**Foreign Direct Investment (FDI) and Culture of the Host Country: A Case Study Of UAE**

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# Introduction and Background

## Background of the study

Foreign direct investment (FDI) is a commonly adopted international mode of entry into new and emerging markets with the goal of gaining first-mover advantage (Anyanwu, 2017) or increasing market penetration and market-size in a location (Bu & Wagner, 2016). Gulf Cooperation Council (GCC) countries led the Arab world in terms of GDI inflows in 2016, the UAE topping the list with $9 billion. FDI inflows into GCC countries increased by 25 per cent to reach $30.8 billion in 2016 (Elserty, 2017). The governments of many GCC countries, including the UAE, Qatar, Saudi Arabia and Bahrain, actively provide policies, which attract FDI investment (Callen, Cherif, Hasanov, Hegazy, & Khandelwal, 2014). According to 2017 Global Investment Report, the UAE is the 9th largest recipient of FDI in Asia. The main foreign investors in the UAE include the UK, India and Saudi Arabia (Export Entreprises SA, 2018). As a result of rapid economic globalisation and expansion of multinational corporations, there is a need for studies to focus on the implications of foreign investment activities on the national cultures and identity of emerging economies, such as the UAE. This study, therefore, attempts to investigate potential implications of FDI on the UAE’s culture.

Culture can be defined as a set of norms, behaviours, beliefs and customs that exists within the population (Zubrzycki, 2013). International companies and investors are therefore expected to adopt management and business operational practices, which are consistent with the established culture. The UAE culture is based on the conservative Arabian values and beliefs and heavily influenced by the Persian culture (Alkafaji, 2012). However, due to growth in trade, the influence of expatriates from around the world on the local culture has become relatively conspicuous. For example, in cities, such as Dubai, people are willing to adopt a more liberal lifestyle based on Western ideas and principles (Alkafaji, 2012). Bhardwaj, Dietz and Beamish (2007) highlighted that, though cultural change is slow and evolves over time, changes in cultural implications can impact FDI trends significantly. Based on this evidence, it is important to understand the impact of FDI on culture and values of the host country. In the current study, the researcher will attempt to explain how the UAE culture has evolved over time as a result of the influx of foreign investments in its cities, such as Dubai, Abu Dhabi and Sharjah among other areas.

# Literature Review

This chapter provides a theoretical and empirical review of past studies about the impact of FDI’s on the cultural host country. Furthermore, the review attempts to establish how UAE cultures impact FDIs.

## Theoretical Review

In this review, the researcher focused on two major theoretical perspectives on cultures, their similarities and differences, gaps and how they link to the current study. Several theories such as Structuration theory, Hofstede theory, Small Structuration theory and Institutional theory were discussed in this review. These theories are used in an attempt to understand individual positions within the society.

### 2.1.1. Culture

Pothukuchi (2002) stated that culture does not exist in a tangible sense but is a product of an imagination that is only crucial in helping people to understand their surroundings. Alternatively, culture can be described as a collective way of acting, thinking and feeling. According to Hofstede (2006), culture can be defined as “the collective programming of the mind that distinguishes the members of one group or category of people from others”. Hofstede (2001) indicated that not all elements of collective mental programming can be viewed as culture. That is, collective and individual identities may not be classified as cultural elements unless they provide answers to the questions, such as “Where do I belong?” or “Who/what are we?” and “Who/what am I?” (Mesoudi, Whiten & Laland, 2006, p. 334). In this case, a group of people may share similar cultural values but have different identities. Often cited is the 1951 definition by Kluckhohn who argued that culture consists of a “patterned ways of thinking, feeling and reacting, acquired and transmitted mainly by symbols, constituting the distinctive achievements of human groups, including their embodiments in artifacts; the essential core of culture consists of traditional (i.e. historically derived and selected) ideas and especially their attached values” (Park, 2005).

