Research Article

The Impact of Cultural Distance on Corporate OFDI: The Moderating Role of Digitalization

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Abstract— Outward Foreign Direct Investment (OFDI) has become a crucial means for companies to expand into international markets, acquire resources, and enhance competitiveness. However, the practice of OFDI inevitably encounters challenges brought about by cultural differences. This paper conducts an empirical analysis based on China's OFDI in 30 countries from 2015 to 2021, aiming to explore the specific impact of cultural distance on China's OFDI. The empirical findings reveal that: 1) Cultural distance has a significant negative impact on China's OFDI, with investment scale being notably restricted in countries with larger cultural differences; 2) Digitalization plays an important moderating role in this relationship, as higher levels of digitalization can mitigate the adverse effects of cultural distance on investment, thereby facilitating the smooth execution of OFDI. This study provides valuable insights for multinational enterprises in making investment decisions across different cultural contexts.

Keywords— OFDI; Cultural Distance; Digitalization; Moderating Effect

1. Introduction

In the last few decades, China has undergone a significant transformation in its economy and within the context of globalization, the Chinese government has encouraged domestic enterprises to "go global" in search of resources, markets, and technology. At the same time, Chinese companies have quickly adapted to the global economic environment, and their rapid growth in Outward Foreign Direct Investment (OFDI) has become a focal point of international economic attention. Following the adoption of the "Go Global" strategy, supported and encouraged by favorable policies, China's OFDI has experienced significant growth, with its international ranking steadily rising. Chinese enterprises venturing abroad and actively seeking overseas investment opportunities have not only had a profound impact on China's own economy but have also injected new momentum and challenges into the global economic landscape (Liu et al, 2005; Zhang et al, 2015; Jin et al, 2016; Fambo and Shunqi, 2024).[1][2][3][4] According to the "2022 China Outward Investment Bulletin," China established 38,497 new foreign-invested enterprises throughout the year, a decrease of 19.2% year-on-year; actual use of foreign capital amounted to $189.13 billion, an increase of 4.5% year-on-year. In this complex international landscape of OFDI, analyzing the factors influencing Chinese enterprises' OFDI is crucial for making informed decisions on outward investment.

As Chinese enterprises expand globally, they face diverse cultures across different countries and regions. Cultural distance has become a significant factor influencing their decisions and operations in overseas investments. Differences between cultures can lead to misunderstandings, communication barriers, and management challenges. Recently, multinational companies have been expanding their global business footprint in transition economies. Considering China, the largest developing economy in the world, as an example, Chinese multinational enterprises are no longer limiting their OFDI to countries with culturally similar Eastern nations. In fact, Chinese enterprises are increasingly investing in Western countries, which are culturally more distant. OFDI is indeed influenced by the overall structure of cultural distance and is stimulated by a certain degree of cultural distance (Blomkvist and Drogendijk, 2013; Yi Changjun, 2021).[5][6] Meanwhile, the enhancement of digitalization has become a critical factor for corporate success. China has made significant progress in technological innovation and the digital economy, which has bolstered the competitiveness of its enterprises in the global market. As digital technology rapidly advances, global modern production networks are being reshaped, and the degree of digitalization in a country has a crucial effect on its OFDI, influencing both the likelihood and scale of investments (Feng, 2023; Han, 2023).[7][8] The application of digital technology has not only transformed business operations but also created new business models and market opportunities.

In this context, the research objective of this paper focuses on the influencet of cultural distance on China's OFDI, while also considering the moderating influence of digitalization. The study explores how, after accounting for the moderating effect of digitalization, cultural distance affects China's OFDI and whether digitalization helps to bridge cultural distance, thereby enabling enterprises to enter culturally diverse markets more easily.

