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Publication Date

2009-01-15

DOI

10.1093/oxfordhb/9780199234257.003.0018

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CHAPTER

18   Culture and Human Resources Management 🔓

John L. Graham

Abstract

Culture has a pervasive impact on the management of human resources. Culture influences how blue- and white-collar workers respond to pay and non- pay incentives, how international firms are organized, the success of multinational work teams, and even how executives compose and implement business strategies. This article is organized as follows: First, the central notion of culture is defined including discussion of its dimensions and measurement. Next, culture's influences on interpersonal behaviours and negotiation styles are presented. Third, human resources policies are outlined that take into account cultural differences in employee groups. The final section focuses on culture's impact on managers' and policymakers' strategic thinking.

> ... different people have to be managed differently.
>
> Peter Drucker

18.1 Introduction

THE efficient transaction of international business is made more challenging because of several kinds of obstacles—geographical, financial, legal/political, and cultural. Cultural barriers include all those factors that often make human interactions more difficult—differences in language, values, and behaviours. While we recognize that cultural diversity can promote creativity in organizations (Watson, Kumar, Michaelsen 1993), in most ways this last category is still the most difficult because cultural differences are often hidden and are certainly the most difficult to quantify. Miles, time zones, exchange rates and such are easily measured. Laws and policies are stated in black and white, although enforcement is obviously a key issue.

Alternatively, cultural differences are often not obvious and associated problems are neither easily ↳ diagnosed nor corrected. The focus here is on these 'mushy' cultural issues that often have a huge impact on the efficiency of international enterprise, and particularly the management of people.

Culture has a pervasive impact on the management of human resources (Adler 1997). Culture influences how blue- and white-collar workers respond to pay and non- pay incentives, how international firms are organized, the success of multinational work teams, and even how executives compose and implement business strategies. Thus, the remainder of this chapter is organized as follows: First, the central notion of culture will be defined including discussion of its dimensions and measurement. Next, culture's influences on interpersonal behaviours and negotiation styles are presented. Third, human resources policies are outlined that take into account cultural differences in employee groups. The final section focuses on culture's impact on managers' and policymakers' strategic thinking.

18.2 Culture—Its Definitions and Dimensions

Perhaps the most instructional definitions of culture are the metaphorical ones. Geert Hofstede (1991) refers to culture as the 'software of the mind'. James Day Hodgson, former US Ambassador to Japan describes culture as a 'thicket', that is, difficult to traverse, but with effort and insight it is something you can get through (Hodgson, Sano, and Graham 2008). Then there is anthropologist Edward T. Hall, the seminal writer in this area—he reports:

> The people we were advising [State Department] kept bumping their heads against an invisible barrier …We knew that what they were up against was a completely different way of organizing life, of thinking, and of conceiving the underlying assumptions about the family and the state, the economic system, and even Man himself.
>
> (Hall 1959, 23)

Hall's first point is an important one. If managers and policymakers do not take culture into account they will experience pain. Think of the last time you bumped your head really hard—it hurt. Executives, companies, and even countries get hurt if cultural differences are ignored.

Most scientific definitions of culture revolve around the notion that it is represented by the values, expectations, and behaviours that are *learned*, *shared* by a group of people (i.e. a 'cultural group'), and *transmitted* from generation to generation (cf. Erez and Earley 1993). Most often country or nation is used to define cultural groups even though most researchers working in the area fully recognize the associated limitations. That is, all countries are culturally diverse—India, for example, includes the fourteen official languages spoken on the subcontinent on each twenty-rupee ↳ note. Or, consider Belgium and Canada where substantial portions of the population speak different first languages. However, most international data available have been collected at the national level, so using national culture as a point of departure in the area is convenient. Moreover, despite the obvious limitations, using nation as a proxy for culture has proven quite useful.

A second key limitation associated with the notion of culture has to do with the extent to which its study promotes stereotypes. That is, not everyone in a culture behaves the same way. Yes, culture does influence values, expectations, and behaviours. But, so do personality, economic status, social context, and a wide variety of other factors. Therefore, implied in most writing and research on the topic are the descriptors of cultural norms, behavioural averages, or typical behaviours. For example, the typical American will use threats during business negotiations (e.g. 'If you can't give me a lower price, I'll buy from someone else'). However, not every American will use threats. Au (1999) provides a very important discussion of the potential problems of such *intra*-cultural variation.

Finally, despite both limitations, culture has proven a most useful concept. Knowing employees' or business partners' cultural backgrounds helps managers predict and understand their values, expectations, and behaviours. Taking into account cultural background helps managers do a better job. Next we describe the most important dimensions of culture as reported in the management literature.

18.2.1 Silent Languages (Edward T. Hall)

As mentioned, the seminal writer in the area of culture and international business is anthropologist Edward Hall. His own background is pertinent. When he began writing about culture and business contexts in the 1960s his colleagues in anthropology eschewed the topic (Graham and Gronhaug 1988). In the field there was a general disdain for multinational companies—they were seen to 'disrupt' cultures. Hall did not share this phobia of international business—his father was an advertising executive for a multinational company (MNC). Growing up in an ad man's house (Hall 1992) taught him to appreciate the connections between commerce and culture that his associates seemed to have forgotten until the 1990s.

His article, 'The Silent Language in Overseas Business', which appeared in the *Harvard Business Review* in 1960 remains a most worthwhile read. Based on his book published a year earlier (Hall 1959) it makes the fundamental point that we are not aware of the power of culture, because it tends to communicate below our level of consciousness in 'silent languages'. Hall specifies five such silent languages, those of time, space, things, friendship, and agreements. Thus, he defined five useful dimensions of culture using his years of fieldwork (among Native Americans, African-Americans, Japanese, Latin Americans, and other peoples) as evidence for their veracity.

Hall describes in much detail how *time* communicates differently across cultures. Schedules are important in Germany and not so important in Mexico. Such ↳ cross-cultural differences in the salience of time seem to be borne out in more recent empirical work (see Table 18.1 wherein thirty-one countries are compared). More recently, Hall and Hall (1990) have more deeply delineated cultural differences in perceptions of time. *Space* also communicates. The size of one's office is important in the United States, but says little about executives' status in Arab countries. Hall contrasts the materialism (a love of *things*) of Americans with the spirituality of India. He compares the quick *friendships* common in the US to the slow developing, but hugely important strong social ties and reciprocity in Latin America. Finally, he discusses the differences in *agreements*—in America the details of a written contract are crucial, in other places the qualities of the interpersonal relationship between business people are much more salient than any piece of paper.

In a subsequent book Hall (1976)details another important dimension of cultural difference. He distinguishes between low-context cultures and high-context cultures. In low-context cultures the social context of communication (e.g. who says it, when it is said, how it is said, where it is said, etc.) has little to do with the interpretation of what is said. Alternatively, in high-context cultures what is said can be understood only with a deep knowledge of the important social contextual factors surrounding the communication. In high-context cultures social hierarchy and relationships are important—'it's not what you know, it's who you know that's important'. Hall identifies the United States and Germany as low-context countries (information is salient) and Japan and Mexico as high-context countries (personal relationships are salient).

18.2.2 Cultural Values (Geert Hofstede)

Hofstede is the most frequently cited author in international management, and with good reason. Hofstede's background is also pertinent—he grew up in the Netherlands, a country, as he puts it, on the 'cultural' border between northern (Protestant) and southern (Catholic) Europe. Hofstede's work (1980, 1991) draws heavily on Hall's ideas and the empirical work of Haire, Ghiselli, and Porter (1966) and Triandis (1972, 1995) for the theoretical justification of his empirical explorations.

Between 1968 and 1972 Hofstede had more than 100,000 employees of IBM in more than fifty countries complete a questionnaire regarding work values. Based on analyses of those data he defined four dimensions of culture—individualism/collectivism index (IND), power distance index (PDI), uncertainly avoidance index (PDI), and masculinity/femininity index (MAS). Moreover, he assigned numerical scores to each of fifty-one countries and regions for each of the dimensions. In subsequent work with Michael Bond (Hofstede and Bond 1988), a Canadian teaching in Hong Kong, he identified a fifth dimension, long-term orientation (LTO).

Hofstede's work is important theoretically. But, its primary utility is based upon the scores he reports for the fifty-one countries and regions. These scores have been incorporated into hundreds of international management studies. His work has been heavily criticized (see Erez and Earley 1993; West and Graham 2004; or Kirkman, Lowe, and Gibson 2006 for summaries). However, three of the dimensions ↳

he identifies have been shown to be useful in many studies—IND, PDI, and UAI— so those three are discussed in some detail here. Readers interested in more detail regarding MAS and LTO are referred to the articles cited above and to Hofstede's book on MAS (1998).

