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## **A PSYCHOLOGICAL PERSPECTIVE ON THE ROLE OF CULTURE IN SINO- EUROPEAN FDI CONTEXTS - MANAGERS' PERCEPTION OF CULTURAL DIFFERENCE AND ITS IMPACT ON INTERNATIONAL BUSINESS**

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### **Abstract**

This paper aims at conducting an explorative study to investigate three research questions: 1) whether culture in cross-cultural business context still matters, 2) why it matters, and 3) how we can deal with cultural differences. Drawing upon theories of international business, social/cultural psychology and the contributions of positive psychology, this study in the context of Sino-European FDI provides a more integrative and constructive view of culture (cultural differences) as an evergreen phenomenon in international business. Extant literature contains numerous studies about culture, mostly from the perspective of countries and organizations. We fill the void in our study by focusing on the individual level and explore the perceptions of culture of European managers investing in China. Our sample consists of managers representing their European companies investing in China. Managers' perceptions were inquired along 12 dimensions within the psychic distance model, elaborated and operationalized by international business scholars. Managers agreed on replying to a series of questions under the form of an interview, including Likert scale questions, reflecting their perceptions along each psychic distance dimension, including culture. Main findings show that culture is perceived as the most relevant dimension in Sino-European contexts. This paper contributes to the literature on cultural impact in international business settings by focusing on the individual's subjective perceptions. This study highlights how intergroup relations between European and Chinese managers coming from different cultural background are challenging, while the diversity and perceived differences also provide opportunities.

**Keywords:** Europe, China, Culture, Cultural Differences, Cultural Distance, Managers' Perceptions, Cross-Cultural Business

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## 1. Introduction

China's importance as a fruitful market of opportunities, not only for European investors but also for the rest of the world, is confirmed by FDI inflows, which averaged \$418.06 billion from 1997 to 2017 (Trading Economics, 2017). Though the United States are the largest recipient of FDI, attracting \$275 billion in inflows, China is ranked second with record inflows of \$136 billion, despite an initial slowdown in the first half of 2017 (UNCTAD, 2017, 2018). The relevance of China in the global scenario is also confirmed by the number of European funded projects involving Chinese relationships with the "West", especially Europe.<sup>1</sup>

Extensive literature has investigated cultural differences and distance in international business contexts for decades (Hofstede, 1980; Kogut and Singh 1988; Brouthers and Brouthers, 2000; Shenkar, 2001; Teerikangas and Very, 2012; Puthussery *et al.* 2014; Chikouni *et al.* 2017). Many studies explore the cultural dimension from several perspectives. Research on the topic which focuses on country studies ranges from the most recent ones (Bailey and Li, 2015) to Hofstede's (1980) pioneer work and subsequent studies on cultural differences and distance, including psychic distance (Hofstede, 1994; Hutzschenreuter *et al.* 2014). Ambos and Håkanson (2014) provide an excursus of the concept of distance over the years in the broad field of international management and propose new potentially measures of the concept of psychic distance. Some scholars investigate both concepts of psychic distance and culture in relation with performance in the internationalization of multinational enterprises (Hutzschenreuter *et al.* 2014) or with export behavior (Czinkota and Ursic, 2015). Some other scholars examine the topics from a closer perspective (Nebus and Chai, 2014), by exploring awareness, understanding and perceptions focusing on individual studies. Exploring managers' perceptions means going in-depth in the decision-making process, which is crucial within a firm. However, these studies do not seem to provide a focus on individual perceptions of managers in the context we examine in this paper. Therefore, we aim at providing a further understanding of managers' perceptions in the cross-cultural business setting of Sino-European FDI. It is necessary to point out that literature also shows that direction matters. Hakanson *et al.* (2016) observe a certain asymmetry in perceptions, meaning that the perceived distance from country "a" to country "b" may not equal the perceived distance in the opposite direction - from country "b" to country "a" (Shenkar, 2001; Yildiz and Fey, 2016; Chikouni *et al.* 2017). In light of this, we make this explicit by examining the following direction: European FDI to China. In other words, we collected data by interviewing a sample of European top managers who operate in the Chinese market and represent their respective companies headquartered in Europe. We collected data by interviewing a sample of European top managers investing in China during our teamwork and fieldwork in China. The analysis of the individual perceptions enabled us to investigate:

1. whether culture matters in Sino-European FDI contexts,
2. why it matters,
3. how to deal with it.

