desirability), unaddressed in the literature.

Design/methodology/approach – The model was tested using questionnaire responses of subordinates in a variety of business organizations, from the five countries indicated, including manufacturing, telecommunication, financial and other services.

Findings – Using the implicit leadership theory, the authors contribute by demonstrating the importance of these attributions for leadership perceptions in five different cultures. The results are supportive of the hypotheses and suggest the important moderating role of subordinate performance for leadership perceptions. The authors discuss findings in the context of the literature, highlight contributions and identify limitations and future directions.

Originality/value – Using the implicit leadership theory, the authors contribute by demonstrating the importance of these attributions for leadership perceptions in five different cultures.

Keywords Leadership, Managerial attribution, Credit/blame, Cultural desirability

Paper type Research paper
outcome or blame it on subordinates. When unit performance is good, managers may credit their subordinates for the success or take the credit themselves (Lakshman, 2008). We do not know if patterns in the credit and blame attributions managers make in these performance contexts are desirable in different cultures, as they have not been examined in extant research. We contribute to the IB literature on cross-cultural leadership by following suggestions, which note the importance of attribution theories of leadership (e.g. Lakshman, 2013) based on the long-standing notion of isomorphic attributions (Triandis, 1975). We examine credit- and blame-attributions that managers make for subordinate behavior to assess whether or not they are isomorphic with cultural expectations and thereby constitute desirable leadership across five countries.

Attributional patterns vary across cultures and the desirability of these attributions for effective leadership has been unexamined in the literature. Attributions of credit and blame for appropriate performance outcomes are part of the social fabric of organizational life (e.g. Aquino et al., 2001; Crant and Bateman, 1993; Gibson and Schroeder, 2003; Hamilton et al., 1988). Not only are these attributions commonplace, but they are also quite consequential for the emergence and success of leaders. These attributions have been shown to be related to revenge and forgiveness strategies (e.g. Aquino et al., 2001; Bradfield and Aquino, 1999) of the targets of such attributions. While attributions of blame exacerbate conflicts (e.g. Gibson and Schroeder, 2003), and trigger feelings of anger and a desire for retaliation (Pilutla and Murnighan, 1996), the urge for revenge it fosters can motivate extreme behaviors in the workplace such as employee theft, antisocial behavior, feuding, workplace aggression and violence (Aquino et al., 2001; Bradfield and Aquino, 1999). The relatively less examined attributions of credit, on the other hand, has been theorized to reduce conflict (e.g. Thompson, 2001), enhance cooperation (e.g. Cohen and Bradford, 1999) and enhance trust (e.g. Gibson and Schroeder, 2003; Lewicki and Wiethoff, 2000), with no empirical evidence to date.

Although credit and blame have been studied in organizations, managerial attributions of credit and blame for subordinate performance has been relatively unaddressed in this literature. Although some in this literature argue that revenge motivations can deter abusive behavior by bosses (e.g. Aquino et al., 2001), a broader examination of the influence of credit and blame attributions of hierarchical superiors on their immediate subordinates has been unaddressed in the literature despite their importance to leadership. Relatedly, Gibson and Schroeder (2003) note that while the socio-psychological mechanisms surrounding credit and blame attributions are well studied in the literature, the same is not the case with the sociological and organizational mechanisms surrounding such attributions. These researchers argue that social role expectations and position in the organizational hierarchy, for instance, would play a significant role in the ascription of credit and blame attributions, in a manner not clearly understood by the extant literature (Gibson and Schroeder, 2003). We contribute to this literature by examining the influence of managerial responsibility attributions – taking responsibility for negative unit performance outcomes – and attributions providing credit to the team for positive unit performance outcomes on subordinate satisfaction, and subordinates’ perceptions of leadership provided by the manager, outcomes hitherto unexamined in this literature. When managers take responsibility for negative performance outcomes, they are not blaming subordinates for poor performance. Thus, when we use the term blame attribution, we are referring to the fact that they are not taking responsibility for performance outcomes. In the context of good performance, on the other hand, we use the term credit attributions to refer to the fact that managers are crediting subordinates collectively for their good performance.

Gibson and Schroeder (2003) found that leadership roles in organizations attract more blame than credit in response to organizational failures and successes. More specifically, upper-level organizational positions tend to be assigned more blame than credit, while
lower-level positions tend to be assigned more credit than blame for similar outcomes (Gibson and Schroeder, 2003). Additionally, in the context of blame attributions, findings suggest that relative status of victims vs offenders moderated the relationship between blame and revenge such that victims who blamed others for an offense were more likely to take revenge against lower status rather than higher status offenders (e.g. Aquino et al., 2001). Moreover, victims of lower hierarchical positions were more likely to take revenge than those in higher hierarchical positions (e.g. Aquino et al., 2001).

Although we have some knowledge of the relationships surrounding blame and credit in the context of an organizational hierarchy, we know little about the impact of managerial attributions of credit or blame for performance outcomes for subordinates’ perceptions of leadership, especially when the focus is on the manager – subordinate dyad where the reporting relationships are direct and immediate. These relationships between managerial credit and blame attributions and subsequent consequences for leadership processes are especially important in a context where empirical evidence for the “No credit where credit is due” effect is available in the literature (e.g. Heilman and Haynes, 2005). Although Heilman and Haynes (2005) provided evidence for the “No credit where credit is due” effect, their conclusions were based on external (neutral) observers’ credit and blame attributions rather those of managers of immediate subordinates. Additionally, Heilman and Haynes (2005) did not investigate the consequences of the “No credit where credit is due” effect. When managers take more responsibility for negative performance outcomes, are their subordinates more satisfied than otherwise? When managers credit the entire team for positive performance outcomes, are their subordinates more satisfied than otherwise? Do subordinates under these circumstances perceive their managers as providing good leadership (in different cultures)? These are the important questions, which have escaped attention in the literature thus far, but we examine them in this study in five countries. These are important because they contribute to positive performance outcomes, if they are culturally congruent, and lead to negative outcomes (revenge, theft, violence, etc.) if they are not culturally congruent. We define managerial responsibility attributions as those attributions that take responsibility (blame) for negative unit performance outcomes and are the exact opposite of attributions blaming subordinates for the negative unit performance. Our investigation of the consequences of managerial responsibility attributions on the leadership process, subordinate satisfaction and subordinate performance, therefore, makes unique contributions to the cross-cultural leadership literature.

We investigate the extent to which subordinates in five countries, namely, USA, France, India, Turkey and Vietnam, perceive their managers as taking responsibility for performance outcomes by asking them to report on their managers’ tendencies to take responsibility, and either blame or ascribe credit in a specific performance context. We then examine the impact of these attributions on their satisfaction, and leadership perceptions. Since much of the literature in this context (cited thus far) is USA-based, very little literature, if any, is available in other country contexts. Although GLOBE (House et al., 2004) studies have examined desirable characteristics of leaders in 62 countries, the IB literature has not examined the desirability of managerial attributions across countries, despite the importance of attributional processes to leadership in international contexts (e.g. Chen and Van Velsor, 1996; Lakshman, 2013; Triandis, 1975). We chose USA, France, India, Turkey and Vietnam as they belong to five different cultural clusters in GLOBE studies and therefore represent five different cultural profiles. GLOBE researchers have found support for ten different societal clusters that vary on a linear function of nine cultural dimensions (House et al., 2004). The USA was classified into the Anglo cluster, France into the Latin Europe Cluster, India into the Southern Asia cluster, Turkey into the Middle East cluster (House et al., 2004), while Vietnam can be classified into the Confucian Cluster. Comparing managerial responsibility attributions from such culturally contrasting countries would help us gain insights into the surrounding processes and their importance for contextually desirable leadership in each instance. We contribute to the IB
literature by examining managerial responsibility attributions in a cross-national context (five countries) and by examining their importance for contextually desirable (culturally endorsed) leadership behaviors.

The rest of this paper is organized as follows. We provide a review of the relevant literature and describe our theoretical framework within which we build the hypotheses to be tested. We then provide a description of the research method, data collection procedures and the measures used to test the hypotheses. Subsequently, we present the results of the study obtained using confirmatory factor analysis and hierarchical regressions, respectively. We then discuss the results in light of the literature, highlight our contributions and provide future research directions. Finally, we conclude after noting the limitations and highlighting important implications for practice in the five country contexts. We now turn to the theoretical framework of the study.

Theoretical framework and hypotheses
Consistent with the IB literature on cross-cultural leadership (e.g. House et al., 2004), we use the CLT to examine the desirability of attributions made by managers in five countries. We also draw on IB literature that suggests the importance of attribution theories of leadership (e.g. Chen and Van Velsor, 1996; Lakshman, 2013) to examine the degree to which attributions of blame and credit are part of culturally endorsed implicit theories of effective leadership. The implicit leadership theory suggests that people have commonly shared notions and assumptions about what traits constitute good leadership (Lord and Maher, 1991). The GLOBE study suggested that these implicit notions of what constitutes good leadership is culturally shared and thus there is significant degree of within-culture agreement and strong variance between cultures on what constitutes effective leadership. Following this type of theorizing, studies have found a large number (35) of culturally contingent leadership traits relative to the smaller number (22) of universal traits (House et al., 2004). Grouping these attributes into higher order leadership dimensions, GLOBE researchers found that charismatic, and team-oriented leadership dimensions are relatively universal, while self-protective and autonomous leadership vary widely across cultures in terms of their desirability for effectiveness (e.g. Stephan and Pathak, 2016). However, GLOBE studies did not use managerial attributions for subordinate or unit performance, specific to attribution theories of leadership (e.g. Chen and Van Velsor, 1996), which are critical for leadership desirability (Lakshman, 2013).

We extend GLOBE’s work by suggesting that attributions made by managers in performance contexts may also form part of culturally shared belief systems about what constitutes effective leadership. We do this based on suggestions in the IB literature that attribution theories of leadership have the greatest potential for contributing to cross-cultural leadership (e.g. Lakshman, 2013). These suggestions note that attributions are the critical mediating processes through which managers and subordinates interpret and evaluate each other’s behaviors (Lakshman and Estay, 2016). Additionally, the success of the leader–subordinate interaction depends on Triandis’ (1975) notion of isomorphic attributions or the extent to which a person from one culture makes accurate attributions about the behavior of a person from another culture (Chen and Van Velsor, 1996). This notion of isomorphic attributions suggests that managers who make attributions (of credit/blame) that are culturally congruent are more likely to be successful as leaders than those who make attributions that are incongruent. We use this theorizing in formulating our hypotheses. We first review the literature on credit and blame attributions in the North American context.

Credit and blame attributions have been examined for a long time in the research literature (e.g. Crant and Bateman, 1993; Hamilton et al., 1988), without specific focus on manager–subordinate dyads or their implications for subordinates’ perceptions of
leadership. This literature (almost exclusively North American) suggests that observers will assign credit when actors exceed performance standards and assign blame when they fall short of performance standards (e.g., Hamilton et al., 1988). Thus, observers examine the fundamental cause of performance outcomes and then compare performance to expectations in the process of making credit or blame attributions (Gibson and Schroeder, 2003; Hamilton et al., 1988). The literature also points to a consensus on the antecedent predictors of credit and blame attributions, respectively. In this context, researchers have noted that actors engage in impression management behaviors that provide causal accounts and justification in an attempt to either diffuse blame or attract credit (e.g., Crant and Bateman, 1993; Gibson and Schroeder, 2003). Impression management has been characterized as political behavior that people in organizations use to project to an audience a certain identity or image with the intention of obtaining rewards or protecting personal resources or reputation, and to shape the interpersonal environment guiding audience behavior (O'Reilly, 1978). Causal accounts are post hoc explanations that attempt to diffuse blame or attract credit by providing apologies, excuses, and justification with an eye on influencing observers' attributions of responsibility (e.g., Wood and Mitchell, 1981).

Although impression management and political behaviors in general are the most commonly known predictors of responsibility attributions, more recent evidence suggests social role expectations and hierarchical position in organizations as equally important predictors of credit and blame attributions. CEOs who are held responsible for actions of people presumably under their control, for instance, are normally based on the role expectations CEOs have in their leadership roles (e.g., Park and Westphal, 2013). Studies have found that higher the hierarchical position a focal actor occupies, larger the likelihood of this person being assigned blame for negative organizational performance outcomes (e.g., Gibson and Schroeder, 2003). In contrast, lower-level positions attract more credit than blame by virtue of the fact that their role expectations are not as high as for those in upper-level positions (e.g., Gibson and Schroeder, 2003; Heilman and Haynes, 2005). Research has also provided evidence on the “No credit where credit is due” effect, where deserving women employees (or racial minorities) not only do not get credited for their work in teams, but they also get disproportionately blamed for negative performance (e.g., Heilman and Haynes, 2005; Park and Westphal, 2013). This effect is mainly due to the ambiguity in separating individual and team contributions to performance in oftentimes-complex work contexts and the resulting use of stereotypical expectations by observers in assigning credit and blame (e.g., Heilman and Haynes, 2005). Ambiguity in the performance evaluation process is ubiquitous in collective, cross-national, work contexts and can fuel the dominance of stereotypical expectations (Heilman and Haynes, 2005), while also allowing room to managers to strategically use either credit or blame attributions based on their understanding of one's own role expectations, as we will explain in detail.

In the context of blame being attributed to someone for a personal offense (e.g., abusive behavior), research has found that people in upper-level positions are less likely to take revenge than those in lower-level positions (e.g., Aquino et al., 2001). Additionally, victims (e.g., targets of abusive behavior) are more likely to want revenge on offenders of lower hierarchical status than they are to take revenge against those higher in the hierarchy than themselves (e.g., Aquino et al., 2001). Although victims in lower-level positions may not seek revenge against those higher in the hierarchy than themselves, the urge for revenge motivates extreme behaviors (e.g., Bradfield and Aquino, 1999). Extreme behaviors triggered by the urge for revenge, noted in the literature, are employee theft (e.g., Greenberg, 1990), antisocial behavior (e.g., Robinson and O'Leary-Kelly, 1998), feuding (Kim and Smith, 1993), workplace aggression (Folger and Skarlicki, 1998) and violence (Folger and Baron, 1996). In addition to triggering the urge for revenge, attributions of blame are likely to exacerbate conflicts (Kim and Smith, 1993), attenuate feelings of reconciliation (Bradfield and Aquino, 1999) and arouse feelings of anger (Allred et al., 1997). Although attributions of blame and
the urge for revenge have been studied in general organizational contexts with non-specific actor – observer (offender – victim) combinations, managerial attributions of blame for immediate subordinate performance have not been studied in this literature. Additionally, while blame attributions have received much empirical attention as noted above, credit attributions, especially by managers, have not been adequately addressed in the literature. Theoretical attempts have identified attributions of credit to signal cooperation, thereby increasing the chances for reciprocation (Cohen and Bradford, 1999), reducing conflict (Thompson, 2001) and enhancing interpersonal trust (Lewicki and Wiethoff, 2000). This limited theoretical attention to credit attributions, however, has also not been focused on specific manager – subordinate combinations, as in the case of the blame attributions. Moreover, there are many cases of credit not being given even when it is due (Hellman and Haynes, 2005). However, a brief review of this literature above is quite suggestive and provides some fundamental insights to the research reported in this study.

The literature on credit and blame attributions suggests that poor performance is likely to be associated with blame attributions and high performance with credit attributions. This literature also suggests that it is common tendency for people to blame people in upper-level positions than lower-level ones for organizational failures, regardless of whether they voice these thoughts to others. It is also clear that when lower-level employees are blamed for poor performance, they are likely to be affected emotionally. They are likely to engage in behavior that may perhaps be counterproductive, antisocial, aggressive and sometimes violent, given that revenge against perceived offensive behavior (being blamed) by a hierarchical superior is not likely to be in their best interests. When managers take responsibility (blame) for poor performance of subordinates, it reduces the negative emotional effects and could perhaps even produce positive emotional effects. On the other hand, most employees are likely to think that they deserve credit for positive outcomes and, when credited for positive performance, one can theoretically expect enhanced trust, cooperation and satisfaction.

**Study hypotheses**

Managerial attributions for subordinate performance have not been examined in cross-cultural research for their leadership desirability. Some traits examined in GLOBE studies may have relevance for an examination of managerial attributions. In cross-cultural contexts, traits such as communicative, trustworthy, encouraging, positive and confidence building have been found to be universally endorsed (Den Hartog et al., 1999). Higher order leadership dimensions such as team-oriented leadership, with underlying traits such as caring for and loyal to team members, have been found to facilitate outstanding leadership across cultures (House et al., 2004). These traits and leadership dimensions may have relevance for attributions that managers are likely to make in performance contexts, although they are fundamentally different. Building on these findings and the underlying culturally endorsed implicit theories, we suggest that responsibility attributions and attributions of credit to the team are likely be universally endorsed across the five cultures examined here.

Building on the fundamental insights drawn from the above literature review, we develop hypotheses relating managerial responsibility attributions – taking responsibility (blame) for negative unit performance outcomes – and attributions providing credit to the team for positive unit performance outcomes with subordinate satisfaction, and subordinates’ perceptions of leadership, as shown in Figure 1. As shown in Figure 1, and explained below, we expect managerial responsibility attributions that take responsibility (blame) for negative unit performance to be positively related to subordinate satisfaction and subsequently to their perceptions of leadership. Also shown in Figure 1 is the expectation of a positive relationship between managerial credit attributions to the team and
subordinate satisfaction and subsequently to subordinates’ perceptions of leadership. We also expect subordinate performance to moderate the above two relationships such that these relationships are relatively stronger for high performing subordinates than low, which we explain in more detail in what follows.

