

# **An Examination of Localization Success Factors of Chinese Big Four Accounting Firms**

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# **Examination of Localization Success Factors of Chinese Big Four Accounting Firms**

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## **Abstract**

In May 2012, the Chinese government mandated that once the Big Four accounting (KPMG, PwC, Ernst & Young, and Deloitte) joint venture agreements expire, the firms must begin to localize most of the senior management. Although most of the Big Four firms employ many locals, there are more expatriate partners than Chinese counterparts. Because of this, the Big Four firms must quickly find qualified local senior management personnel. Amongst compliance and global regulatory issues, the Big Four firms must develop a strategy for localizing. Through a survey, this study aims to examine how expatriates and local Chinese managers perceive the effectiveness of the firm's current localization plan. By analyzing external and internal forces that affect localization, I will make recommendations for the joint-venture accounting firms to plan, create, and execute a successful localization strategy.

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## **Introduction**

Since the 1980s, China has had the most foreign direct investment as a result of its cheap labor, consumer base, and favorable investment policies (Fayol-Song, 2011). China has also proven to have the most resilient economy during the financial crisis in 2009 by maintaining relatively strong growth. Many U.S firms have successfully joined joint venture entities with local enterprises in China, but the management of these firms have encountered many challenges while trying to improve performance and operations. One strategic challenge for multinational firms in the 21<sup>st</sup> century is localization. Localization is act of developing job-related skills within a local population and the delegating decision-making authority to local employees, with the final objecting of replacing expatriate managers with local employees (Wong and Law, 1999). However, China's uniqueness creates challenges for multinational firms such as cultural differences and an insufficient supply of management talent.

Localization is not a new phenomenon to multinational firms. Many multinational firms turned their attention towards the issue during poor financial performance in the 1990s (Heim, 1997). Multinational firms are aware that localization will gain tremendous cost savings. In response to the pressing globalization in recent years, many firms have begun to expand their operations internationally. Because of this, firms have sent an increasing number of employees overseas, which has created an enormous trend in expatriation. To foster their future success, multinational firms must make strategic decisions and begin to localize their operations. Although localization seems inevitable for most firms, it has become a challenge for multinational firms, specifically accounting firms.

US based accounting firms such as KPMG, PwC, Deloitte, and Ernst & Young ( the Big Four accounting firms thereafter) created joint ventures in China in the early 1980s. Since their establishment, the Big Four firms have planned to localize operations. Management knew that large numbers of expatriates only frustrated efforts to localize while hurting the firm's bottom line. From 2004 to 2008, all the Big Four firms tripled in size, creating significant demand for accountants in China. With a low supply of qualified accountants, the Big Four faced significant challenges. Finding experienced local accountants was especially difficult, resulting in predominantly expatriate partners. From 2004 to 2008, almost all staff and seniors were composed of locals; 75% of managers were local, and only about 20% were local partners in the firm (Gillis, 2011).

In May 2012, the Chinese government informed the Big Four accounting firms that they must hand over control to their Chinese partners, even in light of recent Chinese audit scandals. Such changes would make Chinese citizens the majority partners in the China operations. This transition was agreed upon by the Big Four companies almost 20 years ago when the firms

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created the joint ventures. The new rule seeks to replace expatriates who have had control of the offices since their inception. China's Ministry of Finance released policies to the Big Four firms that limited how many expatriate partners the U.S. Big Four companies could have and how many CPAs they could obtain overseas. The number of expatriate partners must be lower than 40% by the end of 2012 and under 20% by 2017. Furthermore, a Chinese citizen must be the head of all offices of the Big Four firms by 2015. PwC and Ernst & Young have publicly supported the localization requirements and confirm that it is aligned with their current localization plans. KPMG has been the first Big Four firm to officially convert its operation in China from a joint venture to a special group partnership with limited liability, but no information on the localization of top management has been released. Deloitte and PwC have stated that their strategic plan is to align with the localization policy that China's Finance Ministry has established.

The purpose of this paper is to explore the perceptions and beliefs of the current employees of Big Four firms in China during the localization process. Through a survey, the study intends to determine if the accounting firms under investigation are using proven success strategies for localization. After analyzing the perceptions, I will make recommendations for the firms to improve their localization process.

## **Literature Review**

Paul Gillis, a professor at Peking University, China, as well as a former partner at PwC, wrote a dissertation analyzing the effect of the Big Four accounting firms on the accounting profession in China (Gillis, 2011). In the study, he examines the role of localization in China. He believes that the Big Four have successfully localized the low-level staff at the firm but have failed to turn over the higher positions and ownership to the local Chinese. He explains that the firms could not meet the level of local employees they wanted because of the small supply of experienced talent in the accounting profession. He cites that mainland China needs 350,000 qualified accountants but only 130,000 are available (James, 2008).

Moreover, retention seems to be another problem among the qualified accountants, especially those that are younger. It has been noticed in China that the new generation was pampered with high expectations (Jack, 1993). With a small supply of qualified accountants, large accounting firms such as PwC turned to campus recruiting to hire talented graduates. In 2008, only 32% of KPMG college recruits were accounting majors, while 44% were business and the other 24% were non-business majors (Gillis, 2011). Although few college graduates pursue accounting degrees, graduates of top universities ranked all the Big Four firms in the top 100 most attractive employers.