First and foremost, this study relies on the contributions of international business literature (Child *et al.* 2009; Puthussery *et al.* 2014) and on social psychological foundations (Turner, 1975; Brewer, 2003). Secondly, this study echoes the contributions of the positive psychology stream of research, which supports a new approach to science in helping people fulfil their needs and promote happiness in their everyday life – therefore also working life (Seligman and Csikszentmihalyi, 2000). In light of this, in cross-cultural business settings, we encourage managers to look for opportunities which can derive from their perceived cultural differences and/or distance, rather than seeing those differences and/or distance as impediments. In doing so, this work helps managers raise their awareness on the opportunity to capitalize on cultural differences and/or distance in the setting under examination.

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<sup>1</sup> One of the European funded projects is Horizon 2020, in which United Kingdom is still a partner and the current rights, obligations and grants are not affected in this early stage post-Brexit period (European Commission, 2017).

This paper is structured as follows. After the introduction (Section 1), Section 2 is about the theoretical background. Section 3 illustrates the applied methods and the main findings. Section 4 discusses the results and Section 5 provides the conclusions.

## 2. Cultural Studies and Frameworks

Cultural psychologists such as Vygotskij (1934) and, some decades later, Kroeber and Kluckhohn (1952) paved the way to a series of in-depth studies on culture.

### 2.1. Systematic studies on culture conducted by anthropologists and international business scholars

According to the Russian school, culture is defined as a source of generation of thoughts and knowledge. Culture is considered a set of mediation systems which enables human beings to interact among them and within a specific physical environment (Vygotskij, 1934 & 1978). This implies that it is not possible to identify a specific moment in the past when culture was created, as such, culture has always been with us (Mantovani, 2006 & 2007).

After examining at least 160 definitions of culture, Kroeber and Kluckhohn (1952) developed a wider definition containing a variety of nuances of the cultural process. It is a quite dynamic definition which highlights the creative and selective skills of the human being. More specifically, culture is defined as series of implicit and explicit models of behavior and for the behavior, which are received and conveyed through symbols. These symbols include artefacts, which are, in turn, the materialization of symbols.

A working definition of culture, which is useful in management practices, can be outlined as a system of “values, attitudes, beliefs, and behavioral meanings that are shared by members of a social group (society) and learned from previous generation” (Thomas, 2008, p. 29). In light of this, culture can be considered a phenomenon, which is contained within the knowledge system of an individual. It takes root within people and stays throughout their life; therefore, it is not immediately evident to other people in the society (Thomas, 2008). Consistently, Hofstede (1991) defines culture as mental programming. Through this programming, individuals interact between their personality and the human nature. Schein (1985), through his iceberg model, identifies a several levels of culture, from the deepest to the most superficial one. In other words, like an iceberg, with a visible peak above the surface and an invisible part, culture is also composed by a visible layer (i.e., artefacts) and a non-visible part (i.e., perceptions and values). Physical environment, manners, language are some examples of cultural artefacts. The underlying layer corresponding to held cultural values comprehend also perceptions. They are both related with the artefacts.

This brief overview of key definitions shows how scholars have studied the construct in a systematic way over the past decades. They conceptualized and operationalized the phenomenon (e.g., Kroeber and Kluckhohn, 1952; Schein, 1985; Hofstede, 1991) and proposed specific frameworks which enable to measure cultural variation and orientations (Kluckhohn and Strodtbeck, 1961) as well as cultural dimensions and distance (Hofstede, 1980; Schwarz, 1992).