Cross-national differences

Despite some initial doubts in the literature about the applicability of attributional processes (e.g. Morris and Peng, 1994), involving self-interest, across cultures, increasing levels of evidence points to the general applicability of such processes across cultures (e.g. Au et al., 2001; Lakshman et al., 2014; Zhang et al., 2008, 2011). Though none of these studies have examined the relationships examined in this study, all of them confirm the more foundational elements of the attributional process. They suggest that even the Chinese, for instance, make internal attributions of responsibility for poor performance (e.g. Zhang et al., 2008, 2011) when the general cross-cultural management literature points to a different expectation (e.g. Morris and Peng, 1994). Zhang et al. (2008, 2011) confirmed this tendency among Chinese to make internal attributions of responsibility and to take actions on those responsibility attributions in two different studies. The presence or absence of self-interest, normally within the context of interdependent relationships such as those between manager and subordinate, is the key differentiating factor (Zhang et al., 2008). The literature that argues for differential attribution patterns in Eastern vs Western cultures normally does not involve self-interested parties (e.g. Morris and Peng, 1994). Other research has also confirmed the applicability of attributional processes in the Chinese culture in the context of a service failure vis-à-vis customers (Au et al., 2001). Additionally, responsibility attributions and their consequences for observer attitudes were shown to be more or less stable, in the same direction, and only varying in strength across four countries (USA, France, India and Estonia) in a study examining leaders’ responsibility for downsizing (Lakshman et al., 2014). Based on these studies and our reasoning based on the CLT approach used by GLOBE researchers, we believe that the relationships in the hypotheses we offer will not differ
across the five countries examined in this study. In other words, subordinates in all five countries are likely to be more satisfied, have higher leadership perceptions and perform better when managers make higher levels of responsibility attributions. Thus, our overall argument is that the patterns of managerial attributions we propose in this study are likely to constitute desirable leader behaviors in the five countries examined in this study.

Managerial responsibility attributions

The attribution theory of leadership (Lakshman, 2008) suggests that managerial responsibility attributions are likely to result in higher levels of effectiveness and leadership desirability. These managerial responsibility attributions reduce uncertainty and create an environment within which subordinates can achieve high performance (Lakshman, 2013). When managers take responsibility (blame) for poor performance of one or more subordinates, it is likely to put these subordinates’ minds at rest, prevent task-irrelevant cognitions in their minds, prevent performance-debilitating emotions in them and mediate adaptive reactions on the way to performance turnaround (Lakshman, 2008). When managers take responsibility for negative unit performance outcomes by making responsibility attributions, they may also likely be seen as caring and showing loyalty to team members, which have been shown to be desirable across countries (House et al., 2004). Such responsibility attributions are also likely to enhance the trustworthiness of managers and to trigger perceptions that these managers are encouraging and confidence building in nature.

When managers blame subordinates, it leads to task-irrelevant cognitions in their minds, and fosters performance-debilitating emotions associated with blame and guilt, thereby enhancing uncertainty rather than reducing it (Lakshman, 2013). Enhanced uncertainty is likely to trigger perceptions of poor leadership in the minds of subordinates. Additionally, managerial assignment of blame to subordinates for collective poor performance are likely be seen as a manifestation of self-protective behaviors, which is known to vary across cultures in terms of desirability (House et al., 2004). In the context of poor collective performance, which could be the aggregation of several/multiple individual subordinate performance failures, managerial responsibility attributions play a critical role. These responsibility attributions are known to be commonplace and also known to be consequential in determining subsequent behavior in organizations. Since unit managers are held accountable for the unit’s performance, poorly performing units are immediately brought to the notice of those at higher levels in the organization. If managers are susceptible to self-interests and the self-serving attributional bias, they may take responsibility for positive behavioral and performance outcomes but deny responsibility for negative behavioral and performance outcomes of their units. When managers take responsibility for poor performance, they are taking the blame. When managers deny responsibility for poor performance of one or more of their subordinates, they are in effect blaming the subordinates for their poor performance. Thus, responsibility attributions and blame attributions are mirror opposites. When they blame one or more subordinates, it could foster a whole series of counterproductive behaviors identified in the literature above (e.g. Lakshman, 2008). Supervisors who actively take responsibility for the unit’s performance and attribute the causes of several/multiple poorly performing subordinates to factors that are under their own control are more likely to consider actions that they can take to correct performance deficiencies (Grimshaw et al., 2006). This reduces uncertainty faced by the subordinates in the unit. Reducing uncertainty for subordinates can be seen as an important source of distinction between leaders and others (e.g. Lakshman, 2013), especially in international contexts. Thus, shaping the work environment and the situational factors that are a component of the work environment in a way that does not negatively affect subordinate and unit performance is a key leadership role. Since most subordinates believe that sources of their poor performance exist in the situational factors (upper-level management; e.g. Gibson and Schroeder, 2003), leaders acknowledging this belief
(implicitly) are more likely to build positive relationships with their subordinates than leaders who do not acknowledge this belief.

Research on attributional biases indicates that the impact of attributional biases is reduced as managers gain knowledge and experience empathy toward subordinates (e.g. Martinko et al., 2007). By actively taking responsibility for poor unit performance and planning actions for correcting those performance deficiencies, managers are likely to send positive signals to their subordinates, peers and their own managers, thus engendering positive perceptions of leadership all around. This is in contrast to assigning blame to subordinates for poor performance by making internal attributions pointed toward subordinates, which is likely to enhance attributional divergence and dissatisfaction (Wilhelm et al., 1993). Attributional divergence exists when managers and subordinates make different attributions for the same performance event (Wilhelm et al., 1993). Thus, attributional divergence indicates a lack of congruence with the implicit notions of desirable leadership. The underlying argument here is that leaders take responsibility for the performance of their unit and thereby reduce uncertainty and create an environment within which subordinates can achieve high performance. More specifically, effective leaders point fingers at themselves, look within themselves and find ways to rectify performance deficiencies (Grimshaw et al., 2006). Alternatively, they spread the credit for successes to others and obtain appreciation for everyone in the unit. Empirical evidence from qualitative studies (e.g. Repenning and Sterman, 2002) suggests that this theoretical reasoning is realistic in organizations experiencing various degrees of success and failure on projects (see also Ellis et al., 2006). Analyzing both successful and failed process improvement attempts at one location over a period of time, Repenning and Sterman (2002) discovered a pattern of dysfunctional dispositional attributions on the part of managers in the groups belonging to the process improvement project that failed. In the process improvement project that succeeded, on the other hand, they found managers relating their experience of success as a result of switching from these biased attributions to more external attributions (production system problems) for poor performance. The following quote from Repenning and Sterman (2002) captures the essence of the distinction in attributions in successful vs failed process improvement attempts: One supervisor, asked to account for the success of MCT, articulated the point clearly:

There are two theories. One says “there’s a problem, let’s fix it.” The other says “we have a problem, someone is screwing up, let’s go beat them up.” To make improvement, we could no longer embrace the second theory, we had to use the first. (p. 287)

Finally, managers who make responsibility attributions are likely to be seen as trustworthy, encouraging, positive and confidence-builders, and thus endorsed universally across cultural contexts. This discussion leads to the following hypotheses:

H1. Managers who attribute poor unit performance to factors under their control (responsibility attributions) are likely to have more satisfied subordinates.

H2. Managers who attribute poor unit performance to factors under their control (responsibility attributions) are likely to obtain higher perceptions of leadership from subordinates.

Managerial attributions crediting the team

When subordinates and their units perform well, managers could either take all of the credit or pass some or all of the credit to members in their units. Managers who credit the entire team for successful performance are likely to trigger positive feelings and emotions in their subordinates and increase their trust and willingness to cooperate with others in the unit (Lakshman, 2013). They are also likely to be seen as being loyal to, and caring for team
members, which are critical components of desirable leadership (House et al., 2004). In situations of success, therefore, leaders focus on enhancing the self-efficacy, satisfaction and motivation of subordinates by spreading the credit for the successes. Research suggests that observers are likely to attribute more credit to those at lower organizational levels than higher levels (e.g. Gibson and Schroeder, 2003). By taking all the credit for organizational or unit successes, managers are likely to be seen as exhibiting self-protective leadership and faced with resentful subordinates who end up with the feeling that they have not received the due credit (e.g. Heilman and Haynes, 2005). Not receiving credit where it is due can demotivate subordinates, enhance anxiety and negative emotions and make them lose trust in their managers, resulting in a lack of leadership perceptions. Attributing unit successes to member contributions, on the other hand, can enhance motivation and efficacy perceptions and thus provide a stronger foundation for more satisfaction and leadership perceptions. Research on attributions at multiple organizational levels suggests the occurrence of positive amplifying loops of efficacy – performance spirals (Lindsley et al., 1995). Crediting the team for positive team outcomes leads to higher levels of efficacy and motivation, which then fuels even higher performance, resulting in a positive efficacy – performance spiral (Lindsley et al., 1995). Such attributions are also likely to enhance attributional convergence (Wilhelm et al., 1993) and be seen positively by subordinates, who for the most part have “self-esteem enhancing” tendencies (Larson, 1989), and result in more support and higher perceptions of leadership from them. Thus, we make the following hypotheses:

H3. Managers who attribute unit successes to unit members (credit attributions) for positive performance are likely to have more satisfied subordinates.

H4. Managers who attribute unit successes to unit members (credit attributions) obtain higher perceptions of leadership from them.

Moderating role of subordinate performance
In the above, we have hypothesized that managerial responsibility attributions – taking responsibility (blame) for poor collective performance – and attributions crediting the team for positive unit performance, respectively, are likely to be positively related to the level of satisfaction among subordinates. We expect the absolute level of subordinate performance to moderate both of the above relationships. Research suggests that cognitions and perception are different for poor performers vs good performers (Lindsley et al., 1995). Employees who perform well engage in virtuous cognitive cycles whereby positive performance leads to positive cognitions and prevention of negative emotions, and results in subsequent performance enhancement. Employees who perform poorly engage in vicious performance – efficacy spirals in which poor performance affects their subsequent cognitions negatively and results in further poor performance (Lakshman, 2013). These differences in cognition between performers and non-performers are likely to moderate the relationship between blame and credit attributions and leadership perceptions.

First, poor or below average performers are likely to be less satisfied than above average performers as a result of their own performance. When poor performers see their managers taking some of the blame for their individual performance in the context of the collective poor performance, they are likely to have more positive feelings and more satisfied than the case where managers do not take the blame. Above average performers, on the other hand, are also likely to view managers taking responsibility (blame) positively under the reasoning that they could perhaps have performed even better if the manager had acted differently. Taking responsibility for the poor performance on the part of the manager could signal to these high performers that some changes are likely to be made in the work processes and the system within which work takes place. Thus, high performers are likely to sense that factors that were previously outside their zone of control could now be
rearranged in a more favorable manner. This is likely to energize them more than poor performers about the possibility for subsequent performance and leave them with higher levels of satisfaction. Thus, there are likely to be differences between low performers and high performers in how they react to managers taking responsibility (blame) for poor performers, with the relationship being stronger for high performers.

In the absence of such managerial responsibility attributions, negative efficacy – performance spirals (Lindsley et al., 1995) are likely to be triggered, resulting in subsequent performance decline. A similar process of reasoning is likely to occur for unit successes. Poor performers are likely to be heartened by the manager crediting the whole team for the positive outcomes. This heartening feeling is likely to be much stronger among high performers than low performers as they are likely to feel that credit where it is due has been given (e.g. Heilman and Haynes, 2005). We thus offer the following hypotheses:

H5a. Subordinate performance moderates the relationship between managerial responsibility attributions for poor unit performance and subordinate satisfaction such that the relationship is stronger for high performers than low.

H5b. Subordinate performance moderates the relationship between managerial attributions crediting the team for positive unit performance and subordinate satisfaction such that the relationship is stronger for high performers than low.

Method
The model was tested using questionnaire responses of subordinates in a variety of business organizations, from the USA, France, India, Turkey and Vietnam including manufacturing, telecommunication, financial and other services. The respondents in this study (many of them managers themselves) were reporting on their managers’ attributions from a subordinate perspective. Respondents were asked to think about how their manager handled performance issues in their interactions and to think of the most recent specific performance episodes (positive and negative) in responding to the questionnaire.

Respondents
The hypotheses were tested using a total of 581 employees in American (USA), French, Indian, Turkish and Vietnamese business organizations, who reported on the relationships with their managers at their respective places of work. In the USA, 92 non-traditional students enrolled in a management course at a State University on the East Coast (USA) provided valid responses on a questionnaire designed to measure the study variables. All of these students were American, and non-traditional in the sense that they were older, and had worked for a number of years before returning to obtain a college degree while still working. These responses pertained to the relationship they had with the supervisors they had worked with, with the average relationship tenure being 1.35 yrs. Our American respondents possessed an average experience of 5.13 years. A majority of these respondents worked in service organizations (83.7 percent), with a few coming from non-profit organizations (12 percent). A majority of the respondents were female (58 percent), and African American (66.3 percent), with about 22 percent of the sample being Caucasian.

In France, 68 employees in a variety of business organizations, including retail (15.4 percent), manufacturing (23.1 percent), telecommunication (3.1 percent), financial and insurance services (12.3 percent), and other services (43.1 percent) provided complete responses to a French version of the questionnaire. This questionnaire was translated from the original in English and then back translated to ensure equivalence. We assumed that the constructs and variables used in this study were neither alien to any of the five cultures, and nor were there any indications to the contrary during the pretesting of the questionnaire.
Additionally, the results of testing the measurement model (presented below) indicate that the measures do not vary across the five countries in this study. Thus, we were certain that the measurement of these constructs did not pose significant cultural problems in terms of their conception. Participants in an executive education program were contacted and presented the opportunity to participate in the study. The length of the relationship they had with their managers had an average of 4.61 yrs. The French respondents possessed an average experience of 13.48 years.

In India, 177 employees attending a management development program at a premier business school provided valid responses on the questionnaire pertaining to the variables constituting the model presented above. The average length of relationship with manager for the Indian respondents was 3.86 years. These respondents possessed an average experience of 17.57 years. These respondents worked in retail (2.9 percent), telecommunications (6.9 percent), financial and insurance services (5.8 percent), other services (60.7 percent), manufacturing sector (16.2 percent) with a few coming from non-profit organizations (6.9 percent).

We obtained 116 responses from executives participating in an executive education program in Vietnam. The average length of the relationship with manager for respondents in Vietnam was one year. They possessed 1.53 years of experience on average. They worked in a variety of industries, with many in retail (32.8 percent), telecommunication services (10.8 percent), financial services (11.2), IT services (11.4 percent) and a few coming from manufacturing or non-profit organizations (4.3 percent).

We also obtained 128 responses from executives participating in an executive education program in Turkey. The average relationship tenure in Turkey was 3.27 years, and the average experience of the respondents was 5.35 years. The Turkish respondents worked in a variety of industries with some coming from retail (12.3 percent), telecommunication services (12.7 percent), financial services (32.6 percent), IT services (24.6 percent) and non-profit organizations (7.8 percent).

Questionnaire
The questionnaire sought responses from the subjects with regard to their most recent managers’ handling of specific positive and negative performance episodes. In the following, we present results of testing the measurement model, including validity and reliability of the scales used. In Table I, we present the means, standard deviation and correlations among the variables, with the scale reliabilities along the diagonal of the table. We present the exact wording of the questions, the factor loadings, AVE and construct reliability information in Table II.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Mean</th>
<th>SD</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relationship tenure</td>
<td>2.60</td>
<td>2.54</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Gender</td>
<td>1.44</td>
<td>0.53</td>
<td>−0.20</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Experience</td>
<td>8.19</td>
<td>8.10</td>
<td>0.39</td>
<td>−0.35</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Power distance</td>
<td>2.80</td>
<td>0.65</td>
<td>−0.11</td>
<td>−0.08</td>
<td>−0.07</td>
<td>0.70</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Responsibility attributions</td>
<td>3.34</td>
<td>0.83</td>
<td>0.08</td>
<td>0.10</td>
<td>−0.08</td>
<td>0.01</td>
<td>0.74</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Crediting team</td>
<td>3.56</td>
<td>0.99</td>
<td>0.11</td>
<td>0.08</td>
<td>0.02</td>
<td>−0.14</td>
<td>0.54</td>
<td>0.78</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Sub. satisfaction</td>
<td>3.56</td>
<td>0.87</td>
<td>0.17</td>
<td>0.05</td>
<td>0.21</td>
<td>−0.10</td>
<td>0.53</td>
<td>0.59</td>
<td>0.81</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Sub. performance</td>
<td>3.79</td>
<td>0.73</td>
<td>0.09</td>
<td>0.05</td>
<td>0.19</td>
<td>−0.12</td>
<td>0.41</td>
<td>0.46</td>
<td>0.52</td>
<td>0.75</td>
<td>–</td>
</tr>
<tr>
<td>Leadership perceptions</td>
<td>3.57</td>
<td>0.98</td>
<td>0.10</td>
<td>0.07</td>
<td>0.05</td>
<td>0.21</td>
<td>0.58</td>
<td>0.57</td>
<td>0.75</td>
<td>0.45</td>
<td>0.94</td>
</tr>
</tbody>
</table>

Notes: n = 581. Values along the diagonal are scale reliabilities of the variables. All correlations of magnitude greater than 0.10 are significant at the p < 0.05 level or better.
Responsibility attributions
Following theoretical suggestions (e.g., Lakshman, 2008), we captured managerial attributions taking responsibility \( \alpha = 0.74 \) for collective poor performance using three items, specifically developed for this study. This three-item scale consisted of questions such as, “When many employees perform poorly, my supervisor takes no responsibility for such occurrence (R).” Table II shows all items. Unless otherwise noted, all questions were on five-point Likert response scales ranging from strongly disagree to strongly agree.

Crediting team attributions
Again, following theory suggestions (Lakshman, 2008), the questionnaire captured managerial crediting team attributions \( \alpha = 0.78 \) with a three-item scale containing questions such as, “When the unit performs well, my supervisor praises everyone in the unit.”