Table 18.1 A measure of the relative importance of time

Rank of 31 countries for overall pace of life (combination of three measures: minutes downtown pedestrians take to walk 60 feet; minutes it takes a postal clerk to complete a stamp-purchase transaction; and accuracy in minutes of public clocks)

	Overall ranking	Walking 60 feet	Postal service	Public clocks
Switzerland	1	3	2	1
Ireland	2	1	3	11
Germany	3	5	1	8
Japan	4	7	4	6
Italy	5	10	12	2
England	6	4	9	13
Sweden	7	13	5	7
Austria	8	23	8	3
Netherlands	9	2	14	25
Hong Kong	10	14	6	14
France	11	8	18	10
Poland	12	12	15	8
Costa Rica	13	16	10	15
Taiwan	14	18	7	21
Singapore	15	25	11	4
United States	16	6	23	20
Canada	17	11	21	22
South Korea	18	20	20	16
Hungary	19	19	19	18
Czech Republic	20	21	17	23
Greece	21	14	13	29
Kenya	22	9	30	24
China	23	24	25	12
Bulgaria	24	27	22	17
Romania	25	30	29	5
Jordan	26	28	27	19
Syria	27	29	28	27
El Salvador	28	22	16	31
Brazil	29	31	24	28

Indonesia	30	26	26	30
Mexico	31	17	31	26

Source: Levine 1997.

Hofstede's scores for each of the fifty-one countries he studied are listed in Table 18.2. In the more individualistic countries (e.g. the United States is rated highest on the IND scale with a score of ninety-one) group membership is not so important and social ties are relatively loose. In highly collectivistic countries such as Japan group cohesion is a central value. In high power distance countries like Mexico social hierarchies are salient and behaviours, even language use, differ according to social status. In low PDI countries like Australia egalitarian values strongly influence behaviour and social status distinctions are often ignored and even denigrated. Differences in uncertainty avoidance are perhaps demonstrated by a comparison of Japan (quite high on UAI) and Hong Kong (quite low). Hofstede would explain that while Japanese avoid risks the Chinese in Hong Kong are attracted to risky situations and uncertainties. Perhaps UAI helps explain the great affinity for horse racing in Hong Kong!

Hofstede (1980) notes a high correlation between IND and PDI (*r* =. 67, *p* < 0.05) suggesting that the two values frequently coincide. He also bases his theoretical discussions of both concepts on Hall's (1976) high/low context ideas. That is, cultures such as the Japanese Hall labels high-context, and they tend to be collectivistic and hierarchical. This has led Houston and Graham (2000) to propose a single dimension of culture subsuming IND, PDI, and high/low context labeled 'Social Context Salient Cultures' (SCSC). Japan and Mexico would be examples of countries where social context is salient, or high SCSC.

More recently the Project Globe group consisting of some 160 scholars around the world have collected data in sixty-two countries and identified eight dimensions of leadership related values (House et al. 2004). Similar to Hofstede they include uncertainty avoidance, power distance, and collectivism; they distinguish between gender egalitarianism and assertiveness; and, they add future orientation, performance orientation, and humane orientation. These new data and dimensions will allow for even better understandings of how cultures differ with regard to managerially relevant values.

18.2.3 A Measure of Corruption (Transparency International)

Ethics and notions of corrupt behaviour are known to vary across cultures. During the last few years a non-governmental organization headquartered in Germany has endeavored to develop an accurate measure of the corruptness of countries. The Corruption Perception Index produced by Transparency International (TICPI) is now widely recognized as the best such measure. The TI website (www.transparency.de) provides a wealth of information regarding methodological details which are only summarized here. The TICPI integrates scores from six survey sources such as Gallup International and the DRI/McGraw-Hill Global Risk

Service. The reported ↳

↳

correlations among the diverse sources range between 0.64 and 0.97. 'The index is a poll of polls, putting together the subjective evaluations of business people, political analysts, and the general public.' TI defines corruption in a very *Western* way as, 'the misuse of public power for private benefits, e.g. the bribing of public officials, taking kickbacks in public procurement, or embezzling public funds'. A sampling of the 179 countries they rate is included in Table 18.3, and the complete listing can be downloaded from their website. They explain the meaning of their scores, 'A ten stands for a highly clean country while a zero equals a country where business transactions are entirely dominated by kickbacks, extortion, bribery, etc.'

Table 18.2 Several dimensions of culture

Country	IND	PDI	UAI	TICPI 2007	Df Eng	Primary language
Australia	90	36	51	8.6	0	English
Great Britain	89	35	35	8.4	0	English
Ireland	70	28	35	7.5	0	English
New Zealand	79	22	49	9.4	0	English
U.S.	91	40	46	7.2	0	English
South Africa*	65	49	49	5.1	0.6	Afrikaans
Canada*	80	39	48	8.7	0.9	English
Austria	55	11	70	8.1	1	German
Germany	67	35	65	7.8	1	German
Jamaica*	39	45	13	3.3	1	Creole
Netherlands	80	38	53	9.0	1	Dutch
Switzerland*	68	34	58	9.0	1.6	German
Belgium*	75	65	94	7.1	1.7	Flemish
Denmark	74	18	23	9.4	2	Danish
Norway	69	31	50	8.7	2	Norwegian
Sweden	71	31	29	9.3	2	Swedish
Argentina	46	49	86	2.9	3	Spanish
Brazil	38	69	76	3.5	3	Portuguese
Chile	23	63	86	7.0	3	Spanish
Columbia	13	67	80	3.8	3	Spanish
Costa Rica	15	35	86	5.2	3	Spanish
El Salvador	19	66	94	4.0	3	Spanish
Ecuador	8	78	67	2.1	3	Spanish
France	71	68	86	7.3	3	French
Greece	35	60	112	4.6	3	Greek
Guatemala	6	95	101	2.8	3	Spanish
Iran	41	58	59	2.5	3	Farsi
Italy	76	50	75	5.2	3	Italian
Mexico	30	81	82	3.5	3	Spanish
Pakistan	14	55	70	2.4	3	Panjabi

	1	2	3	4	5	6
Panama	11	95	86	3.2	3	Spanish
Peru	16	64	87	3.5	3	Spanish
Portugal	27	63	104	6.5	3	Portuguese
Spain	51	57	86	6.7	3	Spanish
Uruguay	36	61	100	6.7	3	Spanish
Venezuela	12	81	76	2.0	3	Spanish
Yugoslavia	27	76	88	—	3	Serbo-Croatian
India*	48	77	40	3.5	3.7	Indo-Aryan
Finland	63	33	59	9.4	4	Finnish
Japan	46	54	92	7.5	4	Japanese
Korea	18	60	85	5.1	4	Korean
Turkey	37	66	85	4.1	4	Turkish
Israel	54	13	81	6.1	5	Hebrew
Arabic countries	38	80	68	—	5	Arabic
Hong Kong	25	68	29	8.3	6	Cantonese
Singapore*	20	74	8	9.3	6	Taiwanese
Taiwan	17	58	69	5.7	6	Taiwanese
Indonesia	14	78	48	2.3	7	Bahasa
Malaysia*	26	104	36	4.3	7	Malay
Philippines*	32	94	44	2.5	7	Tagalog
Thailand	20	64	64	3.3	7	Thai

* A substantial portion of the population is bilingual.

Columns = 1. Individualism Index (Hofstede 1991); 2. Power Distance Index (Hofstede 1991); 3. Uncertainty Avoidance Index (Hofstede 1991); 4. Transparency International Corruption Perception Index (www.tranparency.de), 10 = least corrupt, 0 = most corrupt; 5. Distance from English (West and Graham 2000); in some countries a secondary language is prevalent. For example, in South Africa 60% of the people speak Afrikaans as their first language and 40% speak English as their first language. The Distance from English to Afrikaans is 1, so the weighted average for the country is 0.6. The scores for the other mixed-language countries such as Canada and Belgium are calculated in the same way; 6. Primary language spoken.