Because of the lack of supply for experienced local accountants, the Big Four firms had to use

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expatriates to run the Chinese offices. This management strategy, although necessary, caused the firms huge losses in their early years in China because expatriates can cost ten times more than local Chinese employees. Nevertheless, in the first years of the 21<sup>st</sup> century, the firms began to gain market shares and to understand their niche in the complex Chinese market. In order to continue their localization efforts, the Big Four began a worldwide search for talented Chinese-speaking accountants. In 2007, PwC started to recruit around the world for graduates and experienced accountants with Chinese language skills and international experience. The biggest challenge with this recruiting strategy was the conflict between the local Chinese employees and overseas Chinese accountants from Malaysia and Singapore. The local staff complained that the overseas Chinese came to steal their birthright. Furthermore, most overseas Chinese were paid significantly higher than their Chinese counterparts.

Another challenge to Big Four firms was poaching, namely when one firm begins to recruit from another firm. Ernst & Young, the last Big Four firm that significantly developed their practice in China, admitted to poaching talent from other big four firms because of the shortage of staff. Although it seemed to have many obstacles in localizing in China, the Big Four firms have pressed on through the early 2100s to find new strategies.

It has been argued that because of the uncertainty of China's economic environment the Big Four firms can never be completely localized (Lam, 2010). With support to this argument, Lam investigates the correlation between staff localization and environmental uncertainty on firm performance and suggests that firms should recognize that a localization strategy can determine corporate success in global economies. Furthermore, he believes that many companies who have begun localizing have had operational efficiencies and that expatriates who have more experience with the firm can provide an invaluable link to the local staff. His main point is that both expatriate and local managers are resources that are both critical to the success of the firm and hence should be balanced. Relying too heavily on either, he says, will result in negative firm performance because expatriate and local staff are two complimentary resources that contribute different skills to successfully run a foreign operation. Although expensive, expatriates are critical to a firm at a strategic level. They are a connection between the home headquarters of the firm and the foreign operations by transferring technological, financial, and management knowledge. Furthermore, they can help to maintain the core values, culture, and standards set by the overseas headquarters of the firm. Misalignment with the culture of the overseas firms can dramatically impact the overall reputation and success of the firm.

Despite the advantages of localizing multinational corporations, such as cost savings, there are many inherent disadvantages associated with hiring a local to manage a foreign company. Moreover, environmental uncertainty is a key aspect of the firm's success, which can be caused by changes in markets, competition, and regulation which are common for emerging markets like China (Boist & Child, 1999). Through surveying many multinational firms in China, Lam found that, in high environmental uncertainty, a company decreased its performance by increasing the

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degree of localization. An agency problem can exist if the management of a subsidiary makes a decision that is not congruent with the goals of the overseas management. Expatriate staff can guard against this problem by exercising control over the operation to avoid the foreign management from behaving opportunistically. Environmental uncertainty can thus be an important variable influencing the localization of firms in China and their success.

Lam concludes that localization beyond a moderate level can become detrimental to firm performance which suggests a curvilinear relationship between the degree of localization and firm performance. In high economic uncertainty, lower degrees of localization were associated with better firm performance. Moreover, firms can implement proper human resource policies to help effectively implement localization. Understanding the high levels of uncertainty can help a firm establish the correct balance of expatriate and local staff.

In a similar study, Fayol-Song (2011) discusses how the Chinese market presents difficult challenges for international firms who seek to localize. One of them is cost reduction. It is expensive for firms to offer expatriates compensation packages which are almost three times as much the compensation packages for local employees. Depending on the expertise and level of the expatriate, the package can be fifty times greater. For instance, almost 80% of partners in the Big Four accounting firms are expatriates (Gillis, 2011). Cost savings through localization would help increase the firm's bottom line.

According to Fayol- Song, another major reason for localization in multinational firms is the issues associated with expatriates. Fayol-Song believes that expatriate failure occurs when an expatriate either leaves the country before the end of their assignment or when they fail to perform successfully. In addition, expatriate turnover can create problems in a multinational firm. Specifically, this can create loss of market share for the firm while also destroying relationships with locals in the firm.

Furthermore, lack of understanding local culture can affect the successful operation of a multinational firm. In order to better understand the culture, the company must localize. The locals have more knowledge of the culture and can help to build relationships with clients and the local government. Local managers can help to create guanxi, a Chinese term for relationships. In China, relationships are built through guanxi by having common origins or share experiences such as lineage, close family relations, or developed personal relationships. With guanxi, one can gain the ability to ask for favors. In China, the government does not have well-established laws in many respects to foreign businesses. By having guanxi, locals can appeal to the government officials to obtain favors or gain valuable resources.

Although Fayol-Song clearly demonstrates the necessity of localization in multinational firms in China, he acknowledges that it is not a simple task to find qualified local candidates for the job. He cites a forecast by McKinsey Global Institute that shows the gap between the need for local qualified candidates and the available pool which will not be filled in the next decade. As such,

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multinational firms must create ways to successfully retain the qualified local managers they already have. A survey by Michael Page 2008 showed that 90% of business in China stated that retention would be a major concern in the coming years.