Meanwhile, Leung and van de Vijver (2008) discussed holistic and causal approaches of discussing culture. Holistic approach views culture as an inseparable phenomenon that cannot cause one another. That is, an external factor such as immigration cannot lead to changes in culture. On the other hand, casual approach argues that one cultural aspect shapes the other. Most scholars have tended to rely on the second definition. However, Scholz and Reydon (2013) considered culture to be a subjective concept without a specific definition. This group of scholars view culture as something that is invisible and reside in people’s minds. Nevertheless, most studies have concluded that culture is a set of customs, traditions and values of a society or community such as an ethnic group or nation (Mesoudi, Whiten, & Laland, 2006, Park, 2005). Culture also refers to a set of knowledge that can be acquired over a long period of time from a different group. According to Mesoudi, Whiten and Laland (2006), culture is a tacit social order of an organisation that shapes the attitudes and behaviours in several ways.

Cultural norms of a community or nation define what is acceptable and what should be discouraged or rejected by the members of a particular group. In this case, cultural norms have become greatly aligned with the values, needs and drive of people of a particular community. In this case, culture can be described as the strong emotions that directly interpret situations or things as evil or good, abnormal or normal, ugly or beautiful, dangerous or safe, immoral or moral, indecent or decent, unnatural or natural, dirty or clean, paradoxical or logical, irrational or rational, and so on (Pothukuchi et al., 2002).

### 2.1.2. UAE culture

UAE culture can be described as the predominating cultural beliefs or practices within the UAE (Ali & Brooks, 2009). Historically, it is the notion of cultural identity that played the most important role in decision making regarding migration and settlements of people. In this regard, UAE culture is not only drawn from beliefs and traditions of the native Arab populations within the country but also expatriates who have moved to the country for employment or business (Ali & Brooks, 2009). Every nation has a unique way of interpreting economic, social and political issues among others. Therefore, the UAE culture is defined largely by the Arabian beliefs and practices. Furthermore, Islamic religion is also a critical component of the nation’s culture (Patai, 2015).

UAE is a unique country demographically, economically, socially and politically. Since the 1960s, UAE had gone massive transformation, especially on the economic front with the country becoming more internationalised and westernised (Javidan et al., 2006). With vast oil resources, modernisation in the country has been rapid leaving a massive impact on the lifestyle and cultural identity of the largely Muslim society. There has also been what seems like an identity clash between the younger generation who grew up in a traditional yet westernised society and their parents who were brought up in a more conservative Arab Islam society. According to Forstenlechner and Mellahi (2011), the dramatic changes in UAE have led to the assumption that continued influx of FDIs into the country will continue to change culture over time. In this regard, cultural changes are a product of both natural and man-made influences. Furthermore, the current socio-political events in the Arab region, a demographic imbalance in the Gulf countries, trade, economy, westernised education, and exchanges of mutual experiences, all have played a significant role in modifying and altering culture over a period (Forstenlechner & Mellahi, 2011). Additionally, socialisation of new generations will carry and alter some of the values over time. According to Hofstede (2006), values change gradually, but slowly over time. Cultural differences have been proven to have significant impact on businesses and investments occurring in cross-cultural contexts.

In the UAE, Islam is not only considered as a religion but it is a way of life that governs everyday events including what people wear, eat and drink. This is further supported by the fact that UAE’s law derives some of its elements from Sharia Law. However, foreigners in the country are free to practice their religion and the dress code especially within the cities. Contemporary UAE is characterised with courtesy, hospitality and friendliness of its people. Though the nation has experienced tremendous economic progress in the past 30 years, the UAE is still committed to promotion of traditional cultural and sporting events such as camel racing and dhow sailing. As a result of a huge expatriate population, UAE’s taste and behaviour are increasingly being influenced by global best practices (Alkafaji, 2012). That is, aspects of western culture can now be seen in cities such as Dubai and Abu Dhabi.

### 2.1.3. Hofstede’s Theory of Cultural Dimensions

Hofstede’s theory of cultural dimensions is a framework for a cross-cultural communication describing effects of the society’s culture on the values of specific members of that particular society (Hofstede, 1980). Hofstede’s original model of four cultural dimensions was developed as a result of a worldwide survey of employee values by IBM between 1967 and 1973. The identified four dimensions of cultural values were individualism-collectivism; uncertainty avoidance; power distance (strength of social hierarchy) and masculinity-femininity (task orientation versus person-orientation) (Hofstede, 1980). According to Hofstede (1980), a nation’s culture is measured in terms of the scores in relation to the identified cultural dimensions. First, power distance index refers to the extent to which the less powerful members of a society accept and expect that power is distributed equally. Based on the power index, people in societies who exhibit a large degree of power distance are more likely to accept hierarchical order where everybody has a place (Hofstede, 2006). Second, the individualism dimension refers to the preference of the people for a loosely knit social framework where individuals are expected to take care of only themselves and immediate families. On the other hand, collectivism refers to a preference for a tightly-knit framework in society in which individuals can expect their relatives or members of a particular in group to look after them in exchange for unquestioning loyalty (Hofstede, 2006).

