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## Asia Pacific Management Review

journal homepage: [www.elsevier.com/locate/apmr](http://www.elsevier.com/locate/apmr)

# The roles of cross-cultural adjustment and social capital formation in the dynamic capabilities development of multiunit organizations

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## ARTICLE INFO

### Article history:

Received 26 February 2015

Accepted 13 January 2017

Available online xxx

### Keywords:

Adjustment

Social capital

Multiunit

Dynamic capabilities

## ABSTRACT

There is little emphasis in the literature on the relationship between social capital and dynamic capabilities (DCs) development, and little attention has been paid to how cross-cultural adjustment and social capital affect DC development in multiunit organizations. This study used a multiunit sample of 455 to examine the roles of cross-cultural adjustment and social capital formation in DC development in multiunit organizations. The results showed that two facets of cross-cultural adjustment (i.e., general adjustment and work adjustment) are important antecedents of social capital formation among expatriate managers; moreover, social capital formation plays a pivotal and essential role in DC development in multiunit organizations. This study contributes to the literature in two important ways. First, it identifies a new central role of social capital formation in enabling DC development. Second, it shows that general adjustment and work adjustment are important antecedents to social capital formation and to DC development in multiunit organizations.

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## 1. Introduction

For multinational corporations (MNCs), international expansion is a very important strategic choice in response to international competition. Thus, many modern MNCs dispatch a large number of managers to manipulate resources, transfer knowledge, and coordinate routines during processes of international expansion. The MNCs rely on these expatriate managers to govern complex cooperation and coordination routines for the purpose of dynamic capabilities (DCs) development in multiunit organizations in response to the changing international environment. But in fact, these expatriate managers usually must adapt to the culture of the host country in order to be able to sense and handle various difficulties and conflicts for multiunit routines cooperation. After all, these expatriate managers play a decisive role in routines

coordination and strategy execution, and they usually shoulder the heavy responsibility of efficiently deploying new routines and developing DCs in multiunit organizations. Completing these tasks is a great challenge and requires good cross-cultural adjustment and social capital formation.

Cross-cultural adjustment is the process of adjusting to a new environment or the degree of psychological adjustment experienced within a new society (Black & Mendenhall, 1991; Black, 1988; Feldman & Tompson, 1993; Schneider & Asakawa, 1995; Selmer, 2002). In the process of adjusting to another culture, expatriates are able to reduce uncertainty by learning to communicate with and interact with members of the multiunit organization from the new culture; gradually they begin to feel comfortable with the culture and harmonize with it (Peltokorpi & Froese, 2009). Well-adjusted expatriate managers are comfortable working and interacting in the local country, and this has benefits for social capital formation or mission deployment (Kraimer, Wayne, & Jaworski, 2001). Well-adjusted managers can easily build various networks and relationships from their own individual ties, which may drive social capital formation to facilitate their various goals (Dyer & Singh, 1998). Expatriate managers who have not adjusted well to the local culture are unable to maintain strong networks and

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Peer review under responsibility of College of Management, National Cheng Kung University.

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relationships with members of multiunit organizations or local partners and are unable to build social capital. Without this social capital, these managers are unable to sustain the flow of resources and information needed and are unable to efficiently integrate various associative forces to overcome conflicts or difficulties in the local country related to coordinating routines and DC development (Teece, 2007). However, cross-cultural adjustment and social capital formation on the part of expatriate managers enable multiunit organizations to produce, reconfigure, and renew DCs (Luo, 2000). In this process of reconfiguring social capital, managers' existing behavioral routines are discarded and new routines are established for new situations (Black, Gregersen, & Mendenhall, 1992), and expatriate managers must utilize social ties and relationships to acquire and recombine resource flows to operate new routines smoothly. If expatriate managers are unable to adjust to the other culture, they will not form the social capital needed to deploy new routines and renew DCs. This is in line with Barney's (2001) argument that DCs act to effectively manage resource flows to create valuable combinations and renew organizational capabilities. It is also in line with Grant's (1996), Pisano's (1994), and Teece's (2012) ideas that DCs derive from the organizational routines by which managers integrate and recombine resources, thereby creating new value competencies.