Although Fayol-Song presents the challenges for localization, he cautions that they should not encourage firms to completely eliminate expatriates. By hiring local managers, companies may cut costs, but premature localization can be more detrimental to a firm's performance. With too many unqualified locals, the service quality of the firm can diminish, making the firm less competitive in the market. He suggests that companies should examine their operations in China by balancing immediate pressures with long-term benefits that companies must consider the management economy and the career development of the local employees.

On the other hand, localization programs can result in failure as a result of expatriates intentionally or unintentionally sabotaging localization plans (Selmer, 2003). According to Selmer, the key to effective localization is dependent on local managers who can properly perform the job originally done by the expatriate. She believes that because China lacks experienced managers, it presents localization challenges for many multinational corporations. The willingness of the expatriate to develop the skills of the local staff is important to the outcome of the localization plan.

One possible factor for the failure of localization is the expatriate's inability to transfer knowledge to the local employees. Although expatriates are knowledgeable about their jobs, they may be unable to communicate their knowledge and transfer their skills to the local staff. In addition, teacher student relationships in China are very different from those in a Western context. Expatriates may also be unable to transfer their skills because of the short time they spend in the foreign firm. Many expatriate executives are sent to foreign firms but are not required to train the local managers.

Another explanation for the failure of localization is an expatriate's unwillingness to promote localization. Expatriates may be reluctant to transfer their skills because they want to stay-on in the foreign office. Rogers (1999) reports that expatriates are increasingly extending their stay in China, choosing to stay for longer because of the availability Western amenities. Some expatriates fear they will not have a job back in their home country if they successfully localize staff. If expatriates feel insecure about their future job, they will try to stay. They may slow down the process of training the locals in order to avoid being redundant.

Expatriates may also believe that localization is not necessary in their firm because of the risk of turning over the operations to locals. Some expatriates have reservations about the ability of locals to successfully run the foreign firm. Many expatriates feel that locals do not possess the same skills and perceive many risks from replacing foreign management prematurely. She states that complete localization may never be a realistic option for some companies. Some companies



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always maintain 5-10 percent of their foreign employees as expatriates to create a global experience for clients or customers. The study discusses three hypotheses to test if expatriates have an unwillingness or inability to localize their firm.

Selmer's main findings demonstrated that expatriates unwillingness rather than inability seem to thwart the localization process of firms. Expatriates who believed localization is not necessary had the strongest negative association with localization. These expatriates may actively or passively thwart localization. They may not oppose localization because of self-interest, but because they believe it will not be beneficial to the firm. Selmer also finds that an expatriates' inability to contribute to localization may not actually impede the process. She suggests that an incentive may help expatriate managers to develop local subordinates. In addition, she suggests that repatriation arrangements could help to alleviate expatriate's fear of losing their job once they leave the foreign firm.

Wu demonstrates how firms experience barriers in China negatively impacting localization efforts by multinational companies (Wu, 2008). Wu's study discusses different strategies companies can use to help localize their staff. Using the job market as an example, Wu suggests that a talent shortage impedes quick localization in China. Human resource management is lagging behind in the Chinese job market. Wu cites that there are four main problems in multinational firm affecting the success of their human resource systems; shortage of talent, differences of social environment, compensation and benefits, and expatriate failure.

With many competing multinational firms in China, competition for the best talent is increasing. The ratio of science graduates and arts graduates has been unbalanced in the past five years. The major of arts in Chinese universities does not relate with other knowledge such as mathematics, finance, or information technology. Chinese students also lack strategic thinking after graduation. They do not experience team work and practical experience like many students in the United States or the United Kingdom. Even students who have the highest grades do not perform well at the job.

The differences in culture between China and many other foreign countries also make it difficult for foreign firms to attract qualified staff. Human resource management was introduced to China through foreign firms in the 1980s. Before this, the government would choose qualified candidates. These employees would be guaranteed lifetime employment. This is known as the "iron rice bowl" which meant that employees would keep their jobs all their lives and their salary was not dependent on performance. Although China has come a long way from this model, it makes attracting qualified candidates a challenge for foreign firms

Employment compensation and benefits are an important factor in attracting qualified staff. The primary reason for qualified staff to leave their company is for a better paid position. The turnover rate in China is the highest in Asia. In multinational firms, there are an increasing

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number of dissatisfied employees because of their salary or benefits. State-owned companies in China are the biggest threat to attracting and retaining qualified staff because of their benefits. Employees enjoy the security given through state-owned jobs. Because of this problem, multinational firms are investing more into benefits packages and rewards to attract qualified staff.

Because of the shortage of talent in China, multinational firms have turned to expatriate managers. Many multinational firms need expatriates to manage their firms abroad because they possess the management techniques and methods that are needed to successfully manage the firm. However, there are high expatriate failure rates in China. Many expatriates have poor job performance in China, or leave their assignment before properly training the local staff. The main reason for expatriate failure, Wu suggests, is the culture shock. These expatriates fail to promote or contribute to the localization process. Expatriate failure rate additionally has negative consequences on the firm because of their expense. Expatriates salaries can be as much as ten times greater as a local staff. Because of this, expatriate failure rate is an important challenge to consider during the localization process.