The remainder of the paper is structured as follows: Section 2 presents a review of the literature, examining the current studies on cultural distance and outbound Foreign Direct Investment (OFDI), and the role of digitalization. Section 3 details the model specification, including the selection of the sample and data sources, the identification of dependent, independent, control, and moderating variables, and the baseline regression setup. Section 4 presents the empirical analysis, covering baseline regression results, endogeneity checks, heterogeneity analysis, robustness checks, and the moderating effect analysis. In conclusion, Section 5 wraps up the paper by highlighting the main findings and their significance.
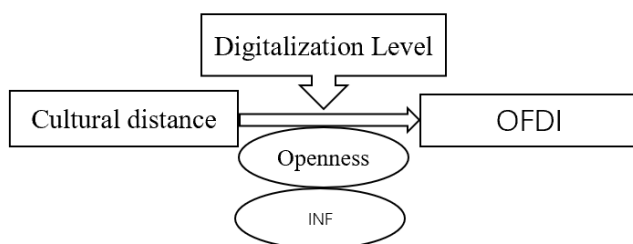

Figure 1. Basic model analysis structure diagram

2. Literature Review

Regarding the definition of cultural distance, Johanson and Schuster (1975) and others were the first to develop the concept of the liability of foreignness into a clear framework they termed cultural distance, providing a precise explanation.[9] Hofstede (1980, 2011) introduced six key cultural dimension indicators to measure differences between national cultures: uncertainty avoidance, the distinction between individualism and collectivism, power distance, long-term versus short-term orientation, masculinity versus femininity, and indulgence compared to restraint.[10][11] When calculating cultural distance, Hofstede adopted the Euclidean distance formula, commonly used by European scholars in variable fitting, to quantify the cultural distance between different countries.

Regarding the definition of digitalization, scholars have proposed related viewpoints from various perspectives. Zhou et al (2023) argue that in the digital economy era, an increasing number of multinational enterprises are gradually undergoing digital transformation, acquiring diverse new assets and costs, and that OFDI enterprises involved more in global value chains are likely to increasingly utilize more effective digital tools.[12] Zhao (2023) adopted the Digital Government Development Index, which considers factors such as human capital, the development of telecommunications infrastructure, and the quality and scope of online services, with these data being weighted to calculate the level of digitalization.[13] This paper follows the Global Digital Economy Development Index proposed by Wang Zhe and others (2021), selecting three dimensions of digitalization: Digital Technology Index, Digital Infrastructure Index, and Digital Governance Index, and uses their weighted average.[14]

Regarding the impact of cultural distance on OFDI, most scholars believe that cultural distance may have a negative effect on OFDI (e.g., Blomkvist and Drogendijk, 2013; Tsang and Yip, 2007; Garg and Delio, 2007; Malhotra, Zhu and Locander, 2010).**Error! Reference source not found.**[13][16][17] This viewpoint implies that when there is a considerable cultural gap between the host country and the investing nation, it can increase the costs of communication and cooperation for the enterprise. Cultural distance, acting as a barrier to information transmission, may interfere with the flow and understanding of information. The presence of this distance can lead to reduced trust, increased transaction costs, and a decrease in the value of social capital. However, some scholars argue that the relationship between cultural distance and OFDI is more complex, suggesting possibilities such as nonlinear, negative U-shaped, or even positive correlations (Shane et al., 1995; Ren and Yang, 2020).[18][19]

From the perspective of the impact of digitalization on corporate OFDI, this has also become a prominent research theme in recent years. Zhao (2023) found that the level of digital development in the host country significantly influences the locational decision-making of Chinese enterprises when engaging in OFDI, with investors showing a preference for countries with higher levels of digitalization. [13] From the perspective of transaction cost theory, Zhou et al (2023) confirmed that the digitalization level of the host country promotes the growth of China's OFDI in these countries by reducing transaction costs for enterprises.[12] Li Mingyang (2024) explored the theoretical and practical significance of whether digital transformation can optimize the locational distribution of corporate OFDI. Mechanism tests revealed that digital transformation can reduce OFDI transaction costs, thereby overcoming the limitations imposed by geographical distance and optimizing the locational distribution of corporate OFDI.[20] Liu Gang and Dong Jin (2023) found that digital transformation facilitates corporate OFDI by enhancing resource management capabilities. [21] Li Xin (2023) demonstrated that the digital economy fosters mutual synergy between FDI and OFDI. OFDI enterprises commonly use digital technologies such as the Internet of Things, big data platforms, and robotics. Therefore, the digitalization level of the host country could influence the OFDI of digitalized multinational enterprises and modulate the effect of cultural distance on OFDI.

