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Expatriates' Socio-Cultural Adjustment and Host Country Nationals' Social Identity Changes: An Empirical Investigation in Pakistan.

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Expatriates' Socio-Cultural Adjustment and Host Country Nationals' Social Identity Changes: An Empirical Investigation in Pakistan.

Summary:

This working paper aims to develop an understanding of the role of three dimensions of expatriates' socio-cultural adjustment (general, work and interaction adjustment) in driving new behaviors and attitudes within host country nationals (HCNs) using social identity theory. It also examines the mediating role of trust, shared vision and intercultural communication, and the moderating role of transformational capacity in this process. Time-lagged data were collected over 10 months from a matched sample of 93 top management Chinese expatriates working in Pakistan, and 239 Pakistani HCNs working under them, nested in 55 organizations. Analysis is based on a three-level model. Findings indicate that interaction adjustment was negatively related to social identity changes. Furthermore, the relationship between shared vision and social identity changes were moderated by transformational capacity.

Key words: Chinese expatriates; Pakistani host country nationals; Social identity theory; Top management teams

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The concept of expatriation has remained one of the key research areas in the domain of international management and has been studied in-depth from the perspective of antecedents of expatriate adjustment (Abdul Malek, Budhwar and Reiche, 2015; Kraimer, Bolino and Mead, 2016). However, recent studies in international business suggest going beyond antecedents of expatriates' adjustment and to focus on outcomes of expatriates' adjustment as well (Abdul Malek et al., 2015; Ang and Tan, 2016; Kraimer et al., 2016), since expatriates' adjustment leads to a number of positive and negative changes in host country organizations, particularly in host country nationals (HCNs); those outcomes are however less examined in literature (Ismail, 2015; Toh and DeNisi, 2007; Varma, Aycan, Budhwar, Pichler, Uygur and Paluch, 2016). HCNs work directly with expatriates in the host country organizations and comprise more than 90% of the total employees in a host country organization (Bonache, Sanchez and Zarraga-Oberty, 2009). HCNs are likely to experience a number of adjustment challenges and changes in their work environment, particularly when expatriates are a part of the top management teams (TMTs) (Al Ariss, Cascio and Paauwe, 2014; Sekiguchi, Bebenroth and Li, 2011; Viitala, Kultalahti and Kangas, 2017), as they need to work in accordance with the expectations of top management expatriates (Ang and Tan, 2016).

A possible impact in HCNs, after working with top management expatriates, is a change in behavior and identity that may be explained through social identity theory (Tajfel and Turner, 1979). Social identity theory is based on an idea that groups perform effectively when there is a sense of bonding between all the members (Tajfel and Turner, 1979). When people from one group feel a psychological connection with people of a new group, identity changes may be reflected through changes in individuals' perceptions, attitudes or behaviors (Reade, 2001; Slater, Evans and Turner, 2016).

Anxiety uncertainty management (AUM) perspective helps in understanding that when people are new in settings, they feel unadjusted due to the differences between them and local people (Gudykunst, Ting-Toomey and Chua, 1988). However, when top management expatriates get socially adjusted in host countries, they create a more conducive work environment (Ang and Tan, 2016) by building trust, shared vision and intercultural communication between them and HCNs (Inkpen and Tsang, 2005; Ismail, 2015; Peltokorpi, 2010). These relationships may result in identity changes in HCNs through development of in-group ties, centrality and in-group affect (Cameron, 2004); however, HCNs perceptions regarding expatriates also impact this process (Arman and Aycan, 2013). If HCNs perceptions of transformational capacity are positive, those perceptions support them in accepting positive social identity changes, while negative perceptions reduce the possibility of social identity changes in them (Arman and Aycan, 2013; Toh and DeNisi, 2007).