Fryxell conducted a study which examined three firms to identify localization success factors. The initial analysis of the three firms identified four factors that contributed to the success of the localization program. First, a successful localization program requires planning and communicating by the firm to both expatriates and the local managers. Second, in China's competitive talent market, there must be an effective localization program supported by strong recruiting and selection programs. In addition, once managers have been selected they must be retained in order to foster development. Lastly, effective localization programs must have collaboration between expatriates and local managers. They must both be committed to the localization process.

Fryxell's study concluded that the success of localization depended on the right combination of elements that a straightforward relationship with individual elements of success. It is hard to argue that any one factor such as planning completely contributed to the overall success of the program. However, there were negative correlations between retention efforts and the success of the program as well as the success of the program if local employees do not trust the expatriates. In addition, the study concluded that the answer to questions varied among top managers and general managers. Her final recommendations for management are to strongly support localization programs by proactively communicating the localization plan to employees and for employees, specifically expatriates and locals to develop trusting relationships.

### **Methodology of Study**

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To better understand the perceptions of localization in the Chinese offices, I conducted a survey. This survey would help me create my recommendations for improvements and strategy for the Big Four accounting firms in China. Although there is extensive research on localization, few researchers have studied the perception of localization by managers and staff experiencing the process.

Since I do not live in China, I used email as my primary source of distribution. By using surveymonkey.com, I was able to distribute the link in an email to respondents. I also do not have many contacts in Big Four accounting firms in China so I relied on my father's contacts at a Big Four accounting firm. The seven participants surveyed all worked for the same firm. My father, who works at KPMG, and I both contacted these participants through the survey I created (see Appendix B). Besides using my father as a contact, I reached out to numerous accounting professionals through email. However, the response rate to this study was also relatively low.

My survey consisted of two categories of questions: the first category consisted of 2 questions and the second category contained 6. The first category related to demographic data. Question #1 asked respondents to indicate their home country. These questions are important because they can be used to examine variances in the participants answers based on the two factors. In other localization studies, expatriates and locals had very different views on localization in the firm. Question #2 asked respondents to indicate their employment status at the firm (staff, manger, or partner).

The second category related to the five success factors adopted from Fryxell's study. Each success factor was expressed with one question. Using Fryxell's localization success factors, I developed questions that would indicate if the employees viewed the "success factors" as relevant in the localization process. The participants could choose from a 6-point Likert Scale.

To create my survey, I used Fryxell's study to determine if employees of the Big Four firms felt that their firm was using "successful" localization techniques. Fryxell found that there are common themes for success through interviews with three multinational companies in China. Planning for localization implementation, recruitment and selection, retention efforts, attributions of trustworthiness, and transferring of skills among employees were common themes expressed by all three firms. These common themes helped frame my survey questions to determine if the expatriate or local employee felt these were demonstrated in the firm.

To gain a deeper understanding of Big Four accounting firms in China, I targeted a specific population in China. The survey participants had to either work in a Big Four accounting office in China or work in the Hong Kong office but do extensive work in the China office. This target audience is very specific because the only people who can truly comment on the localization plans must be part of the localization process. I wanted to collect their first- hand experience regarding management's role in the process as well as their own role.

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Survey response rates from Chinese participants are relatively low due to the challenges of distributing the survey to both expatriates and local employees. Many cultural and physical barriers exist that slow down and ultimately prevent high response rates. After months of persistent emails to contacts, I could only yield 7 completed survey responses. Of the seven respondents, two were expatriates from the United Kingdom while the other five participants were Chinese locals.

The first survey question of my survey regards the planning of localization. The question asks if the employee feels that the firm has clear localization plans. This question is motivated by the perception that the employee may feel the firm is not haphazardly implementing localization but has a plan with goals.

The second survey question relates to the selection of employees. As demonstrated in the literature review, finding local talent in China is difficult for many firms. The question asks if the employee feels that the selection and interview process helps to find qualified employees. Having a strong human resource department is critical in the localization process. This question asks about the employees' perception of this process.

The third question is about the retention aspect of localization. Besides selection, retaining local employees is a challenge for multinational firms. Since the talent pool is small, many firms poach employees. This question asks the employee about their perception of the firm's retention policy, specifically incentive programs like bonuses. The fourth question relates to retention as well. It states that retention is difficult for the firm. This is an important question because it would confirm that retention is a general problem for accounting firms.

The last two questions relate to the attributions of trustworthiness and knowledge transferring between expatriates and local employees. The relationship between local employees and expatriates is important in the success of localization. The fifth question asks if the employee feels that local employees and expatriates work well together. Their perception of this relationship is important to the study. My final question asks if the employee feels that expatriates effectively transfer their skills to local employees. This knowledge transfer is important for successful localization. Also, it demonstrates increased trustworthiness between the expatriate and the local employee.

### Data Analysis

Responses are measured on a 6-point Likert-type scale with endpoints labeled 1= "strongly disagree" while 6= "strongly agree". The expatriate or local employee supply the dependent variable by rating the success of the localization policy on five dimensions previously mentioned (attributions of trustworthiness, knowledge transfer, localization implementation plan, selection and recruitment, and retention efforts.)