Third, Hofstede indicated that the masculinity dimension is a preference for achievement, heroism, assertiveness, and material rewards for success. A masculine society is relatively more competitive. On the other hand, femininity stands for a preference for cooperation, modesty, caring for the weak and quality of life. Feminine society is more consensus-oriented. Fourth, uncertainty avoidance index dimension expresses the degree to which members of the society are comfortable with risks. That is, members of the society can either be risk takers or risk aversive. Countries that exhibit strong uncertainty avoidance index are also characterised with rigid codes of belief and behaviour, and are intolerant of unorthodox behaviour and ideas (Hofstede, 2006). On the other hand, weak uncertainty avoidance societies maintain a more relaxed attitude in which practice counts more than principles. Fifth, long term oriented society maintains some links with its own past while dealing with the challenges of the present and the future. Lastly, indulgence refers to a society that allows relatively free gratification of basic and natural human drives related to enjoying life and having fun. Restraint stands for a society that suppresses gratification of needs and regulates it by means of strict social norms (Hofstede, 2006).

Later, independent research conducted by Hofstede in Hong Kong added a fifth dimension of long-term orientation while a sixth dimension of self-restraint was added in 2010. According to Hofstede (2006), the cultural dimensions established in this theory have provided unique implications in evaluation and understanding of regional and national cultures around the world. For instance, power distance index scores were higher among Latin and Asian countries, African areas and the Arab world as compared to Anglo and Germanic countries. In addition, restraint was higher in countries of East Asia, Eastern Europe and the Muslim world (Hofstede, 2006).

Hofstede’s theory of cultural dimensions is important in the discussion of FDIs as it investigates the value systems that influence human thinking, feelings and behaviour in organisations. From this theory, various scholars have proposed that effective use of cross-cultural teams will provide a multinational company with the needed experience and innovative thinking that will enhance the competitive position of the company (Anbari, Khilkhanova, Romanova, & Umpleby, 2003). However, it must be noted that cultural differences can interfere with the successful execution of projects within the contemporary business environment. To avoid cultural misunderstandings, business managers are advised to be culturally sensitive, creative and flexible in their leadership (Anbari, Khilkhanova, Romanova, & Umpleby, 2003). Besides, Hofstede’s theory provides important insight on relations between people, motivational orientation, attitudes towards time and environment in different cultures.

Additionally, Hofstede theory of cultural dimensions describes the culture of society, focusing on the values of each individual and how these values impact their behaviour. Hofstede theory in the UAE scored 90 in power distance, 25 in individualism, 50 masculinity and 80 on uncertainty avoidance (Favaretto, Dihl, Barreto, & Musse, 2016). The UAE score in power distance indicated that individuals in the country embrace a hierarchical order in which all individuals are assigned a status or position with no further justification. The UAE scored 25 in Individualism dimension, which indicates that the country has a collectivistic society. As such individuals in the community have a compelling loyalty to members of a group; these members are usually family or close associates (Favaretto, Dihl, Barreto, & Musse, 2016). High uncertainty avoidance also characterised the UAE as individuals in the society have an emotional need for rules, even if they are not being followed (Favaretto, Dihl, Barreto, & Musse, 2016).

Despite its significance in the understanding of national cultures, Hofstede’s theory also suffers from glaring limitations. For instance, the theory overlooks other factors that influence culture and individual’s personality traits. Other scholars have also identified a sampling discrepancy in the study as interviews involved largely male-dominated sales and engineering personnel with fewer social minorities being involved (Favaretto, Dihl, Barreto, & Musse, 2016). Furthermore, the averages of national values calculated using Hofstede’s cultural framework cannot be used to define individual personalities. For example, a Japanese person can be flexible and have high uncertainty avoidance, which is contrary to expectations according to Hofstede (Anbari, Khilkhanova, Romanova, & Umpleby, 2003). Nonetheless, this theory provides an important background into the cultural perspectives and issues as a result of FDIs in the UAE.