Houston and Graham (2000) report the TICPI to have good validity characteristics (i.e. both convergent and nomological). They also describe in some detail the Western European bias inherent in the definition of corruption specified in the TI survey materials. Even so, they conclude the TICPI provides international managers an answer to the question about which countries have a 'widespread history of corruption'. Further, the TICPI definition of corruption as bribery is quite close to those serving as the bases for the American Foreign Corrupt Practices Act and the other similar policies being adopted in the European Union, the OECD, and the Organization of American States. The information provided in the TICPI, in conjunction with ↳ other sources, can be useful in making both strategic and operational decisions about foreign sales and operations.

Table 18.3 Dimensions of culture, a synthesis

Information-oriented (IO)	Relationship-oriented (RO)
Low context	High context
Individualism	Collectivism
Low power distance	High power distance (including gender)
Bribery less common	Bribery more common
Low distance from English	High distance from English
Linguistic directness	Linguistic indirectness
Monochronic time	Polychronic time
Internet	Face-to-face
Foreground	Background
Competition	Reduce transaction costs

18.2.4 Linguistic Distance

Language is a crucial aspect of culture. The important influence of language spoken on management styles is most clearly articulated by Jean-Claude Usunier (1998). Relatedly, recent empirical studies (West and Graham 2004) indicate that a new concept, linguistic distance, may prove to be another useful metric for cultural differences. Over the years linguistics researchers have determined that languages around the world conform to 'family trees' based the similarity of their forms and development (Chen, Sokal, and Ruhlen 1995). For example, Spanish, Catalan, Italian, French, and Portuguese are all classified as Romance languages because of their common roots in Latin. Distances can be measured on these linguistic trees. If we assume English to be the starting point, German is one branch away, Danish two, Spanish three, Japanese four, Arabic five, Chinese six, and Thai seven. These 'Distance from English' scores are listed for the fifty-one cultures in Table 18.2.

We are now learning that this measure of distance from English predicts other important aspects of culture —some of Hofstede's (and the Project GLOBE) cultural values and the Transparency International Corruption Perception Index (West and Graham 2004; and Houston and Graham 2000). That is, as linguistic distance from English increases Hofstede's individualism decreases (correlation coefficient $r = -.71$, $p < 0.05$), power distance increases ($r = .56$, $p < 0.05$), and corruption increases ($r = .58$, $p < 0.05$). These studies are the first in this genre and much more work needs to be done. However, the notion of linguistic distance appears to hold promise for better understanding and predicting cultural differences in management behaviours and values.

18.3 A Synthesis: Relationship-Oriented vs. Information-Oriented Cultures

With increasing frequency studies are noting a strong relationship between Hall's high/low context and Hofstede's Individualism/Collective and Power Distance indices. For example, low-context American culture scores relatively low on power distance and high on individualism, while high-context Arab cultures score high on power distance and low on individualism. This is not at all surprising given that Hofstede leans heavily on Hall's ideas in developing and labeling the dimensions of culture revealed via his huge IBM database. Indeed, the three dimensions, high/low context, IDV, and PDI are correlated above the $r = 0.6$ level suggesting all three dimensions are largely measuring the same thing. Likewise, when we compare linguistic distance (to English) to the other three we see similar levels of correlations among all four dimensions. And, while metrics for other dimensions of business culture do not yet exist, a pattern appears to be evident (see Table 18.3).

The pattern displayed is not definitive, only suggestive. Not every culture fits every dimension of culture in a precise way. However, the synthesis is useful in many ways. Primarily, it gives us a simple, yet logical way to think about many of the cultural differences in management style and business systems we have described in this chapter. For example, American culture is low-context, individualistic (IDV), low power distance (PDI), obviously close to English, monochronic time oriented, linguistically direct, foreground-focused (Nisbett 2003), achieves efficiency through competition, and therefore it will be categorized hereafter in the chapter as an *information-oriented culture*. Alternatively, Japanese culture is high-context, collectivistic, high power distance, far from English, polychronic (in part), linguistically indirect, background-focused, achieves efficiency through reduction of transaction costs, and therefore properly categorized as a *relationship-oriented culture*. All this is so even though both the US and Japan are high-income democracies. Both cultures do achieve efficiency, but through different emphases. The American business system uses competition, while the Japanese depends more on reducing transaction costs.

The most managerially useful aspect of this synthesis of cultural differences is that it allows us to make predictions about unfamiliar cultures. Reference to the three metrics available gives us some clues about how business systems work in a wide variety of cultures and how consumers and/or business partners will behave and think. Hofstede has provided scores for fifty-one countries and regions, and we have included them in the Table 18.2. Find a country on his lists and you have some information about business systems and negotiators from there. One might expect Trinidad to be an information-oriented culture and Russia to be a relationship- oriented culture and so on. Moreover, measures of linguistic distance (any language can

be used as the focal one, not just English) are available for every country, indeed, ↳ every person. Thus, we would expect that someone that speaks Javanese as their first language to be relationship-oriented. And, that leads us nicely to a discussion of how culture impacts negotiation style in the next chapter. See Hernandez and Graham (2008) for more details.

18.3.1 Summary

So far we have presented the most salient dimensions of cultural differences as yet developed. They are related to one another conceptually and empirically. Hofstede's data include fifty-one countries and regions, the Project GLOBE data 62, the Transparency International 179 countries, and the Linguistic Distance data provide a metric for culture for all countries. Indeed, the Linguistic Distance may prove the most useful of all because it can be applied for ethnic/cultural groups, indeed even individuals within countries as well. The fundamental point is that knowing what language someone speaks appears to provide some information for predictions about values and behaviours.

Moreover, the relationship between language spoken and cultural values holds even deeper implications. That is, as English continues to spread around the world during the twenty-first century via school systems and the Internet (*The American Prospect* 2000), cultural values of individualism and egalitarianism will spread with it. For example, both Chinese Mandarin speakers and Spanish speakers must learn two words for 'you' (*ni* and *nin*, and *tu* and *Usted*, respectively). The proper usage of the two depends completely on knowledge of the social context of the conversation. Respect for status is communicated by use of *nin* and *usted.* In English there is only one form of 'you'. Speakers can ignore social context and status and still speak correctly. It is easier and social status becomes less important.

Now we turn to the implications of culture for managers of international human resources.

18.4 Interpersonal Behaviours and International Negotiation Styles

International managers negotiate in a wide variety of circumstances—with customers, distributors, licensees, suppliers, labour unions, governmental officials, headquarters or subsidiary personnel, joint venture partners, and supervisors. We know from a variety of studies that culture influences how people behave in interpersonal job situations such as teamwork (e.g. Song, Xie, and Dyer 2000), job interviews, and supervisor/subordinate interactions. However, because face-to-face negotiations are ubiquitous in

international business our discussion focuses on that fundamental ↳ management activity. And, certainly much of the information provided regarding negotiations applies to these other kinds of work-related interactions.

The material in this section is based on a systematic study (Graham, Mintu, and Rodgers 1994; Hernandez and Graham 2008) over the last three decades in which the negotiation styles of more than 1,000 businesspeople in nineteen countries (twenty-one cultures) were considered. The countries studied were: Japan, Korea, Taiwan, China (northern and southern), Hong Kong, Vietnam, the Philippines, Israel, Russia, the Czech Republic, Norway, Germany, France, the UK, Spain, Brazil, Mexico, Canada (English speakers and French speakers), and the United States.

Looking broadly across the several cultures two important lessons stand out. The first is that regional generalizations often are not correct. For example, Japanese and Korean negotiation styles are quite similar in some ways, but in other ways they could not be more different. The second lesson learned from these studies is that Japan is an exceptional place: on almost every dimension of negotiation style considered, the Japanese are on or near the end of the scale. Sometimes, Americans are on the other end. But actually, most of the time Americans are somewhere in the middle. The reader will see this evinced in the data presented below. The Japanese approach, however, is most distinct, even *sui generis.*

Cultural differences cause four kinds of problems in international business negotiations—at the levels of:

1. Language;

2. Non-verbal behaviours;

3. Values;

4. Thinking and decision-making processes.

The order is important; the problems lower on the list are more serious because they are more subtle. For example, two negotiators would notice immediately if one is speaking Japanese and the other German. The solution to the problem may be as simple as hiring an interpreter or talking in a common third language, or it may be as difficult as learning a language. Regardless of the solution, the problem is obvious. Cultural differences in nonverbal behaviours, on the other hand, are almost always hidden below our awareness. That is to say, in face-to- face negotiations participants non-verbally—and more subtly—give off and take in a great deal of information. Some experts argue that this information is more important than the verbal information. Almost all this signaling goes on below our levels of consciousness. When the non-verbal signals from foreign partners are different, negotiators are most apt to misinterpret them without even being conscious of the mistake. For example, when a French client consistently interrupts, Americans tend to feel uncomfortable without noticing exactly why. In this manner, interpersonal friction often colours business relationships, goes on undetected, and, consequently, uncorrected. Differences in values and thinking and decision- making processes are hidden even deeper and therefore are even harder to cure. We discuss these differences below, starting with language and non-verbal behaviours.