3. Model Specification

3.1 Sample Selection and Data Sources
The data utilized in this study mainly comes from various sources, including the World Bank Statistical Database, the

International Telecommunication Union, the Hofstede Cultural Distance Database, the CEPII Database, the UNESCO Database, the China Belt and Road Initiative website, the Global System for Mobile Communications Association, and the "China Outward Foreign Direct Investment Statistical Bulletin," among others. In selecting the countries for this study, emphasis was placed on those with relatively complete data regarding cultural distance and digitalization levels. Ultimately, 30 countries were chosen as the subjects of this research.

3.2 Variable Selection
3.2.1 Dependent Variable
China's Outward Foreign Direct Investment (OFDI). The stock of China's direct investment in 30 host countries is selected as the measure for OFDI.

3.2.2 Independent Variable
Cultural distance has been selected as the independent variable for this research, cultural distance (CD) refers to the degree of difference between the host country and the home country in terms of values, beliefs, behavioral norms, social structures, languages, and traditional customs. The assessment of cultural distance is founded on scores across several dimensions, including individualism versus collectivism, power distance, and uncertainty avoidance, as defined by Hofstede's cultural dimensions framework. This study uses the cultural distance measurement formula proposed by Kogut and Singh (1988), known as the KSI index, to calculate cultural distance.[22] The original formula has been modified by incorporating factors T_1 and T_z to account for data from the years after 2015, resulting in the following calculation formula:

$$CD_j = \left\{ \Sigma_i \left[\left(I_{ij} - I_{iCH} \right)^2 / V_i \right] / 6 \right\} T_1 / T_z \qquad （1）$$

In this formula, i represents one of the six cultural dimensions, CH stands for China, and CD_j represents the cultural distance value between host country j and China. I_{ij} denotes the score of the cultural dimension i for country j as per Hofstede's framework, while V_i is the variance of cultural distance for dimension i across all host countries. In the modified formula, T_1 represents the data from the base year 2015, and T_z represents the data from the years 2016 to 2021. The original scores for each cultural dimension of the host countries are sourced from the website created by Geert Hofstede (https://geert-hofstede.com), where the specific scores for each cultural dimension of the respective economies can be obtained by entering the host country.

3.2.3 Control Variables
The control variables chosen for this research are the degree of a country's openness to foreign trade and the inflation rate. Openness to foreign trade is an indicator that measures the level of economic openness of a country or region, primarily reflected in market openness. It encompasses various aspects of international trade, typically beginning with the openness of the goods market, which manifests as relatively stable international trade import and export activities. On an international level, trade dependence is often used as a measure of a country's or region's openness. Trade dependence (also known as trade openness) reflects the extent to which a country's economy relies on foreign trade and can also indicate the level of economic development and participation in the global economy. There are several methods to calculate trade dependence, one of which involves dividing the total value of trade imports and exports by the Gross Domestic Product (GDP). The trade import dependence and trade export dependence are obtained by dividing the total value of imports and exports by GDP, respectively.

The inflation rate indicates the pace at which the overall price level of goods and services increases over a specified period (such as a year). This concept is commonly used to describe the weakening of purchasing power and the overall rise in prices, typically measured indirectly through the growth of price indices. The Consumer Price Index (CPI) reflects the final selling price of goods after passing through various circulation stages, making it the most comprehensive indicator representing the demand for money in the circulation of goods. CPI is widely adopted by countries around the world as a measure of inflation.