### 2.1.4. Giddens’ Structuration Theory

Anthony Giddens’ theory of structuration is a social theory of creation and reproduction of social systems based on the analysis of structure and agents without giving particular importance to either. Giddens openly admits that structuration "is an unlovely term at best, yet he believes that no other word adequately captures the process of social structures shaping people’s actions while at the same time being shaped by their actions” (Oppong, 2014). Specifically, structuration refers to "the production and reproduction of the social systems through members' use of rules and resources in interactions (Stones, 2005). The theory focuses on the interrelationship between structure and agents within a particular society. In this theory, structure refers to rules and resources. That is, structure refers to values, norms and beliefs that bind a particular society together. On the other hand, agents refer to groups and individuals who use the available structure (rules and norms) to perform various social actions. Moreover, structuration theory is a sociological concept offering perspectives on human behaviour and is based on the capacity of people to act independently and make their choices (structure) and recurrent arrangements influencing or limiting the opportunities or choices available (structure) (Khattak et al., 2017).

Accordingly, an agent’s behavioural patterns become regionalised and routinised and, thus, allows these behaviours to evolve to a point where they are institutionalised (Khattak et al., 2017). At the same time, behavioural patterns as detailed in this theoretical lens create structures that, in turn, translate to rules and resources that either enable or limit future behavioural activities. Therefore, Lamsal (2012) pointed out that this establishes a perpetual and cyclical nature where agency influences structure and vice versa. In relation to the topic of study, this theoretical lens facilitates clarity in understanding the connection between cultural identity and values on Foreign Direct Investment (FDI) in UAE. According to Giddens, the structure is both medium and outcome of reproduction of practices (Englund & Gerdin, 2014). Based on this theory, social systems possess patterns of social relationships that change over time and are beyond the realm of human control. The duality of structure emphasised different sides of how social order is created. Agents are expected to use their knowledge to perform social actions. Knowledge or memory traces in this theory is drawn from domination, signification and legitimation (Oppong, 2014).

This theory can be applied in the current study by considering how the structuration process determines various social behaviours, which shape a specific culture where a group of people have favoured their judgments and actions and consider them rational (Conrad, 2014). Accordingly, structuration theory, if combined with other theories, could be applied in this research given that it provides the right framework to carry out empirical studies, especially in relation to social research (Englund & Gerdin, 2014). That is, structuration theory offers a sociological insight to this research. More specifically, the basis of structuration theory involves the identification of the connection and relationship between people and the social implications (Lamsal, 2012). Structuration theory refers to a social theory involving the creation and reproduction of social systems, and it examines hermeneutics and phenomenology. In this theory, Giddens, from an economic point of view, attempts to balance the roles of individuals having limited opportunities both in history and in society (Oppong, 2014).

According to this theory, group rules and resources are often borrowed from parent organisations or from the larger culture. Structuration theory attempts to understand social behaviour of individuals by resolving the conflicting views regarding structure-agency and macro-micro perspectives. In this theory, it is therefore assumed that social actions cannot be explained exhaustively by structure and agency theories alone but through the recognition that structures and agents within a similar context. That is, social structures cannot be stable outside human actions while agents attempt to modify social structures by acting outside the constraints of the particular structure.

## Small/Adaptive Structuration theory & Institutional theory

### Small Structuration theory

The theory was adapted as an extension by DeSanctis and Poole (1994) from Giddens' structuration theory to study the interaction of groups and organizations with information technology. Meanwhile, small structuration theory describes how group structures influence communication and decision making within an organisation. Poole calls this process appropriation (Oppong, 2014). For example, given that students in your class come from a variety of backgrounds and have experienced different leadership styles, Poole wouldn't be surprised if the rules you appropriate for making decisions do not square with the standard parliamentary procedure (Oppong, 2014). As it turns out, he anticipates how your class reaches a decision on the depth/ breadth issue when he writes, "Different groups may appropriate the political norm of majority rule in a variety of ways” (Oppong, 2014,).