Table 18.4 Verbal negotiation tactics (the 'what' of communications)

| Bargaining behaviours and definitions | Cultures* | | | | | | | | | | | | |
	JPN	KOR	TWN	CHN**	RUSS	ISRL	GRM	UK	FRN	SPN	BRZ	MEX	FCAN
Promise. A statement in which the source indicated its intention to provide the target with a reinforcing consequence, which the source anticipates the target with evaluate as pleasant, positive, or rewarding.	7†	4	9	6	5	12	7	11	5	11	3	7	8
Threat. Same as promise, except that the reinforcing consequences are thought to be noxious, unpleasant, or punishing.	4	2	2	1	3	4	3	3	5	2	2	1	3
Recommendation. A statement in which the source predicts that a pleasant environmental consequence will occur to the target. Its occurrence is not under source's control.	7	1	5	2	4	8	5	6	3	4	5	8	5
Warning. Same as recommendation, except that the consequences are thought to be unpleasant.	2	0	3	1	0	1	1	1	3	1	1	2	3
Reward. A statement by the source that is thought to create pleasant consequences for the target.	1	3	2	1	3	2	4	5	3	3	2	1	1

Bargaining behaviours												
Punishment. Same as reward, except that the consequences are thought to be unpleasant.	1	5	1	0	1	3	2	0	3	2	3	0	2
Normative appeals. A statement in which the source indicates that the target's past, present, or future behaviour or will confirm with social norms or is in violation of social norms.	4	3	1	1	1	5	1	1	0	1	1	1	3
Commitment. A statement by the source to the effect that its future bids will not go below or above a certain level.	15	13	9	10	1	10	9	13	10	9	8	9	8
Self-disclosure. A statement in which the source reveals information about itself.	34	36	42	36	40	30	47	39	42	34	39	38	42
Question. A statement in which the source asks the target to reveal information about itself.	20	21	14	34	27	20	11	15	18	17	22	27	519
Command. A statement in which the source suggests that the target perform a certain behaviour.	8	13	11	7	7	9	12	9	9	17	14	7	5

18.4.1 Differences in Language and Nonverbal Behaviours

The verbal behaviours of negotiators in fifteen of the cultures (six negotiators in each of the fifteen groups) were videotaped. The numbers in the body of Table 18.4 represent the percentages of statements that were classified into each category listed. That is, 7 per cent of the statements made by Japanese negotiators were classified as promises, 4 per cent were threats, 7 per cent were recommendations, and so on. The verbal bargaining behaviours used by the negotiators during the simulations proved to be surprisingly similar across cultures. Negotiations in all fifteen cultures studied were comprised primarily of information-exchange tactics—questions and self-disclosures. Note that the Japanese appear on the low end of the continuum of self-disclosures. The Israelis were the lowest at 30 per cent. But close behind were the Japanese at 34 per cent (along with the Spaniards and the English-speaking Canadians) suggesting that these four groups are the most reticent about giving information. Overall, however, the verbal tactics used were surprisingly similar across the diverse cultures.

Table 18.5 provides the analyses of some linguistic aspects and non-verbal behaviours for the fifteen videotaped groups. While these efforts merely scratch the surface of these kinds of behavioural analyses, they still provide indications of substantial cultural differences. Note that, once again, the Japanese are at or next to the end of the continuum on almost every dimension of the behaviours listed. Their facial gazing and touching are the least among the fifteen groups. Only the Northern Chinese used the words 'no' less frequently and only the Russians used more silent periods than did the Japanese.

A broader examination of the data in Tables 18.4 and 18.5 reveals a more meaningful conclusion: the variation across cultures is greater when comparing linguistic aspects of language and nonverbal behaviours than when the verbal content of negotiations is considered. For example, notice the great differences between Japanese and Brazilians in Table 18.5 vis-à-vis Table 18.4.

Following are further descriptions of the distinctive aspects of each of the fifteen cultural groups videotaped. Certainly, conclusions about the individual cultures cannot be drawn from an analysis of only six business people in each culture, but the suggested cultural differences are worthwhile to consider briefly:

> *Japan.* Consistent with most descriptions of Japanese negotiation behaviour, the results of this analysis suggest their style of interaction is among the least aggressive (or most polite). Threats, commands, and warnings appear to be de-emphasized in favour of the more positive promises, recommendations, and commitments. Particularly indicative of their polite conversational style was their infrequent use of 'no' and 'you' and facial gazing, as well as more frequent silent periods. See Hodgson, Sano, and Graham (2008) for more details.

Korea. Perhaps one of the more interesting aspects of the analysis is the contrast of the Asian styles of negotiations. Non-Asians often generalize about the Orient; the findings demonstrate, however, that this is

a mistake. Korean negotiators used ↳

↳

considerably more punishments and commands than did the Japanese. Koreans used the word 'no' and interrupted more than three times as frequently as the Japanese. Moreover, no silent periods occurred between Korean negotiators.

Table 18.5 Linguistic aspects of language and non-verbal behaviors ('how' things are said)

Bargaining behaviours (per 30 minutes)	Cultures*														
	JPN	KOR	TWN	CHN**	RUSS	ISRL	GRM	UK	FRN	SPN	BRZ	MEX	FCAN	ECAN	USA
Structural aspects															
'No's.' The number of times the word *no* was used by each negotiator.	1.9	7.4	5.9	1.5	2.3	8.5	6.7	5.4	11.3	23.2	41.9	4.5	7.0	10.1	4.5
'You's.' The number of times the word *you* was used by each negotiator.	31.5	35.2	36.6	26.8	23.6	64.4	39.7	54.8	70.2	73.3	90.4	56.3	72.4	64.4	55.1
Non-verbal behaviours															
Silent periods. The number of conversational gaps of 10 seconds or longer.	2.5	0	0	2.3	3.7	1.9	0	2.5	1.0	0	15.3	1.1	0.2	2.9	1.7
Conversational overlaps. Number of interruptions.	6.2	22.0	12.3	17.1	13.3	30.1	20.8	5.3	20.7	28.0	15.6	10.6	24.0	17.0	5.1
Facial gazing. Number of minutes negotiators spent looking at opponent's face.	3.9	9.9	19.7	11.1	8.7	15.3	10.2	9.0	16.0	13.7	74.6	14.7	18.8	10.4	10.0
Touching. Incidents of bargainers touching one another (not including handshaking).	0	0	0	0	0	0	0	0	0.1	0	4.7	0	0	0	0

* For each group, n = 6

** Northern China (Tianjin and environs).

Source: Cateora, Gilly, and Graham (forthcoming, 2009).

China (northern). The behaviours of the negotiators from Northern China (i.e. in and around Tianjin) are most remarkable in the emphasis on asking questions at 34 per cent. Indeed, 70 per cent of the statements made by the Chinese negotiators were classified as information-exchange tactics. Other aspects of their behaviour were quite similar to the Japanese, particularly the use of 'no' and 'you' and silent periods. See Lam and Graham (2007) for more details.

Taiwan. The behaviour of the businesspeople in Taiwan was quite different from that in China and Japan but similar to that in Korea. The Chinese on Taiwan were exceptional in the time of facial gazing—on the average almost twenty out of thirty minutes. They asked fewer questions and provided more information (self- disclosures) than did any of the other Asian groups.

Russia. The Russians' style was quite different from that of any other European group, and, indeed, was quite similar in many respects to the style of the Japanese. They used 'no' and 'you' infrequently and used the most silent periods of any group. Only the Japanese did less facial gazing, and only the Chinese asked a greater percentage of questions.

Israel. The behaviours of the Israeli negotiators were distinctive in three respects. As mentioned above, they used the lowest percentage of self-disclosures, apparently holding their cards relatively closely. Alternatively, they used by far the highest percentages of promises and recommendations, using these persuasive strategies unusually heavily. They were also at the end of the scale on the percentage of normative appeals at 5 per cent with the most frequent reference to competitors' offers. Perhaps most importantly the Israeli negotiators interrupted one another much more frequently than negotiators from any other group. Indeed, this important non-verbal behaviour is most likely to blame for the 'pushy' stereotype often used by Americans to describe their Israeli negotiation partners.