Moderator and outcome variables
Subordinate performance \( \alpha = 0.75 \) was measured with two self-reported items capturing “good performance evaluation” and “good performer” in the most recent performance appraisal. Subordinate satisfaction \( \alpha = 0.81 \) was measured with a four-item scale including items such as, “I am satisfied with my supervisor’s treatment of me.” Leadership perceptions

<table>
<thead>
<tr>
<th>Item</th>
<th>Question</th>
<th>Factor loading</th>
<th>Construct reliability (CR)</th>
<th>AVE (average variance extracted)</th>
</tr>
</thead>
<tbody>
<tr>
<td>SIA1</td>
<td>When many employees perform poorly, my supervisor takes no responsibility for such occurrence (R)</td>
<td>0.69</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SIA2</td>
<td>When the whole unit misses performance targets, my supervisor takes a big share of the blame</td>
<td>0.55</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SIA3</td>
<td>When the unit performs poorly, my supervisor identifies his/her own actions that may have led to the poor performance</td>
<td>0.77</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CT1</td>
<td>When the unit performs well, my supervisor praises everyone in the unit</td>
<td>0.80</td>
<td></td>
<td>0.79</td>
</tr>
<tr>
<td>CT2</td>
<td>When the unit performs well, my supervisor takes all of the credit (R)</td>
<td>0.62</td>
<td></td>
<td>0.51</td>
</tr>
<tr>
<td>CT3</td>
<td>When the unit performs well, my supervisor gives credit to all the unit members</td>
<td>0.48</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SAT1</td>
<td>Most employees in my unit are satisfied with our supervisor</td>
<td>0.75</td>
<td></td>
<td>0.69</td>
</tr>
<tr>
<td>SAT2</td>
<td>I am satisfied with my supervisor's treatment of me</td>
<td>0.50</td>
<td></td>
<td>0.53</td>
</tr>
<tr>
<td>SAT3</td>
<td>I am generally satisfied with my work arrangement</td>
<td>0.80</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SAT4</td>
<td>I am dissatisfied with my supervisor (R)</td>
<td>0.82</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Notes: We also used a two-item composite of subordinate performance \( \alpha = 0.75 \), five-item measure of power distance \( \alpha = 0.70 \) and relationship tenure as observed variables in the CFA.
of subordinates were also measured using slightly modified items from existing scales (e.g. Phillips and Lord, 1981). Phillips and Lord’s (1981) scale focused on interpersonal contexts, which we modified to reflect the organizational context in this study. The six-item scale ($\alpha = 0.94$) assessed the degree to which subordinates thought the supervisors were providing leadership to their unit.

We measured power distance orientation ($\alpha = 0.70$) using five items from extant scales (Brockner et al., 2001). This scale consists of items such as, “Managers should make most decisions without consulting subordinates,” and “People are better off not questioning those in authority.” We controlled for power distance in all of the regressions, including those where we examined power distance as a moderator, to examine cultural convergence/divergence (Ford and Ismail, 2006).

In addition to these scale items, the questionnaire collected background information on the manager and the subordinate such as gender, ethnic and/or regional affiliations, the length of their relationships with their supervisors, their assessment of how experienced their supervisor was on a five-point scale ranging from very inexperienced to very experienced and the type of organization (mfg vs service, etc.) that served as the context.

Validity and reliability of measures
Since we used multiple perceptual, questionnaire-based measures of the dependent variables, we wanted to ensure measurement invariance as well as rule out any common-method variance in the dataset. Results of confirmatory factor analyses in AMOS 22 and Harman’s single factor test (Podsakoff and Organ, 1986) revealed that the constructs were invariant across the five samples (results are available from the authors), and that common-method variance did not pose as a problem. Moreover, in addition to separating and placing the performance variable after the independent variables in the questionnaire (to reduce consistency artifacts), we also present detailed tests of the measurement model in Table II. The measures of model fit, factor loadings, construct reliabilities and AVE presented in Table II provide sufficient indications of measurement validity of the constructs in the study. All of the variables in the model are theoretically derived (e.g. Lakshman, 2008, 2013). First, on examining the correspondence between constructs and their items, we conclude that all of the constructs in the study show high levels of construct reliability, above the threshold of 0.7 (see column 3 of Table II) (Gerbing and Anderson, 1988). Second, all the constructs show high degrees of convergent validity indicated by the corresponding AVE measures (a measure of the error-free variance of the set of items related to the construct) (see Fornell and Larcker, 1981 and Table II). Finally, as suggested by Fornell and Larcker (1981), the square root of the AVE is larger than the correlations with other constructs (in all instances in Table I), suggesting that constructs in this study have more internal variance than that shared with other constructs, indicating their discriminant validity. The model fit indices provided in Table II (CFI = 0.92, IFI = 0.92, NFI = 0.90, RMSEA = 0.09) do suggest that the constructs and their measures show acceptable levels of measurement validity, and indicate a lack of common-method variance. We therefore now turn to a presentation of the results of the hypotheses tests.

Results
We tested our hypotheses using hierarchical regressions by entering the control variables in the initial step, followed by each of the independent variables, while capturing the change in proportion of variance explained in each step. We report these regression results in Tables III and IV. As shown in these tables, we entered five control variables in all of our regressions. We first control for the length of the relationship between each subordinate and his/her manager, gender and experience as these can potentially influence the nature of attributions managers make. Additionally, as there appear to be differences across samples
on these three variables, controlling for them provides reliable results. We also control for power distance orientation in all of the regressions. We next controlled for country effects by entering four dummy coded variables for the five countries.

Managerial attributions of responsibility
The results for the relationships with managerial responsibility attributions for poor unit performance are shown in Tables III and IV. First, in support of H1, managerial responsibility attributions are positively related to subordinate satisfaction ($\beta = 0.29$, $p < 0.001$), as shown in Model II of the regression results in Table III. Next, in support of H2, managerial responsibility attributions are positively related to leadership perceptions ($\beta = 0.26$, $p < 0.001$), indicating desirability of leadership, as shown in Model II of the

| Variables included          | Model I $\beta$ | Model II $\beta$ | Model III $\beta$ | Model IV $\beta$ | Model V $\beta$ | Model VI $\beta$
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Relationship tenure</td>
<td>0.18***</td>
<td>0.08</td>
<td>0.12*</td>
<td>0.08</td>
<td>0.08</td>
<td>0.08</td>
</tr>
<tr>
<td>Gender</td>
<td>0.19***</td>
<td>0.10*</td>
<td>0.05</td>
<td>0.08</td>
<td>0.10*</td>
<td>0.10*</td>
</tr>
<tr>
<td>Experience</td>
<td>0.17*</td>
<td>0.15*</td>
<td>0.16*</td>
<td>0.15*</td>
<td>0.15*</td>
<td>0.15*</td>
</tr>
<tr>
<td>Country dummy 1</td>
<td>-0.11</td>
<td>-0.09</td>
<td>-0.04</td>
<td>-0.06</td>
<td>-0.06</td>
<td>-0.06</td>
</tr>
<tr>
<td>Country dummy 2</td>
<td>0.07</td>
<td>-0.04</td>
<td>0.05</td>
<td>0.03</td>
<td>0.04</td>
<td>0.04</td>
</tr>
<tr>
<td>Country dummy 3</td>
<td>0.16*</td>
<td>0.19*</td>
<td>0.08</td>
<td>0.15*</td>
<td>0.19*</td>
<td>0.19*</td>
</tr>
<tr>
<td>Country dummy 4</td>
<td>0.16*</td>
<td>0.13*</td>
<td>0.09</td>
<td>0.12*</td>
<td>0.13*</td>
<td>0.13*</td>
</tr>
<tr>
<td>Power distance</td>
<td>-0.01</td>
<td>0.01</td>
<td>0.03</td>
<td>0.03</td>
<td>-0.23</td>
<td>0.03</td>
</tr>
<tr>
<td>Responsibility attributions</td>
<td>0.29***</td>
<td>0.27***</td>
<td>0.02</td>
<td>0.05</td>
<td>0.29***</td>
<td></td>
</tr>
<tr>
<td>Crediting team</td>
<td>0.38***</td>
<td>1.12***</td>
<td>0.31***</td>
<td>0.38***</td>
<td>0.40***</td>
<td></td>
</tr>
<tr>
<td>Subordinate performance</td>
<td>0.80***</td>
<td>0.04</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PERF $\times$ CREDITEAM</td>
<td>-1.22***</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PERF $\times$ RESPONSIBILITYATTRIB</td>
<td>-0.33</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Power distance $\times$ RESPONSIBILITYATTRIB</td>
<td>-0.35</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Power distance $\times$ CREDITEAM</td>
<td>-0.03</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$R^2$</td>
<td>0.14***</td>
<td>0.46***</td>
<td>0.51***</td>
<td>0.49***</td>
<td>0.47***</td>
<td>0.46***</td>
</tr>
<tr>
<td>$\Delta R^2$</td>
<td>0.34***</td>
<td>0.05***</td>
<td>0.03***</td>
<td>0.01ns</td>
<td>0.00ns</td>
<td></td>
</tr>
</tbody>
</table>

Notes: *$p < 0.05$; **$p < 0.01$; ***$p < 0.001$

Table III. Regression on satisfaction

| Variables included          | Model I $\beta$ | Model II $\beta$ | Model III $\beta$
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Relationship tenure</td>
<td>0.10</td>
<td>0.03</td>
<td>-0.04</td>
</tr>
<tr>
<td>Gender</td>
<td>0.08</td>
<td>0.05</td>
<td>0.01</td>
</tr>
<tr>
<td>Experience</td>
<td>0.12</td>
<td>0.12*</td>
<td>0.03</td>
</tr>
<tr>
<td>Country dummy 1</td>
<td>0.02</td>
<td>0.03</td>
<td>0.08</td>
</tr>
<tr>
<td>Country dummy 2</td>
<td>0.05</td>
<td>0.02</td>
<td>0.05</td>
</tr>
<tr>
<td>Country dummy 3</td>
<td>-0.19***</td>
<td>-0.12*</td>
<td>-0.19***</td>
</tr>
<tr>
<td>Country dummy 4</td>
<td>0.06</td>
<td>-0.01</td>
<td>-0.08</td>
</tr>
<tr>
<td>Power distance</td>
<td>0.29***</td>
<td>0.25***</td>
<td>0.54***</td>
</tr>
<tr>
<td>Subordinate performance</td>
<td>0.51***</td>
<td>0.28***</td>
<td>0.12*</td>
</tr>
<tr>
<td>Responsibility attributions</td>
<td>0.26***</td>
<td>0.10***</td>
<td></td>
</tr>
<tr>
<td>Crediting team</td>
<td>0.31***</td>
<td>0.12***</td>
<td></td>
</tr>
<tr>
<td>Satisfaction</td>
<td>0.94***</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Power distance $\times$ satisfaction</td>
<td>-0.39*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$R^2$</td>
<td>0.29***</td>
<td>0.46***</td>
<td>0.67***</td>
</tr>
<tr>
<td>$\Delta R^2$</td>
<td>0.17***</td>
<td>0.20***</td>
<td></td>
</tr>
</tbody>
</table>

Notes: *$p < 0.05$; **$p < 0.01$; ***$p < 0.001$

Table IV. Regression on leadership perceptions
regression in Table IV. The relationship between managerial responsibility attributions and leadership perceptions holds good and continues to be significant \( (\beta = 0.10, p < 0.01) \) even when controlling for subordinate satisfaction, as can be seen in Model III of the regression in Table IV. Thus, managerial responsibility attributions are positively related to both subordinate satisfaction and leadership perceptions. These results also suggest that subordinate satisfaction may partially mediate the relationship between responsibility attributions and leadership perceptions, which we elaborate on in the discussion.

Managerial attributions of credit to the team

In support of \( H3 \), managerial credit attributions are positively related to subordinate satisfaction \( (\beta = 0.38, p < 0.001) \), as can be seen from Model II of the regression shown in Table III. Next, in support of \( H4 \), managerial credit attributions are positively related to leadership perceptions \( (\beta = 0.31, p < 0.001; \) Model II, Table IV). The relationship between managerial credit attributions and leadership perceptions weakens and reduces in significance when controlling for subordinate satisfaction \( (\beta = 0.12, p < 0.01) \), suggesting that satisfaction partially mediates the impact of managerial credit attributions on leadership.

Moderating effect of subordinate performance

Only one of our moderating \( H5a \) and \( H5b \) are supported, as shown in the regression results in Table III. First, \( H5a \) is not supported in that the interaction term created by multiplying subordinate performance and managerial responsibility attribution is not related significantly to subordinate satisfaction \( (\beta = 0.33, \text{ns}) \), although it approaches significance.

Next, in partial support of \( H5b \), the interaction term created by multiplying subordinate performance and managerial credit attributions is positively related \( (\beta = -1.22, p < 0.01) \) to subordinate satisfaction. Following Aiken and West (1991), we subjected this interaction effect to closer examination by splitting the sample at the median into high- and low-subordinate performance halves. We then plotted the regression lines in each half of the sample and display it in Figure 2. As shown in Figure 2, managerial credit attributions seem to have a relatively stronger effect on subordinate satisfaction among low performers than high performers, although the relationship is quite strong in both halves of the data. Thus, although relatively more important for low performers, managerial credit attributions seem to

![Figure 2. Plot of the subordinate performance × credit team attribution interaction on satisfaction](image-url)
be desired by all subordinates. Although consistent with our expectations of differences between low and high performers, the interaction effect is stronger for low performers, in a manner different from our expectations. Managerial credit attributions seem to be relatively more important for low performers, although they are important to both groups of performers.

As shown in the regressions results, power distance does not moderate the regressions on satisfaction (see Table III). However, as can be seen in Table IV, the interaction between power distance and satisfaction is significant in the regression on leadership perceptions. We plot this interaction in Figure 3, which shows that the relationship between satisfaction and leadership perceptions is stronger in low power distance cultures than in high, although it is important in both halves of the sample.

Discussion
GLOBE and other studies (e.g. House et al., 2004; Stephan and Pathak, 2016) have examined the cross-cultural desirability of different traits for effective leadership across countries. However, despite their importance, the cross-cultural desirability of managerial attributions of credit and blame have not been examined. Our findings contribute to the IB literature by using the implicit leadership theory approach used by GLOBE in identifying CLT dimensions. Although credit and blame attributions are ubiquitous and consequential, attributions of blame have received disproportionate attention in the literature to date. Additionally, although credit and blame attributions in immediate manager–subordinate relationships are likely to have crucial consequences, these have not been hitherto examined (e.g. Gibson and Schroeder, 2003). Our study contributes to this literature by examining managerial responsibility attributions – taking responsibility (blame) for negative performance – and attributions providing credit for positive performance, respectively, and their effects on subordinate satisfaction, and leadership perceptions in five countries. The negative consequences of blame attributions such as revenge and retaliation, theft, antisocial behavior, aggression and violence are well noted in the literature (e.g. Aquino et al., 2001). Although these consequences have not been reported in the context of blame attributions by managers targeting immediate subordinates, there is some evidence that revenge may deter abusive behavior by bosses vis-à-vis their subordinates (Aquino et al., 2001). We contribute by focusing on a different dimension of managerial attributions, one
that leads to trust building, enhancing cooperation, fostering satisfaction and evoking perceptions of leadership across cultures in the process.

Unlike the extant literature, we are not examining blame attributions in response to a personal offense committed against the victim. Rather, we are examining the nature of the managerial attributions per se, which could have serious consequences by triggering negative performance – efficacy spirals (e.g. Lindsley et al., 1995) leading to a continually worsening performance situation. Although the literature notes the “No credit where credit is due” effect (e.g. Heilman and Haynes, 2005), the consequences of such an effect on the affected subordinates have not been examined in extant research. We contribute to the literature in this direction by examining the impact of responsibility attributions in a broad sense on the process of work performance and leadership in five countries. We find that managers who take more responsibility for negative performance outcomes at the unit level are more likely to have satisfied, energized and motivated subordinates. More importantly, these managers are likely to have subordinates who look up to their managers as leaders. This is likely to be true in at least the five countries we have examined in this study. We also find that managers who do give the credit to the team where it is due are also likely to have a cooperative, supportive and more trusting group of subordinates who can help mobilize resources in enhancing unit performance to even higher levels. These managers are also likely to be viewed in high esteem by their subordinates for the leadership they provide. This again, is likely to be true in at least the five countries we have examined here. Whether or not these results generalize to other countries remains to be examined by future research. However, our results do show that power distance does not have a strong moderating effect, even when it does (one out of four tests), suggesting that our results are likely generalizable to a variety of countries.

We contribute to IB research by identifying the nature of managerial attributions that are desirable leader behaviors in a context where only leader characteristics have been examined (e.g. House et al., 2004). We do this while confirming what previous studies have suggested about the applicability of attributional processes to cross-national contexts (e.g. Au et al., 2001; Lakshman et al., 2014; Zhang et al., 2008). Although attributional patterns may differ across cultures in the absence of self-interest among the respondents toward the study context, attributional processes seem to be applicable across cultures (Zhang et al., 2008). Our contribution goes beyond this fundamental knowledge in that it focuses on a specific pattern of attributions that constitute contextually desirable leadership behaviors. Attributions managers make for individual and collective performance are critical in cross-national contexts (e.g. Triandis, 1975) and are very different from the personal characteristics examined in GLOBE studies (House et al., 2004). Although the concept of isomorphic attributions (Triandis, 1975) focuses on attributional congruence in cross-cultural contexts, our study suggests that attributional congruence (isomorphic in that sense) is important for leadership perceptions. In other words, many observers, including employees are likely to feel that upper levels of management are increasingly responsible for poor unit performance (e.g. Gibson and Schroeder, 2003) and that lower-level employees do not receive the credit they deserve for positive unit performance (e.g. Heilman and Haynes, 2005). Thus managerial attributional patterns that are congruent with these beliefs, namely, the attributional pattern we propose in our model, are likely to be viewed more positively from a leadership point of view (Lakshman and Estay, 2016). Given that these attributional patterns can be examined in many other cultures, we can potentially argue for universally desirable patterns of attributions. Although we believe in this possibility, the current state of research on this is too nascent to make such arguments. However, we believe that this is an important area for future cross-national (comparative) as well as cross-cultural research.

Although we did not propose any mediation hypotheses, our results seem to also suggest that subordinate satisfaction may partially mediate the influence of managerial
responsibility attributions on leadership perceptions across countries. This needs to be more rigorously tested in cross-national contexts. Although the concept of efficacy – performance spirals (e.g. Lindsley et al., 1995) suggests that high performance associated with the appropriate attributions are likely to increase levels of self-efficacy and satisfaction, with a subsequent impact on future performance, this mediated path has not been tested in cross-national contexts. We provide preliminary results, however only exploratory, in support of this mediated path. Future research should examine the applicability of the overall patterns of relationships examined here in other country contexts, including cross-cultural ones.

