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Cultural Intelligence: Management and Business in the New Millennium: Critical Perspective

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Abstract: This is a theoretical paper that highlights the practical issues related to the understanding and implementing the concept of cultural intelligence. Cultural Intelligence assumes greater importance in an era of globalization and working across cultures where as organizations become more globalized the ability of top management in companies to translate these cultural differences into vital strategy elements can have a long term impact on the competitiveness and survival of the organization. This paper discusses some of these issues.

Keywords: Cultural Intelligence, Emotional Intelligence, Intelligence Quotient, Emotional Quotient,

1. INTRODUCTION

The topic of Cultural Intelligence is relatively new but it has had a long lineage. 'Culture', and its impact on organizational effectiveness has received a lot of attention in the management literature over the past several decades. Today we see a culmination of these different researches and sometimes theoretical approaches in the concept of Cultural Intelligence. (Ang and Soon. As a theoretical concept the concept began with However previous researchers had mentioned about concepts similar to this concept. For example, Haire, Ghiselli and Porter (1966) extensively researched on the concept of national culture while Deal and Kennedy (1982), and Peters and Waterman (1982) in relation to organizational culture. Continuing in this tradition, Hofstede's (1980) book, Culture's Consequences: International Differences in Work-Related Values, a widely cited work works in the social sciences. Attention has not just been from academics, but also practitioners around the world who became very interested in how the impact of 'culture' on their

organizations could be handled. This brings into sharp focus the role of cultural intelligence in the strategic development process.

Human resource managers inevitably became active participants in these matters, most often in relation to the selection, training and development of employees. For example, who should be sent on assignment as expatriates? and what training is required of people interacting with persons of different ethnic, religious, linguistic or other background? Moreover, through all facets of human resource management functions, how can the motivation, commitment and other organizational relevant favorable attributes of employees be ensured in the interests of optimal organizational performance? Such driving forces were important in helping transform 'personnel management' into 'human resource management' (HRM), and more recently, HRM into 'strategic human resource management' (SHRM), providing recognition that the effective management of human resources is a strategic function (Brewster 1994), not a service or support activity in organizations. Specifically, in relation to the international operations of firms, increasing consideration was directed towards considering the importance of strategic international human resource management (SIHRM) (DeCieri & Dowling 1999).

At the same as these developments in HRM were occurring, the world witnessed the emergence of the global economy. While globalization might be said to create many of the conditions in which SIHRM becomes relevant, especially in firms whose business is truly global in the sense that they have operating personnel in many different countries, there is a view that 'culture' is becoming less important in many respects. For example, it is argued that values converge, largely through a combination of globalization and the advent of new technologies which give almost everyone in the world access to the same information, and in many cases the same products and services. This debate is a variation on a much older one in economic development (Harbison & Myers 1959) in which one perspective was that as countries industrialize they would converge in terms of values and institutions, and would come to have similar ways of managing their economic entities (firms). A contrasting perspective was that because of deeply rooted differences in cultural values, there would be continuing divergence in the way that firms were managed. Since the initiation of these debates around half a century ago, a number of studies have empirically examined for convergence/divergence. On the basis of the accumulated evidence it can be reasonably concluded that despite some convergence in relation to particular things (for example, societies which were traditionally collectivistic tend to become more individualistic as they industrialize), cultural values are very deep seated and much of the convergence that some people believe is being witnessed is only superficial or very limited in effect (Koen 2005).

Contrary to the view, largely as a result of globalization, that national cultural differences are becoming less important (Featherstone 1990), it is the contention of this paper that understanding cultures is becoming even more important than previously believed; often in ways and for reasons that are not immediately obvious. The purpose of this paper is to explore the importance of cultural differences vis-à-vis the operation of contemporary organizations, focusing on the implications for human resource managers. More specifically, why these issues are more pertinent, and often more problematic in Asia than in many other parts of the world, is examined. It will be argued that many organizations, both local firms and foreign businesses, in Asia are vastly underestimating the importance of cultural skills among their local workforces, and as a result are in danger of compromising their performance. As shall be outlined in the paper, for many organizations, being cognizant of the importance of 'cultural intelligence' will be a critical factor in their success.