For the purpose of this paper, Schein's (1985) iceberg model seems to provide a specific frame fitting our focus on perceptions in the context of Sino-European FDI, by investigating the layer of the iceberg below the surface, that is, the non-visible part of culture. We can refer to Schein's (1985) working definition of culture, which is a key dimension of psychic distance model, elaborated by international business scholars (Child *et al.* 2009). Psychic distance can be defined as the existing perceived distance between the home and the host country of a specific firm in terms of the following characteristics: factual (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977), cognitive (Evans *et al.* 2000), and perceptual (Stöttinger and Schlegelmilch, 2000). This model consists of 12 dimensions, i.e., geographical distance, culture, language, level of education, level of technological development, economic development, logistical infrastructure, political system, level system, regulations, accepted business practices and business ethics. These 12 dimensions enabled us to detect managers' perceptions in the context under examination. Culture is the link between the iceberg

model and the psychic distance model. On the one hand, perceptions are part of the iceberg theory and, on the other hand, the psychic distance model is a methodological tool which we use to detect managers' perceptions along its 12 dimensions, including culture. This will be illustrated in the next section of this paper.

## **2.2. Different cultural groups from the social psychological perspective on intergroup relations**

In this paper, we focus on managers' individual perceptions between two "cultural groups", European and Chinese. The study of intergroup relations is part of the broader field of social relations. Specifically, intergroup relations occur between two members of two different groups. In this case, the social categories of the two members are manifestly different and are likely to affect the interaction between each other (Brewer, 2003).

The essence of social psychology approach to intergroup relations is to understand the causes and consequences of intergroup interactions. The distinction between an "ingroup" and an "outgroup" seems to play an important psychological role in this context (Brewer, 2003). *Ingroup* refers as a social group where a certain individual belongs to, and it can be also called "we-group". Whereas, the *outgroup* is the social group where that individual is not part of, also named "they-group".

Scholars investigating intergroup relations contribute to further understand what happens between individuals and when they "classify" one another into social categories (Tajfel, 1981). According to Brewer (2003), categorization stands for a natural product of the mind, which is essential for the study of intergroup relations. Categorization helps identify groups. Human beings themselves are members of categories in society. Categorizing an individual into a social group leads to adopt an "ingroup" or "outgroup" perspective.

One important aspect of the categorization processes is the understanding of intergroup perceptions. Categories may be initially based on actual differences among objects or groups. However, once that categories are formed perceivers tend to exaggerate the differences between members of different groups. This exaggeration leads to an increase in perceived homogeneity within categories (within the ingroup) and *distinctiveness* between them (higher perceived differences between outgroups) (Tajfel and Wiles, 1963).

Focusing on the differentiation between in- and outgroup may lead to ethnocentrism and to perceptions of distance between the ingroup and the outgroup, i.e. the case of reification of culture according to Mantovani (2006). Ethnocentrism refers to such a social psychological phenomenon which distinguishes between ourselves (the we-group or ingroup) and other individuals (the others-groups or outgroups). The members of the we-group are in a friendly relation to each other. Ethnocentrism arises when the insiders in a we-group view themselves as the center of everything and look at outsiders (members of others-groups) as inferior individuals (Sumner, 1906).

Understanding intergroup behavior involves different areas of social psychology, from the study of perceptions, to social categorization, cooperation, competition, and conflict (Novara, 1998). In this paper, a focus on perceptions, cooperation and conflict is invoked and these features are approached in a positive and proactive way, in compliance with the narrative view of culture (Mantovani, 2006) and positive psychology (Seligman and Csikszentmihalyi, 2000).