Despite our contributions, there are some limitations in what we have done here. Although we tested for the moderating impact of power distance in this study and found no such impact, we did not study the moderating impact of other cultural dimensions such as collectivism/individualism. We do not believe that collectivism/individualism is likely to moderate the attributional processes examined in this study, just as much as we do not believe in the moderating impact of power distance. Our fundamental argument in this regard is that within organizations, the notion of self-interest of the participants is likely to render basic attributional processes applicable and thus negate cross-cultural differences in this regard. This, however, remains only an argument at this point in the development of the literature and needs to be examined in future research. Another limitation of the study is that there appear to be differences in the relationship tenure and experience levels across the five countries in our study, which may influence attributions. However, we do control for these two variables, in addition to gender, and power distance in all of our regressions to obtain reliable results. Additionally, the subordinate performance measure we use in this study is self-reported and subject to inflation bias. Thus, the results should be considered in light of this limitation. Despite the limitations, our study carries critical managerial implications. It is important for managers to make “isomorphic” (in the sense of convergence with subordinates) attributions for fostering a positive leadership process that is likely to enhance self-efficacy of all the individuals in the unit and make them energized to continue to contribute to the future performance of the organizational unit. Managers need to take more responsibility for both successes and failures and examine how and what they can do differently, especially in complex performance contexts, to arrive at a clear understanding of how to sustain high performance levels. Given the ambiguity in performance evaluation contexts, managers need to be strategic in assigning credit and blame and avoid leaving people with feelings of not having received the due credit, especially in the context of diversity. Although people with the feeling of not having received the due credit, or worse still, feeling that they have been blamed, are not likely to take revenge against bosses, they may engage in a series of counterproductive behaviors. Managers should do well in not only avoiding counterproductive behaviors but also in fostering productive behaviors.

Conclusion
Managerial attributions for subordinate performance may vary in terms of their desirability for leadership across cultures, depending on their nature and direction. Managerial responsibility attributions targeting subordinate and collective performance hold crucial consequences for effective processes of leadership in the five countries examined in this study. These responsibility attributions can lead to higher levels of subordinate performance and perceptions of leadership in each of these five countries. Individually speaking, high performers are likely to react more positively than low performers, although the relationships hold good for everyone in the organizational unit. These relationships will hopefully be tested in more country contexts with the aim of developing an understanding of more universal/contextually contingent leadership.


**Corresponding author**

C. Lakshman can be contacted at: lakshman.chandrashekhar@utrgv.edu

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The influence of culture and framing on investment decision-making

The case of Vietnam and Germany

Dennis Fehrenbacher  
Monash Business School, Monash University, Melbourne, Australia

Peter Gordon Roetzel  
Chair of Management Accounting and Control, University of Stuttgart, Stuttgart, Germany and Accounting and Information Systems, University of Applied Sciences Aschaffenburg, Aschaffenburg, Germany, and

Burkhard Pedell  
Chair of Management Accounting and Control, University of Stuttgart, Stuttgart, Germany

Abstract

Purpose – Cultural studies in business and economics research are still limited to particular cultures. Knowledge on cultural differences may help international corporations to adapt management practices according to the markets they are operating in. The purpose of this paper is to study the issue of escalation of commitment and framing in a new cultural setting involving Germany and Vietnam. This setting is unique and particularly interesting, for Germany being the biggest European market and Vietnam being one of the fastest growing emerging markets in Asia.

Design/methodology/approach – The authors use a lab experiment with student participants from Germany and Vietnam.

Findings – In a 2 x 2 in between-experiment, the authors find strong support that Vietnamese participants have a stronger tendency to invest additional resources and evidence that negatively framed information leads to the higher escalation of commitment. Implications are discussed.

Originality/value – The unique empirical comparison is important because differences between other western and eastern countries do not necessarily generalize to the setting.

Keywords Framing, Escalation of commitment, Lab experiment, Investment decision-making

Paper type Research paper

1. Introduction

In light of continuing globalization, multinational corporations play a major role in making foreign direct investment (FDI) decisions (Blonigen, 2006) and face the challenge of investing limited resources into the most rewarding markets. Cross-cultural business ventures do not come without tensions (Choi and Beamish, 2013; Pajunen and Fang, 2013). Importantly, cultural differences cannot be generalized from one situation to another. Thus, the literature calls for considering new cultural perspectives (Birnberg, 2011; Chenhall, 2003; House et al., 2014).

Given the immense volume of FDIs (USD 1,311.5bn in 2012, OECD, 2013) and limited evidence regarding cultural differences in the economic behaviors of individuals from different cultures, we studied differences in the tendency to continue committing resources to a risky investment project (escalation of commitment) from a cultural perspective, focusing on a continental European country (Germany) and a Southeast Asian country (Vietnam). This setting is unique and particularly interesting because Germany is the largest market in
Europe, and Vietnam is one of the fastest growing emerging markets in Asia (OECD, 2013). German companies invested EURO 502m in Vietnam in 2012 (Deutsche Bundesbank, 2014). Thus, it can be of high practical relevance for German industries to gain insights into how Vietnamese delegates tend to act in investment situations. More knowledge about the decision-making tendencies of Vietnamese-led enterprises may help German partners exert better control over their investments and portfolios of projects in Vietnam. Similarly, it is of high relevance for the Vietnamese to be aware of differences in their German trade partners to avoid potential conflicts when venturing into the German market.

Culture as a context factor remains underrepresented in various business research disciplines (Chenhall, 2003) and is limited to particular cultural sets (Birnberg, 2011; Cadsby et al., 2007). To date, research related to cross-cultural differences is not well developed. Often, the focus is on US–Chinese comparisons (e.g. Birnberg et al., 2008; Birnberg and Snodgrass, 1988; Cadsby et al., 2007; Chow et al., 1999; Kachelmeier and Shehata, 1997). Consequently, Birnberg (2011) argued that replications with other western and eastern cultures are needed before findings can be interpreted in a universally acceptable manner. The limited cultural lens also pertains to the escalation of commitment phenomenon (Chow et al., 1997; Tse et al., 1988). In particular, continental European countries seem to be underrepresented in cultural comparisons regarding behavioral differences in the escalation of commitment (e.g. Chow et al., 1997; Salter et al., 2013; Sharp and Salter, 1997). Accordingly, by studying our German–Vietnamese sample, we contribute new evidence to the existing literature.

The escalation of commitment is an important phenomenon that can lead to suboptimal investment decisions (Bazerman and Moore, 2012), as observed in various domains, such as information technology projects (Drummond, 1996; Keil, 1995; Keil, Mann and Rai, 2000; Keil, Tan, Wei, Saarinen, Tuomainen and Wassenaar, 2000; Roetzel, 2015), new product development projects (Biyalogorsky et al., 2006; Boulding et al., 1997) or mergers and acquisitions projects, such as corporate acquisitions (Bazerman and Neale, 1992; Haunschild et al., 1994). Thus, it is important to understand the phenomenon of escalating commitment better from a cultural perspective to develop effective cross-national management controls that can help decision makers better evaluate investment projects.

Furthermore, given the limited attention paid to cultural aspects in the current discussion of escalating commitment, we extended our consideration beyond individualism and face saving (Hofstede, 1980; Hofstede and Hofstede, 2005) and also discuss evidence that uncertainty avoidance is important. This analysis may help researchers and managers gain additional insight into whether and how management control practices must be modified for application in diverse cultural settings.

In addition to culture as an influencing factor, we examined the framing of information. From a management perspective, framing in the escalation of commitment should be a matter of great concern because it can contribute to the seriousness of a firm’s commitment to investment projects and may influence how effectively firm resources are (re-)allocated. We discussed and tested whether positively framed information leads to more risk-averse behavior and negatively framed information to more risk-seeking behavior in investment project decisions. Importantly, we specifically investigated whether such tendencies are conditional upon culture or whether they hold across our cultural set. Thus, we examined whether and how culture and framing interact and whether and how they jointly affect a tendency to escalate commitment. Our research perspective was motivated not only by mixed evidence regarding the potential interactions of culture and framing (Marshall et al., 2011; Sharp and Salter, 1997) and the importance of framing for escalation of commitment but also by the limited evidence about the roles of different cultures in risky decision making. The effect of framing is partly grounded in prospect theory and is often associated with risky decision making (Kahneman and Tversky, 1979; Tversky and Kahneman, 1981).
A recent study investigated cultural influences on such risky decision making (Rieger et al., 2014). Rieger et al. (2014) found that the degree of risk aversion significantly varies across countries and that gain vs. loss frames matter. In line with the idea of our study, they concluded that risk preferences depend not only on economic conditions but also on cultural factors and stated that evidence on cultural differences in risk taking remains limited (Rieger et al., 2014).

We partially replicated Chow et al.’s (1997) experiment and then extended it to a new cultural setting: Germany and Vietnam. We found empirical support for our expectation that the tendency to escalate commitment is influenced by both culture and framing. In particular, Vietnamese participants exhibited a higher tendency to escalate commitment than their German counterparts, and positively framed information reduced the tendency to escalate for both German and Vietnamese participants. However, despite our interactive expectation derived from differences in uncertainty avoidance, we did not find that German and Vietnamese individuals were susceptible to framing in different ways.

The remainder of the paper is organized as follows: the following section reviews the existing literature and develops our hypotheses. In Sections 3 and 4, we introduce the design of the experiment and the sample, describe the measurement of the variables and explain the data analysis method. Section 5 presents our findings, which are discussed and concluded in Section 6.

2. Literature review and hypothesis development

National culture and escalating commitment

The tendency to escalate commitment to an investment project has been consistently reported as being an important issue in business and management (Chow et al., 1997; Conlon and Wolf, 1980; Staw, 1976) because it can be costly for a firm, becoming problematic when resources continue to be allocated to a project that is unlikely to succeed.

Although FDI totals USD 1,311.5bn in 2012 (OECD, 2013), limited evidence has been reported regarding cultural differences in investment behavior between individuals from different cultures. We contribute new information related to this topic by studying differences in the tendency to escalate commitment to an investment project from a cultural perspective. Most research on culture and escalating commitment focuses on adverse selection conditions, i.e., information asymmetry/private information and a personal willingness to take risks (Chang and Yen, 2007; Salter and Sharp, 2001; Salter et al., 2013). We focused on the differences related to general tendencies to escalate commitment. Only a few existing studies discuss the general tendency of cultures to escalate commitment to projects (Chow et al., 1997; Tse et al., 1988). Tse et al. (1988) suggested that decision makers from Greater China (i.e., China and Hong Kong) are more willing to persist with unprofitable product lines than Canadians. They attribute this disposition to the fear of losing face as an Asian phenomenon when acknowledging failure and discontinuing a particular course of action. Similarly, Chow et al. (1997) found that Taiwanese decision makers are more willing to escalate commitment to an unprofitable project than US decision makers. These escalation studies describe different aspects of culture that can impact escalation behavior. In the following discussion, we explain the various measurable aspects of culture, comparing these aspects in our sample and discuss the implications of these attributes in terms of escalation behavior.

Measurement of culture

The concept of national culture and human values has been captured in various ways (e.g., Hofstede, 1980; Hofstede and Hofstede, 2005; Hofstede et al., 2010; Schwartz, 1994; Triandis, 1989). In business and economics research, the taxonomy used by Hofstede (Hofstede, 1980, Hofstede and Hofstede, 2005; Hofstede et al., 2010) is arguably the most...
widely used and validated (e.g. Chow et al., 1996; Chow et al., 1997; Salter et al., 2008). A review of 180 articles and chapters that use Hofstede’s taxonomy in business research shows that the studies conducted are broad and impactful (Kirkman et al., 2006). Thus, the use of Hofstede’s framework increases comparability with the broad collection of literature regarding culture in business.

Hofstede’s (1980) comprehensive review of cultural differences originally identified four dimensions of national culture: individualism, uncertainty avoidance, masculinity and power distance. In a subsequent study, the Chinese Culture Connection (Yang, 1987) identified another cultural dimension referred to as Confucian Dynamism. As a result, Hofstede and Hofstede (2005) added the distinction of long-term vs short-term orientations as a fifth cultural dimension. More recently, Hofstede et al. (2010) included the indulgence vs restraint dimension in their framework. Hofstede’s theory is based on the concept that societies possess cultural values and that these cultural values can influence the behavior of the members of societies. We discuss relevant cultural aspects for the escalation of commitment in the following. We focus on Hofstede’s theory because “given evidence that it has had far greater impact” (Kirkman et al., 2006, p. 285).

Differences in cultural aspects in our sample

The USA, Canada, Taiwan and China are commonly tested national cultures (Chow et al., 1997; Salter and Sharp, 2001; Salter et al., 2013). Based on these cultures, research shows that western cultures are more alike than different compared with eastern cultures. However, in light of the limited set of nationalities tested, the question of whether research studies from one western or eastern countries are universally applicable to other western or eastern countries remains largely unresolved (Birnberg, 2011; Chenhall, 2003).

For instance, there are differences between the cultural dimension scores (taken from Hofstede et al., 2010; also available from Hofstede, 2015) of our German and Vietnamese sample compared with Chow et al.’s (1997) sample (the USA’ score and Taiwan’s score). In particular, there are major differences related to the uncertainty avoidance aspect, which is particularly relevant in the escalation of commitment context (Chow et al., 1997). Whereas in the US–Taiwan sample, the eastern culture (Taiwan) had a higher uncertainty avoidance tendency, in our analysis, the western culture (Germany) scored higher in the uncertainty avoidance aspect than did the eastern culture (Vietnam). There is also a considerable difference between the individualism and power distance dimensions. For individualism, the difference between the USA and Taiwan was 74 points, whereas the Germany–Vietnam difference was 47 points; for power distance, the differences were −18 and −35, respectively. Thus, the two samples showed distinct differences in how they relate to each other with respect to different cultural aspects. This comparison highlights that caution should be exercised when drawing general conclusions from one eastern–western sample and generalizing these conclusions to other eastern–western samples.

The influence of cultural aspects on the escalation of commitment

We revisit evidence regarding which cultural aspects can be associated with the escalation of commitment to derive our first hypothesis.

Individualism vs collectivism, Confucian Dynamism and face saving

Collectivism captures strong linkages to extended families that provide protection in exchange for loyalty (in contrast to each person taking care of him or herself), emotional dependence on organizations and emphasis on belonging to organizations (in contrast to individual initiative and achievement). Confucian Dynamism involves possessing a sense of shame, persevering when results are not immediate, and saving face (Ho, 1976).
This association is in line with the long-term vs short-term index of Hofstede et al. (2010). The index relates to the Chinese value survey and maps Asian cultures as being relatively long-term oriented and western cultures as being rather short-term oriented.

There is evidence that face saving affects decisions regarding project continuance (e.g. Tse et al., 1988). Tse et al. (1988) and Chow et al. (1997) suggested that Asian decision makers have stronger tendencies to escalate commitment to an unprofitable project than do western decision makers because of higher face saving concerns, which are more important in the relatively collective Asian societies. In the context of an information-sharing experiment, Schulz et al. (2009) concluded that the face saving aspect dominates all other cultural effects.

Because the Vietnamese culture exhibits similar patterns of face saving as other Asian cultures studied in previous works, face saving considerations support the stronger tendency toward the escalation of commitment of Vietnamese individuals compared to Germans (Hofstede et al., 2010; The Vietnam Guide, 2015).

**Uncertainty avoidance**

Uncertainty avoidance is associated with preferences for standardized procedures and rules. In high uncertainty avoidance cultures, the majority of individuals only accept risks that are familiar to them and fear situations that are unknown and ambiguous. In contrast, in low uncertainty avoidance cultures, most individuals tend to be at ease with unknown and ambiguous situations and unfamiliar risks (see also Schneider et al., 2017).

This dimension can be related to risk preferences (Keil, 1995; Rieger et al., 2014). Because project continuation usually includes future cash flows that are more uncertain, risk-averse individuals should favor discontinuation (everything else being equal) (Chow et al., 1997). Keil, Mann and Rai (2000) found a stronger relationship between risk propensity and risk perception in low uncertainty avoidance cultures. This association can translate into a greater willingness of decision makers to continue a project in cultures with low uncertainty avoidance preferences. In Chow et al.’s (1997) study, Taiwanese subjects showed a higher uncertainty avoidance score than Americans, which may support a stronger Taiwanese preference for project discontinuance compared to Americans. However, the overall results seem to support the face saving explanation over the uncertainty avoidance explanation. In our sample, both aspects support the same conclusions because German individuals have a higher tendency to avoid uncertainty than the Vietnamese. Thus, we expect that this higher uncertainty avoidance characteristic supports the higher tendency of German decision makers to discontinue projects compared to their Vietnamese counterparts.

**Joint influence of cultural aspects and expectation**

In summary, most cultural aspects discussed indicate that Vietnamese have a stronger tendency than Germans to escalate commitment. Because personal self-respect can be preserved in individualistic societies regardless of others’ opinions about past performance, the less individualistic Vietnamese may be expected to have a stronger tendency than their German counterparts to escalate commitment. Additionally, the Confucian Dynamism dimension indicates that Vietnamese individuals have a greater aversion to admitting failure because this decision would damage their reputations. This aversion to losing face strengthens the tendency to escalate commitment. Given that uncertainty avoidance relates to risk preferences, the lower uncertainty avoidance score of Vietnamese also suggests a higher tendency to commit to a project and continue it.

In contrast, there is evidence for a higher level of masculinity in the German culture compared to the Vietnamese culture, which may imply Germans’ stronger tendency to escalate commitment. However, because the literature indicates that Confucian Dynamism dominates other cultural aspects (Schulz et al., 2009) and because a greater number of
characteristics suggest that Vietnamese decision makers have a stronger tendency to escalate commitment, we advance the following hypothesis:

**H1.** Vietnamese decision makers are more likely to invest additional resources in an unprofitable project than German decision makers.

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**Framing and escalating commitment**

Research has shown that individuals do not have the same risk preferences for positively (in terms of a gain) and negatively (in terms of a loss) framed decision alternatives, even for economically equivalent alternatives (Kahneman and Tversky, 1979; Tversky and Kahneman, 1981). An explanation for this behavior stems from prospect theory. Accordingly, the outcomes of different choice options are interpreted as positive (gains) or negative (losses) deviations from a neutral reference point.