2. INTELLIGENCE/EMOTIONAL INTELLIGENCE/CULTURAL INTELLIGENCE

Given their central role in the selection of employees, it is not surprising that human resource managers have needed to be highly familiar with identifying, measuring and analyzing the intelligence quotient (IQ) (or surrogates for it) of potential appointees. This measure, and a host of other cognitive tests, is frequently used to assess whether individuals have the capacity to analyze and solve the problems that they will confront in their jobs. IQ tests, as such, are not as common in the private sector firms as they might be in some public sector organizations. Nevertheless, surrogate measures, such as levels and types of formal education, are very often used to make judgments about the cognitive abilities of people.

Though an individual's IQ may be very important in relation to certain jobs and occupations it is becoming increasingly evident that several other factors may also be relevant in terms of organizational performance. Recent work by for example Goleman (1995) one of the proponents of Emotional Intelligence and Emotional Quotient (EQ) have argued that a manager's success on the job is also depends on such factors as self awareness, ability to handle feelings appropriately, using their emotions in accomplishing goals, having empathy and being socially competent. (Salovey & Mayer 1990).

In recent years several researchers namely Earley and Ang (2003: 9) and Thomas and Inkson have discussed the concept of Cultural Intelligence and its associated concept Cultural Quotient.

About the time that disillusionment with IQ, as a good predictor of employee performance set in, there was growing attention to the ability of individuals to recognize and regulate emotions both within themselves and in others. Initially, this was described as 'social intelligence,' but now it is most commonly called 'emotional intelligence' (EQ) (Goleman 1995). Fundamentally, the proponents of EQ have argued that an individual's success in life (including at work) is determined not just by abilities in respect of a fairly narrow range of mathematics and linguistic skills, but by such things as: knowing their own emotions (self-awareness); managing their emotions (handling their feelings in an appropriate manner); motivating themselves (harnessing their emotions in the interests of goal accomplishment); recognizing emotions in others (having empathy); and handling relationships (being socially – i.e., behaviorally – competent) (Salovey & Mayer 1990). The academic management literature has empirically examined the many facets of EQ and affirmed its importance in employee effectiveness, while HRM practitioners and managers more generally have become alert to its significance and adept at looking for telling signs to indicate whether individuals have high or low levels.

Most recently, another type of intelligence, cultural intelligence (CQ), has risen to prominence. According to Earley and Ang (2003: 9), CQ is, "A person's capability for successful adaptation to new cultural settings, that is, for unfamiliar settings attributable to cultural context." and consists of cognitive, motivational and behavioral elements. In managerial contexts, this calls for the ability, among other things, to identify and solve problems sensitively and effectively in cross cultural situations. These situations are often characterized by considerable complexity and ambiguity. According to Thomas and Inkson (2004), a manager who is high on CQ will, first, be *knowledgeable* about cultures and fundamental issues in cross cultural interactions; second, be *mindful* of what is going on in intercultural situations, having a sensitivity to cues and an ability to interpret them; and third, have a repertoire of behavioral skills that enable them to respond appropriately to different intercultural situations. To the extent that their jobs require cultural

intelligence, it is important that HRM managers evaluate ways in which the CQ of employees can either be acquired (by careful selection) or developed (by appropriate training) (Earley, Ang & Tan 2006). Before addressing the question of how this might be done, it is important to examine why cultural intelligence is important.

For example, taking the simple issue related to recognizing the importance of systems of recruitment, selection and training, the importance of systems it is becoming more and more evident that these strategies must address not only the expatriate workforce but also local managers (Zhao, 2005; Thomas 1998). The lack of a proper cultural fit has also been cited at the organizational level as leading to the failure of joint ventures (Beamish, 1988) and also why some companies find it difficult to do business in other countries (Kogut and Singh, 1988).

(Boisot & Child 1999) talked about the importance of cultural encoded norms, behaviors and attitudes and how they influence organizational effectiveness.