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To measure the responses, I calculated means for each question. These means reflect the average agreement for each question. The means and standard deviations for each question are listed in Appendix A. The table also separates the responses of the expatriates and local employees to illustrate the differences. Besides calculating the mean and standard deviations of the sample, I did not use other statistical tests, because my sample size was too small to have statistical importance.

### Results

Question #1 asked the respondents to indicate their home country. Two of the participants were expatriates while five were local employees (See Figure 1). Question #2 asked the respondent to indicate their level at the firm. One respondent was staff, four were managers, and two were partners (See Figure 2).

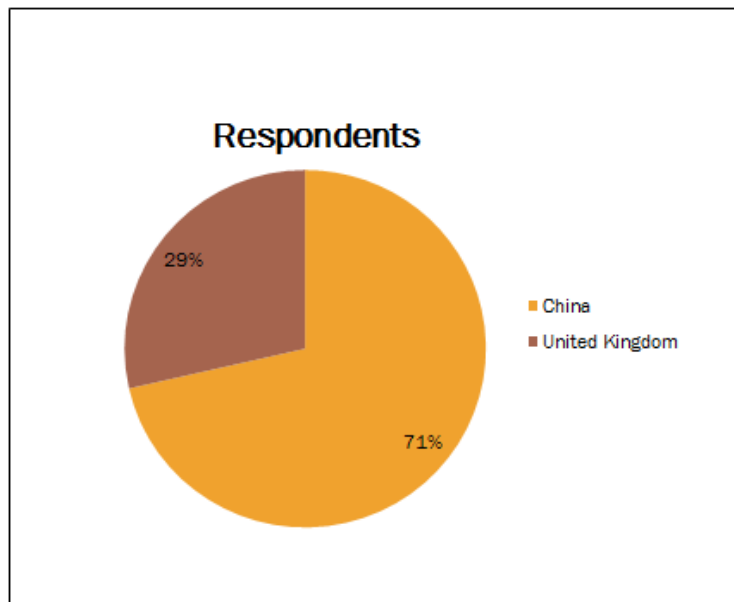


Figure 1- Respondents Home Country

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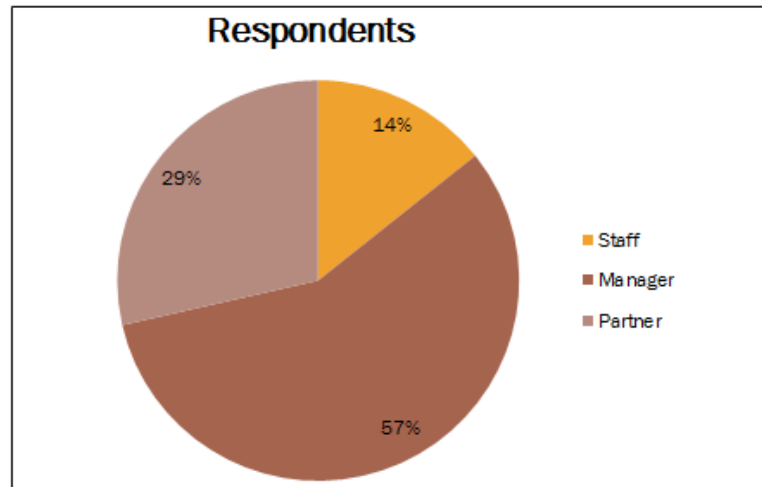


Figure 2- Respondent Level at the Firm

Question #3 asked if the respondent felt the company has clear localization goals for the company. As expected, the respondents all were in agreement that the firm had a clear plan for localization (mean=5) (See Figure 3).

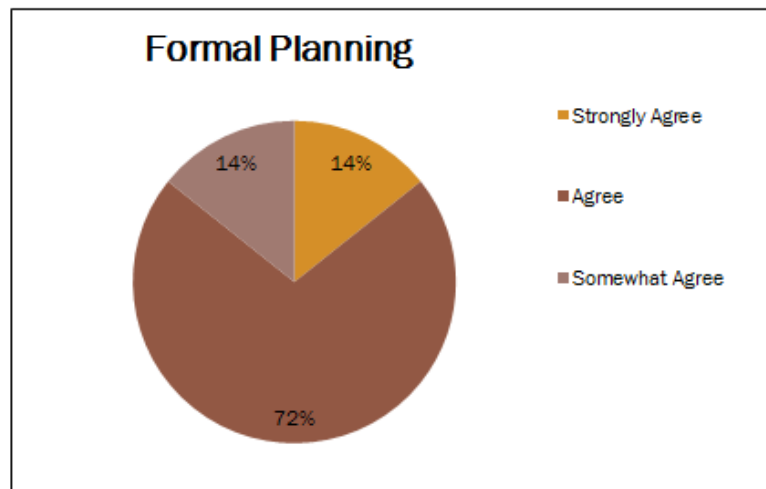


Figure 3- Formal Planning

Question #4 asked respondents if the recruiting, selection, and interview process for new employees are successful in finding local employees. Both expatriate and local employees were in agreement that the firm's selection, recruiting, and interview process for new employees is successful in finding local qualified candidates (mean=4.86) (See Figure 4).