If a decision alternative is framed negatively, the decision maker faces losses and is therefore mentally represented on the left side of the neutral reference point. This position induces individuals to act in a somewhat risk-seeking manner to avoid possible losses. Conversely, if a decision maker anticipates gains (positively framed information), s/he is mentally positioned on the right side of the neutral reference point and acts in a rather risk-averse manner to secure possible gains. Thus, the positioning on the value function depends on the framing of information, and a change in the formulation of the decision alternatives can alter the decision behavior (framing effect).

Considering our decision scenario, prospect theory suggests that emphasizing losses through negative framing leads to increased risk-seeking behavior. Consequently, decision makers presented with negative framing are encouraged to commit to a project and invest further resources, hoping to "dig [themselves] out of the hole that [they] had created" (Bazerman and Moore, 2012). On the contrary, positively framed information leads to somewhat risk-averse behavior, such that the decision maker is inclined to accept losses and abandon a failing project. Realizing losses decreases the uncertainty regarding future cash flows.

The existence of framing effects has been shown in many different contexts, including negotiating (e.g. Bazerman et al., 1985), gambling (e.g. Levin et al., 1986), health (e.g. Meyerowitz and Chaiken, 1987), public opinion (e.g. Boettcher and Cobb, 2009) and cultural differences (e.g. Chow et al., 1997; Salter et al., 2013). With respect to the escalation of commitment, theoretical considerations and empirical findings diverge (e.g. Chow et al., 1997; Davis and Bobko, 1986; Rutledge and Harrell, 1993; Salter et al., 2013; Schoorman et al., 1994). While some studies have found that negatively framed information leads to a stronger tendency to escalate commitment (Salter and Sharp, 2001; Salter et al., 2013), others have discovered little or no evidence for a main framing effect (Chow et al. 1997; Rutledge and Harrell, 1993; Schoorman et al., 1994). Schoorman et al. (1994) found that larger amounts of information and responsibility interact with the framing of information. An overview of the different findings is presented in Table I.

Overall, the studies above show that the framing effect in the context of escalating commitment has not been unequivocally confirmed. However, we believe that there are at least two reasons to anticipate that in our study, negative framing manipulation affects decision behavior and leads to an increased tendency to escalate commitment. In addition to the theoretical predictions, most of the aforementioned literature suggests the existence of the framing effect in escalation situations. Additionally, there is evidence showing that the framing effect relies on the amount of information given to the decision makers, such that the larger amounts of information weaken the framing bias (Schoorman et al., 1994). Because we considered our decision-making environment as being a relatively concise information scenario, we expected a framing effect.
Therefore, we believe that individuals facing a negatively framed choice option are more prone to escalate their commitment. This observation leads to the following hypothesis:

H2. Decision makers in the negative framing condition are more likely to invest additional resources in an unprofitable project than those in the positive framing condition.

Interaction between framing and culture

In the escalation of commitment situations, the existence or form of an interaction effect between framing and culture has not been universally confirmed. For instance, Sharp and Salter (1997) addressed this effect but did not find statistically significant support for such an interaction. Nevertheless, based on the considerable difference between the logistic regression coefficients of the framing effects of their North American and Asian samples (0.545 vs 0.705; Sharp and Salter, 1997), the authors called for further research on the interaction between framing and culture.

We hypothesize that the framing effect is larger in Asian cultures than in western cultures. Both the framing and cultural effects are based, at least in part, upon the risk tendencies of the participants. Therefore, we expect that an interaction of culture and framing may be related to differences in uncertainty avoidance in Germany (65) and Vietnam (30). The higher the uncertainty avoidance is, the more individuals fear ambiguous and unknown situations. This fear is prevalent in all situations, including negatively framed as well as positively framed situations. While this fear may decrease the escalation of commitment tendency, as discussed along with H1, it may also decrease the magnitude of differences between negatively framed and positively framed situations. Thus, similar to Sharp and Salter’s (1997) interactive expectation, we expect that cultures with a high level of uncertainty avoidance exhibit a decreased framing effect. In our case, Germans may show a smaller difference between the conditions of positive framing and negative framing than Vietnamese.

Several empirical investigations provide evidence for this relation. Marshall et al. (2011), for example, found that individuals from New Zealand and Denmark showed a higher level

<table>
<thead>
<tr>
<th>Source</th>
<th>Experimental treatments</th>
<th>Sample size and participant type</th>
<th>Support for framing (no, weak, strong)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rutledge and Harrell (1993)</td>
<td>Responsibility (high/low), framing (positive/negative)</td>
<td>213 employees in a professional business position</td>
<td>Strong</td>
</tr>
<tr>
<td>Davis and Bobko (1986)</td>
<td>Responsibility (high/low), decision alternative (reserve fund/other sponsor), decision framing (positive/negative), mood (positive/neutral)</td>
<td>160 students (introductory psychology course)</td>
<td>No</td>
</tr>
<tr>
<td>Schoorman et al. (1994)</td>
<td>Responsibility (high/low), framing (positive/negative)</td>
<td>187 undergraduate students</td>
<td>No</td>
</tr>
<tr>
<td>Schoorman et al. (1994)</td>
<td>Framing (positive/negative), amount of information (no/limited/much)</td>
<td>274 undergraduate students</td>
<td>Strong for the no-information treatment; decreasing with additional information</td>
</tr>
<tr>
<td>Chow et al. (1997)</td>
<td>Culture (Taiwan/USA), framing (positive, negative), responsibility (high/low)</td>
<td>240 undergraduate students</td>
<td>Weak</td>
</tr>
<tr>
<td>Salter and Sharp (2001)</td>
<td>Agency conditions, framing (positive/negative), culture (Canada/USA), work experience</td>
<td>299 managers</td>
<td>Strong</td>
</tr>
<tr>
<td>Salter et al. (2013)</td>
<td>Agency conditions, framing (positive, negative), self-justification</td>
<td>1,208 managers and MBA students</td>
<td>Strong</td>
</tr>
</tbody>
</table>

Table I. Overview of studies concerning the framing effect in escalation situations
of risk avoidance than their Singaporean and Chinese counterparts, resulting in the former’s lower susceptibility to the framing effect. Likewise, Brumagin and Xianhua (2005) indicated that American students, who have a higher uncertainty avoidance index than students from China (46 vs 30), were more risk averse and showed a lower-intensity framing bias. In sum, we formulate the expectation that the framing effect is stronger for Vietnamese than for Germans because of the Vietnamese’s lower uncertainty avoidance.

H3. Culture and framing interact such that Vietnamese decision makers show a stronger framing effect than German decision makers.

3. Experimental design and sample
Consistent with previous research, we studied the tendency to escalate commitment in a controlled environment to complement empirical evidence generated by field studies (e.g. Arkes and Blumer, 1985; McNamara et al., 2002; Ryan, 1995; Schoorman, 1988; Staw and Hoang, 1995; Staw et al., 1997). In a laboratory setting, it is possible to precisely define the decision environment in which subjects can make their decisions. It is further possible to exclude the presence of other situational factors, such as management intervention.

Our experiment consisted of a 2 (national culture: Vietnam vs Germany) × 2 (framing: positive vs negative) between-subject design. More details on the variables are provided in the following section. The experimental design partly replicated that of Chow et al. (1997), excluding the manipulation of responsibility.

To assess the cross-cultural hypotheses, the experiment was conducted in Vietnam and Germany. The experiment was conducted in several sessions at the start of business lectures with the consent of the respective lecturers, who agreed to offer the study to their students. All the students were enrolled in a business studies program at a large urban university with high standards in either Germany or Vietnam. The experiment was administered via paper and pen. No payment was offered, and participation was voluntary. The complete sample consisted of 93 students: 53 from Germany and 40 from Vietnam. To ensure high-quality data, we performed several validity checks. We excluded 11 students from Germany because eight were foreigners enrolled at the German university and three understood the escalation of commitment phenomenon. By excluding these participants from the study, our sample was reduced from 93 to 82 and consisted of 42 German participants and 40 Vietnamese participants. We report the robustness checks below.

To operationalize the framing treatment, we followed an approach used in prior research (e.g. Chow et al., 1997; Rutledge and Harrell, 1993). Participants were presented with either a positively framed scenario emphasizing potential savings or a negatively framed scenario emphasizing potential losses (between-subject design).

In the decision scenario (see Bazerman et al., 1984), participants were asked to assume the role of a vice president of A&S Company, a large technology firm. The scenario conditions included that in the previous year, the vice president started a research and development project and invested EURO 4m. To complete the project, it would be necessary to invest an additional EURO 2m. The expected time to completion was four months. Moreover, the vice president had confidential information about the fact that a competitor would launch a similar product within the subsequent one to two months. Consequently, the vice president had to decide whether s/he wanted to discontinue the project without additional investment (Option A) or to invest an additional EURO 2m (Option B). Option A was the “certain” option because the discontinuation decision offered no additional investment or revenue opportunity and, therefore, no further uncertainty.

The decision situation (adapted from Chow et al., 1997; Rutledge and Harrell, 1993) was framed in either a positive or a negative way. Negative framing pronounces losses. Option A indicated that in the event of discontinuation, the EURO 4m that had already been invested
would be lost. In the case of making the additional investment (Option B), there was a two-thirds probability that the product development project would lead to a loss of EURO 6m (i.e. the initial 4m previously invested plus 2m of additional investment) and a one-third probability that no loss would result from the investment (i.e. the total investment of 6m would be recovered through revenue generation during the course of the project). Positive framing pronounces savings. Option A indicated that the additional EURO 2m not invested would be saved. Option B indicated that there was a one-third probability that EURO 6m in revenue would be generated and a two-thirds probability that no revenue would be generated during the course of the project.

Given these conditions, both choices (Option A and Option B) had the same expected payoffs. Because of the inherent uncertainty in Option B, risk-averse individuals were expected to prefer Option A, whereas a risk-neutral participant was expected to be indifferent between the two options.

The monetary sums in the scenario were estimated with realistic amounts. The EURO amounts were converted from the dollar figures of Chow et al.’s (1997) study. The EURO amounts of all the alternatives in the German version of the instrument were restated in Vietnamese Dong (VND) using the exchange rate at the time of experimentation (EURO1 = VND30.358) and calculations that took into account purchasing power and the differences between rural and urban areas in Vietnam. These calculations led to VND values in the Vietnamese scenario of the experiment equivalent to one-quarter of the EURO values in the German version.

The original instructions were composed in German and then translated into Vietnamese according to the following procedure. First, the instructions were translated into Vietnamese by a Vietnamese person who lived and studied in Germany and held a master’s degree in German philology. She worked at the Goethe Institute in Hanoi at the time. Second, the Vietnamese translation was then evaluated by a bilingual member of the research team who grew up in Vietnam, moved to Germany at the age of 19, and held a business degree from a German university. Third, the translator and the member of the research team worked together to resolve potential conflicts. Furthermore, a back translation of the Vietnamese version of the instructions performed at a later time revealed no significant differences.

4. Measurements and data analysis method
Participants from both countries participated in the study on a voluntary basis. Questions were answered on an individual basis. By randomly distributing the experimental instructions, the participants were equally distributed between the framing conditions. The framing manipulation was recorded as a binary variable (FRAME), which was coded 0 for the negative framing condition and 1 for the positive framing condition.

The instrument included questions about demographics (semester, gender, country of origin and program of study). For the CULTURE variable, Vietnamese culture was coded as 0 and German culture as 1. Furthermore, we used the number of semesters studied (SEMESTER) as a control variable to check for possible influences of experience on decision making. The question about escalation tendency (DECISION) was formulated as a response to the decision scenario in terms of an 11-point Likert scale (0 – definitely continue (Option B), 10 – definitely discontinue (Option A)). A risk-neutral participant would be expected to be indifferent toward either option and thus choose 5, the midpoint between the two alternatives. DECISION was a polytomous variable; its gradations were depicted in dimensions. An interval scale was assumed, which, in contrast to the ordinal scale, also allowed a parametric evaluation of the data. Additionally, we left space in an open comment field that the participants could use to give reasons for their decisions.
5. Results

Table II lists the descriptive statistics of our experiment. Because 11 students were removed from our sample, the proportion of positive framing was 54.7 percent in the German group and 42.5 percent in the Vietnamese group. The average age of the Vietnamese sample was 18.94 years (SD = 0.42) and of the German sample 23.84 years (SD = 3.07). The Vietnamese sample was younger also because German students finish high school later. However, a more important factor for our business decision seemed to be progress in student business studies. Thus, we collected information on student progress. The mean semester of the German students (6.452) was also higher than that of the Vietnamese students, who were all in their second semester. Because the wider range of the variable SEMESTER for Germany (Min. 2 and Max. 24) might have caused a problem with heteroscedasticity, we checked it by using the White test. The assumption of homoscedasticity was not rejected. We also checked for a semester effect in the escalation tendency using a comparison of means, which showed that there was no significant difference between German participants in different semesters (t(34) = 0.617, p = 0.541, d = 0.363). We used the seventh semester as the grouping variable because it is the median (16 participants are in the eighth semester or higher, 20 participants are in the sixth semester or lower and participants in the seventh semester (median) are excluded). Furthermore, the proportion of female participants was 28.6 percent among the German students and 21.6 percent among the Vietnamese students. We observed no significant differences in the decision between the experimental groups with respect to gender (t(81) = 0.292, p = 0.711, d = 0.180).

Table II shows that overall tendency to continue with the project (decision) was considerably lower for German students than for Vietnamese students. Table III depicts the scores by culture and framing. Vietnamese participants exhibited a higher tendency to escalate commitment under both framing scenarios compared to the corresponding German reference group. The tendency to escalate was reduced by positive framing for both groups. The tendencies are illustrated in Figure 1.

H1 suggests that Vietnamese decision makers are more likely to invest additional resources in an unprofitable project than German decision makers. In a planned contrast test, we observed a significant main effect of culture (F(1.68) = 54.047, p < 0.01, η² = 0.131), which supports H1.

<table>
<thead>
<tr>
<th>Table II</th>
<th>Descriptive statistics</th>
</tr>
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<tbody>
<tr>
<td>GER</td>
<td>VN</td>
</tr>
<tr>
<td>Decision</td>
<td>4.810</td>
</tr>
<tr>
<td>Age</td>
<td>23.837</td>
</tr>
<tr>
<td>Semester</td>
<td>6.262</td>
</tr>
<tr>
<td>Frame</td>
<td>0.547</td>
</tr>
<tr>
<td>Gender</td>
<td>0.262</td>
</tr>
</tbody>
</table>

Notes: GER, Germany; VN, Vietnam. Decision = 0 for definitely continue and 10 for definitely discontinue. FRAME and GENDER are binary variables (0 for negative framing and 1 for positive framing; 0 for male and 1 for female, respectively)
H2 suggests that decision makers in the negative framing condition are more likely to invest additional resources in an unprofitable project than those in the positive framing condition. In a planned contrast test, we found a significant main effect of framing ($F(1, 68) = 16.541, p < 0.05, \eta^2 = 0.044$). Thus, in the positively framed scenario, participants were more likely to discontinue the project and elect not to invest additional resources, supporting H2.

H3 suggests that culture and framing interact in such a way as to produce a stronger framing effect on Vietnamese decision makers than on German decision makers. A2 (culture: German vs Vietnamese) x 2 (framing: positive framing vs negative framing) ANOVA with DECISION as the dependent variable revealed that there was no significant interaction effect between culture and framing ($F(1, 68) = 4.344, p = 0.090$). Thus, H3 is not supported. We reported above that we removed 11 participants from the sample because eight were foreigners attending the German university and three were knowledgeable regarding the escalation-of-commitment phenomenon. The exclusion of foreigners is necessary to obtain a sample composed exclusively of German participants. We tested whether the results held when the three participants who were removed because they were familiar with the escalation-of-commitment phenomenon were included. In this case, our results held for culture ($F(1, 72) = 11.592, p < 0.01, \eta^2 = 0.142$), with a marginal level of significance for framing ($F(1, 72) = 1.834, p < 0.10, \eta^2 = 0.026$).

We also calculated an ordinary least-squares regression with DECISION as the dependent variable and FRAME and CULTURE as the independent variables. We found that CULTURE significantly predicted the escalation tendency ($\beta = -0.372, t(69) = 3.404, p < 0.001$), but FRAME had no significant effect on decision. The overall model explained a significant proportion of variance in DECISION ($R^2 = 0.181, F(1, 68) = 10.810, p < 0.001$). The control variable SEMESTER was not significant ($p = 0.111$) when added to the regression model.

Regarding robustness checks, we performed Levene’s test of the equality of error variances, which was positive ($F = 6.284, p < 0.01$). Thus, the variance of the dependent variable DECISION was not equal across groups. We also checked for normality using the Shapiro–Wilk’s test. The dependent variable DECISION was significantly non-normal for both culture ($W = 0.917, p = 0.013$) and framing ($W = 0.902, p = 0.02$). Field (2013) recommended using transformed data to check for possible problems with non-equal error variance or non-normality. Therefore, we transformed the DECISION variable into a logarithmic form and recalculated the planned contrasts. In the modified calculation,
Levene’s test of the equality of error variances was not significant \(F = 2.459, p > 0.05\), supporting the recommendation of Field (2013). Hence, the variance of the dependent variable \(DECISION\) was equal across groups. The results were comparable to the original contrast tests, revealing two significant single effects for culture \(F(1, 68) = 8.455, p < 0.01, \eta^2 = 0.105\) and framing \(F(1, 68) = 3.127, p < 0.05, \eta^2 = 0.042\) but no interaction effect.

In addition, we performed a bootstrapped ANOVA with 5,000 samples and a bias corrected and accelerated confidence interval type with a 95% confidence interval. The results of the bootstrapped ANOVA were equal to those of our prior ANOVA, confirming our findings.

6. Discussion and conclusion

Prior cross-cultural studies show that cultural differences have a strong impact on individuals’ risk preferences, motivation and decision behavior (Schneider et al., 2017; Weber and Hsee, 1998). We study escalation in investment projects and show that Germans have less of a tendency than Vietnamese to escalate their commitment to an unprofitable project. Furthermore, we show a framing effect that functions similarly in both cultures. Like Sharp and Salter (1997), we hypothesize but do not evidence an interaction effect showing that our two cultures are susceptible to framing in different ways.