Theoretical Framework & Hypotheses

Socio-cultural adjustment and social identity changes: Socio-cultural adjustment refers to expatriates adjustment in a host country in terms of general, work and interaction adjustment (Black and Stephens, 1989; Black, Mendenhall and Oddou, 1991). AUM theory helps in understanding that when expatriate managers overcome their anxiety and uncertainty, they feel comfortable in interactions; get more involved in their work; and adjust well with the new environment (Takeuchi, 2010; Zhu, Wanberg, Harrison and Diehn, 2016). Social identity theory suggests that development of expatriates bonding with HCNs leads to some changes in

HCNs as well (Lauring, 2008; Reade, 2001; Slater et al., 2016), hence HCNs may experience major or minor social identity changes through development of new in-group ties, centrality and in-group affect (Cameron, 2004). Thus, the researchers propose the following hypotheses:

Hypothesis 1: TMT expatriates' general, work and interaction adjustment is related to multiple dimensions of HCNs social identity changes namely (1a) in-group ties, (1b) centrality, and (1c) in-group affect.

Role of trust, shared vision and intercultural communication in social identity changes: Successful socio-cultural adjustment leads to creation of a positive work environment by expatriates over time (Ismail, 2015). Being a part of the top management, they are in a position to take initiatives and build trust with HCNs, create an environment of a shared vision and improve overall inter-cultural communication with HCNs (Inkpen and Tsang, 2005; Ismail, 2015; Zhang and Peltokorpi, 2016). Social identity theory suggests that such changes in the new environment are likely to improve an overall relationship between expatriates and HCNs (Arman and Aycan, 2013), and may leads to various identity changes in HCNs through development of new bonds (Bilgic, 2014; Peltokorpi, 2010). Hence, the researchers propose the following hypotheses:

Hypothesis 2: TMT expatriates general, work and interaction adjustment is related to multiple dimensions of HCNs social identity changes namely in-group ties, centrality, and in-group affect via (2a) trust, (2b) shared vision and (2c) intercultural communication.

Role of transformational capacity in social identity changes: Social identity theory suggests that HCNs existing perceptions regarding expatriates also impact identity change process (Toh and DeNisi, 2007). Hence, creation of a conducive work environment by expatriates is likely to facilitate HCNs in social identity changes, if HCNs perceive perceptions of transformational capacity are positive (Arman and Aycan, 2013; Kang and Shen, 2013). The researchers propose that perceptions of transformational capacity strengthen the relationship between trust, shared vision, intercultural communication and social identity changes in HCNs. Hence, the researchers propose the following hypotheses:

Hypothesis 3: HCNs perceptions of transformational capacity moderates the relationship between trust, shared vision, intercultural communication and multiple dimensions of HCNs social identity changes namely (3a) in-group ties, (3b) centrality, and (3c) in-group affect, such that this relationship is stronger when transformational capacity is larger.

Context of study: In recent years, a number of studies have been conducted on Chinese expatriate managers working across the world (Lauring, Selmer and Kubovcikova, 2017; Lopez-Duarte, Vidal-Suarez and Gonzalez-Diaz, 2017). In order to understand the impact of Chinese expatriate managers on HCNs, this research is conducted in Pakistan, as a large number of Chinese expatriates have moved to Pakistan since 2015, after the initiation of the belt and road initiative (BRI) and China and Pakistan Economic Corridor (CPEC) projects (Irshad, 2015). This provides an opportunity to investigate the impact of Chinese expatriates' socio-cultural adjustment on Pakistani HCNs identity changes at this point of time, when they are relatively new in Pakistan's settings.

Research Design and Methodology

In order to approach Chinese companies in Pakistan, the researchers got an official approval letter from the Ministry of Foreign Affairs, Pakistan. After compiling an initial list of Chinese companies in Pakistan through data provided by the Pakistan-China Joint Chamber of Commerce and Industry (PCJCCI), Security and Exchange Commission of Pakistan (SECP) and CPEC project site, the researchers approached TMTs using purposive sampling technique (Palinkas, Horwitz, Green, Wisdom, Duan and Hoagwood, 2015). A criterion of inclusion in study was specified to a minimum one year experience in Pakistan, so that TMTs can report accurately about their adjustment in Pakistan. Later, the researchers also integrated snow ball sampling technique (Naderifar, Goli and Ghaljaie, 2017) for accessing more Chinese companies in Islamabad and Lahore.