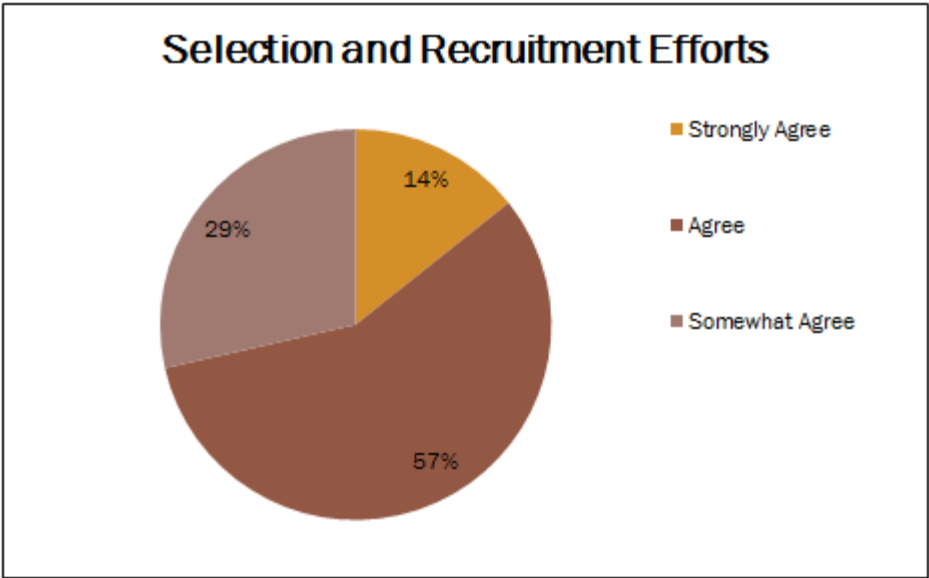


Figure 4-Selection and Recruitment Efforts

Question #5 asked respondents if incentive programs, such as performance based bonuses, are effective at retaining local employees. Both expatriate and local employees were in agreement that incentive programs contribute to effectively retaining employees (mean= 4.14) (See Figure 5).

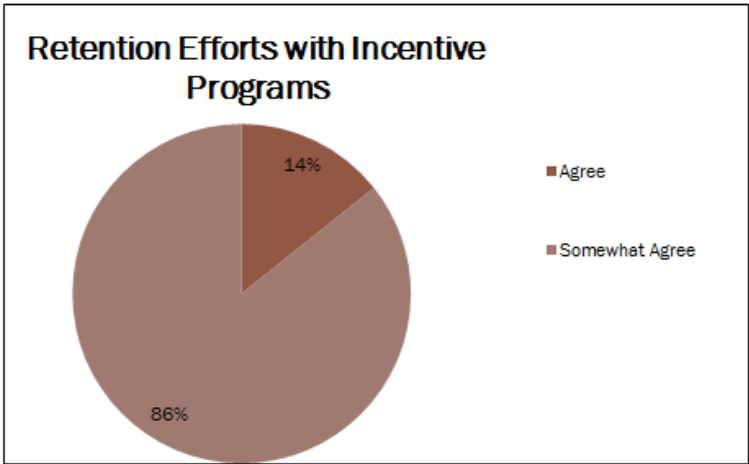


Figure 5-Retention Efforts with Incentive Programs

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Furthermore, question #6 asked the respondents if it is difficult to retain talented local employees at the firm. All respondents agreed that it is difficult to retain talented local employees at the firm (4.43) (See Figure 6).

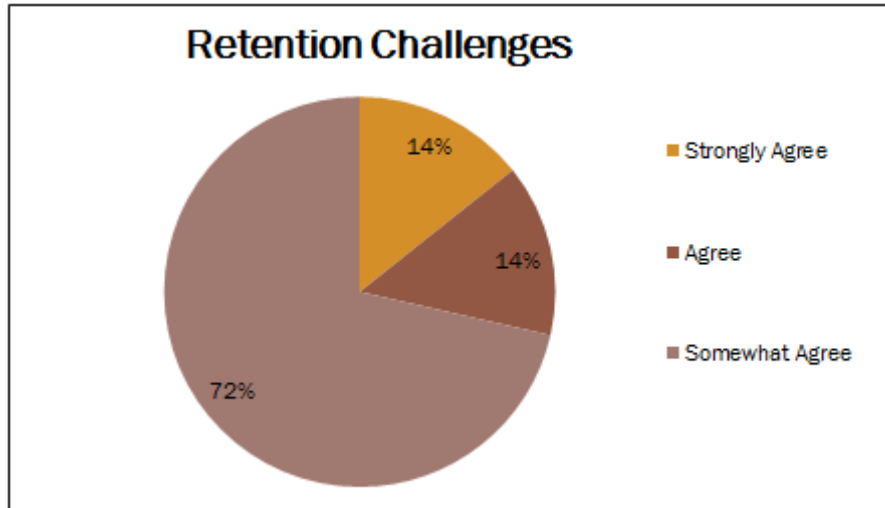


Figure 6-Retention Challenges

Next, question #7 asked respondents if in my experience, I feel that expatriate and local staff work well together. All the respondents indicated agreement with the statement that expatriates and local employees work well together (Mean 5.57) (See Figure 7).