Because studies in business and economics research are limited to particular cultures, the investigation of more cultural sets has frequently been requested (Birnberg, 2011; Cadsby et al., 2007; Chenhall, 2003; Rieger et al., 2014; Sharp and Salter, 1997). Our setting is particularly interesting because Germany is the largest market in Europe, and Vietnam is one of the fastest growing emerging markets in Asia (OECD, 2013). Knowledge of cultural differences helps support international organizations in their adaptation of management practices. Accordingly, German corporations transferring decision rights to Vietnamese entities may want to monitor investment decisions more closely for potential escalation tendencies or provide a better information basis in terms of framing the information in an adequate way. Thus, the accounting and information systems of global organizations should have a certain degree of flexibility not only in terms of the types of controls and incentives in place but also in terms of how certain controls, incentives or information provided are framed. Thus, our study sheds light on the representation and framing of information as a key business task. It shows that for both countries, negative framing may be costlier in terms of project commitment than positive framing and that – given the higher levels of escalation of commitment in Vietnam – negative framing could be of greater concern in Vietnam than in Germany.

Moreover, we complemented our quantitative results with qualitative observations gathered in an open comment field during the experiment. We asked for stated reasons for the project continuance decision. Vietnamese participants in particular made use of the option to leave comments. Interestingly, only one answer given by a Vietnamese participant alludes to the face saving argument. That participant states that terminating the project implies personal failure (no German participants state this view). This is surprising because the face saving argument is established in the literature as one of the strongest drivers of the escalation tendency (Brockner et al., 1981; Staw, 1976). Most of the Vietnamese participants’ statements imply that project termination would be accompanied by the loss of the time and money already invested in the project. These statements reference the sunk-cost effect (Garland and Newport, 1991; Keil et al., 1995; McCarthy et al., 1993; Staw and Hoang, 1995). This may indicate that sunk-cost considerations are even more important than face saving considerations when making project continuance decisions. Moreover, comments that can be associated with the sunk-cost effect were more frequent in the negative framing condition than in the positive framing condition. Thus, the strong accentuation of possible losses in the negative framing condition may induce the sunk-cost effect. An alternative explanation
for the cultural difference between Germany and Vietnam (other than the individualism and uncertainty avoidance aspects) could be that Vietnamese are more concerned with past considerations overall, which leads to sunk-cost effects and escalation.

However, an alternative explanation could be that Vietnamese students were less educated regarding the effect of sunk costs. Although this is possible, we report below that the educational level and intelligence can be expected to be sufficiently comparable to conduct such a comparative experiment. Furthermore, we suggest that our cultural effect is independent of the framing effect, indicating that Vietnamese have a higher tendency to commit to a project regardless of whether the frame is positive or negative. An alternative explanation could be that the relationship between the framing effect and the cultural effect is not an independent one.

In light of the limitations of our study, we propose avenues for future research. First, the usual limitations of cross-country laboratory experiments apply, warranting some caution regarding generalizability. Future research should test similar scenarios with different participant groups. There is the possibility that our participants have different levels in how they appreciate the real-life significance of the decision at hand. A possible sample to use for future research is managers with substantial work experience. Second, our sample consisted of more male than female participants (59 males and 20 females). Thus, our results may be biased toward being somewhat more valid for the male population. However, when testing a correlation between the escalation of commitment behavior and gender, we did not find a statistically significant relationship (Kendall–Tau $\tau = 0.106$, $p = 0.291$). Third, in determining cultural affiliation, we relied on nationality (i.e. birth country and predetermined value statements by Hofstede) (Hofstede, 1980; Hofstede and Hofstede, 2005). This procedure is an approximation at best, and it may be more accurate to ask explicitly for value statements regarding cultural aspects. By assuming cultural affiliation according to a nationality proxy, our results are limited because the individuals in our sample may not have precisely reflected the conventional cultural values. However, this sampling procedure is typical for multicultural experiments investigating the escalation of commitment. Further, by analyzing Chinese and German student participants, Chang et al. (2013) showed that direct measurement using a set of developed questions taken from Earley (1993) about individualism–collectivism corresponds closely to the predictions of Hofstede (Hofstede, 1980; Hofstede and Hofstede, 2005). Fourth, because our study did not collect data for all five cultural aspects, we cannot be certain which aspects influenced our findings. We found that the western and Asian patterns related to the escalation of commitment were similar to those observed by Chow et al. (1997), although we found a distinct difference in the uncertainty avoidance aspect between our sample and Chow et al.’s (1997). For instance, our study did not disentangle the face saving and uncertainty avoidance effects empirically. Further research could expand on this ambiguity, collect data on each individual cultural aspect, and specifically test which characteristics impact the observed effects. The individual cultural aspects could be examined through distinct questionnaires to directly trace the influence of the face saving and uncertainty avoidance aspects on management decisions. With globalization, there may also be cultural value convergence among the younger generation, which would stress the need to trace cultural values at a more detailed and disaggregate level. Fifth, we assumed that the German and Vietnamese students were comparable regarding important individual characteristics, such as intelligence, but we did not verify these characteristics with a post-experimental questionnaire. Both the German and Vietnamese participants were selected from large universities with high standards and screening through admission criteria. Both universities offer internationally recognized bachelor’s and master’s programs. Although the classes taken up to the point of our study may have varied because of the flexibility in how each student designed his/her curriculum, we assumed that there were no major differences regarding prior education or intelligence. However, if important individual characteristics did vary between German and Vietnamese
students (e.g. intelligence), our results could also be affected by these differences instead of by cultural differences. Further research should consider these characteristics by including more tests in the post-experimental questionnaire (e.g. a brief intelligence test). Another possible way to collect additional information about individual aspects might be the application of a pre-experimental selection process. Sixth, there might be differences in the curricula of the participants. Further research might collect additional information about participants’ curricula and evaluate the possible impact of different curricular priorities.

In conclusion, we observed investment decision biases for a unique cultural set. However, the question remains of whether and how such biases can be overcome to achieve more consistent decision making in multinational companies consisting of heterogeneous management personnel stemming from diverse countries of origin. More insight into these biases may contribute to designing more effective and culturally adaptive management control and business information systems. The exact measurement of cultural dimensions in follow-up studies could represent an avenue for more exact tracing of the influences of cultural aspects.

References


Appendix. Instrument (in EUR)
Sources: Bazerman et al. (1984), Rutledge and Harrell (1993) and Chow et al. (1997)

CASE: A&S Company

You are the head of the research and development (R&D) department of A&S, which is a large technology company. In recent years, A&S has had a decrease in sales. The management board is of the opinion that the R&D strategy of A&S is one reason for the decrease in sales. This is why the board decided to invest additional funds in R&D a year ago.

You (as head of the R&D department) started project X a year ago. You have decision-making authority over the allocation of R&D funds to this project. You already invested four million EUR into the project. The remaining investment required to complete the project is two million EUR. You expect that the project will be completed in 4 months.

Recently, you heard that a competitor will launch a similar product within the next 1–2 months. That information is confidential, but the source is reliable.

Negative Framing:
A: You cancel the R&D project (in this case, the initial investment of four million EUR is lost).
B: You continue the R&D project to launch your own product on the market (in this case, there is a probability of 33.3 percent that you lose no money, and there is a 66.7 percent probability that you lose all six million EUR).

Positive Framing:
A: You cancel the R&D project (in this case, you save the two million EUR that is needed for project continuation).
B: You continue the R&D project to bring your own product to the market (in this case, there is a 33.3 percent probability that you generate six million EUR in revenue, and there is a 66.7 percent probability that no revenue is generated).

How do you decide?

0 1 2 3 4 5 6 7 8 9 10
Definitely Definitely continue (B) discontinue (A)

Corresponding author
Peter Gordon Roetzel can be contacted at: peter@roetzel.com

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Language as heteroglot

The bridging qualities of Swedish-English (SweE) and Singapore Colloquial English (SCE) in cross-cultural working environments

Cheryl Marie Cordeiro
University of Gothenburg, Gothenburg, Sweden

Abstract

Purpose – The purpose of this paper is to reframe the role and function of perceived “bad English” in an international business (IB) context to illustrate that “bad English” could in fact facilitate cross-cultural communication in individuals who do not have English as first language.

Design/methodology/approach – This study uses the Bakhtinian concept of heteroglossia as a theoretical framework. For the method of analysis, applied linguistics is used in particular through the lens of systemic functional linguistics (SFL) as discourse analysis method to analyze transcribed interview texts. Data collection is via long interviews with 33 top level managers in Swedish managed organizations in Singapore offices.

Findings – The study illustrates, through respondent interviews and discourse analysis, that perceived “bad English” could help facilitate communication across cultures in a cross-cultural working context. The study also shows how different individuals, depending on personal experience and cultural background, employ different means to navigate and manage language differences at work.

Research limitations/implications – The findings confirm a Bakhtinian perspective of language as a heteroglot, where individual identities and understanding of context at work including work behavior are an amalgamation of collected experiences. While many individuals who do not have English as mother tongue might feel embarrassed by their poor English, this study shows that there are many Englishes existing in different working contexts. This study has a limited sample of respondents, pertaining to Swedish and Singaporean top managers in Swedish managed organizations in Singapore.

Practical implications – This study could be useful for multinational corporations that are interested in strategically managing their corporate language policies, taking into account cognitive differences or cultural identities in different offices worldwide.

Social implications – At a social level, Bakhtin’s language as a heteroglot brings to awareness that at any one time, while individuals are drawn to identify with their dominant (national) culture and language, in effect, with increased contact with other cultures in working environments, both language and cultural identities shift and evolve with the workplace.

Originality/value – This study contributes to the growing language in IB research. The novelty in this study is the employment of a Bakhtinian perspective and specifically the employment of SFL as a method of data analysis.

Keywords Singapore, Sweden, English, Applied linguistics, International business communication

Paper type Research paper

Introduction

Cross-cultural management in organizations is made increasingly complex by Industry 4.0 features enabled by digitalization. The confluence of advanced technologies creates a shared platform for technological software as systems tools. It also places individuals from different geographical spaces with different languages in immediate contact with each other. Although global trade is not a new phenomenon, what is different today is the speed of connectivity that new technologies allow. In the global network of multinational business enterprises (MBEs), organizations face increasing need to navigate working in cross-cultural teams across national borders, placing language at the heart of international business (IB) activities (Arnett, 2002; Brannen et al., 2014). In this aspect, the idea of English as lingua franca comes into foreground as a means of facilitating international organization communication. The original lingua franca, the language of the
Franks, was observed by English poet John Dryden during the seventeenth century. It referred to a compound language used as a medium for trade and commerce in the eastern Mediterranean. A *lingua franca* is a language that resulted from interpersonal contacts used either regionally or globally (Foley, 2013; Edwards, 2012). Yet, English as *lingua franca* and language as key construct in the field of organization and management science remains under researched, neither sufficiently expressed nor theorized (Brannen and Mughan, 2017), even when English as *lingua franca* is seemingly undisputed in the context of IB studies (Charles and Marschan-Piekkari, 2002; Ku and Zussman, 2010; Liu and Liu, 2017; Nickerson, 2005).

The purpose of this study is to address this research gap on articulating theories of the Englishization of cross-cultural communication within MBEs. Cross-cultural scholarship in IB studies and the processes of Englishization are often viewed as challenges faced by MBEs (Stahl and Tung, 2015). Scholars have observed that cultural diversity is often reflected as a challenging situation to manage in view of language differences or language incompetence in international work environments (Brannen, 2004; Johanson and Vahlne, 2009; Kogut and Singh, 1988; Tung and Chung, 2010).

As an empirical case example, this study uses a recent ignited debate in the Swedish local broadsheet and online newspaper *Svenska Dagbladet* (*Svd*) that ran opinion articles debating the status of users of English infused Swedish with regards to company names chosen and choice of using a mixture of Swedish and English rather than only Swedish in a cross-cultural working context (Björkman, 2017; Levy, 2017). Cultural values reflected in language use and language differences can be viewed from the dichotomous perspective of being either positive or negative, as handicap or as new potential (Ikegami *et al.*, 2017). Opinions in the general Swedish population remain divided, where depending on the purpose and context of use, Swedish–English (SweE) also called Swenglish, often carry negative connotations for both users and the language in use. From the current circles of debate in the Swedish media, it can be understood that Swenglish (svengelska) does not quite share the same World English variety status as Singapore Colloquial English (SCE), a language that most Swedish managers would have as most likely first encounter when they land in Singapore. The main problem with SweE is while its users wish to come across as international, the resulting effect often makes the users come across as provincial (Irenius, 2016). The use of Swenglish was an issue of national Swedish debate is not the only reason why Sweden and Singapore are interesting case examples of study, but rather it is their unique deployment of the English language within the business context that makes this cross-comparative study relevant in today’s study of the Englishization of world business language, Singapore being a point of confluence for the migration of people from as early as the 1800s.

SCE is the result of a combined process of anglicization and indigenization where non-English elements are made English like and likewise, English is used to fit into local non-English contexts (Crystal, 1997; Kachru and Nelson, 2006; Wee, 2009). The grammatical structure of SCE, for example, contains systematic substratum transfer of Chinese-derived (Hokkien and Mandarin) grammatical features (Bao, 2005, 2009, 2010; Bao and Lye, 2005). SCE is recognized today by scholars to be a variety of World Englishes, one that contributes to the building of the Singapore identity, making Singaporeans identifiable by the manner of their speech. To many foreigners, a Singaporean might come across as multilingual as they are multicultural. Still, amongst Singaporeans, as illustrated in Box 2, there is an “increasing awareness that their competence in all the languages they lay claim to do not match up to the standards of standard varieties [...]”. The typical Singaporean often finds himself in the awkward position of having to substitute words from language with those from another” (Wee, 2009, p. 46). There continues to be a Speak Good English Movement in Singapore, with a steering committee consisting of both private and public sector...
individuals (goodenglish.org/sg). The movement that began in the early 2,000s with the Singapore Government’s effort to discourage the use of SCE as part of its national language planning strategy has brought on more than a decade’s long scholastic debates (Goh, 2016; Rubdy, 2001; Wee, 2005, 2014).

But even as accomplished Swedish business owners in Singapore and Singaporeans feel insecure and uncertain about their use of English in an IB context, there has been at about the same time, an academic shift in perspective toward viewing Euro-English and non-native speaker English as having an important role in shaping English as a lingua franca in cross-cultural communication (Modiano, 2003; Jenkins et al., 2001; Seidlhofer, 2001a, b), not to mention that SCE too seems to play an important role in the building of the Singapore identity (Wee, 2005, 2014).

The business environment of MBEs is complex in both structure and people composition. Instead of adopting a dichotomous positive or negative view for use of English as lingua franca, this study suggests that the Englishization processes of the multinational, multi-linguascape environment of MBEs can be studied via the concepts of dialogism and heteroglossia. Dialogism is used in literary theory in reference to the works of Russian philosopher Mikhail Bakhtin (1895–1950) to broadly mean a continuous mediation of dialogue between interactants (Holquist, 2002). For Bakhtin, all language, including our thoughts, appear to be dialogically responsive to the activities and processes that take place around us, and what has happened before. We respond to our environment not only in the instant of communication, but we carry with us our past experiences. We also respond to situations and say things in anticipation of what others will say in the shared context of situation. As such, all language is relational, and the ideas which language contain and communicate are dynamic. We often find ourselves in a continuous process of construing and reconstruing our reality (Besley and Peters, 2011). This complex and intertextual dialogue is reminiscent of the multinational, multilingual working environment of a modern MBE, where instead of viewing English as lingua franca as either negative or positive, this study suggests a third-way perspective through dialogism and heteroglossia. Whilst dialogism refers to how languages interact with one another, thus resulting in English as lingua franca, the term heteroglossia refers to the many variations of English as lingua franca that, in time, results in different World Englishes, such as Indian English, Singapore English, Jamaican English, etc. (Bakhtin, 1975; Holquist, 2002).

Through the perspective of the Bakhtinian lens, the research questions (RQs) addressed in this study are two:

RQ1. To what extent can a Bakhtinian lens when applied to the study of English as lingua franca account as the theory of Englishization of languages in an IB context?

RQ2. Framed through a Bakhtinian lens, what particular linguistic features can be identified as means of communication strategies that bridge between cultures and communication for individuals working in a cross-cultural context?

The novelty contribution of this study is thus two-fold, the first is toward applying complementary theories from linguistics and social semiotics in the study of the heteroglossic (diverse and inclusive) linguascape existing in MBEs to be used in the field of cross-culture and IB studies, and the second is the gaining of insight into how the perceived hegemonic processes of unitary (central) language, can, in effect, bolster the centrifugal processes of the heteroglossic linguascape in the context of cross-cultural communication. The latter findings will help facilitate practical exchanges of communication at the workplace in terms of better decision making on language policies at team/corporate levels.
Literature review: English as *lingua franca* in IB

In the current globalized business context, the English language is by far the most prominent of contact languages due to a variety of historical, socio-economic and political reasons (Bailey, 1985; Barber, 1982; Crystal, 1997; Firth, 1970; Hertzler, 1965; Kachru, 1986; Sasaki et al., 2006). Language not only enables users to describe their reality, but it also circumscribes reality and identity (Akkermans *et al.*, 2010; Bordia and Bordia, 2015). For this reason, the consolidation of English as a dominant working language in North America bolstered by the expansion of the British Empire into the Far East in the 1800s provided the context for the debate on language use and policies. English as *lingua franca* has been studied from various facets by scholars, from how language shapes identity and national culture to how it is used in context toward specific purposes (Bailey, 1985; Crystal, 1997; Rappa and Wee, 2006; Wee, 2009; Wodak and Boukala, 2015). While it was thought that using English more than their own mother tongue would lead to an erosion of their own values, the opposite was also true. Scholars have found that the extent of consolidation of English across the globe did not lead to one standardized English used across different contexts. Rather, what arose was the situation of varieties of what is known today as World Englishes (Kachru, 1986, 1985). Language in use as a living, evolving entity is central to the works of Bakhtin (Bakhtin, 1990, 1981), and it is in today’s context of the global linguascape that Bakhtin’s central idea of language as a heteroglot remains relevant, buttressing theories of English as *lingua franca* and World Englishes. Relevant in practical context of a globalized world, language is a site of not just identity building but of constant cultural identity negotiation (Bordia and Bordia, 2015; Gargalianou *et al.*, 2017).