Germany. The behaviours of the Germans are difficult to characterize because they fell towards the centre of almost all the continua. However, the Germans were exceptional in the high percentage of self-disclosures at 47 per cent and the low percentage of questions at 11 per cent.

United Kingdom. The behaviours of the British negotiators are remarkably similar to those of the Americans in all respects.

Spain. Diga is perhaps a good metaphor for the Spanish approach to negotiations evinced in our data. When you make a phone call in Madrid, the usual greeting on the other end is not *hola* (hello) but is, instead, *diga* (speak). It is not surprising, then, that the Spaniards in the videotaped negotiations likewise used the highest percentage ↳ of commands (17 per cent) of any of the groups and gave comparatively little information (self-disclosures, 34 per cent). Moreover, they interrupted one another more frequently than any other group aside from their Mediterranean neighbours in Israel, and they used the terms 'no' and 'you' very frequently.

France. The style of the French negotiators is perhaps the most aggressive of all the groups. In particular, they used the highest percentage of threats and warnings (together, 8 per cent). They also used interruptions, facial gazing, and 'no' and 'you' very frequently compared to the other groups, and one of the French negotiators touched his partner on the arm during the simulation.

Brazil. The Brazilian businesspeople, like the French and Spanish, were quite aggressive. They used the second highest percentage of commands of all the groups. On average, the Brazilians said the word 'no' forty-two times, 'you' ninety times, and touched one another on the arm about five times during thirty minutes of negotiation. Facial gazing was also high.

Mexico. The patterns of Mexican behaviour in our negotiations are good reminders of the dangers of regional or language-group generalizations. Both verbal and nonverbal behaviours are quite different from those of their Latin American (Brazilian) or continental (Spanish) cousins. Indeed, Mexicans answer the telephone with the much less demanding *bueno* (short for good day). In many respects, the Mexican behaviour is very similar to that of the negotiators from the United States.

French-speaking Canada. The French-speaking Canadians behaved quite similarly to their continental cousins. Like the negotiators from France, they too used high percentages of threats and warnings, and even more interruptions and eye contact. Such an aggressive interaction style would not mix well with some of the more low-key styles of some of the Asian groups or with English speakers, including English- speaking Canadians.

English-speaking Canada. The Canadians who speak English as their first language used the lowest percentage of aggressive persuasive tactics (threats, warnings, and punishments totaled only 1 per cent) of all fifteen groups. Perhaps, as communications researchers suggest, such stylistic differences are the seeds of inter-ethnic discord as witnessed in Canada over the years. With respect to international negotiations, the English-speaking Canadians used noticeably more interruptions and 'no's' than negotiators from either of Canada's major trading partners, the United States and Japan.

United States. Like the Germans and the British, the Americans fell in the middle of most continua. They did interrupt one another less frequently than all the others, but that was their sole distinction.

p. 520 ## 18.4.2 Differences in Values

Three values—objectivity, competitiveness, and punctuality—which are held strongly and deeply by most Americans seem to frequently cause misunderstandings and bad feelings in international business negotiations.

Objectivity. 'Americans make decisions based upon the bottom line and on cold, hard facts.' 'Americans don't play favorites.' 'Economics and performance count, not people.' 'Business is business.' Such statements well reflect American notions of the importance of objectivity.

The single most important book on the topic of negotiation, *Getting to YES* (Fisher, Ury, and Patton 1991), is highly recommended for both American and foreign readers. The latter will learn not only about negotiations but, perhaps more important, about how Americans think about negotiations. The authors are quite emphatic about 'separating the people from the problem,' and they state, 'Every negotiator has two kinds of interests: in the substance and in the relationship.' This advice is probably quite worthwhile in the United States or perhaps in information-oriented Germany, but in most places in the world such advice is nonsense. In most places in the world, personalities and substance are not separate issues and cannot be made so.

For example, consider how important nepotism is in Chinese or Hispanic cultures. Experts tell us that businesses don't grow beyond the bounds and bonds of tight family control in the burgeoning 'Chinese Commonwealth' (Redding 1993). Things work the same way in Spain, Mexico, and the Philippines by nature. And, just as naturally, negotiators from such countries not only will take things personally but will be personally affected by negotiation outcomes. What happens to them at the negotiation table will affect the business relationship regardless of the economics involved.

Competitiveness. One of the most important sentences written in English appears in Adam Smith's *The Wealth of Nations* (1776): 'By pursuing his own interests he frequently promotes that of society more effactually than when he really intends to promote it.' This 'invisible hand' justification is the philosophical underpinning of Western capitalism as it spreads across the globe in the new millennium. This philosophy also underpins the approach to negotiations commonly accepted among American businesspeople. Thus, Americans take what Rubin and Brown (1975) called an *individualistic* approach to negotiations. They tend to see it as a competitive 'game' wherein each side takes care of itself. This is very different from the approach taken in more collectivistic cultures where long-term, mutually beneficial relationships are the goal. Managers in places like Japan and Mexico focus on the word 'frequently' in Smith's central sentence. From their perspective a business negotiation is one of those circumstances where competitiveness is dysfunctional and cooperation should be emphasized. Indeed, a recent study by Graham (2002) provides empirical evidence that businesspeople in more individualistic cultures behave more competitively.

Time. 'Just make them wait.' This is one of the most powerful negotiation tactics when the opponents are from cultures that place high value on time (Hall 1960; Hodgson, ↳ Sano, and Graham 2008). See the top of the list in Table 18.1 for countries where time is more highly valued and time-related negotiation strategies and tactics can be expected to be more effective.

18.4.3 Differences in Thinking and Decision-Making Processes

When faced with a complex negotiation task, most Westerners (notice the broad generalization in the use of the term 'Westerners' here with which some will disagree, e.g. Allinson and Hayes 2000) divide the large task up into a series of smaller tasks. Issues such as prices, delivery, warranty, and service contracts may be settled one issue at a time, with the final agreement being the sum of the sequence of smaller agreements. In Asia, however, a different approach is more often taken wherein all the issues are discussed at once, in no apparent order, and concessions are made on all issues at the end of the discussion. The Western sequential approach and the Eastern holistic approach do not mix well (Nisbett 2003).

For example, American managers report great difficulties in measuring progress in Japan. After all, in America, you are half done when half the issues are settled. But in Japan, nothing seems to get settled. Then —surprise—you are done. Often, Americans make unnecessary concessions right before agreements are announced by the Japanese (Hodgson, Sano, and Graham 2008). In negotiations with Chinese managers Americans were found to complain often about the Chinese bringing up issues they thought were already settled (Lee, Yang, and Graham 2006).

Western bargainers should anticipate such a holistic approach and be prepared to discuss all issues simultaneously and in an apparently haphazard order. Progress in the talks should not be measured by how many issues have been settled. Rather, Western negotiators must try to gauge the quality of the business relationship.

All these differences across the cultures are quite complex, and this material by itself should not be used to predict the behaviours of foreign counterparts. Instead, great care should be taken with respect to the aforementioned dangers of stereotypes. The key here is to be aware of these kinds of differences so that the Japanese silence, the French threat, or the 'Chinese lack of organization' are not over- or misinterpreted.

Finally, for detailed information on negotiation styles in fifty different countries, see www.GlobalNegotiationResources.com and click on 'Resources'.

18.5 HRM in the International Context

The design and management of an international workforce must of course take into account all the cultural differences in values, expectations, behaviours, and negotiation and communication styles described above. The implications of culture for organizational design and employee recruiting, selection, team building, training, motivation, compensation, evaluation, and control are now considered.

18.5.1 Designing the Organization

The first step in managing an organization is its design. Based on analyses of current and potential market conditions, the local work environment, competition, and the firm's resources and capabilities, decisions must be made regarding the numbers, characteristics, and assignments of personnel. All these design decisions are made more challenging by the wide variety of circumstances in the global work- and marketplaces.

Mode of entry is the initial design decision to be made. In sourcing products and services the decision ranges from arms-length purchasing agreements with foreign suppliers to contract manufacturing agreements to establishing green-field manufacturing facilities. Foreign market entry decisions range from simply selling to home country exporters to working with a variety of foreign intermediaries to establishing a local sales force. The discussion to follow assumes the last two options—choosing to establish either a green-field manufacturing operation or a local sales force in a foreign country.