While it is apparent cultural intelligence is important for global management by MNC's it is the view of this researcher that it would be equally important for small business as larger ones.

Some areas where future research could focus on include

- (a) Marketing of Products and Cultural the associated aspects of Cultural Marketing which take into account the local differences in terms of language, culture, norms and behavior and

3. THE IMPORTANCE OF CULTURAL INTELLIGENCE

Traditionally, the importance of cultural understanding in international business has been determined by several factors. First, the countries and cultures in which the business has been conducted, in the sense that – as a result of differences in what has been described as ‘cultural distance’ (see, for example, Kogut & Singh 1988) – some countries are more difficult to do business in than others. Second, the areas of the firm's business that are most directly impacted, the impact of cultural differences in areas such as sales and marketing being greater, say, than on accounting services. Third, whether the firm has sizable numbers of expatriates, in which case it has been recognized by the company to give particular attention to how those persons can best be selected and trained for their assignment in order that their personal adaptation and job performance are ensured. Overall, it might be said that an understanding of how and why CQ is important in international business has been more obvious in relation to some things than to others.

CQ has been of very obvious importance when ...

- Seeking to do business with foreign clients – Be it in relation to impediments such as language (verbal and non-verbal) or an inability to appreciate the mindset behind the behavior of the persons one is dealing with from another cultural background, most managers will realize quite quickly that they need some knowledge about those persons' cultural background and an improved mindfulness in reading the signals they are sending. They are likely to search for advice from readily accessible sources (books, websites, colleagues and acquaintances with experience or, depending on the importance of the deal, consultants). If they are wise, or wisely advised, they will know that they are on a steep learning curve.

- Negotiating with a potential joint venture partner – The stakes are raised significantly when the relationship between the parties is not just a straight deal but a longer term relationship such as an alliance or a joint venture. The range of issues requiring discussion and resolution expands exponentially, and with it the areas of potential cross cultural conflict and misunderstanding. It is well documented (Beamish 1988) that most international joint ventures fail. The reasons are often closely related to a lack of CQ on the part of those involved in the venture. As this has become much more obvious there has been a much greater sensitivity to where things might go awry and getting the advice that is necessary to avoid that happening.
- Dealing with relationships between expatriate and local colleagues – It is now well understood that expatriates require high levels of CQ if they are to live happily and achieve their work goals in foreign cultures. As a result, most firms sending employees abroad are generally careful about who they send and try to train them adequately for their assignments (Thomas 1998). Since an organization's objectives are only achieved when expatriates and locals work well together, training in cultural differences needs to be directed at the latter as well as the former (Zhao 2005).
- Motivating local workforces – It is a truism that people in different cultures are motivated by different things. International HRM managers are well aware that compensation and benefits need to be tailored and adjusted to meet the expectations of local employees, at all organizational levels. Increasingly, too, there is an awareness of the need to handle equity and fairness issues carefully, both within the local workforce (there being different views about appropriate relativities between people at different levels) and between the expatriates and locals. It is interesting to note that there is evidence (see, for example, Chen, Choi & Chi 2002) that locals will accept even large disparities between their compensation and that of the expatriates if, among other things, the expatriates show sensitivity to this issue, which requires them to have high levels of CQ.
- Resolving intercultural disputes – As Hall (1976) pointed out in his landmark work, cultures which are high context have very different ways of handling disagreements than cultures which are low context. In the former there is typically an indirectness, perhaps involving the use of third parties, and much emphasis on avoiding direct confrontation. In the latter, direct confrontation is often regarded as a healthy way of resolving differences. Successfully managing disputes between persons from high and low context cultures, therefore, requires high levels of CQ by those in charge.

CQ has been of somewhat obvious importance when

- Dealing with government authorities and bureaucrats – Most managers engaged in international business appreciate that considerable sensitivity needs to be exercised when it is necessary to involve third parties, especially politicians and government officials. Such persons have their own methods of operation that are usually different – both from the styles of businesspersons in their own country and compared with their counterparts in another country. As Singapore's experience in attempting to develop an industrial park in Suzhou in China showed, even where there seems to be a high level of cultural similarity, things can often go wrong. In this case, the venture was severely (and negatively) impacted upon by 'misunderstandings' between the Singaporean side and Suzhou government officials, and arguably, a level of naivety on the part

of the Singaporeans about how easy it would be to deal with people who were also Chinese (Pereira 2004).