3.2.4 Moderating Variable
Digitalization level is selected as the moderating variable. According to the Global Digital Economy Development Index (TIMG), three dimensions of digitalization—Digital Technology Index, Digital Infrastructure Index, and Digital Governance—are selected and their weighted average is calculated. This index aims to measure the dynamics of global digitalization levels over the past decade. The TIMG index, reflecting the development status of 106 economies worldwide from 2013 to 2021, is comprehensive and covers a wide range of samples. Compared to existing measurement indices, the TIMG index established by Wang Zhe et al. (2021) is characterized by its long time span and broad country coverage, making it beneficial for horizontal and vertical cross-national comparisons. It also provides important references for future research on the characteristics and experiences of digital economy development at the cross-national level. Therefore, this study adopts the method proposed by Wang Zhe et al. (2021) to measure digitalization levels.[14]

3.3 Model Construction
Following the cultural distance multiple linear regression baseline model proposed by Zhou Wei et al. (2023),[12] this research develops a comparable multiple linear regression baseline model to examine the effect of cultural distance on the outbound foreign direct investment (OFDI) of Chinese companies:

$$\ln OFDI_{it} = \beta_0 + \beta_1 CD_{it} + \beta_2 OPEN_{it} + \beta_3 INF_{it} + \mu_i \quad （2）$$

In this model, i represents the host country, t represents the year, $OFDI_{it}$ represents China's OFDI stock in country i during year t, CD_{it} represents the cultural distance between country i and China in year t, INF and OPEN are the control variables for inflation and openness, respectively, and u_i denotes the random error term.

3.4 Baseline Regression

Table 3.1 presents the basic statistical characteristics of each variable, revealing the distribution and extreme values of the data. Overall, these data exhibit reasonable variability and coverage, making them suitable for further analysis. However, before proceeding, it is necessary to examine the correlations between variables and check for issues such as multicollinearity to ensure the robustness of the model.

Table 3.1 Descriptive Statistics

Variable	Obs	Mean	Std.Dev.	Min	Max
lnOFDI	210	15.09	1.610	11.65	18.01
CD	210	2.317	1.010	0.555	4.539
OPEN	210	99.92	62.52	24.70	333.3
INF	210	3.046	5.353	-1.139	43.39

The correlation coefficients in Table 3.2 indicate that lnOFDI is significantly positively correlated with DL (r = 0.487) and significantly negatively correlated with OPEN (r = -0.297), suggesting that outward direct investment may be influenced by economic development levels and openness. The correlations among other variables also reveal some potential relationships, such as the positive correlation between CD and DL (r = 0.274) and the negative correlation between INF and DL (r = -0.243). Therefore, these data are suitable for use in further analysis.

Table 3.2 Correlation Analysis Results

	lnOFDI	CD	DL	OPEN	INF
lnOFDI	1				
CD	-0.009	1			
DL	0.487***	0.274***	1		
OPEN	-0.297***	-0.304***	0.093	1	
INF	-0.059	0.009	-0.243***	-0.229***	1

The results in Table 3.3 indicate that all variables have VIF values below 2, with an average VIF of 1.18, indicating that multicollinearity is not a major issue among these variables. The 1/VIF values being close to 1 further reinforces this conclusion. Overall, these variables can be safely used in the regression model, as multicollinearity is unlikely to cause instability in the model.

Table 3.3 Collinearity Analysis Results

Variable	VIF	1/VIF
CD	1.230	0.816
OPEN	1.190	0.840
DL	1.180	0.848
INF	1.110	0.898
Mean VIF		1.180

4. Empirical Analysis

4.1 Baseline Regression

The results in Table 4.1 show that cultural distance has a significant negative impact on China's OFDI, while openness exerts a notable positive influence. Additionally, the inflation rate also exhibits a significant negative impact on OFDI. The model's R^2 value is 0.564, indicating that the model has a strong explanatory power for the data.