With firm internationalization and the context of Industry 4.0 academic debate on the effects of Englishization, the linguascape psychology remains complex (Hejazi and Ma, 2011; Pierini, 2016). Studies have found that language in use deciphers our surroundings and self-identities, where the human connection to language is not purely a logical tool that humans use toward mere function for transaction making, but rather human emotions are embodied and expressed in language (Halliday and Hasan, 1989; Halliday and Matthiessen, 2014). We can feel (and express) affect and attachment toward other people, entities, objects and happenings. Social affiliation toward others is often marked by language (e.g. code-switching), even if it is a perceived shared language variety like English in a working context (Bao, 2003; Kachru, 1983, 1981; Kulkarni and Sommer, 2015). The use of English for non-native speaker companies within an IB and trade context has been found to support increase in foreign ownership and decrease information asymmetry, enabling trust building in relationships (Jeanjean *et al.*, 2015; Tenzer *et al.*, 2014). As such, studies in English as *lingua franca* seem to indicate that social stigmas continue to arise in today’s IB contexts for non-native speakers of English, where some can be self-conscious about their lack of knowledge of good English or “proper” English. This perceived lack of knowledge on the part of the user can have immediate effects on the confidence of use in the context that might result in feeling of an incapability to build trust.

Theoretical background: heteroglossia and systemic functional linguistics (SFL)

We recognize that the business environment of an MBE is diverse and complex. Heteroglossia, which refers to the co-existence of the diversity of languages, voices and discourses, is Mikhail Bakhtin’s dialogism taken in a broader social context. To the influential Russian linguist Bakhtin, language “represents the co-existence of socio-ideological contradictions between the present and the past, between different epochs of the past, between different socio-ideological groups in the present, between tendencies, schools, circles and so forth. These languages of heteroglossia intersect each other in a variety of ways, forming new socially typifying languages” (Bakhtin, 1981, p. 291).
In terms of English as *lingua franca* in the MBE context, we can therefore expect that there will be many varieties of English that come in contact with each other in a working context. In this sense, language is a heteroglot, meaning that language is inherently culturally diverse. English as *lingua franca* at the workplace will reflect different cultural identities of the speaker in the same working context. For Bakhtin, there essentially exists no “unitary language” because a unitary language is “opposed to the realities of heteroglossia [...] imposing specific limits to it,” guaranteeing a certain maximum of mutual understanding and crystallizing into a real, although still relative, unity – the unity of the reigning conversation (everyday) literary language, a “correct language” (Bakhtin, 1981, p. 270). If there were a unitary language, such a language will need to be imposed onto speakers in order to curb the diversity that language encompasses. This usually results in a resistance of the unitary language because for Bakhtin, language is not a closed system but rather one that is open and emergent (Bakhtin, 1981).

In order to answer the research questions posed earlier in this study and uncover linguistic features that act as bridging strategies when communicating across cultures using English as *lingua franca*, this study turns to the confluencing linguistics framework, SFL that views language as a social semiotic. SFL views language organized as a system of architectural properties (Halliday and Hasan, 1985; Halliday and Matthiessen, 2014). Much of SFL as theory and framework of applied linguistics by M.A.K. Halliday was formulated during the 1960s. Halliday’s SFL has considerable influence on the field of anthropological studies in particular the works of Bronislaw Malinowski in the early 1920s and 1930s, based on fieldwork in the Trobriand Islands during 1910s. These influences directed an ecological theory of Halliday’s SFL, one that parallels Bakhtin’s understanding of inherent relativity in language, possible semiosis that materializes in relation to its “semiotic habitat” (Halliday and Matthiessen, 2014, p. 32):

Each of these “languages” of heteroglossia requires a methodology very different from the others; each is grounded in a completely different principle for marking differences and for establishing units (for some this principle is functional, in others it is the principle of theme and content, in yet others it is, properly speaking, a socio-dialectological principle). Therefore languages do not exclude each other, but rather intersect with each other in many different ways. (Bakhtin, 1981, p. 291)

At the intersection of language and IB studies set in the context of cross-cultural communication, the perspectival relativity of SFL and its application versatility in its most current version (Halliday and Matthiessen, 2014) might well be able to address Bakhtin’s idea that the study of heteroglossia requires different methodologies. There are currently about 20 SFL open-systems identified that could be used in varied combinations for text analysis (Eggins, 2004).

Corpus driven, this study aims to illustrate by the application of SFL’s context categories of field, tenor and mode that the often perceived hegemonic ideology of unitary language might in the context of a cross-cultural environment of an MBE subsidiary has the effect of bolstering the centrifugal processes of heteroglossia, helping build subsidiary network relations in the local context.

**Method**

Data to this study were collected in the form of long interviews with 33 top managers of Swedish managed MBE subsidiaries in Singapore; this study applies Halliday’s SFL as theory and framework of analysis in the study of the centrifugal and centripetal processes inherent in language in use in the language heteroglot.

Respondents to this study are individuals in senior management positions/managing directors/owners of Swedish founded MBES that have a subsidiary in Singapore. The industries targeted were varied, much due to that the study was mainly interested in
the broad thought practices or management ideologies as found in collected discourse. The main criteria of respondent selection was senior management individuals, on the working assumption that it would be they who were most likely decision shapers who could help form and steer corporate strategies. The focus of the interview was to understand their management styles across different cultures, and if there were any perceived differences in their approach to corporate management and communication practices. An outline of the interview questions is reflected in Appendix 2. The interview questions reflect a broad framework within which the interview could be steered, and do not reflect a prescription of interview questions actually asked during the interview session, much due to that the respondents should not feel as if they were answering a scripted set of questions. The total number of respondents is 33, with 23 being Swedish/Nordic[1] and 10 Singaporean Chinese. Open-ended interviews were conducted with each respondent with an average time per interview being 1 h 39 min, rendering a transcribed corpus data of 260,178 words (540 pages). All interviews were transcribed in accordance to the Göteborg Transcription Standard (GTS) version 6.4 (Nivre et al., 2004). This small corpus interview data base was made in 2004, and the triggering point of its relevance in today’s research context is the continued debate and recontextualization of the role and function of language as lingua franca in IB (Brannen et al., 2014; Sanden, 2016).

Corpus data management
The transcribed data were analyzed for word frequency count and concordances with various word searches such as “language” and “difficulty” for example. The data were also coded in accordance to the methods of grounded theory (Strauss and Corbin, 1998) with in-vivo and non in-vivo codes, with the former referring to themes that the respondents brought up themselves during the course of the interview.

SFL framework: context – field, tenor and mode
Contexts of situation in combination with Time seem to constitute the heteroglot linguascape of the evolution of language. From an SFL perspective, the various contexts of situation operating within institutions create and foster isolates of culture (Matthiessen, 2009; Malinowski, 1944), and while there are no comprehensive description of the context of culture, the general categories of context, of field, tenor and mode, have been studied for a long time (Halliday and Hasan, 1985; Hasan, 1973; Halliday et al., 1964; Martin, 1992). Field, tenor and mode are a set of interrelated elements with ranges of values that are juxtaposed:

- Field – refers to the events and happenings in the situation, the nature of the social and semiotic activity; and the domain of experiences related to the activity. It most often resonates with ideational meanings that structure and construe human experiences. Orientation towards field is characteristic of “enabling,” “doing” and “facilitating.” In this study, all participants can be said to have been interviewed/studied in the same field of activity, i.e. their role as managers and organization leaders in a cross-cultural management context. As such, the field analysis (reflected in Tables II and III) is divided into formal (work related) and informal (social related) domains of experiences, as contextualized in the professional work context.

- Tenor – identifies the participants in the situation with regards to situational goal/s. It refers to the roles played by the participants in the socio-semiotic activity. The roles of the interactants are imbued by their values, which, in turn, influences the contexts of situation. Tenor resonates with interpersonal meanings that uncover how interactants behave toward each other, and construe human attitudes. Orientation toward tenor is reflected in semantic organization of text reflecting value, judgment and polarity. In this study, tenor (reflected in Tables II and III) is studied through a
Bakhtinian lens of the unification and centralization forces of a standardized native language. These forces are the centripetal forces of language that cause a non-native speaker of a language to be self-conscious or feel bad about not speaking "proper English" for example.

- Mode – frames the role that language plays in combination with other semiotic systems in the context: channel: phonic or graphic; rhetorical orientation: didactive, informative, explanatory, expiatory; turn: dialogic or monologic; and medium: written or spoken. Tenor resonates with textual meanings, the cohesiveness of modal elements gives a sense of language continuity. Orientation of mode is toward a combination of both field and tenor in the medium of expression. Mode in this study (reflected in Tables II and III) refers to whether the respondent prefers to use or create an existing network of relations in the activity field or uses predominantly face-to-face interactions as a cross-culture communication strategy.

What the elements of context illustrate is that language can be understood as being construing an event or happening with actors/participants involved. These are open-ended networks of systems that do not constrain each other but rather combine in a myriad of possibilities of differing situational contexts that generate and perpetuate the language heteroglot.

Taken as select text examples from the corpus data, the text examples shown in this study constitute examples that are most reflecting of the intertwined forces of an awareness of a unitary language and characteristics of the centrifugal processes in heteroglossia in practice that create the linguscape of the respondents.

Analysis and findings
Table I (Cordeiro-Nilsson, 2009, p. 123) shows the grounded theory coding results for most salient topic, prompted and spontaneous, by 50 percent of the respondents.

<table>
<thead>
<tr>
<th>Open-coded topics</th>
<th>Prompt.</th>
<th>Spont.</th>
<th>Asian 100 index</th>
<th>Scand: n 100 index</th>
<th>Difference Rel.</th>
<th>Difference Abs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Get a broader vision</td>
<td>1</td>
<td>40</td>
<td>74</td>
<td>34</td>
<td>−34</td>
<td></td>
</tr>
<tr>
<td>Sense of history</td>
<td>1</td>
<td>10</td>
<td>20</td>
<td>29</td>
<td>−29</td>
<td></td>
</tr>
<tr>
<td>Hawker centers</td>
<td>1</td>
<td>30</td>
<td>9</td>
<td>21</td>
<td></td>
<td>21</td>
</tr>
<tr>
<td>Food courts</td>
<td>1</td>
<td>20</td>
<td>4</td>
<td>16</td>
<td></td>
<td>16</td>
</tr>
<tr>
<td>Food</td>
<td>1</td>
<td>90</td>
<td>78</td>
<td>12</td>
<td></td>
<td>12</td>
</tr>
<tr>
<td>Cultural surprise/shock</td>
<td>1</td>
<td>50</td>
<td>43</td>
<td>7</td>
<td></td>
<td>7</td>
</tr>
<tr>
<td>Personality of person</td>
<td>1</td>
<td>30</td>
<td>30</td>
<td>0</td>
<td></td>
<td>0</td>
</tr>
<tr>
<td>Favorite local (Singapore) food</td>
<td>1</td>
<td>90</td>
<td>13</td>
<td>77</td>
<td></td>
<td>77</td>
</tr>
<tr>
<td>Language as barrier</td>
<td>1</td>
<td>10</td>
<td>70</td>
<td>60</td>
<td>−60</td>
<td></td>
</tr>
<tr>
<td>Knowledge/interest in Singapore English</td>
<td>1</td>
<td>80</td>
<td>30</td>
<td>50</td>
<td></td>
<td>50</td>
</tr>
<tr>
<td>Will retire in home country</td>
<td>1</td>
<td>0</td>
<td>43</td>
<td>43</td>
<td>−43</td>
<td></td>
</tr>
<tr>
<td>Knowledge of Swedish culture/traditions</td>
<td>1</td>
<td>20</td>
<td>52</td>
<td>32</td>
<td>−32</td>
<td></td>
</tr>
<tr>
<td>Proud of national identity</td>
<td>1</td>
<td>70</td>
<td>39</td>
<td>31</td>
<td></td>
<td>31</td>
</tr>
<tr>
<td>Uncertainty</td>
<td>1</td>
<td>40</td>
<td>13</td>
<td>27</td>
<td></td>
<td>27</td>
</tr>
<tr>
<td>Individual as adventurous</td>
<td>1</td>
<td>40</td>
<td>65</td>
<td>25</td>
<td>−25</td>
<td></td>
</tr>
<tr>
<td>No language barrier</td>
<td>1</td>
<td>40</td>
<td>65</td>
<td>25</td>
<td>−25</td>
<td></td>
</tr>
<tr>
<td>Knowledge of local traditions/culture</td>
<td>1</td>
<td>50</td>
<td>74</td>
<td>24</td>
<td>−24</td>
<td></td>
</tr>
<tr>
<td>Learning</td>
<td>1</td>
<td>80</td>
<td>57</td>
<td>23</td>
<td></td>
<td>23</td>
</tr>
<tr>
<td>Extensive traveling experience</td>
<td>1</td>
<td>40</td>
<td>61</td>
<td>21</td>
<td>−21</td>
<td></td>
</tr>
<tr>
<td>Agreeing to do it the &quot;Other’s&quot; way</td>
<td>1</td>
<td>90</td>
<td>70</td>
<td>20</td>
<td></td>
<td>20</td>
</tr>
</tbody>
</table>

Source: Cordeiro-Nilsson (2009, p. 123)
Spontaneously, the respondents were generally interested in language as a barrier and they spoke about knowledge/interest in Singapore English. About the same percentage of Swedes and Singapore Chinese thought that there were no language barriers, despite what can be described as a unitary language awareness amongst the respondents of a standard language (Swedish, English and Mandarin) that was the exemplar language against which all other variations were measured against.

The open-coded topics indicate from an Individual perspective, the various contexts of situation that the respondents find themselves in when working in a cross-cultural context and for the Swedes, living in a foreign country for work purposes. The coded topics in themselves could be said to reflect the heterogeneous environment in which they find themselves, many having multiple roles from management at work to family life management. The elements of context of situation of field, tenor and mode that resonate with the strands of ideational, interpersonal and textual meanings, occur simultaneously in any spoken or written text.

Field
Transitivity processes found in Boxes 1 and 2 from Swedish respondents indicate that much of the semiotic activities for the respondents in their work revolve around organization of projects, creating contacts and networks for business purposes whether in projects, joint ventures or new business opportunities.

The material processes of meeting, setting up meetings, coordinating, organizing projects and people in the projects and networking, show “language as action” and set the juxtaposing activities of what could generally fall under the category of “conducting international business.” The global hegemon of unitary languages is evident in both Boxes 1 and 2 with explicit acknowledgment of poor English, and inadequate English as lingua franca. Yet underlying the unitary language standards is the utter awareness of the cross-cultural context of the field.

Box 1. Text 1
$CB$: the language is not so much difference because all of us / we speak some sort of poor english huh / and er / so it is the way they work and the way they organize things and the way they think / i mean we / the project / we are three companies in a joint venture / normally when we have these big projects / we tend to make these joint ventures with other companies / we need a local company to manage these sub-contractors we have all / and er / so we have a lot of companies of course

Box 2. Text 2
$BJ$: here we have / i let my local staff handle all that administration as much as possible / very much nowadays our client customer contacts i let my locals do it / for example we are selling to shipyards and ship owners / they do it much better than i do it / in the beginning due to my professional status i could sort of say start up the company and build up our clients / and very much of our client the first ten fifteen years were expatriate ship owners / we have so to say done a lot to bring ships into singapore for repair / but now i would say my local staff do selling much much better than i can ever do / they talk their own language that makes it easier for the shipyards / they feel more comfortable if they speak their own language / chinese instead of english all the time / and also they know each other from school / they have common friends / they know this and they know that / they snap up more information / people speak to them more tell them more about their future projects they have and so on so we can prepare ourselves for participating
The facilitating role that local language plays in the local context is more pronounced in Box 2. As an awareness of shared language being a facilitating factor to business networks, $BJ specifically has as corporate strategy, Singaporeans managing the enterprise's business contacts including active marketing, selling, sourcing, meeting and future planning of projects. As an indication of the evolving context of situation, in this case, referring to the changing business environment of the global shipping industry, so has $BJ's business networking strategy evolved. Where once it was $BJ who did the networking, a shift in language needs from English as lingua franca to Chinese, means that it was more efficient for locals to get the job done. Reference to tacit knowledge of local culture and customs together with long-standing childhood friendships also provide field orientation, illustrating relativity (in knowledge, skills, language proficiency, etc.) in the activities of business networking.

Tenor
Interpersonal meanings that resonate with tenor uncover the roles played by the respondents, and uncover actors, sayers, behaviors, thinkers amongst other roles in a situational context. Interdependency in relations can be marked by use of modals of obligation, $CB in Box 1, for example, puts a high obligation modality on collaborating with a local company, “we need a local company to manage these sub-contractors we have,” and in Box 2, assessing the intensification of relationship building, $BJ emphasizes, “very much nowadays our client customer contacts I let my locals do it.”

But while Boxes 1 and 2 might lend the idea of activity fields with different actors sliding between juxtaposed socio-business contexts, Box 3 gives a more nuanced insight into the contesting status relations that can be felt of people who share the same dominant language and cultural background when acting within the same field activity.

$EB is a Singaporean Chinese managing director whose organization ranking is deemed as “the boss” and “the number one man.” $EB views their organizational status as being on par with a corresponding “number one man.” In the Singapore Chinese cultural context that has influences from the teachings of Confucius, societal and familial hierarchic roles are tacitly acknowledged and enacted in social relations. The flouting of this social code on the part of the Europeans who might lack a nuanced understanding of the social context serves in this case to isolate $EB and place them in a closed frame of mind for further negotiations.