- Confronting and resolving ethical dilemmas – Ethical dilemmas are among the most thorny and potentially dangerous problems that international businesses face (Enderle 1999). Dealing with them calls for high levels of CQ. In the first place, what is ethically problematic in one place is not necessarily in another. Indeed, something that might be construed as a bribe in country X might well be seen as a legitimate gift in country Y. There is often a minefield to maneuver in terms of getting a deal done and not running into ethical (and, quite possibly, legal) trouble. While there is growing realisation that CQ is necessary to facilitate business engagements, international businesspersons are not often equipped with either the necessary experience or training.
- Designing training and development programs for locals – People learn in different ways in different cultures. This fact is too often forgotten when training programs are devised for employees in one culture by trainers from another (see, for example, Allison & Hayes 2000). In order for such programs to be effective, those who develop them must be knowledgeable about the differences and be sensitive both to how things get taught and how the trainers can be alert to whether the objectives are being achieved. For example, asking the trainees whether or not they understand something might elicit misleading feedback signals if the trainees feel that by providing their real views would cause the trainer to lose face.
- Developing policies and strategic plans in respect of expatriates and localization – While there is widespread appreciation of the cultural issues surrounding expatriate selection and training, there is not yet a full appreciation of more strategic matters concerning expatriates, especially in relation to their replacement by locals (see, for example, Gamble 2000). There are many reasons why foreign firms may move to localize their operations. Reading the signals from host governments, local employees, joint venture partners and others about these issues calls for considerable cultural sensitivity.

CQ has often not been well understood in relation to ...

- Creating effective virtual teams – As a result of new technologies and different competitive imperatives, an increasing amount of international business is conducted by teams of persons located in different countries, connected not just by telephone and email, but by videoconferencing. The projects on which they work are often complex and ambiguous. Getting these teams to work effectively is something that is only gradually being understood (Maznevski & Chudoba 2000). Despite the common assumptions that people in the same firm with an intimate knowledge of their industry and their particular jobs, usually with high levels of education, will be able to work together without difficulty, experience is demonstrating otherwise. To be effective, it is essential that each member of the team have cultural sensitivity to every other member of the team, which is a very ‘tall order’ for many people. Further, the team leader needs to be alert to situations in which things are going ‘off track’ for reasons associated with cultural issues and equipped to intervene quickly to set things right, which is an even taller order.

- Building truly global organizations out of country level operations that have local relevance – Though it is rather glib to say so now, global organizations were a quantum leap away from earlier forms of organization no matter how large (Bartlett & Ghoshal 2000). Global businesses are structured and operate according to a vastly different set of criteria. For instance, they are less likely to have a definitive headquarters coordinating various subsidiary offices; they are often entangled in webs of alliances that overlap with one another and change quite frequently with the imperatives of the market; and their operations, people and other resources are spread across many locations. Yet, they need to have local relevance in terms of the markets they serve. Making them work well is a non trivial exercise and calls for CQ on the part of many people in many different roles and locations.
- Developing global mindsets in key managers – Allied to the previous point, these organizations require managers who, as it is often said, have the capacity to think globally as well as locally. This is not a natural skill. Traditionally, corporations have sought to develop a reasonable level of CQ in many people and in-depth CQ in smaller numbers of key staff in respect of key countries and cultures. In a global company the challenge is to create higher levels of CQ in a much greater number of managers in relation to a larger number of countries and cultures.
- Accessing and effectively using ‘embedded’ information from scattered sources across many countries – In order for things to not only work well in the local operations, but also at the level of the entire enterprise, information integration is vital. Local entities can benefit by accessing information that is scattered worldwide. It is an activity that is critical in terms of recognizing and dealing with both threats and opportunities. However, information is often embedded in its local environment and difficult to extract (Kostova, Athanassiou & Berdrow 2004). How, for example, does the critical knowledge that might be held by a manager in Kuala Lumpur find its way into the hands of a multitude of decision makers in other places who would find it extremely valuable?