## **2.3. Culture from a positive psychology perspective**

As about the definition of culture, positive psychologists contribute to the debate, by adding positive features according to their perspectives (Seligman and Csikszentmihalyi, 2000). According to their view, culture means participation, "sharing". This means that individuals are all plunged in a specific culture and in turn, they contribute in shaping it (Cole, 1996; Baerveldt and Voestermans, 2005; Mantovani, 2007). Following up the systematic studies, every culture finds its expression through beliefs, individuals' manners and conducts, everyday practices, forms of expressions, such as language or arts. It can be noticed how all these cultural features match the layers of the iceberg model (Schein, 1985). With respect to this, Mantovani's (2006)

interpretation of culture perfectly fits this perspective. Accordingly, cultural differences may lead either to distance perceptions – “reification” – or to perceptions of opportunities deriving from diversity – “narrative” view of culture. Reification of culture means that individuals are ethnocentric and closed with respect to a different culture. This is a negative aspect in the case of international business settings. Ethnocentricity means exporting the home country business model in the host country, rather than integrating it with the local one. By contrast, the narrative interpretation is a positive interpretation and approach which leads to appreciate the benefits of cultural differences, in order to generate value from them. This view fosters a symmetric encounter between two cultures by highlighting positivity rather than leading to cultural clashes (reification).

By adopting social psychology theories, we contribute to understand perceptions of differences between cultural groups (European and Chinese managers), the consequences of these perceptions and may help managers learning how to deal with and work with them. Finally, the positive psychological perspective enables managers to raise their awareness of the cultural differences that they perceive between Europe and China and instill a mindful approach by focusing on opportunities rather than distance.

### **3. Methods and Results**

#### **3.1. Sample and data collection**

Our studies were carried out within an EU research project on the green tech sector and environmental industry<sup>2</sup>. The data collection process took place in the fieldwork in China. It consisted in interviewing European managers who invested in China and were based in the Chinese marketplace, although the companies that they represented were headquartered in their respective countries in Europe.

The European managers who took part in our research were approached thanks to local international fairs in the environmental industry and through European and local associations in China as well as European embassies based in Beijing. They were firstly contacted by an introductory e-mail about the overall research project, which was sent before leaving Europe. The embassies provided a trustful reference and support when we invited the managers to take part in our survey.

A sample of 18 European managers investing in China in this industry were interviewed in Study 1. The elaboration of their interview records enabled us to conduct an in-depth qualitative analysis regarding the concept of culture. This further investigation (Study 2) involved 7 out of the 18 managers constituting our initial sample. The interviews were conducted personally during a company visit, previously agreed with the manager, or through a video call, followed by a meeting.

#### **3.2 Study results**

##### **3.2.1. Study 1**

Among the interview questions to our managers, we focused and extrapolated the managers perceptions comparing their home and host country. European managers were interviewed with regard to their perceptions of difference toward their Chinese host country. We applied the international business model of psychic distance, elaborated by Child *et al.* (2009), which is composed of 12 dimensions. These dimensions were short listed from a series of theoretical and empirical studies conducted previously in the same research stream (e.g., Ghemawat, 2001; Child *et al.* 2002).

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<sup>2</sup> The EU project is called POREEN (Partnering Opportunities between Europe and China in the Renewable Energy and Environmental Industry) aims at analyzing FDI flows between Europe and China in the environmental industry. “This project is funded by the European Union under the Marie Curie Action’s IRSES”. 2) “This publication does not necessarily reflect the opinion of the EU” [When relevant]. The research leading to these results has received funding from the People Programme (Marie Curie Actions) of the European Union’s Seventh Framework Programme FP7/2007-2013/ under REA grant agreement n° 318908.

Our managers were asked two questions along each of the following dimensions: geographical distance, culture, language, level of education, level of technological development, economic development, logistical infrastructure, political system, level system, regulations, accepted business practices and business ethics.

*Question 1:* How much difference is perceived between home and host country along the psychic distance dimensions? *Question 2:* How much the difference affects their business with the host country? The degree of their perceptions was captured by a 5-point Likert scale, rating from 1 - meaning “no real difference/impact” - to 5 - meaning “great difference/impact”.