DCs have attracted much interest among researchers in the field of strategic management (Helfat et al., 2007). DCs enable organizations to strategically manage and exploit internal and external skills and resources, to renew competencies, and to maintain competitiveness in a fast-moving business environment (Eisenhardt & Martin, 2000; Teece, Pisano, & Shuen, 1997; Winter, 2003). Therefore, DCs are a source of unique advantages. Zollo and Winter (2002) argued that DCs are a stable pattern through which an organization systematically generates and modifies its routines in pursuit of improved effectiveness. Routines are thus the most important vehicle or mechanism of DC development. Organizational routines reflect experiential wisdom in that they are the outcome of a trial-and-error process and the selection and retention of past behaviors (Gavetti & Levinthal, 2000). Routines reflect knowledge learning and constitute the residual effects of problem-solving processes (Swift & Hwang, 2008). Routines have been described as reservoirs of organizational memory (Argote & Ingram, 2000) and a coding of inferences (Swift & Hwang, 2008) that are often implicit and inferred and continue to exist because they are regularly put into dynamic practice (Marcus & Naveh, 2005). In short, organizational routines involve specific ways of integrating, gaining, and releasing resources to result in new learning, new resource configurations, and new practical needs key to DC development, and superior routines are the result of a firm's unique, tacit, and inimitable DC development system (Eisenhardt & Martin, 2000). However, past findings on the impact of social capital on the development of organizational routines and capabilities are not entirely positive. For example, Portes (1998) specifically emphasized that studies on social capital accumulation should avoid the trap of presenting community networks, social control, and collective sanctions as unmixed blessings and should avoid presenting over-moralizing statements as norms. Thus, the exclusion of outsiders (Waldinger, 1995), excess claims on group members, restrictions on individual freedoms, and downward leveling norms (Portes, 1998) usually lead to negative consequences of social capital. Expatriate managers usually need to reconfigure new resources and new associative forces to enhance productivity (Westlund & Bolton, 2003). They must ensure that new associative forces do not become obstacles when they interact, exchange, and combine knowledge and information with various social networks to develop new routines and solve problems. Thus, expatriate managers should actively avoid negative social impacts

in their new routines and new DC development processes. In short, cross-cultural adjustment increasingly plays a pivotal role in positive social capital formation and DC development in the complicated processes of cooperation and coordination related to routines. Expatriate managers' cross-cultural adjustment is an important factor in developing new positive local social capital and DCs in multiunit organizations.

In short, international expansion provides many opportunities to exploit distinctive resources and DCs that may be underutilized in a home market. Within the framework of international expansion, efficiently deploying and operating co-specialized and coordinative routines within global multiunit organizations is key to developing DCs and achieving local economic returns (Luo, 2000); this in turn ensures survival and growth in the dynamic global marketplace. Therefore, multiunit organizations need to ensure the smooth operation of routines of specialization and co-specialization (Teece, 2012) and must remain responsive to local differences while at the same time taking advantage of global opportunities. This local/global tension provokes enormous problems with routines coordination and DC development and is a big challenge. After all, multiunit organizations are bundles of routines and rely heavily on authorized expatriate managers to rapidly resolve problems with these new routines. Expatriate managers thus need to be able to adapt to cross-cultural differences, and they need to cultivate associative forces of social capital to be able to perform various coordinated routines more smoothly in order to serve multiunit organization DC development. In short, previous research on cross-cultural adjustment and social capital has taken a static view by focusing on stable patterns of exchange among organizational members (Tsai, 2000). Such a static view ignores the dynamic process of routines in a multiunit organization that could result in dynamic social capital formation and DC development. Existing studies on DCs have ignored the effect of cross-cultural adjustment and social capital formation on DC development, and studies on DCs have not empirically investigated the role of the manager's ability (Pisano, 1994; Teece, 2007, 2012); this represents a gap in the literature on DC development. The present study uses an innovation routine approach to DCs to define DCs as organizational coordinative routines processes involving organizational cooperation and attempts to address gaps in the existing literature by theoretically analyzing and empirically defining the specific roles of cross-cultural adjustment and social capital formation in DC development in multiunit organizations.

## 2. The cross-cultural adjustment of expatriate managers is an important antecedent to social capital formation in multiunit organizations

*Cross-cultural adjustment* reflects the degree to which an individual has become psychologically comfortable with various aspects of a new setting (Black, 1988), such as living and working in a foreign culture (Palthe, 2004). When expatriate managers are transferred abroad, they must determine what is expected of them in their new role and fulfill those expectations. To do this, managers must learn how to adjust to new living and working conditions and interact with unfamiliar people. When expatriates have good cross-cultural adjustment they are able to focus more attention on sensing dysfunctional features of the environment or obstacles to established new routines. Having good cross-cultural adjustment enables managers to more easily gain the trust of the organization's members or collaborative partners in order to smoothly recombine resources, reconfigure new collaborative forces for new coordinating routines, and finally achieve the new goals of their multiunit organization.

In the process of adjusting to another culture, expatriates are

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