Table 4.1 Baseline Regression Analysis Results

	lnOFDI
CD	-61.55***
	(-13.93)
OPEN	0.011***
	(5.32)
INF	-0.026***
	(-6.89)
_cons	156.70***
	(15.29)
N	210
R^2	0.564

4.2 Endogeneity Analysis

To tackle endogeneity issues, this research utilizes the instrumental variable approach with panel data for the analysis of endogeneity. Specifically, the lagged value of the digitalization level by one period is selected as an instrumental variable to explore and resolve the endogeneity issue. The findings in Table 4.2 indicate that cultural distance significantly negatively affects OFDI at the 1% significance level, aligning with the baseline regression results. This consistency suggests that the outcomes are robust even after accounting for the endogeneity problem.

Table 4.2 Endogeneity Test Results

	lnOFDI
CD	-96.52***
	(-12.02)
OPEN	0.011***
	(4.57)
INF	-0.032***
	(-7.20)
N	180
R^2	0.484

4.3 Heterogeneity Analysis

This study divides the total sample into three sub-samples for heterogeneity analysis. The first category is based on income levels, segmenting the sample into low-income, middle-income, and high-income countries. The second category differentiates countries based on their participation in the Belt and Road Initiative, creating two sub-samples. The third category is determined by cultural dimensions, specifically host country's level of individualism, also creating the sample two sub-samples.

Table 4.3 demonstrates that the impact of cultural distance on OFDI differs considerably among countries with different

income levels. Specifically, the negative influence of cultural distance on China's OFDI is strongest in low-income and middle-income countries, suggesting that cultural differences pose greater barriers in these countries. This may be due to the relatively lower institutional maturity, market environment, or cultural acceptance in low- and middle-income countries, making it more costly for multinational enterprises to adapt and integrate when investing. In contrast, in high-income countries, the negative influence of cultural distance on investment is relatively weaker, possibly because these countries have higher institutional maturity and a greater degree of globalization, which facilitates cross-cultural communication and adaptation, thereby reducing the obstacles that cultural distance poses to investment decisions.

Table 4.3 Heterogeneity Analysis by Income Level

	Low	Medium	High
CD	-86.60***	-67.60***	-39.63***
	(-5.40)	(-5.77)	(-8.76)
OPEN	0.015***	0.011**	0.002
	(4.58)	(2.34)	(0.79)
INF	-0.025*	-0.033***	0.060***
	(-1.73)	(-6.84)	(5.46)
_cons	146.2***	158.0***	116.0***
	(5.93)	(6.36)	(10.05)
N	28	49	133
R^2	0.762	0.614	0.691

The results in Table 4.4 reveal significant differences in China's OFDI comparing countries that are part of the "Belt and Road" Initiative (BRI) with those that are not. Specifically, cultural distance exerts a more pronounced negative influence on China's OFDI in BRI countries, indicating that cultural differences pose greater obstacles to investment decisions in these countries. In contrast, the negative impact of cultural distance is less significant in non-BRI countries.

Table 4.4 Heterogeneity Analysis of Belt and Road Initiative Countries

	BRI	non-BRI
CD	-82.69***	-40.96***
	(-11.69)	(-9.70)
OPEN	0.010***	0.011*
	(4.47)	(1.90)
INF	-0.030***	0.018
	(-7.45)	(1.02)
_cons	172.0***	148.9***
	(12.67)	(10.88)
N	147	63
R^2	0.579	0.750

The results in Table 4.5 indicate that the impact of cultural distance on China's OFDI differs notably among countries with different levels of individualism. In countries with low individualism, The adverse effect of cultural distance on

investment is more pronounced, likely because these countries have more collectivist social structures and cultures, which present greater cultural barriers for multinational enterprises entering these markets. In contrast, in countries with high individualism, the negative impact of cultural distance is less significant, possibly because these countries emphasize individual independence and openness, making cross-cultural adaptation easier and reducing the obstacles that cultural differences pose to investment decisions.