According to our European interviewees investing in China, the most relevant dimension is language, with a total value of 4.19 (which is the average sum of the perceived difference – 4.47, and impact, 3.90), and culture, corresponding to a total sum of 4 average points (difference: 4.33 and impact: 3.66) (Table 1):

**Table 1. Managers’ perceptions of culture within the psychic distance model**

PD dimensions	Difference	Impact	Total average values difference and impact
Language	4.47	3.90	4.19
<b>Culture</b>	<b>4.33</b>	<b>3.66</b>	<b>4</b>
Geographical distance	4.09	3.33	3.71
Accepted business practices	3.66	3.28	3.56
Level of technological development	3.47	3.42	3.45
Business ethics	3.66	3.33	3.50
Political system	4	2.8	3.40
Level of education	3.57	3.19	3.38
Legal system	3.61	2.90	3.26
Level of economic development	3.23	3.19	3.21
Regulations	3.42	2.95	3.19
Logistics infrastructure	2.85	2.80	2.83

**Source:** Author’s own preparation based on (Child *et al.* 2009)

As reported in Table 1, the perceptions of difference between Europe and China along the cultural and the language dimensions (4.33 and 4.47, respectively) are more salient to our managers, and also the perceived impact on their business in China compared to other dimensions than the impact of culture and language on their businesses in China (3.66 and 3.90, respectively).

### 3.2.2. Study 2

Starting from these preliminary outcomes, we further examined the perceptions of differences between the home and the host country by arranging a second interview with our managers and deeper investigating on their perceptions of culture. In this second round, 7 out of 18 interviewees accepted to continue with our survey. They were inquired with an open-ended question about their general understanding of “culture” (1 open-ended question). Their responses were based on their personal opinion and experience. The content of the 7 replies was analyzed by adopting the Critical Discourse Analysis (CDA) (Fairclough, 1995; Van Dijk, 2000). CDA foresees the analysis of the textual element, such as words and expressions. Our aim was to identify managers’ cultural perceptions, values and meaning, emerging from their replies. The interviewees provided a general definition of culture, which included the following textual elements (Table 2):

**Table 2. Managers' understanding of culture**

Textual expressions retrieved from each reply	Interpretation
A common way of thinking of a group of people A way of viewing things that happen around us and how we react to them A common behavior to be held in common situations Not a compulsory rule but a wide accepted and recognized manners A set of habits as something in which we are born How people see and interpret the world How they behave to pursue their own values Individual/collective values and practices Communication and codes Personal beliefs Habits Cultural practice Religion Knowledge acquisition before traveling	General view of culture
Achievements through time and history Society aspects (e.g., casts in India), economical aspects, age, hierarchical position and family (e.g., in Egypt)	Culture linked to time, place, society and its economic development
Hobbies Own interests Family	Values and priorities of certain cultures (career over family)
Little Buddha Certain numbers meaning "good luck" Feng shui Guanxi	Culture-bound terms, business/local practices and customs (some artefacts corresponding to Schein's (1985) model)
For Chinese, culture is very important in international business relations	Relevance of culture in business contexts
National level, specific regions and provinces or larger areas Europe, Middle East, Western and Eastern cultures Language Communication with the counterpart Business practices Business ethics	Culture as dimensions complying with the psychic distance model (Child et al. 2009)
Knowledge of and attention to the cultural differences of the approached market	Cultural difference awareness
Study of products, production quality Internationalization in terms of education to intermediates and agents on behalf of the entrepreneur	Lexicographic, specific feature of culture related to the international business context
Being French, which is, unfortunately truly, often a meaning of arrogance and only self-interest, I need to be even more careful	Awareness of categorization, stereotypes and intergroup relations

As reported in Table 2, culture was defined by our respondents as "a common way of thinking of a group of people", "how people see and interpret the world", "how they behave to pursue their own values", "individual/collective values and practices", "communication and codes". Next to these textual elements, such expressions as "personal beliefs", "habits", "cultural practice", "religion" and "knowledge acquisition before traveling", show that an

individual is aware of the features of a “cultural group”. This means that our managers are well prepared in observing the same features belonging to their cultural group (ingroup) in the “host country cultural group” (outgroup). These expressions show that our interviewees have certain sensitiveness and are keen on interacting with the host culture in an open way. Preliminary results show that they perceive quite a high perception of difference in terms of culture. However, going more in depth through the analysis of the open-ended question, thanks to the second round of the interview, they demonstrate a positive attitude toward their Chinese counterparts.