While it is apparent cultural intelligence is important, and has been seen to be important in relation to many aspects of international business, its application has been undervalued or misunderstood in some respects. Where, previously, information that might have been of only marginal significance in terms of its impact on an organization’s performance, for the reasons that will now be explained, this is no longer true. For both MNCs and local enterprises in Asia, the environment in which their business is undertaken has changed dramatically as a result of various factors. Consequently, inattention to the centrality of cultural intelligence could have a significantly adverse impact on organizational performance.

4. HOW THINGS ARE CHANGING FOR MNCs IN ASIA

Firms that have had considerable experience in international business, most notably multinational corporations (MNCs), have usually grappled fairly well with the cultural challenges they confronted. However, as alluded to in the previous section, a number of factors have meant that those challenges are considerably greater today than they were even a few years ago.

- Overall, the scale of global competition is significantly greater. Just as they must handle other aspects of their business smarter (be it manufacturing, marketing, logistics or whatever) so

international firms must learn how to better handle the cultural dimensions of their business. Firms that are 'culturally smart' are likely to perform better, which is an important competitive edge, and may mean the difference between success and failure.

- The nature of competitive advantage has also changed as a result of globalization. It has recently been argued that the global firms are being replaced by multi-nationals, companies "...that build[s] a new kind of competitive advantage by discovering, accessing, mobilizing, and leveraging knowledge from many locations around the world." (Doz, Santos & Williamson 2001: ix). But since knowledge is both heavily culturally encoded (Boisot & Child 1999) and notoriously 'sticky' (Szulanski 1996), the process of discovering, accessing, mobilizing and leveraging it across numerous cultural interfaces is easier said than done, and calls for much more sophisticated cultural understanding than has traditionally been the case.
- The mode of international business is changing. Though the notion of locating parts of a firm's business in different countries is not new, the general move to global outsourcing has accelerated rapidly in recent years, impacting on firms in both the product and services sectors (Mol, van Tulder & Beije 2005). Again, this requires new sorts of cultural skills. For example, the establishment of call centers in, say, India, to service businesses around the world has created a vast number of interesting problems.
- MNCs have been faced with much more challenging local conditions in the countries in which they operate, especially in Asia.
 - o Greatly increased competition from local enterprises in countries such as China and India.
 - o A 'war for talent' in terms of suitable employees, often at all organizational levels (see, for example, Farrell & Grant 2005, in relation to China).
 - o More discerning markets and consumers.
 - o More experienced, and hence, bolder joint venture partners.
 - o In some instances, even more difficult institutional environments in terms of government regulations and the like.
 - o Enduring and fundamental differences in the way people in the 'East' and the 'West' think (Nisbett 2003).
- Pressures in many countries to localize operations, moving operational control away from headquarters and expatriate managers and into the hands of locals, exacerbating all of the other factors.

5. EMERGING CULTURAL CHALLENGES FOR LOCAL ASIAN ENTERPRISES

The circumstances and challenges for both foreign and local enterprises vary enormously across the many different countries in Asia (Lasserre & Schutte 2006) and it would be dangerous to overly generalize. The issues in highly developed countries such as Japan, South Korea and Singapore are vastly different from those in much less developed places. Moreover, within each country, irrespective of its stage of development, there are typically wide variations in the international experience and exposure of local firms. However, it is fair to say that within the majority of countries in Asia, and most particularly those in the 'developing' category, there are several very challenging 'cultural' issues that have to be confronted by local firms.