According to Eringa et al. (2015) this theory highlights how organisations establish rules, use resources, accomplish goals and attain cohesiveness. In this study, small structuration theory is critical in explaining how foreign investors communicate, resource use and how rules should be designed to promote good relationship between these investors and the local community. Small structuration theory (adaptive structuration theory) seeks to explain the relationship between groups inputs i.e. rules and resources and outputs i.e. decisions or feedback. Effective communication is also vital between foreign investors and the local community (McSweeney, 2002). This theory is therefore significant in this study as it views organisations as systems of communication. That is, individuals express their expectations for the group leading to emergence of set of rules and new structures. The theory indicates that new members will modify the rules to suit their needs. Furthermore, as the membership of the group changes, new resources are required to solve problems and experiences within the environment while promoting stability without altering the group structure (McSweeney, 2002).

Just like in the case of Hofstede’s theory of cultural dimensions, rules and traditions will determine the relationship between members of society and business activities. International businesses and investors are, therefore, agents within a complex social structure influenced by national cultural aspects of domination, legitimacy and signification. According to Chang et al. (2012), both Hofstede and Giddens’ theories understand social institutions, such as family and business operations as practices, which have been reunitised and carried out by a majority of agents across time and space. In this case, the existence of social institutions is solely dependent on the actions of people who make them. Therefore, national culture is a combination of several actions of people and practices, which reproduce structures depending on circumstances (Conrad, 2014). In this regard, it can be argued that national cultures are usually flexible and open to new ideas, which will not destabilise social institutions as they are viewed within the state (Chang et al., 2012). In this case, FDIs in the UAE have been successful due to the flexibility of the existing structures in accepting foreign ideas and values (Conrad, 2014)..

### Institutional theory

Institutional theory largely focuses on the deeper and more resilient aspects of social structure. This theory considers processes by which structures, including schemes; rules, norms, and routines, become established as authoritative guidelines for social behaviour (Lepsius, 2016). Institutional theorists argue that institutional environment is a strong influencer of the development of the formal structures within an organisation and are often profound than market pressures. Accordingly, innovative structures that improve technical efficiency in early-adopting organizations are legitimized in the environment (Wendt, 2016). Consequently, these innovations reach a level of legitimisation where failure to adopt them may seem ‘irrational and negligent’. At this point, organisations will be forced to adopt structural forms even if they do not lead to greater efficiency. Moreover, organisations adopt structures prevalent within their operational environment such as specific job titles, procedures, and organizational roles. According to Wendt (2016) legitimacy in the institutional environment helps ensure organizational survival.

(Marquis & Ticsik, 2016). In this theory, institutions are defined as social structures which have attained a higher degree of resilience. These structures consist of cultural-cognitive, normative and regulatory elements which are linked to various activities, stability and meaning in social life (Waldeck et al., 2002). It is important to note that Institutional theory does not offer the right framework in this research, as opposed to structuration theory. For instance, institutional theory does not emphasize on having constant social systems structure at every level of an organization. One of the reasons for its inapplicability in this research is because it ignores the fundamental principles that is characterized by norms, rules, and cultural beliefs (Conrad, 2014) However, unlike Hofstede’s theory of cultural dimensions and structuration theories, institutional theory is not very effective in explaining cultures as it put more emphasis on formal and legal aspects of government structures thus ignoring other potential facilitators of cultural changes (Waldeck et al., 2002). For instance, the theory promotes a more conservative view of the society that claims that for one to survive, he/she must conform to the rules and belief systems prevailing in the environment.

## Evaluation of Hofstede and Giddens’ Theories in the Context of UAE culture and FDIs

UAE is primarily a Muslim country. Islam is the foundation of the country’s culture, political system and way of living, still remains to be multi-cultural and accepting towards other religions. UAE is the home of individuals from more than 200 different nationalities which makes it one of the most culturally diverse countries globally. Some of the cultural problems that may arise in such a community include participation, communication and relational issues (Scott, 2004). These issues are explained by Hofstede’s model of cultural dimensions which highlights that people from different parts of the world have different cultural perspectives. For instance, rapid urbanisation driven by massive foreign capital investments has had both negative and positive cultural influences on the UAE’s culture (Anbari et al., 2003). For instance, UAE has become more flexible and liberal culturally allowing for more open trade with the rest of the world. In addition, UAE has become one of the most important investment destinations for most of the multinational corporations. Conversely, FDIs has led to people from different cultures flocking into UAE for employment and other economic opportunities. These people profess cultural beliefs, which sometimes contradict the traditional Arabic culture of the UAE people (Javidan et al., 2006). The expatriates have therefore attempted to impose their cultures on the UAE people leading to potential erosion of the cultures of the host country.