“Achievements through time and history”, “society aspects (e.g., casts in India), economical aspects, age, hierarchical position and family (e.g., in Egypt)”, are also recurring expressions which contribute to the meaning of culture, according to our managers’ knowledge and prior experience. These expressions illustrate that our interviewees are aware of the fact that culture is related with a certain time and place. The economic aspects bounded to society, time and place are explicit in our managers’ responses (“level of economic development”, Table 1).

Some respondents emphasized a dualism between career and family by recognizing that “hobbies”, “own interests” and “family” have a different weight in certain cultures. From a general definition of culture, these elements help us to narrow down specific cultural aspects related to priorities over career or over private life, such as family or personal interests.

Like “language”, which is ranked first among the psychic distance dimensions, one of our respondents seems to include “education” within the wider concept of culture. In Child *et al.*’s (2009) model, these dimensions may fall under “level of education” (Table 1). Our manager pinpoints the relevance of the education system and the presence of international schools for his children. The European managers who have moved to China for working reasons have their families and want to guarantee a certain level of education – international – to their children. Being surrounded by an international environment at school means that children get accustomed to the idea that there are many other valuable cultures in the world and “they live better thanks to this”. These intercultural interactions in the early stage of life are fundamental in terms of openness toward other cultures and pave the way to the development of a positive attitude in outgroup relations.

Results also show some definitions of culture containing Chinese culture-bound terms and references to local habits, customs, and beliefs. These responses come from managers’ direct and mature experience in the host country. For example, the presence of a *little Buddha* or the use of numbers, meaning “good luck”, is a must in the office as well as *feng shui*, which is related to the design of the office or the factory. This shows how these European managers accepted and go along with the local business customs and practices in China. This corresponds to the visible part of Schein’s (1985) iceberg and demonstrates the implementation of the positive or narrative interpretation of culture (Mantovani, 2006). Next to this, *guanxi* is another Chinese culture-bound term which emerged from the replies and which describes the dynamics in personalized networks in China. At last, it also emerged that “for Chinese, culture is very important in international business relations” and includes many more features, characteristics or dimensions in addition to the one listed in the psychic distance model (Child *et al.* 2009).

Culture was also described as “a way of viewing things that happen around us and how we react to them”, “a common behavior to be held in common situations”, “not a compulsory rule but a wide accepted and recognized manners”, “a set of habits as something in which we are born”. This respondent applied the meaning of culture to a wide range of spheres, going beyond the business context, such as food, drinks, interpersonal relations, sport, and education. This definition matches the narrative view of culture, too (e.g., Anolli, 2004; Mantovani, 2006; Van Dijk, 2008). This manager seems to have a broad view of culture, confirming both the systematic studies and those including a positive interpretation of culture (Mantovani, 2006). Such a comprehensive awareness of culture presupposes a basis for a narrative view of the phenomenon, hence a positive encounter with the outgroup, consistently with the positive psychologist perspective, which supports openness and proactiveness in social interactions (Seligman and Csikszentmihalyi, 2000).

Some other respondents referred to “national level, specific regions and provinces or larger areas”, such as “Europe”, “Middle East”, “Western and Eastern cultures”. In the open-ended question, these managers mentioned some of the 12 psychic distance dimensions, including “language”, “communication with the counterpart”, “business practices” and “business ethics”. This business centered view of culture seems to correspond to some of the key business-oriented dimensions (Child et al. 2009): “accepted business practices” and “business ethics” (Table 1: 3.56 and 3.50 points, respectively).