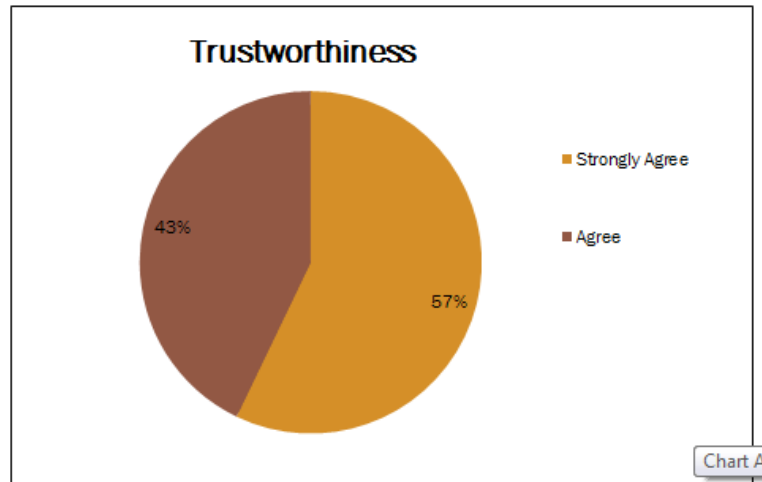


Figure 7-Trustworthiness



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Finally, question #8 asked respondents in my experience, expatriate employees effectively transfer their knowledge and skills to local employees. All the respondents agreed that expatriate employees effectively transfer their knowledge and skills to the local employees (Mean=5) (See Figure 8).

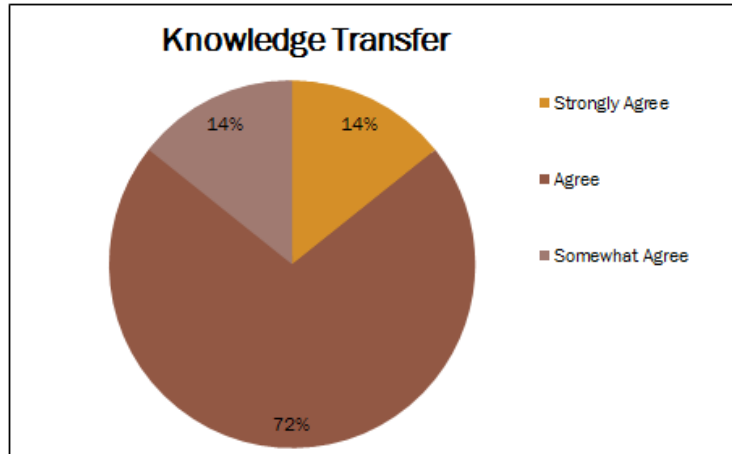


Figure 8- Knowledge Transfer

The results of all the questions were positive with every answer being at least somewhat in agreement with the statement. Variances among the questions tend to be minimal as all participants answered similarly. The most positive answers seem to be skewed toward knowledge transfer, trustworthiness, and localization planning. The results of the separated statistics between expatriates and locals are also interesting. Expatriates on average, have more positive answers than the locals.

### **Implications of the Study**

This study investigated the perception of expatriate and local employee in regards to localization. Localization has previously not been researched in regards to multinational accounting firms in China. The private-sector's motives and means of localization can be different from the public-sector. From a sample of 7 Chinese and expatriate employees, the five identified elements of a localization program were supported as relating to the perceptions of the employees. Through the survey findings, it appears that the expatriates and local employees agree that these success factors significantly contributed to localization. Big Four accounting firms can build upon their current localization plans to increase the effectiveness of their localization programs.

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## **Recommendations**

Having a clear localization plan can help create localization success. If expatriates understand the direction of the company, they will not fear the loss of their jobs. Knowing that they are important to the localization process, employees are more likely to help develop the skills and train local employees. To improve the success of the localization plan, accounting firms should involve employees in the planning process. In addition, firms should seek recommendations from the employees to help localization planning. Expatriates work closely with local employees and know their capabilities. This understanding can help improve on the firm's localization plans.

Recruiting qualified candidates is a challenge to all multinational firms in China. Recruiting qualified candidates is also a key element in localization success. Although the employees perceived recruiting to be effective at their firms, they agreed it was a difficult task. In China, most college graduates do not major in business. Social sciences are the most popular majors. Because of this, accounting firms have a limited supply of college graduates with an accounting background. To combat this problem, accounting firms must be forward-looking. They need to design a plan to get Chinese students interested in the accounting field. They can begin a program like this through reaching out to promising high school seniors or freshman at colleges with strong accounting programs. This connection to students when they are young can help create a strong supply of trained employees. Guaranteeing students jobs with jobs also helps to create loyalty among the employees. Besides recruiting students early, the Big Four accounting firms should develop extensive training programs to train new employees. These programs will also help to combat the short-term lack of accountants.