In either case the second decision to be made is the make up of the management team—particularly how many expatriates (see Black et al. 1999 for the most complete discussion of expatriate issues), local nationals, and/or third-country nationals. The input of local nationals will be crucial in all the next steps. Factory and labour force design will consider available skill levels and culturally appropriate work-flow patterns. For example, the prevalence of labour unions will affect all such decisions (Warner 2000). Sales force design must comprehend aspects such as territory allocation and customer call plans. Many of the most advanced operations research tools can be applied in foreign markets, of course, with appropriate adaptation of inputs.

for example, one company has provided such tools to help international firms create balanced territories and find optimal locations for sales offices in Canada, Mexico, and Australia (www.terralign.com). However, the use of such high-tech resource allocation tools requires the most intricate knowledge of not only geographical details, but also appropriate call routines. Many things can differ across cultures—length of sales cycles, the kinds of customer relationships, and the kinds of interactions with customers. Indeed, more than one study has identified substantial differences in the importance of referrals in the sales of industrial services in Japan vis-à-vis the United States (Money, Gilly, and Graham 1998; Pornpitakpan 2000). The implications are that in Japan sales calls must be made not only on customers, but also on the other key people, such as bankers, in the all-important referral networks.

18.5.2 Recruiting Labour, Service, Sales and Management Personnel

The job of recruiting a labour force has received little attention in the literature. However, with unemployment levels at record lows in the United States, companies are paying more attention to the problem. 'Signing bonuses' are now being given at ↳ some McDonalds' restaurants! Of course, the labour market works very differently across countries. In China contractors are hired to recruit factory workers from rural provinces in the center of the country to work in the coastal manufacturing areas. In Tijuana, Mexico during the late 1990s where unemployment was virtually zero, large vans prowled city streets with loudspeakers blaring to attract workers that had flocked north from southern states and other Central American countries. Indeed, workers there were encouraged to bring in family members to apply for factory jobs. American phobias about nepotism made no sense at all in such a relationship-oriented culture and such a 'hot' job market.

The number of management personnel from the home country assigned to foreign countries varies according to the size of the operation and the availability of qualified locals. Increasingly, the number of home-country nationals (expatriates) assigned to foreign posts is smaller (Forster 2000) as the pool of trained, experienced locals grows. Several American MNCs, including PepsiCo, Black & Decker, and Hewlett-Packard, have established policies to minimize the number of expatriate personnel.

The largest white-collar personnel requirement abroad for most companies is the sales force, recruited from three sources: expatriates, local nationals, and third- country nationals. A company's staffing pattern may include all three types in any single foreign operation, depending on qualifications, availability, and a company's needs. Sales and other executives can be recruited via the traditional media of advertising (including newspapers, magazines, job fairs, and the Internet), employment agencies/executive search firms, and the all-important personal referrals. The last source will be even more crucial in many foreign countries, particularly the relationship-oriented ones.

Finally, while it is common practice in some countries (e.g. the US) to hire away experienced managers from competitors, suppliers, and/or even customers, the same approach in other countries will not work well, if at all. In places like Japan employees are more loyal to their companies and therefore are difficult to lure away even for big money. College recruits can also be hard to hire in Japan because the smartest students are heavily recruited by the largest Japanese firms. Smaller firms and foreign firms are seen in Japan as much more risky employment opportunities. In this way problems relating to recruiting can prove to be a substantial entry barrier to Japan.

18.5.3 Selecting Personnel

The selection of employees in most circumstances will depend on the advice and perhaps the consent of local managers. In international settings MNC policies can conflict with local laws and customs. For example, many American firms refuse to do business with other firms that 'discriminate either in hiring or in employment practices' or that uses 'child labour'.

To select personnel for international management positions effectively, management must define precisely what is expected of its people. A formal job description can aid management in expressing those desires for long-range needs as well as for ↳ current needs. In addition to descriptions for each management or marketing position, the criteria should include special requirements indigenous to various countries. Most selection criteria lists include several characteristics essential for overseas success (Rykken 2000; Cateora and Graham 2007): maturity, emotional stability, breadth of knowledge, a positive outlook, flexibility, cultural empathy, and an affinity for travel.

Most of these traits can be assessed during interviews and perhaps during roleplaying exercises (Kiriazov, Sullivan, and Tu 2000). Paper and pencil ability tests, biographical information, and reference checks will be of secondary importance. Indeed, as previously mentioned, in many countries referrals will be the best way to recruit managers and sales representatives, making reference checks during evaluation and selection processes irrelevant.

There is also some evidence that some traits that make for successful new hires in one country may not be important in other countries. In one study sales representatives in the electronics industries in Japan and the United States were compared. For the American representatives, valence for pay and education were both found to be positively related to performance and job satisfaction. In Japan they were not. That is, the Americans who cared more about money and were more educated tended to perform better in and be more satisfied with their sales jobs. Alternatively, the Japanese sales representatives tended to be more satisfied with their jobs when their values were consistent with those of their company (Money and Graham 1999). The few systematic studies in this genre suggest that selection criteria must be localized, and management practices must be adapted in foreign markets.

18.5.4 Building Effective International Teams

As globalization continues, communications systems improve, and organizations flatten, international task teams become an increasingly important kind of work group. Such teams are now found at all levels in companies, from board rooms to creative work groups. Thus, new efforts are being undertaken to study international work teams and the factors that make them more effective (e.g. Earley and Gibson 2002; and Gibson and Cohen 2003). Most recently Brett, Behfar, and Kern (2006) have nicely summarized the findings from diverse fields and report four kinds of challenges facing international work teams: direct versus indirect communication; trouble with accents and fluency; differing attitudes toward hierarchy and authority; and conflicting norms for decision making. They go on to report four coping strategies used among the companies they studied: adaptation, structural intervention, managerial intervention, or exit. They report, 'Managers who intervene early and set norms; teams and managers who structure social interaction and work to engage everyone on the team; and teams that can see problems as stemming from culture, not personality, approach challenges with good humor and creativity' (p. 91).

18.5.5 Training

Training for expatriates focuses on the customs and the special foreign management and marketing problems that will be encountered, whereas local personnel require greater emphasis on the company, its products, technical information, and selling methods. In training either type of personnel, the training activity is burdened with problems stemming from long-established behaviour and attitudes. Local personnel, for instance, cling to habits continually reinforced by local culture. Nowhere is the problem greater than in China or Russia (Clarke and Metalina 2000), where the legacy of the communist tradition lingers. The attitude that whether you work hard or not, you get the same rewards, has to be changed if training is going to hold. Expatriates, as well, are captives of their own habits and patterns. Before any training can be effective, open-minded attitudes must be established.

Continual training may be more important in foreign markets than in domestic ones because of the lack of routine contact with the parent company and its marketing personnel. In addition, training of foreign employees must be tailored to the recipients' ways of learning and communicating. For example, the Dilbert cartoon characters theme that worked so well in ethics training courses with a company's American employees did not translate well in many of its foreign offices.

Finally, one aspect of training is frequently over-looked: Home-office personnel dealing with international operations need training designed to make them responsive to the needs of the foreign operations. In most companies, the requisite sensitivities are expected to be developed by osmosis in the process of dealing with foreign affairs. However, the best companies provide home-office personnel with cross-cultural training and send them abroad periodically to increase their awareness of the problems of the foreign operations (Forster 2000).

The Internet now makes some kinds of training much more efficient. Users can study text on screen and participate in interactive assessment tests. Sun Microsystems estimates that its use of the Internet can shorten training cycles by as much as 75 per cent. And in some parts of the world where telecommunications facilities are more limited, CD-ROM approaches have proven quite successful. Lockheed-Martin used an interactive CD-ROM based system to train its employees worldwide on the nuances of the Foreign Corrupt Practices Act and associated corporate policies and ethics.

18.5.6 Motivation

Motivation is especially complicated because the firm is dealing with different cultures, different sources, and different philosophies (Neelankavil, Mathur, and Zhang 2000). In one study (Money and Graham 1999) sales representatives in comparable Japanese and American sales organizations were asked to allocate 100 points across an array of potential rewards from work. The results were surprisingly similar. Both groups allocated the most points to an 'increase in pay'. The only real difference ↳ between the two groups was in 'social recognition', which predictably, the Japanese rated as more important. However, the authors of the study concluded that although individual values for rewards may be similar, the social and competitive contexts still require different motivational systems.