Table 4.5 Heterogeneity Analysis by Levels of Individualism

	Low	High
CD	-70.23***	-35.11***
	(-9.59)	(-6.90)
OPEN	0.014***	-0.003
	(5.84)	(-0.96)
INF	-0.033***	0.066***
	(-8.84)	(5.51)
_cons	145.4***	112.1***
	(10.61)	(7.98)
N	105	105
R^2	0.660	0.691

4.4 Robustness Check
In this study, the observation period was adjusted to 2015–2019 to determine whether the findings are in line with the baseline regression. The robustness analysis presented in Table 4.6 show that the impacts of cultural distance, openness, and inflation on China's OFDI remain significant across different robustness checks. Specifically, the negative impact of cultural distance on China's OFDI persists and remains significant, indicating that cultural differences continue to be an important factor influencing investment, even after controlling for other variables. The positive impact of openness also remains significant, while inflation continues to have a significant negative impact on investment. These results confirm the robustness of the model.

Table 4.6 Robustness Analysis

	lnOFDI
CD	-51.04***
	(-9.72)
OPEN	0.011***
	(4.78)
INF	-0.019***
	(-5.35)
_cons	132.3***
	(10.83)
N	150
R^2	0.556

4.5 Moderating Effect Analysis
An interaction term was added to the baseline model to test how digitalization moderates the effect of cultural distance on China's OFDI. The specification of the moderating effect model is outlined as follows:

$$\ln\text{OFDI}_{it} = \beta_0 + \beta_1 \text{CD}_{it} + \beta_2 DL_{it} + \beta_3 \text{CD}_{it} \times DL_{it} + \beta_4 \text{INF}_{it} + \beta_5 \text{OPEN}_{it} + \mu_i \quad (3)$$

In this model, i represents the host country, t represents the year, OFDI$_{it}$ represents China's OFDI stock in country i during year t, CD$_{it}$ represents the cultural distance between

country i and China in year t, DL_{it} represents the digitalization level of country i in year t, and INF_{it} and $OPEN_{it}$ are control variables for inflation and openness, respectively. $CD_{it}*DL_{it}$ is the interaction term between cultural distance and digitalization level, and u_{it} denotes the random error term.

The results of the analysis on moderating effects indicate that the level of digitalization significantly influences the relationship between cultural distance and China's OFDI. Specifically, while cultural distance exerts a considerable negative effect on investment., this effect is mitigated when digitalization level is introduced, indicating that higher digitalization levels can alleviate the adverse effects of cultural distance on investment. Additionally, the interaction term between CD and DL (CD *DL) is significant and negative, further suggesting that digitalization can reduce the barriers posed by cultural differences in environments with high cultural distance. Overall, digitalization plays a crucial moderating role in facilitating cross-cultural investment, making it easier for enterprises to invest in countries with greater cultural differences.

Table 4.7 Moderating Effect Analysis Results

	lnOFDI
CD	-63.09***
	(-8.19)
DL	0.050***
	(8.04)
CD_DL	-0.02***
	(-5.18)
OPEN	0.008***
	(4.85)
INF	-0.025***
	(-7.69)
_cons	160.4***
	(8.82)
N	210
R^2	0.686

5. Conclusion

The purpose of our study was to examine the impact of cultural distance on China's OFDI, while also considering the moderating role of digitalization. By taking into account the six dimensions of cultural distance and analyzing data on China's direct investment from 2015 to 2021 in 30 countries, the following conclusions are drawn:

Firstly, it can be obtained by our analysis that cultural distance has a noteworthy negative impact on China's OFDI. The greater the cultural differences, the higher the adaptation and integration costs for multinational enterprises in the target market, leading to a reduction in investment scale. In both the overall sample and sub-samples, the impact of cultural distance on OFDI scale is consistently significant and negative, indicating that cultural differences are a critical determinant of cross-border investment scale. This effect is particularly pronounced in countries with greater cultural distance, where the challenges faced by enterprises are more substantial, resulting in relatively smaller investment scales in these markets.