Box 3. Text 3
$EB: we chinese / we locals haggle / uhm / i think there[i]s something that i realise that / when you deal directly with the europeans or the scandinavians / when they are open and straight forward it[i]s easier for you to sort of come to a compromise / because it[i]s easier to bridge the gap / especially when you deal directly with the number one man / but there are certain european companies you know / they are big for example / they will send their managers / or somebody senior enough you know / but a local guy to come and talk to you / now that[i]s where the complications come in / because the local guy wants to score points / to show management that he can do something better / and that[i]s where the complications enter and the difficulties will come in / whereas when you talk to the europeans / when they are open / you know / straight away they say i think you should give me this discount / then i say yah / i think you[a]re fair / i[i]ll just give you something better / to the locals / he or she will tell the boss / oh you know / you gave me this mandate / i got more for you / then she will come and start haggling you know / small little thing start to bicker bicker / try to prove a point blah blah / and then we knowing that they are like that / we start to build buffers / and then we start to build buffers / it[i]s going to be more and more tedious trying to bridge the gap you see / and sometimes europeans don[o]t understand that /// i got two cases i dealt with european i dealt with the boss / number one man / i tell you it was < > like that / because they were open to me
@ < gesture: click of fingers >
While a similar cultural understanding of a shared dominant culture and language allows for $BJ$ (Box 2) to step back and let their local staff do the groundwork in getting business leads, $EB$ views having to negotiate with a local manager, even if senior in rank, as a barrier to further communication, citing “haggling” and employee personal career agenda as reasons.

Notable in Box 3 is the use of Singapore Standard English (SSE) by $EB$, in contrast to $PT$ in Box 2 who uses SCE. Speakers who use SSE are known as acrolectal speakers. Both respondents are Singapore Chinese, although they seem to assert their social orientation and identity in different realms. This could be perhaps due to the activity scope of their work. $PT$ most likely has business meetings in China, whilst $EB$ negotiates mostly with Europeans. Box 3, framed in terms of the hegemon forces in unitary language that creates the dominant culture that the Singapore government in their “speak good English movement” launched in the early 2000s, illustrates how in practice, the hegemon forces act to bolster, even create the centrifugal processes of language heteroglossia. Depending on field (activity type) and tenor (participants/beneficiaries in context), same language same culture understanding serves to fragment further the linguascape of IB communication.

**Mode**

In general, all respondents related that English was the corporate administrative language, with local languages (Mandarin, Hokkien, Teochew and Malay) being used in informal work settings such as lunch hour or when there are no foreigners in the room. The Swedes also report of using Swedish when there are no locals in the room, especially in traditional *fika* (coffee) sessions. Activities at work in a cross-cultural setting are facilitated by the use of English as lingua franca. $BJ$’s idea of leveraging upon the local employee’s socio-cultural tacit knowledge is also an idea that resonates with other Swedish respondents in the study.

An awareness of socio-cultural sensitivities that contributes to insights into the intersection of identities and ways of doing/being has been related by some respondents. In Box 4, $GP$ is a managing director of an MBE with headquarters located in Singapore. Related in Box 4 are experiences of trying to persuade Chinese staff members to adopt a more consensus approach to decision making, and to foster a corporate culture of an open feedback system. While East-Asians and Southeast-Asians might prefer a more hierarchic rhetorical mode with preference for orientation towards informative instructions and explicatory directives from leaders in the organization, field elements still matter.

In speaking about rhetorical mode and its effect on employees, $GP$ displays an awareness and understanding of the Chinese concept of politeness and face (Liu *et al.*, 2016). What $GP$ is trying to accomplish is a mode shift in organizational culture, shifting the division line of linguistic labor from hierarchic (top-down explicit directives) to lateral (consensus seeking and feedback). The change of corporate culture implemented by

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**Box 4. Text 4**

$GP$: but in a negotiation and when you have a meeting and you have a hot topic / then you have to be very careful not to hurt people / not to hurt people in front of other people / that(i) is much more important there / you can get enemies for life if you hurt somebody / and i was also explaining to the people who were working close to me then / the people that i recruited // i said to them // this is the way i am / this is the way swedes are behaving / it doesn(o)t necessarily mean that we are rude if we behave this and that way and if i do so // i(a)m also rather frank / i usually tell the things as they are / umm / and in the management team for example i said i want to have discussions i want people to discuss / and they have never done that before / i want to have a discussion before we take a decision
Swedish managers in their subsidiaries entailed usually a lateralization of hierarchy and de-centralization of decision making. These changes usually come with some form of disruption of the forces of what is considered “the norm” in East-Asian cultures, in this case, the norm for a more explicit directive from the senior management to all other staff.

Table II answers RQ2 with regards to the specific linguistic features identified as bridging cross-cultural communication in an IB setting, summarizing the linguistic features strategies employed by the various respondents quoted in the Text Examples in this study. For the text examples shown, the field analysis reflects that most activities are characterized as taking place in a work-related formal setting in the professional domain rather than an informal social domain. Working in a cross-cultural context, all respondents reflected language and culture sensitivity. However, the tenor analysis reveals that respondents can have different cross-cultural communication strategies. While all text examples here indicate the use of centrifugal advantage, where people are acutely aware of their deficiency in the use of standard British English in a formal work context, the manner in which

<table>
<thead>
<tr>
<th>Text example</th>
<th>Field</th>
<th>Tenor</th>
<th>Mode</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 ($CB) Swedish</td>
<td>Linguistic function and context of use is formal as strategic management Cites formal work project as reason for linguistic binding across cultures</td>
<td>Centrifugal Advantage: Uses linguistic centrifugal forces to connect with Singaporeans Uses the centripetal (unification) argument that both Swedes and Singaporeans do not have English as mother tongue, thus it is comfortable negotiating across cultures with both parties using a shared “bad English”</td>
<td>Creating/using local networks for interpersonal relations Face-to-face negotiations preferred</td>
</tr>
<tr>
<td>2 ($BJ) Swedish</td>
<td>Linguistic function and context of use is formal as strategic management</td>
<td>Centrifugal Advantage: Uses linguistic centrifugal forces as strategy to allocate communication work to locals rather than Swedes Uses local centripetal (unification) argument to allocate locals as expert knowledge workers for communicating across cultures in a local context</td>
<td>Creating/using local networks for interpersonal relations Face-to-face negotiations preferred</td>
</tr>
<tr>
<td>3 ($EB) Singaporean</td>
<td>Linguistic function and context of use as formal strategic management</td>
<td>Centrifugal Advantage: Uses linguistic centrifugal forces to connect with “Europeans” Uses linguistic centripetal (unification) argument as strategy of avoidance to negotiating directly with local Singaporeans, the argument and idea of that “we share too much of the same values to negotiate meaningfully”</td>
<td>Creates interpersonal networks with foreigners directly Face-to-face negotiations preferred</td>
</tr>
<tr>
<td>4 ($GP) Swedish</td>
<td>Linguistic function and context of use as formal strategic management</td>
<td>Centrifugal Advantage: Uses linguistic centrifugal force in establishing relationships with local employees. The strategy of “both parties do not have English as mother tongue” advantage of communicating across cultures</td>
<td>Creates interpersonal networks with locals directly, finding cultural “balance” between being too explicit in a politeness emphasizing culture Face-to-face negotiations preferred</td>
</tr>
</tbody>
</table>

Table II. Summary of linguistic features used as cross-cultural communication strategy and management as shown in text examples

Language as heteroglot
this is deployed as a communication strategy differs. Some respondents tend to leverage centrifugal advantage by citing the use of “bad English” as a shared feature between Swedes and Singaporeans, and therefore they found it easier to negotiate between themselves. This same centrifugal advantage might also be leveraged upon by Singaporean managers to actively disengage negotiating with other Singaporeans. The reason cited is that they both speak SCE, thus, each assuming that they would use the same “tricks of negotiation” between themselves that can only be rendered through a shared cultural and language knowledge. In this case, a shared language and culture does not necessarily help build camaraderie between people. In another use of centrifugal advantage, a Swedish manager decides to “outsourcing” the networking to the local employees, knowing that Swedes do not make good networkers in a local context because they do not use “good enough English” in informal settings. The mode analysis reveals that for these text examples, the respondents had the duo-strategy of both creating/using networks for business purposes, as well as communicating face-to-face.

In answer to RQ1, the Bakhtinian lens allows for a complementary perspective towards English as lingua franca in the context of cross-cultural management communication. It shows that individuals employ variations of communication strategies, one deemed to best suit the context and function at hand. Elements of the Bakhtinian theory when applied to cross-cultural communication in an IB setting are uncovered by the application of SFL’s concepts of field, tenor and mode, making more explicit the processes of Bakhtin’s language as a heteroglot. The corpus driven text examples show that respondents are inherently aware of the multiple strands of activities, identities and channels of communication in a cross-cultural IB context where language seems to be object (identity marker) as well as process facilitator (of modal change). SFL as theory and framework allows for a systematic analysis of context of situation, Bakhtin’s heteroglossic linguascape that is the arena for constant dialogism.

Discussion
Communicating across cultures is a dynamic process, taking place in a space within which identities are constantly negotiated and where the boundaries are difficult to define. What might come across as a communication barrier due to the use of a non-standard variety of English can in effect be viewed to have the effect of building solidarity between parties based on the very same fact of using “bad” English. This duo-effect and sometimes seemingly contrary effects of language in use have been discussed in concept and theory in the Bakhtinian circles under heteroglossia and its various implications. Heteroglossia can be seen not just as a theory of language, but in the modern context IB and trade, it could even help explain the contrary observations of language behavior and the creation of a faceted global linguascape, even if English is used as lingua franca.

The text examples from the previous section together with Table II illustrate the method of analysis employed on the collected data, discussing some patterns of findings from the text examples. Table III in this section gives a cross-sectional view of all respondents and their cross-cultural communication strategy reflected in linguistic features found in the SFL field, tenor and mode framework of analysis. The results reflect all 33 recorded activities. The findings reflect the cross-cultural communication strategies used by Asian (first ten rows) and Scandinavian respondents.

Results for the field analysis in Table III indicate that all 33 respondents spoke of cross-cultural contact mostly as occurring within the formal, professional domain of the work context, with 7 instances referring to informal social activities. Results of the tenor analysis in Table III indicate that as a group of respondents, about 80 percent (27 of 33) used the centrifugal advantage as cross-culture communication strategy. This refers to that both cultural groups display an awareness of diversity of language, acknowledging that they
used a non-standard form of English in their communication and that there are more languages than English used in the work context. This diversity of language, culture and values, instead of being viewed as a barrier to communication, is rather seen as a positive feature in the context of negotiation. The centripetal (unification) advantage when used by Scandinavian respondents is sometimes used in relation to outsourcing cross-cultural communication activities to the locals. This is done on the assumption that the locals share SCE as a form of local standard English that requires tacit knowledge of culture and ways of doing. The locals as such will be more efficient in picking up the latest business leads better than the Scandinavians. Results of the mode analysis in Table III indicate that 97 percent of the respondents (32 of 33) preferred face-to-face communication as a means of communicating across cultures. This is not only due to the nature of the professional activities, that they take place in close proximity in shared projects and office space, but also the fact that face-to-face communication allows for instant feedback, where uncertainties can be clarified instantly by the use of questions.

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Table III. Summary of language features to strategic cross-cultural communication management as shown in all respondents.
Conclusion

This study began with contextualizing the complex business environments of MBEs, where English is often used as lingua franca. English as lingua franca and language as key construct in the field of organization and management science remains under researched, neither sufficiently expressed nor theorized. Scholastic works also point towards that Englishization of the workplace and cultural diversity is usually portrayed as a management challenge and in negative light.

The purpose of this study was to address this research gap on articulating complementary theories of the Englishization of cross-cultural communication within MBEs and its effect on multilingual organizations. Instead of a dichotomous perspective of positive or negative with regards to English as lingua franca at the workplace, the suggestion in this article is to take a third-way perspective, through the theoretical lens of Bakhtin’s dialogism and heteroglossia. These concepts have thus far been applied in literary, philosophy and linguistic studies, but it has been found to be applicable for management and organization science studies when trying to understand the complex environment of the MBE. In the everyday workings of an MBE, individuals of diverse cultural backgrounds meet and use a form of non-standard English to facilitate communication at the workplace. These varieties of Englishes, what is termed as heteroglossia, are in constant interaction with each other. In time, the communication patterns will form a more stable form of English as lingua franca at work that acts as a uniting factor for the employees of an MBE.

Taking the case of Scandinavian (mostly Swedish) managers working in Singapore, this study has shown that the often-portrayed negative image of non-native speakers of English who use English in a business context is not often accurate. Rather, there are instances where the processes of Englishization and the use of English as lingua franca that can be interpreted as the use of “bad English” have been seen as advantageous. In terms of methodology for data analysis, Halliday’s SFL framework was used to analyze cross-cultural communication strategies used by both Swedish and Singaporean managers working in a cross-cultural environment. The findings indicate that depending on cultural background and context of communication, respondents leveraged on both the centripetal (unification) and centrifugal (diversification) forces of a native variety of the English language when making strategic decisions on cross-cultural communication, i.e. whether Swedes for example, chose to employ locals for networking for business purposes, or if they chose to leverage the idea that there is diversity in language use, therefore, negotiations can carry on with a non-standard variety of English. Thus, this study has illustrated that the third way is possible. When applying the concepts of dialogism and heteroglossia, it can be seen that language and cultural diversity need not be viewed as a negative feature within an MBE context.

The limitations of this study include that the sample size is specific and small, pertaining to Scandinavian managers in Scandinavian managed companies headquartered in Singapore. The contribution of this study, however, can be viewed as novel in two ways. The first is methodological novelty in which context of situation is analyzed by applying an SFL theory and framework of analysis on text. From a functional perspective of language, contexts of situation can be studied through field, tenor and mode. The meanings of which resonate with ideational, interpersonal and textual meanings. The second that results from the first is an analysis and illustration of the workings of Bakhtin’s centripetal (language unification and centralization) and centrifugal (diversifying) forces of language as a heteroglot. Whilst it has been argued that the centripetal processes of a unified centralized language can create hegemonic ideologies, and works counter to the inherent centrifugal forces of language, what has been shown here via a corpus driven study is how an awareness of the centripetal forces of a “correct language” or a “dominant culture” can in effect bolster diversification processes, contributing to a heteroglossic linguascape. This could have practical managerial implications, for example, when a project leader who manages a multinational team will
need to decide on the language strategy employed, seeing that language use can be seen as
arenas of identity and cultural negotiations (Bordia and Bordia, 2015; Gargalianou et al., 2017;
Tenzer et al., 2014). The findings of this study contribute to a growing literature on language
in IB studies and cross-cultural studies, the future direction of which confluences with ideas
from scholars of the field (Brannen and Mughan, 2017).
In the text examples, users of SweE and SCE seem to be able to bridge socio-cultural and
language differences in working together in a cross-cultural context in contra-contestation
of identities and roles towards a practical management of heteroglossia. Box AI is a final
example given in this study of what could be deemed as a practical management of
heteroglossia. In this case, it could be argued that despite what is being reported in the
Swedish broadsheets on “Swenglish” and how Swedish respondents might feel as
inadequate English, SweE is after all inherently “swee.” “Swee” being the Chinese Hokkien
word found in SCE means beautiful.

Note
1. 21 respondents were Swedish, 1 was from Norway, and 1 was from Denmark.

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Further reading

Appendix 1

<table>
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<th>Box A1</th>
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<tbody>
<tr>
<td>$\text{HM}$, a managing director of an MBE Singapore headquarters, on a practical strategy in managing the heteroglossic lingua franca that comes in a cross-cultural IB context of situation. $\text{SS}$ is the interviewer</td>
</tr>
<tr>
<td>$\text{HM}$: yes / the swedes / the two of us we speak swedish / uhm / most of them speak some kind of mandarin which is good / well normally inside the office / we try to speak english / i would say you can always explain yourself in a better way if you (a)re using your mother tongue / on the other hand / it means that you do not use such sophisticated vocabulary which means that your language is more simple and more straightforward / and as i from time to time have / people here from the u.k. and it has happened in fact more than once / in japan / that people in japan who is not good in english / for them it is easier to understand me / than for them to understand an englishman / because the englishman he speaks fast / uses much more sophisticated words</td>
</tr>
<tr>
<td>$\text{SS}$: how much do you understand of singapore colloquial english</td>
</tr>
<tr>
<td>$\text{HM}$: well sometimes when i read / both when i read the paper and when i (a)m talking to people / sometimes i wonder / is this english or is it not / it happens / i would say it depends on the situation / if i don (o)t understand the situation / you have to ask / please describe / i mean it (i)s no big deal / sometimes it happens / you don(o)t care about it /</td>
</tr>
<tr>
<td>$\text{SS}$: have you had the experience where somebody says yes they understand when actually they don(o)t understand you / and how do you deal with that</td>
</tr>
<tr>
<td>$\text{HM}$: yes / well er / well it (i)s just to / try to be more clear / you look also at the result of what they (ha)ve produced / it proves that they in this case haven(o)t really understood / but i don(o)t get angry / i mean this is / when two cultures meet or when two people from different parts of the world work together / these things happen / it (i)s also not in my nature to raise my voice</td>
</tr>
</tbody>
</table>
Appendix 2. Interview question framework

(1) Personal background information
   To get to know some of your background, where do you come from and what brought you to Singapore?

(2) Corporate background information
   • To get a general background on the company you are working for, could you mention a rough figure for the annual turnover?
   • How many employees do you have here in Singapore?
   • Which countries in Asia do you do business with?
   • Could you indicate an estimate on the proportions between Swedes and other nationalities on top management level, middle management level and among general employers?

(3) Organizational Culture
   • Would you say that your company now is a Swedish company working in Asia, or would you say that your organization has become Asian in any sense, and in that case how so? (Is this a strategy?)
   • In Sweden, most people are addressing each other by the first name. How do people address you; by title and last names or by first name?
   • Would you dare to guess on if you think the staff uses last names because there IS a difference or because they WANT it to be a difference?
   • What work practices do you find peculiar to the Swedish/Singaporeans?
   • How would you describe a typical Swede/Singaporean?
   • Do you share the same sense of humor as your colleagues?

(4) Language barriers/cultural barriers
   • Do you have a main language you use in the office?
   • How do you manage with the many different languages that people are using here?
   • Has it ever happened that you have given some specific instructions on something and the person you talked to said “Yes, yes, no problem” and then when you came back to check up the progress you found out he had not understood a thing?
   • How do you manage situations of miscommunication across cultures?

(5) Preferred method of doing business/cross-cultural communication
   • How do you find new business leads, generally?
   • Do you see the future managers of the company as Scandinavians or Asians?

(6) Any last thoughts or questions?

Corresponding author
Cheryl Marie Cordeiro can be contacted at: cheryl.cordeiro@handels.gu.se

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