Individual incentives that work effectively in information-oriented cultures like the US can fail completely in other cultures. For example, with Japan's emphasis on paternalism and collectivism and its system of lifetime employment and seniority, motivation through individual incentive does not work well because Japanese employees seem to derive the greatest satisfaction from being comfortable members of a group. Thus, an offer of an individual financial reward for outstanding individual effort could be turned down because an employee would prefer not to appear different from peers and possibly attract their resentment. As such, Japanese bonus systems are based on group effort, and individual commission systems are quite rare. Japanese employees are more motivated by the social pressure of their peers than the prospect of making more money based on individual effort. Likewise, compensation packages in Eastern European countries typically involve a substantially greater emphasis on base pay than in the US (Kiriazov, Sullivan, and Tu 2000) and performance based incentives have been found to be less effective (Fey, Bjorkman, and Pavlovskaya 2000). While some point out that motivational practices are changing even in Japan (Shibata 2000), such patterns do not change very quickly or without substantial efforts (Gupta and Govindarajan 2000).

Working conditions are a crucial aspect of motivation. With increasing frequency the working conditions that may be acceptable in less developed countries are being scrutinized by labour and humanitarian groups in the more affluent countries. This scrutiny is producing positive changes in many countries. For example, Mattel's (Marquez 2000) manufacturing principles now include positive statements about factory and living quarters conditions and prohibitions against corporal punishment.

Communications are also important in maintaining high levels of motivation; foreign managers need to know the home office is interested in their operations, and, in turn, they want to know what is happening in the parent country. Everyone performs better when well informed. However, differences in languages, culture (Harvey and Novincevic 2000), and communication styles and technologies can make mutual understanding between managers and sales representatives more difficult. Cultural differences can even be expected to influence the adoption of new communication media, such as the Internet (Cateora, Gilly, and Graham 2009).

18.5.7 Designing Compensation Systems

Developing an equitable and functional compensation plan that combines balance, consistent motivation, and flexibility is extremely challenging in international operations. This is especially true when a company operates in a number of countries, when it has individuals who work in a number of countries, and/or when p. 527 the management ↳ and/or sales force is composed of expatriate and local personnel. Fringe benefits play a major role in many countries (Peterson, Napier, and Shul-Shim 2000). Those working in high-tax countries prefer liberal expense accounts and fringe benefits that are nontaxable instead of direct income subject to high taxes.
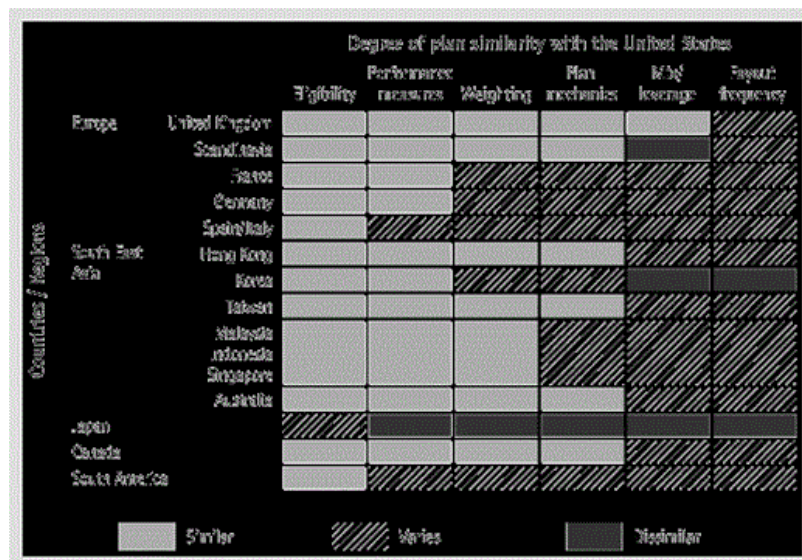

Fig. 18.1. Global similarity to US compensation plans

Source: From Schick and Cichelli 1996; updated in Cateora, Gilly, and Graham, 2009).

The issue of compensation plans becomes particularly difficult for global companies. Compensation plans of any one firm often vary substantially around the globe, reflecting the economic and cultural differences in the diverse markets served. As reflected in Figure 18.1, some experts feel compensation plans are most different from the standard US approach in Japan and Southern Europe.

One company has gone possibly the farthest to homogenize its worldwide compensation scheme. Beginning in 1996 IBM rolled out what is perhaps the most global approach to compensating a worldwide sales force (Marchetti 1998). The plan was developed in response to 'global' complaints from sales representatives that the old plan was confusing, that it did not provide for work done outside one's territory (e.g. when global customers are involved), and therefore did not promote cross-border team work. At first glance it may appear that IBM is making the cardinal error of trying to force a plan developed centrally onto sales offices literally spread around the world and across diverse cultures; however, the compensation plan still allows substantial latitude for local managers. Compensation managers in each country determine the frequency of incentive payouts and the split between base and incentive ↳ pay, while still following a global scheme of p. 528 performance measures. Thus, the system allows for a high incentive component in countries like the US and high base-salary components in countries like Japan.

Of course, the trend for manufacturing firms is to follow the low wages wherever they might lead. Most MNCs have found that once the right motivational mix has been discovered workers in most countries are capable of efficiently producing to global standards. At the start of the century wages varied within China as follows (Marquez 2000): in Hong Kong the typical plastics molder made $1,735/month and an engineer $4,400/month; in Shenzhen the labour prices were $190/month for a molder and $1,100 for an engineer; and in Nanjing the prices were dropped to $140/month and $800/month respectively. In response, Mattel proceeded to develop sourcing from two new factories in Nanjing.

18.5.8 Evaluating and Controlling

Evaluation and control of employees in the US is a relatively simple task. Emphasis is placed on individual performance measures. However, in many countries the evaluation problem is more complex, particularly in the more collectivistic cultures, where teamwork is favored over individual effort. Performance measures require closer observation and may include the opinions of customers, peers, and supervisors. Of course, on the other hand, managers operating in more collectivistic cultures may see measures of individual performance as relatively unimportant. Shibata (2000) and others report that things are changing even on the factory floor in Japan where some companies are trying individual performance measures and incentives. However, the obstacles to change remain great.

One study comparing American and Japanese sales representatives' performance illustrates such differences (Money and Graham 1999). Supervisors' ratings of the representatives on identical performance scales were used in both countries. The distribution of performance of the Japanese was statistically normal—a few high performers, a few low, but most in the middle. The American distribution was different—a few high, most in the middle, but almost no low performers. In the US poor performers either quit (because they are not making any money) or they are fired. In Japan the poor performers stay with the company and are seldom fired. Thus, sales managers in Japan have a problem their American counterparts do not: how to motivate poor performers. Indeed, sales management textbooks in the United States usually include material on how to deal with 'plateaued' salespeople, but say little about poor performers because the latter are not a problem.

The primary control tool used by American sales managers is the incentive system. With the Internet and cell phones, more and more American sales representatives operate out of offices in their homes and see supervisors infrequently. Organizations have become quite flat and spans of control increasingly broad in recent years. However, in many other countries spans of control can be quite narrow by American standards —even in Australia and particularly in Japan. In the latter country, ↳ supervisors spend much more time p. 529 with fewer subordinates. Corporate culture and frequent interactions with peers and supervisors are the means of motivation and control of sales representatives in more collectivistic and hierarchical cultures like Japan.

18.6 Culture's Influence on Strategic Thinking and Policy Making

Perhaps Lester Thurow in his book *Head to Head* (1992) provided the most articulate description of how culture influences managers' thinking about business strategy. He distinguished between the British—American 'individualistic' kind of capitalism and the 'communtarian' form of capitalism in Japan and Germany. The business systems in the latter two countries are typified by cooperation among government, management, and labour, particularly in Japan. Contrarily, adversarial relationships among labour, management, and government are more the norm in the UK, and particularly in the United States. We see these cultural differences reflected in Hofstede's (1991) results—on the IND scale the US is 91, the UK is 89, Germany is 67, and Japan is 46.

We also find evidence of these differences in a comparison of the performance of American, German, and Japanese firms (Anterasian, Graham, and Money 1996). In the less individualistic cultures labour and management cooperate—in Germany labour is represented on corporate boards, and in Japan management takes responsibility for the welfare of the labour force. Because the welfare of the workforce matters to Japanese and German firms their sales revenues are more stable over time. American style layoffs are eschewed. The individualistic American approach to labour-management relations is adversarial—each side takes care of itself. So we see damaging strikes and huge layoffs that result in a more volatile performance for American firms.