A lexicographic definition of culture emerged. This view is referred to a set of intellectual and cognitive knowledge acquired through personal studies and experience. This interpretation is personally re-elaborated at cognitive level and applied to international business settings and relations. Culture deals with the “study of products, production quality” and “internationalization” in terms of “education to intermediates and agents on behalf of the entrepreneur”. This reply contains a strategic culture and awareness. Our respondent highlights that it is fundamental that the home country managers illustrate and explain the headquarter business model to the host counterpart in advance, before making a decision about which model will be adopted. In doing so, both partners share their views, in particular, the home country manager has an exchange of opinions with the local culture and can opt for an integrative solution. The views of both partners belonging to different outgroups can be integrated in order to generate a combined business models. This narrative and positive approach proves how to leverage on cultural differences and generates value from them, by creating a brand-new opportunity for both counterparts.

Worth mentioning is one of the following replies, provided by a French manager, which hides a very high consciousness of country stereotypes and self-awareness. This manager shows a high degree of acceptance about how one’s own cultural group is categorized or identified by others (outgroup relation awareness): “being French, which is, unfortunately truly, often a meaning of arrogance and only self-interest, I need to be even more careful”.

#### 4. Discussion

In the fields of international business and cultural psychology, it is well established that culture has an effect on FDI in the internationalization process of a firm and that they are a concern among European managers investing in China (Yoshino, 1976; Ozawa, 1979; Kogut and Singh 1988; Brouthers and Brouthers, 2000; Teerikangas and Very, 2012). In concordance with this, our studies could demonstrate the cultural impact on the individual level through the perception of European managers operating in China. In particular, they perceived the greatest difference between Europe and China along the cultural and the language dimensions and attributed greater impact to culture compare to other psychic distance dimensions. While that the managers’ understanding of culture touch upon different aspects (or layer in the definition of Schein) of culture, the general finding strengthens the position that culture (still) matters in Sino-European FDI contexts.

According to social psychological theories outlined above, the perception of cultural difference is well grounded in the natural psychological process of categorization which often results in in-group and out-group distinction. Perceived difference can have consequences on intergroup relations. Especially in an intercultural context, it can affect the communication, decision making, negotiation, conflict resolution, team work etc. processes that are omnipresent in international business setting.

In the following section, we will expand the discussion to how to deal with the cultural differences.

##### 4.1. Cultural competence and intercultural training

Obviously, international managers need cultural competence in order to function effectively when interacting with the host counterpart, i.e. intercultural skills developed at cognitive, affective, motivational, and behavioral level. Johnson et al. (2006) refer to “cultural competence”, which is determined by a set of personal skills and cross-cultural knowledge in international business settings. It can be influenced and threatened by ethnocentrism and

cultural “distance”. Ethnocentrism has a negative effect on the individual's ability to respond appropriately to cultural differences in the international workplace (Sumner, 1906). Hofstede (2001) refers to “institutional ethnocentrism”, defined as the approach adopted by headquarters which impose on affiliates abroad “their” way of working or their business model. This is an example of culture reification (Mantovani, 2006) and it was highly discouraged by our respondent.

Earley (2002) argues that “cultural knowledge” and “cultural awareness” are necessary but not sufficient to perform effectively in a cross-cultural context; motivation is also needed. The motivational push to use the available knowledge and leverage on prior experience is a shared trait possessed by our interviewees. Our managers seem to be motivated in implementing a positive approach in their outgroup relations. Motivation can be identified as the gear of the cross-cultural interaction and integration.

Despite its crucial role, previous experience in international business settings does not necessarily replace “cultural sensitivity”. Intercultural training programs and workshops focusing on skills development (e.g., adaptation and integration) may be considered by those companies sending their managers abroad.

Training programs need to incorporate the range of knowledge that exists for approaching host countries (Loyd *et al.* 2013). While “cultural competence” focuses more on performance (doing) rather than on a set of knowledge, abilities and skills (knowing), “cultural intelligence” (Earley, 2002) reflects a person's capability of adaptation as an individual interacts with members of belonging to different cultures (intergroup relations).