Three-wave data collection approach: Fieldwork in this research has been conducted at three different times (**T1, T2 and T3**) with a time lag of around 3 months in each phase. At **T1**, the researchers have collected data from 109 Chinese supervisors regarding their general, work and interaction adjustment in Pakistan using Black and Stephens (1989) 14 items scale. At **T2**, the researchers measured the perceptions of trust, shared vision, intercultural communication and transformational capacity of the Pakistani subordinates of the Chinese expatriates using the six items scale of Chow and Chan (2008), the 14 items scale of Neuliep and McCroskey (1997) and the five items scale of Arman and Aycan (2013) respectively. After another three months, data were collected from the same HCNs regarding social identity changes (in-group ties, centrality and in-group affect) at **T3** using the 18 items scale of Cameron (2004). After data cleaning, the final data set is based on 239 Pakistanis working under 93 Chinese TMTs. Responses to all the items in the questionnaire were on a five-point likert scale (1=strongly disagree to 5=strongly agree).

Data Analysis

Sample characteristics: Supervisors' data indicated that data were collected from 80 male and 13 female supervisors. Most of the supervisors were working at a TMT position after completing their '*bachelors*' (N=46) or '*masters*' (N=47). Most of them were working at a '*director*' or '*department head*' position (N=61); some chief executive officers (CEOs) were also included in the sample (N=9). Supervisors' average length of stay in Pakistan was 3.08 years (SD=2.54), average work experience in the current organization was 2.98 years (SD=2.11) with average total experience of 13.73 years (SD=6.40). On an average, 17 Pakistanis were working under direct supervision of each supervisor (SD=44.33). Employee data indicates that there were 217 males and 22 females. Most of them were working after completing their '*bachelors*' (N=153), and a large majority were working at '*managerial positions*' (N=163). Average work experience of HCNs was 6.67 years (SD=5.47), while average experience of working with Chinese TMTs was 2.93 years (SD=2.29).

Preliminary results: Results of preliminary descriptive statistics and reliability results for all the variables are presented in Table I. T-tests, ANOVA and correlations analysis was used to identify the possible control variables.

Insert Table I here

CFA and Multilevel Modeling: Confirmatory factor analysis (CFA) was conducted in MPLUS; results indicated that model fitted the data well, as the model fit indices provided consistent results: standardized root-mean-square residual [SRMR-Within] = 0.039, [SRMR-Between level] = 0.021; root mean square error of approximation [RMSEA] = 0.046; comparative fit index [CFI] = 0.932, Tucker Lewis index [TLI] = 0.923). Further, factor loadings of all the indicators were more than 0.6 on their respective latent factor.

In order to test the proposed causal relationships, a three-level model was tested in MPLUS using aggregate mean values and a maximum likelihood approach. The level 1 variable included: the dependent variable of the three dimensions of social identity changes; the three mediators, the moderator, and the interaction terms. The three dimensions of expatriate's adjustment were entered as level 2 variable; while the dummy variable of sectors was entered as level 3 variables. Results indicated a direct negative relationship between interaction adjustment and social identity changes ($r=-0.208$ to -0.216 , $p<0.1$), hence, we accepted hypothesis 1C. Trust, shared vision and intercultural communication had a direct relationship with social identify changes but did not mediate the relationship between independent and the dependent variables; hence we did not accept the mediation hypotheses. Moderation results confirmed an impact of transformational capacity on the relationship between shared vision and social identity changes (-0.08 to -0.10 , $p<0.1$). Using slope tests, interaction plots confirmed that for high values of transformational capacity, the relationship between shared vision and social identity changes got strengthened; however social identity changes remained fairly consistent for low transformational capacity. Hence, we accepted hypothesis 3B. Summarized regression results have been presented in Table II.