Consequently, Giddens’ structuration theory is considered as the central argument in a discussion of the relationship between FDIs and cultural values in the UAE. This is because; this theory provides relevant insight in the argument regarding the relationship between agents (people) and structures (culture). According to Falkheimer (2009), culture is the most important determinant of the nature of relationship a foreign person will have with the local native. On the other hand, Phipps (2001) noted that structuration theory describes practices and structures as interactive elements, which complement each other, and are non-existent without one another. From the perspective of this study, the interactive elements are FDI and culture. Giddens’ structuration theory could be applied to this research by considering part of the theoretical lens, which is structured, in determining the exact rules and resources, which are organized as social systems’ properties (Oppong, 2014). For instance, Giddens’ structuration theory, unlike other theories, will facilitate a better understanding of the fact that cultural values change over time and, in relation to this research, the evidence demonstrates that a number of these cultural changes are slow and evolve over time.

Elsewhere, changes in cultural implications can influence FDI trends (Ali & Brooks, 2009). Additionally, this theoretical lens could be applied to this research as it will facilitate further understanding of the relation between values and culture and FDI by considering the relationship between agency (capacity of people to act independently and make their choices) and structure (recurrent arrangements influencing or limiting the opportunities or choices available) in structuration theory (Anbari et al., 2003). For instance, Hofstede’s theory of cultural dimensions complements Giddens’ structuration theory in the current study context by offering an in-depth background on the behaviour of the agents within a nation. For instance, Javidan et al. (2006) indicated that there are no significant differences between the younger and older generations within the UAE in relation to tolerance to unequal distribution of power (power distance), fear of the unknown (uncertainty avoidance), quality of life (feminism), tight-knit social framework (individualism) and the exhibition of short-term orientation (Javidan et al., 2006).

For business success in the UAE, the organisation must ensure that they act in a manner that is consistent with the local culture. The participants of Hofstede’s evaluation of the UAE culture scored considerably lower on power distance, masculinity and uncertainty avoidance compared to the original data collected 30 years ago (Javidan et al., 2006). This shows that between 1970 and 2010, there have been significant cultural shifts within the UAE especially in regard to the way people view their cultural values and existing beliefs and rules. These cultural shifts can be attributed to influences of wealth and western values as well as the generational struggles in a traditional yet largely Westernized society.

## 2.2.4 Empirical Reviews

FDIs have been one of the main drivers of economic progress in the UAE. FDIs inflows into UAE increased considerably after the global economic recession and regional instabilities between 2010 and 2013 (Export Entreprises SA, 2018). For instance, in 2016, UAE attracted USD 8.9 billion of foreign investments (Trading Economics, 2018). Preliminary results by the International Institute of Finance showed FDI inflows to UAE rose to nearly USD 11 billion 2017, with the country drawing 22% of total investment made in the Middle East and North Africa region (Export Entreprises SA, 2018). However, most of these investments were concentrated in the hydrocarbons, water and electricity production sectors. Some of the strengths of the UAE as compared to other countries in the region included easy access to oil resources, low energy costs, a willingness to diversify the economy and a high purchasing power. Furthermore, UAE had a large pool of expatriate labour due to its more liberalised, westernised society as opposed to more conservative Islamic neighbours (Trading Economics, 2018).

UAE has also experienced significant growth in formerly fringe industries, such as banking, insurance, and fashion and cosmetics industry, among others (Export Entreprises SA, 2018). Specifically, fashion and cosmetics industry in UAE is a new growing market; thus, this research will examine the ways UAE is promoting its fashion at an international level and how the increasing presence of multinational corporations in the country is influencing this industry, and ultimately its culture. The cosmetics market in the UAE is expected to increase by 4% at a CAGR (compound annual growth rate) level throughout 2018 to 2023 (Trading Economics, 2018). As a result, the demand for products within the industry from the youth population will continue to grow along with the number of females working in the country. This will integrate a western culture and lifestyle embraced by locals. The overall spending amount per capita spent on physical appearance and the growth of the fashion and cosmetics industry are two factors that will contribute to the increase in demand for products in the industry over the next five years (Trading Economics, 2018). Figure 1 shows the growth in the industry during the past several years along with the expected growth for the next five years.