The way an individual learns and implements cognitive knowledge allows him/her to deal with differences and outgroup relations, therefore, to function effectively in a new cultural environment. The motivational boost for adaptation and the ability to engage in adaptive and proactive social behaviors play a crucial role (Earley and Ang, 2003).

#### **4.2. Cultural differences as opportunities and value creation (integration)**

From the perspective of positive psychology, in line with the “narrative” view of culture (Mantovani, 2006), cultural differences mean also opportunities deriving from diversity. With the positive approach, one would appreciate the benefits of cultural differences. As partially reflected in our interviewees’ response, in international business context managers can be open to confrontation and discussion with their host country counterparts. A symmetric encounter between two cultures by highlighting positivity can lead to value creation, opportunity for dialogue, change, creativity and room for new ideas. It would be an encounter aimed at negotiating one’s perspective with the one of the counterpart. “Differences” should widen - not narrow - one’s own perspective and should be seen as an opportunity for cooperation.

#### **5. Conclusion**

The purposes of this explorative study were to examine whether culture still matters in the context of European FDI to China, why it matters, and how we can deal with it in a successful way. We attempted to reply to these questions and provided a more comprehensive understanding of culture in the specific setting under examination.

The contributions are as follows. We add on the international business stream of research by adding the perspective of managers’ individual perceptions in cross-cultural settings of Sino-European FDI. We adopt international business methodologies, in particular the psychic distance model as a tool to study these perceptions (Child *et al.* 2009). We contribute to the debate on cultural differences by adopting a social psychology perspective and its main theoretical foundations, which may help in further explaining the phenomenon and comprehend why culture is an “evergreen” issue, which still matters in international business settings. By relying on positive psychology, our attempt is to raise managers’ awareness on the opportunities – rather than impediments – hidden behind the perception of cultural differences and distance. We combine and integrate the literature of different discipline areas: international business, social-cultural psychology and positive psychology.

The fact that culture still matters is strongly confirmed by our managers' responses. Their main concern in doing business in China affects their perceptions of the cultural and language dimensions. We applied the psychic distance model elaborated by Child *et al.* (2009) to access their perceptions. Preliminary results deriving from a first round of interviews show that European managers perceive a high degree of difference toward China along culture and language (Table 1). However, going more in-depth, after a second round of interviews, results show that many of these managers possess a good knowledge of the host country and a positive view of culture.

Culture still matters, therefore it is necessary to overcome the ethnocentric approach in international business settings and look at cultural differences as opportunities rather than impediments. Both home and host country managers benefit from positive outgroup relations. How can international managers successfully deal with the cultural issues? Companies, especially those hiring brand-new managers to send abroad, may consider the importance of intercultural training programs. The purpose is to raise managers' awareness at cognitive level, which corresponds to the underlying part of Schein's (1985) iceberg and to the non-visible part of culture, where perceptions lie. Building a stronger connection between the visible part of culture (artefacts) and its invisible part (perceptions) is crucial not only for personal purposes but also for the purpose of the company operating abroad. An intercultural laboratory based on group training (Pojaghi, 2008), would be an ideal "business" and "ethical" practice for these kinds of companies, especially if home and host countries are perceived highly different, such as the Sino-European business setting examined in this study. An intercultural laboratory could be a profitable investment within a company if this will be part of the "structured business practices". The idea behind is help managers to re-think differences in culture and capitalize on them: looking at them as opportunities rather than impediments.

Next steps for future research may take into account the following: arrange an intercultural laboratory in university or international MBA courses since they are usually populated by multi-cultural students. Once the group training is tested in such educational context, it can be replicated in a company which is at the beginning of its internationalization process. This intercultural group may be based on a specific syllabus, which can be illustrated in detail in the follow-up step of this explorative study.

This study has several limitations. Our data collection in the fieldwork addressed a relatively small number of managers, although the second round of interviews enabled us to conduct an in-depth content analysis. Bearing that in mind, the outcomes of this study are not meant to be representative. Future studies may take into account a larger population of managers and different industries. The generalization of the results should be made cautiously.

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