*****Insert Table II here*****

Discussion and Expected Contributions

This research adds to the international management literature through developing an understanding of the impact of TMT expatriates adjustment on HCNs identity changes. Previous studies suggested that HCNs are more likely to accept new changes and learn new skills as a result of working with expatriates (Ismail, 2015; Toh and Srinivas, 2012); this research supported the role of interaction adjustment in bringing social identity changes; however HCNs surprisingly experienced negative social identity changes in Pakistan, which needs to be explored further. Although the indirect effects of trust, shared vision and intercultural communication were not supported in the current study, however these variables had a direct relationship with the social identity changes, which also need further investigation. Finally, this study illustrated the essential role of HCNs perceptions in the identity change process, and how interaction between shared vision and HCNs perceptions of transformational capacity impact the intensity of identity changes over time.

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Table I: Descriptive, Reliability and Correlation Analyses

	Mean	SD	1	2	3	4	5	6	7	8	9	10	11
<i>Among supervisor level variables</i>													
1. General adjustment	3.91	0.63	(.71)										
2. Interaction adjustment	4.01	0.61	.47**	(.77)									
3. Work adjustment	4.17	0.69	.49**	.29**	(.81)								
<i>Among employee level variables^a</i>													
4. Employee experience	2.38	2.14	-.15*	.08	-.09	1							
5. Trust	3.69	0.80	-.05	-.02	-.10	-.21**	(.79)						
6. Shared vision	3.93	0.78	.03	-.03	-.01	-.11	.53**	(.76)					
7. Intercultural communication	3.87	0.68	.00	.03	-.05	-.04	.46**	.51**	(.83)				
8. Transformational capacity	3.61	0.82	.03	-.02	.01	-.19**	.62**	.53**	.52**	(.85)			
9. In-group ties	3.54	0.85	-.02	-.10	.03	-.12	.36**	.30**	.31**	.32**	(.81)		
10. Centrality	3.50	0.82	-.10	-.16*	-.01	-.14*	.31**	.25**	.28**	.23**	.72**	(.71)	
11. In-group affect	3.83	0.82	-.02	-.11	-.02	-.08	.29**	.34**	.34**	.25**	.54**	.58**	(.62)

^aN = 239, Employee experience refers to experience in current Chinese organization.

*. Correlation is significant at the 0.05 level (2-tailed).

** . Correlation is significant at the 0.01 level (2-tailed).

***. Correlation is significant at the 0.001 level (2-tailed); for all correlations above 0.20, P < 0.001.

N=93 and N=239, Reliabilities for all the variables are in parentheses.

Table II: Coefficients of the Multilevel Mediated Moderation Model

Predictors		In group ties	Centrality	In group affect
Testing for direct effects (H1)				
General adjustment		0.096	0.045	0.145
Work adjustment		0.060	0.074	-0.007
Interaction adjustment		-0.261*	-0.208*	-0.172*
Trust		0.200	0.187*	0.162
Shared Vision		0.063	0.076	0.147
Intercultural Communication		0.249*	0.272*	0.326*
Testing for indirect effects (H2)				
General Adjustment	- Trust	0.00	0.00	0.00
	- Shared Vision	0.008	0.009	0.018
	- Intercultural Communication	0.004	0.005	0.006
Work Adjustment	- Trust	-0.022	-0.020	-0.018
	- Shared Vision	0.005	-0.006	-0.012
	- Intercultural Communication	-0.027	-0.029	-0.035
Interaction Adjustment	- Trust	0.016	0.019	0.016
	- Shared Vision	-0.002	-0.003	-0.005
	- Intercultural Communication	0.025	0.027	0.033
Testing for moderation (H3)				
Trust*TC		0.038	0.032	0.026
Shared vision*TC		-0.086*	-0.093*	-0.101*
Intercultural communication*TC		0.010	0.043	0.045

N=93 for supervisor level variables and N=239 for employee level variables

TC: Transformational capacity

GA: General adjustment

WA: Work adjustment

IA: Interaction adjustment

*. Standardized estimates are significant at the 0.1 level (2-tailed),

**. Standardized estimates are significant at the 0.01 level (2-tailed).