Figure 1: UAE cosmetics market size by region, by Valeu 2012-2023

Source: Techsciresearch (2017).

## Context and Significance of the Study

Culture or aspects of culture are considered to be complementary to trade and FDI. While some aspects of culture can induce some degree of substitutability between trade and FDI, others enhance efficiency of business organisations and operations. Understanding the role of culture within this relationship can, therefore, contribute to long-term decision making for both countries and MNEs (Beugelsdijk, Slangen, Maseland, & Onrust, 2014). Existing literature has shown that the impact of FDI on economies has been discussed extensively with respect to various factors including economic, institutional and socio-cultural elements to explain why some MNEs prefer some target markets over the others. However, most of these discussions are targeted towards understanding how culture, demographics, location or policies can influence the choice of FDI. Research considering how FDI can directly influence or shape the culture of these countries and whether modernisation could bring about a change in the country's approach to future international trade discussions is limited (Obasher, 2016; Khattak, Haworth, Stringer, & Benson-Rea, 2017). Furthermore, analysing and examining the core elements behind structuration theory will fill the gap between cultural identity and FDI decision making.

The approach in this research is to identify the host country cultural influences on FDI by identifying relevant contributions. An assessment of prior relationships in the context of the UAE and culture has predominantly assessed the impact of FDI on culture. This research aims at identifying the impact that culture and potential shifts in cultural beliefs have on FDI decisions. Unlike past research on determinants of FDI, this study does not limit itself to FDI inflows into the host country from specific countries but considers total FDI inflow by considering the views of inflow from various locations (Khattak et al., 2017). It is expected that the variations in cultural distance can have different implications on the performance of foreign direct investments or multinational corporations. Given that prior research has shown that cultural distance is an evolving concept given the changing impact of globalisation, it is essential to consider if there are differences in cultures, which can influence potential decisions on FDI inflows. Therefore, this research considers cultural change and cultural distance as fluid and dynamic aspects, which are moderated by various elements and attempts to determine the impact of such cultural change on FDI decisions. This is a key gap, which will be addressed through this research.

# PROPOSED METHODOLOGY

## Research objectives

This paper will start by introducing FDI while providing a general background on FDI in the UAE. The paper will also introduce the phenomenon of culture by examining the different approaches that philosophers used to define and perceive this term. The paper will continue to examine the culture in UAE as a whole and follow with a critical analysis on Hofstede’s Theory of Cultural Dimensions, Gidden’s Structuration Theory and Small/Adative Structuration Theory. The three theories will be used to evaluate the effect of FDI on the culture of UAE while focusing on the fashion and cosmetics industry. As this is a recently growing industry, the study conducted can be used to compare the success and growth it has achieved throughout the years while anticipating the needs demands of the market in the long run.

The main objective of this study is to assess and evaluate the impact of FDI on UAE’s culture. While doing so, the research will also:

* Investigate how to the culture of a country impacts FDIs
* Establish various cultural aspects within the UAE which will either promote or inhibit FDIs
* Investigate the challenges and barriers facing FDIs in UAE.

## Research Gap and Rationale

## To attain the identified main study objective, culture is assumed to be one of the key drivers of FDI decisions and overall international entry strategy. Past literature contends that there are various factors, which influence the location of foreign firms and differences in culture as been a key element included within this repertoire (Bitzenis & Žugić, 2016; Saleh, Nguyen, Vinen, & Safari, 2017). Based on Hofstede’s cultural dimension argument, differences in cultures between the home country and the host country will determine the kind of business partnerships that develops between the two countries. For instance, Mac-Dermott and Mornah (2015) reported that the greater the cultural distance, the greater the chance of joint venture-driven (JV) FDI. This is because; a JV can provide the MNE with a partner who can navigate cultural differences.