- Many of them have had limited exposure to, and gained meager knowledge of, the cultures of those with whom they are seeking to do business. Large numbers of firms that were traditionally very locally focused have sought to internationalize their business (often at the base level of exporting) or have begun to engage much more with foreign businesses in their own environment, sometimes by choice, sometimes not. It is not just that they do not have previous experience in international business. In many cases, the people who own or manage them have had no interactions with foreigners, and indeed, in many cases very little previous engagement with even fellow nationals outside their immediate geographic area. They truly are cross cultural neophytes.
- In the case of many countries in Asia, especially those that have had very strong state intervention in their economies, there has been very limited exposure until quite recently to competition. The impact of economic reform in China, for example, has been enormous as tired, inefficient, uncompetitive, cosseted industries were dragged into a world of global competition. Almost without exception, such industries had almost zero cultural skills. The consequences of such reforms are best seen in the burgeoning services sector. Airlines, hotels, in some places even restaurants, were mainly state owned enterprises. Success was not a function of the variety of soft skills that are the basis of success (or failure) in capitalistic economies, rather a 'take it or leave it' attitude prevailed. Though change has occurred, it has often been a slow process. Inculcating a service oriented mentality in people who have no notion or experience of 'good service' is a lengthy and demanding process.
- As a consequence of these factors, the cultural skill base among local enterprises in many places in Asia (though certainly not all) is often woefully inadequate. At the very time that they must do so much more in terms of utilizing cultural skills to ensure their competitive advantage, they are being pressured on all fronts by the market. The challenges are substantial, not least for the human resource managers who hold the responsibility for getting staff equipped with the necessary skills.

6. CONCLUSIONS & FINDINGS; AND IMPLICATIONS FOR HUMAN RESOURCE MANAGERS

The need for high levels of CQ in organizations operating in Asia has never been greater. The challenge for corporations is how to first get high levels of cultural intelligence; and then second, how to retain the phenomenon. In these processes HR managers necessarily play a critical role. Clearly, each organization will have unique problems to be addressed, and for that reason, standard solutions are not feasible. Nevertheless, some broad approaches to the problem can be suggested.

- Include CQ in the selection criteria for new hires, but don't expect to find large numbers of people who have it at the levels you require! There is now a large body of evidence about the attributes of persons who are most likely to have, or quickly develop, CQ (Earley & Ang 2003). Included among these qualities are open-mindedness, empathy, flexibility, tolerance for ambiguity and positive attitude to learning. Indeed, there are now specific instruments that have been devised as composite measures of cultural sensitivity and adeptness (such as the Cross-Cultural Adaptability Inventory – see Kelley & Meyers 1992) that can be used to get an assessment of an individual's CQ.

- Devise training programs aimed at developing CQ among those who need it most. If the argument advanced in this paper is correct, the numbers of persons who will need it are large, and growing. Such training is expensive, and for that reason is frequently provided at a very basic level. However, if CQ is to be developed to the desired levels attention must be given not only to increasing the level of cultural knowledge that an individual has, but also their mindfulness and behavioral skills.
- While training is potentially very important in lifting levels of CQ, it is just as important that those ‘on the front line’, those most exposed to the challenges of managing across cultures, have experience in a variety of culturally challenging situations designed to hone their skills. In that sense, organizations need to think long term and globally in relation to the development of CQ in their most important managers, shaping the careers of those people in ways that fit the realities of the new world of international business.
- Understand that developing the CQ of relatively junior managers can be a source of competitive advantage in the war for talent. This dimension is especially important among members of ‘Generation Y’ who tend to be less motivated by money and security (than their predecessors), and are more internationally focused. Gaining a reputation as an organization that invests in the CQ development of its staff could have significant payoffs.
- Use criteria for appraisals, promotions and compensation that explicitly recognize the importance of CQ, and its effective deployment in the achievement of organizational goals. Walking the talk is as important in respect of CQ as other things.
- Take a strategic perspective and encourage the development of strategies, policies and structures that make the effective utilization of CQ possible. There is little or no point in investing in the development of CQ among our employees if it is not possible for it to be used to advantage.

It would be easy to dismiss the argument being made here about the importance of CQ as ‘just another management fad’. Arguably, such action could be a serious mistake. For the reasons outlined, if anything the importance of CQ is likely to grow, not shrink. Furthermore, in the immediate future, its importance is likely to be greater in Asia than in any other part of the world. HRM managers in this region will ignore it at their peril.

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