In addition, the firms could create incentives for employees to pass the Chinese certified public accounting exam. With this certification, the employee can move to a partner role and help the firm localize quicker in the future. Retention is also another key element for localization success. The Big Four accounting firms must create loyalty among their firms to prevent poaching. Having incentive programs could help increase the loyalty to the firms.

Another recommendation to localization is to improve English skills for even the most qualified local accountants. The Big Four firms only hire local Chinese employees with exceptional English language skills. Many qualified accounting students are not eligible to work in the Big Four firms because of their poor English language skills. The Big Four firms should develop language training programs to address this issue. It will be more beneficial to train the accountants in English proficiency than train Chinese locals accounting skills.

Expatriates are an important element in the localization process. The cooperativeness of expatriate and local employees is key to the success of localization. Their ability to transfer their knowledge and skills to the local employee is also essential to quick progression of localization.

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Creating incentives for expatriates can help to create a knowledge sharing environment.

### **Limitations**

One major limitation of this study is the generalizability of the findings. Although there is no clear bias, there are cultural factors that may affect the study. All of the survey respondents were from the eastern part of China, primarily in Shanghai. Employees in different parts of China may have a different perception on localization. In addition, this study does not provide insight into perceptions held by accountants in other Asian countries. It focuses mainly on China which is not necessarily representative of other developing Asian countries. It does provide a start for further research using similar methodology in conducting research into localization.

Another limitation of this study is systematic biases in the responses due to the social desirability response bias. Social desirability is the tendency on the part of the individuals to present themselves in a favorable light, regardless of their true feelings about the topic or issue (Fryxell, 2004). However, the data collection method used in this study should help significantly reduce the effects attributable to social desirability responding. Previous literature has concluded that social desirability responding is reduced when data collection methods use anonymity in their study (Zerbe & Paulihus, 1987).

Lastly, the size of my survey sample is small with 7 responses only. Obtaining high response rates is challenging in China because of the culture. This can be attributed to the deeply rooted suspicion of outsiders, political concerns, and because of Chinese guanxi. Guanxi is the system of social networks and influential relationships that facilitate business in China. Because of this, finding local employees to fill out my survey proved to be more challenging than expected, limiting my sample size. In addition, many expatriates in Chinese accounting firms are hard to contact because they do not only work in China. Many expatriates who work in the China offices also work in Hong Kong. I elected to use contacts of my father who works at a Big Four accounting firm in the United States. Even using several of his contacts, I was not able to obtain a sample size of 30. Because of this, my survey results are not statistically significant to draw conclusions about the population.

### **Conclusion**

Localization is essential to the success of multinational firms. Localization factors must be considered by multinational firms prior to entering the Chinese market. China's economic environment is much different from other developing countries. With the strong role Chinese government plays in multinational firms, localization must be seen as an inevitable trend. Firms must also understand the importance of expatriates in the localization process. They not only

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help to localize, but are essential to the success of this process. Although this study examines a small industry in China, localization is an important factor in all multinational firms.

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## **Appendices**

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**Appendix A – Statistical Results**

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| N= 7       |  | Localization Policy                       |  |  | Mean        | Standard Deviation |
|------------|--|---|--|--|-------------|--------------------|
| Question 1 |  | Formal Planning                           |  |  | 5           | 0.5345             |
| Question 2 |  | Selection and Recruitment Efforts         |  |  | 4.85714285  | 0.6389             |
| Question 3 |  | Retention Efforts with incentive programs |  |  | 4.142857143 | 0.3499             |
| Question 4 |  | Retention Challenges                      |  |  | 4.42857142  | 0.7284             |
| Question 5 |  | Trustworthiness                           |  |  | 5.571428571 | 0.4949             |
| Question 6 |  | Knowledge Transfer                        |  |  | 5           | 0.5345             |

| N=2 (Expat) N=5 (Local) |  | Localization Policy                               |  |  | Mean | Standard Deviation |
|-------------------------|--|---|--|--|------|--------------------|
| Question 1              |  | Formal Planning (Expat)                           |  |  | 5    | 0                  |
| Question 1              |  | Formal Planning (Local)                           |  |  | 5    | 0.632              |
| Question 2              |  | Selection and Recruitment Efforts (Expat)         |  |  | 4.5  | 0.5                |
| Question 2              |  | Selection and Recruitment Efforts (Local)         |  |  | 5    | 0.6324             |
| Question 3              |  | Retention Efforts with incentive programs (Expat) |  |  | 4    | 0                  |
| Question 3              |  | Retention Efforts with incentive programs (Local) |  |  | 4.2  | 0.4                |
| Question 4              |  | Retention Challenges (Expat)                      |  |  | 4.5  | 0.5                |
| Question 4              |  | Retention Challenges (Local)                      |  |  | 4.4  | 0.8                |
| Question 5              |  | Trustworthiness (Expat)                           |  |  | 6    | 0                  |
| Question 5              |  | Trustworthiness (Local)                           |  |  | 5.4  | 0.4899             |
| Question 6              |  | Knowledge Transfer (Expat)                        |  |  | 5.5  | 0.5                |
| Question 6              |  | Knowledge Transfer (Local)                        |  |  | 4.8  | 0.4                |

Table 1- Statistical Results

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**Appendix B- Survey**



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