## On the other hand, Bhardwaj, Dietz and Beamish (2007) supported the notion that foreign firms prefer to invest in countries where they believe there to be higher levels of uncertainty avoidance and moderate levels of trust. When there is high uncertainty in decision making at the host country management, it can impact operational effectiveness. Furthermore, Chang, Kao, Kuo and Chiu (2012) argued that choice of FDI is based on perceived differences not only linked to culture but also governance quality. Cultural factors including power distance, uncertainty avoidance, the perception of governance quality, and differences in management approach leading to various models of trust can impact FDI decisions.

## The second stream of research aims at understanding how cultural changes have taken place in many developing countries including UAE. El-Ojeili and Hayden (2006) argued that non-Western countries are finding themselves moving towards a westernized culture driven by globalization trends, including exposure to global media and the rise of the internet and social media. The authors contend that this leads to a sense of challenge in cultural identity, with many citizens looking to change their consumer behaviour and decision making, where they balance their need to modernize with their efforts to maintain their culture and identity. The focus of this stream of research is to understand how globalization has influenced cultural and social identity through structuration theory.

From the context of UAE, it is important to address the overlap between these two requirements. This pursuit of FDI investment by GCC countries is an effort to move beyond a rentier state to create more diversification opportunities for its citizens (Stahl & Tung, 2015). Therefore, most countries have launched long-term plans with the goal of modernising their operations and gaining a competitive advantage at the country level (Bouyahiaoui & Hammache, 2014). As Najim, El Refae and Abu Rashed (2014) argued, there can be subtle shifts in cultural norms accepted in GCC countries, and these subtle shifts have created a shift in demands across locations. The authors contend that the influx of MNEs in Islamic countries has created an environment where there is a shift from a collectivist work ethic to a more individualised work requirement amongst the younger generation. Therefore, from an Islamic ethical and spiritual perspective, managing these shifts without compromising the inherent spiritual and cultural values are considered paramount. Similarly, Sidani (2015) also argued that a shift in work expectation amongst Generation Y employees can create a paradigm shift in the work ethic and work practice in GCC countries. This could change the expectation of the consumers regarding the nature of FDI.

As Yu and Lindsay (2017) concluded, the value of understanding the effect of culture on business is not restricted to businesses and should be extended to policymakers. The primary aim of this research is to extend this argument and determine how the notion of culture can enigmatically influence the future identity of these countries and characterise their workforce and their people. There are efforts made by MNE firms in UAE to address cultural challenges. For instance, Forstenlechner and Mellahi (2011) conclude that by hiring local workforce at premium rates helps MNEs gain legitimacy in the UAE. This helps them navigate cultural issues and can also influence overall MNE decision making. El-Wassal (2009) also argued that FDI inflows to the UAE are impacted by various factors, of which, culture is a key influence.

## Research Paradigm and Approach

This study will adopt an interpretivism research philosophy where human interest is integrated into the study. Interpretivism can be described as a research paradigm that is used to explain behaviour, values and cultures (Bryman, 2012). These studies use qualitative approaches to explore, describe, explain and interpret human behaviour and social interactions. Bryman (2012) highlighted that selection of the interpretevist research paradigm assist in the selection of an appropriate data collection and analysis methods to be used for the particular study.

## Target Population and Sample

This research will be conducted among employees and managers of cosmetics companies in UAE. Therefore, a multiple case study strategy is adopted. Companies in the fashion and cosmetic sectors are chosen as they are considered to be among the largest segments where there is high FDI inflow. The research will target a minimum of fifteen participants. Managers of these companies will be targeted through a qualitative research method based on interviews.

## Data Collection

Interviews will be administered using a semi-structured interview schedule where the participants will be allowed to explain their views, opinions and beliefs (Yu & Lindsay, 2017). This approach allows the research participants to give their stand regarding cultural ethos and suggestions regarding the future of UAE’s culture. The goal of the semi-structured interviews is to help understand the inherent values of the firm and how the organisation takes efforts to balance its views with those of its employees. The research will follow all ethical guidelines set and will make sure that there are complete anonymity and confidentiality (Bryman, 2012). The data will be analysed using content analysis methods.

## Conclusion

The purpose of this proposal was to highlight the rationale for research and identify the research gap. The key elements discussed as part of this research show that while there is a significant discussion on how culture is a key factor influencing FDI, there is limited research to understand how FDI can influence the host culture. This research will address this gap from the fashion and cosmetics industry perspective in the UAE.

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