Secondly, digitalization plays a crucial moderating role in China's OFDI. Although cultural distance has a noteworthy negative impact on OFDI scale, the effect is mitigated when digitalization is introduced, indicating that higher levels of digitalization can effectively alleviate the adverse effects of cultural differences on investment. The interaction term between cultural distance and digitalization is noteworthy and negative, suggesting that the higher the level of digitalization, the fewer obstacles enterprises face when expanding investments in countries with greater cultural distance. This helps companies overcome the challenges posed by cultural differences, thereby increasing their investment scale.

Thirdly, the heterogeneity analysis in our paper shows that the impact of cultural distance on corporate OFDI varies significantly across different income levels, whether the country is the member state of the "Belt and Road" Initiative (BRI), and between individualist and collectivist cultures. In low- and middle-income countries and BRI countries, the negative impact of cultural distance on OFDI scale is more pronounced, likely due to the lower market maturity and greater difficulty in overcoming cultural differences in these countries. Additionally, in countries with low individualism, cultural distance poses a greater barrier to investment scale, whereas in countries with high individualism, this impact is relatively smaller, indicating that cultural backgrounds play a crucial role in shaping investment choices.

Lastly, openness has a noteworthy positive impact on corporate OFDI, indicating that market openness is a key factor in expanding investment scale. Conversely, the inflation rate has a significant inhibitory effect on OFDI behavior, possibly because high inflation reflects economic instability, thereby limiting the willingness of multinational enterprises to expand their investment scale. Furthermore, robustness checks have confirmed the stability and importance of these factors within the model, ensuring the reliability of the study's conclusions.

This paper's theoretical contributions are mainly evident in the following areas. First, the paper extends the research on the impact of cultural distance on Outward Foreign Direct Investment (OFDI) by systematically analyzing some negative effects of cultural differences on investment scale, particularly in countries with significant cultural distance., thereby enriching the theory of cross-cultural management. Second, our paper introduces digitalization level as a moderating variable for the first time, examining its impact on the connection between cultural distance and OFDI. The findings reveal that digitalization can effectively mitigate the adverse effects of cultural differences, providing a new theoretical perspective for multinational enterprises' investment decisions. Additionally, by conducting heterogeneity analyses based on different income levels, whether the country is the member state of "the Belt and Road" Initiative, and cultural dimensions, this study uncovers the complexity and diversity of cultural distance's impact on OFDI, offering a more comprehensive theoretical framework and empirical support for research on multinational investment.

Based on the above conclusions, two main recommendations are proposed for multinational enterprises when making direct investments in host countries. First, enhance cross-cultural management capabilities by understanding, learning, and acclimating to the host country's culture, values, and customs. Multinational enterprises entering host country markets should prioritize the development of cross-cultural management skills. Understanding and adapting to the culture, values, and customs of the host country not only helps reduce the barriers posed by cultural differences but also strengthens the enterprise's competitiveness in the local market. Specific measures include sending employees to participate in cross-cultural training to gain a deeper understanding of the host country's social and business environment; hiring management personnel familiar with the local culture to help the enterprise better integrate into the local market; and establishing a corporate culture that aligns with the host country's culture to gain the trust and support of local employees and consumers. These efforts will help multinational enterprises achieve better investment outcomes in markets with significant cultural differences.

Second, prioritize investment in host countries with higher levels of digitalization, and if host country's digitalization level is low, strive to promote local digitalization processes. Multinational enterprises should prioritize investing in host countries or regions with higher levels of digitalization to take full advantage of the efficiency gains and cultural adaptability that digital technologies offer. If the target market has a low level of digitalization, enterprises should actively promote the local digitalization process, such as collaborating with local governments and businesses to jointly invest in digital infrastructure development and providing digitalization training to enhance the host country's digital capabilities. This will help enterprises better adapt to cultural differences, expand their investment scale, and increase their influence in the local market.

Data Availability
If needed, the research data can be provided.

Conflict of Interest
Authors declare that they do not have any conflict of interest.

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