At the beginning of the twenty-first century the American emphasis on competition looked like the best approach. But, it is important to recall that key word in Adam Smith's justification for competition—'frequently'. It's worth repeating here, 'By pursuing his own interest he frequently promotes that of society ...' Smith wrote *frequently*, not always or most of the time. A competitive, individualistic approach works well in a context of economic boom. During the late 1990s American firms dominated Japanese and European ones. The latter seemed stogy, conservative, and slow in the hot global information economy of the time. However, downturns in a competitive culture can be ugly things. A review of the performance and layoffs at Boeing during the commercial aircraft bust of the late 1990s is instructive.

It should also be mentioned that Thurow and the others writing in the area omitted a fourth kind of capitalism—that common in Chinese cultures. Its distinguishing ↳ characteristics are a more entrepreneurial approach and an emphasis on *guanxi* (see Standifird and Marshall 2000 or Lam and Graham 2007) as the coordination principle among firms. Gordon Redding's excellent book, *The Spirit of Chinese Capitalism* (1993), provides the best description of this fourth form of capitalism. And this fourth form is predicted by culture as well. Chinese cultures tend to be relationship-oriented and the strong reciprocity implied by the notion of *guanxi* fits well. Additionally, the Chinese firms tend to be smaller, limited by the size of extended family relations. Indeed, Leslie Young (1998) at Chinese University in Hong Kong points out an additional distinction in the evolving Chinese business system. He suggests that in southern China the emphasis will be on small, entrepreneurial firms while in northern China the big, state-owned heavy industries will evolve into a structure similar to that of the Japanese *keiretsu* forms of families of large companies.

18.6.1 Culture and Innovation Strategies: The Case of Philips and Open Innovation

The Dutch have all kinds of advantages vis-à-vis large companies in larger countries like the United States or even neighbouring Germany. The head of Philips R&D Laboratory in Aachen, Germany, put it most succinctly: 'We have very smart people here at Philips, but we don't have all the smart people.' And, actually their country is getting smaller as the water from global warming subtracts from their land literally. Thus, there's an urgency to their commerce. They're also renowned for their thrift.

The Dutch know foreign languages better than most. It seems that the Dutch business people I run into all over the world all speak about five each! The Netherlands also sits on the north/south divide in Europe. In the North you have Protestant; South you have Catholic Europe. Going back even further in history, in the North you also had the 'barbarians' unconquered by the Romans. The three rivers flowing east/west that the Romans had trouble crossing make and mark the divide—the Maas, Waals, and Rhine. Thus, it's no accident that the foremost international business scholar is Dutch—Geert Hofstede as mentioned earlier. Professor Hofstede also reports another Dutch advantage for creative interactions—high scores for both individualism and egalitarianism.

But, the fundamental advantage of the Dutch is that they have always clearly recognized their international interdependence as a competitive advantage. And, Philips' corporate culture and strategic structure represents this realization. You can see the differences reflected in a simple comparison of the websites of Philips and General Electric in Table 18.6. Philips celebrates its 'participations and alliances' toward the top of its menu. Finding GE's international alliance structure takes substantial searching. GE has 'investor communications' at the top of its menu, while that topic resides near the bottom of the Philips list. Perhaps the American emphasis on investors reflects the actual users of the website—the millions of stock traders in the population? ↳ The executives at Philips don't have to kow-tow to Wall Street, just their various boards including a fully independent (by Dutch law) Supervisory Board of non- employee leaders of commerce from around the world including Europeans, North Americans, and an Asian. Alternatively, the GE directors are all Americans. Finally, Philips' mission statement emphasizes its customers: 'We improve the quality of people's lives through the timely introduction of meaningful technological innovations.' Alternatively, GE has no mission statement, but the comparable verbiage in their annual report suggests different constituencies: 'reliable growth company', 'winning in the future', and 'imagination at work'. Indeed, I actually like best the 1960s expression of their corporate goals so frequently announced then by company spokesman, actor Ronald Reagan, 'At General Electric, progress is our most important product.'

Table 18.6 ‘About us’: Page menus of corporate websites

Philips ‘Company Profile’	General Electric ‘Our Company’
Mission and vision/values and strategy	Investor Communications
Businesses	Business Directory
Participations	Company Information
Alliances	News
Management	GE Foundation
Key inventions	GE Volunteers
Corporate governance and business principles	Careers
Business excellence	Features Archive
History	
Businesses & suppliers	
Our brand	
Design	
Research	
Sustainability	
News centre	
Investor relations	
Careers	

Sources: www.philips.com/about/company/index.html and www.ge.com/en/company/ both accessed March 2007.

Thus, Philips is one of the originators of 'open innovation'. Thirty years ago they pioneered the concept of partnering to develop new ideas and partnering to market new ideas. Open innovation for Philips also means they buy ideas from R&D partners and they sell ideas to marketing partners, rather than developing and marketing all their own. One current project well exemplifies their innovative approach to developing innovations and intellectual property in China: ↳

> The PHENIX Initiative is a commercial, industrial, and R&D cooperation launched by a consortium of Chinese and European partners, led by France Telecom. It received the support of the EU—China Working Group on Digital Olympics, of the MOST (Chinese Ministry of Science and Technology), the BOCOG (Beijing Organizing Committee for the Games of the XXIX Olympiad), and was co-financed by the European Union. Philips Research (Europe and East Asia in Shanghai) participated in the project, which aimed at studying the commercial potential in China for mobile interactive services, analyzing the DVB-H positioning in China, and developing innovative concepts in the area of mobile services, particularly targeting the upcoming Olympic Games.

Philips engages in dozens of major and minor business partnerships around the world like the Phenix Initiative. Surprisingly, company executives admit they might do better at their international negotiations. But, the company culture and structure are most well suited to take advantage of 'smart people everywhere' in the dynamic global marketplace of the twenty-first century. See Hernandez and Graham (2008) for more details.

18.6.2 Culture's Influence on Policy Making

Finally, based on an impressive empirical study, economists at the World Bank and Harvard University reported a relationship between barriers to new companies entering markets (i.e. entry barriers such as business licences requiring multiple signatures or long delays in processing) and corruption levels in eighty-five countries. They explained that higher entry barriers allowed corrupt officials to extort rents from those wishing to start new businesses. Based on their findings they suggested that one way to reduce corruption would be to lower entry barriers.

In a more recent study Jing and Graham (2007) added cultural values into the calculus reporting that values appear to exercise a causal effect on both regulations regarding entry and corruption levels. That is, corruption and higher entry barriers both appear to be caused by cultural values—in relationship-oriented cultures we see both higher entry barriers and higher corruption levels. And when values are included in the analysis, the apparently specious relationship between entry barriers and corruption disappears. Jing and Graham (2007) explain that policymakers in relationship-oriented cultures eschew new business entries because such new businesses tend to disrupt long-standing commercial and personnel relationships, thus policymakers erect higher barriers to entry. And in a previous section of this chapter we have already discussed the well-accepted causal relationship between values and corruption (cf. Houston and Graham 2000). Obviously more work needs to be done in the area of culture and policy making, but the substantial discrepancies between these two studies using the same data suggest caution should be exercised in accepting premature prescriptions that ignore cultural differences.

18.7 Closing Thoughts

In the first half of this chapter my purpose was to quantify culture. Most anthropologists will have disdain for this approach—they would argue that culture can only be truly understood in the richness of the field. Culture must be experienced, not added up! While I appreciate this view, I do not share it. I would certainly agree that not much credence should be put in any one number supplied, particularly when careers and/or cash are being decided upon. Rather the numbers provide the reader with a notion of how different cultures can be. Swiss and Mexicans do indeed think very differently about time, and both Swiss managers and Mexican managers benefit from this knowledge when they are involved commercially. This knowledge allows both to be more patient.

In the second half of the chapter the evidence is quite clear that culture affects thinking and behaviour of both factory floor workers and CEOs (Wiersema and Bird 1993; Shane 1994). Thus, two conclusions are paramount here: (1) Human Resources Management practices must be applied globally with consideration of cultural differences and consultation with locals. The latter is crucial, but a point often lost on ethnocentric home-office folks. (2) Corporate executive boards dominated by one cultural group, as they are in the United States, are bound to make huge mistakes of omission. Breadth of thinking is crucial in the culturally diverse global marketplace. I agree with Nick Forster (2000) that there are no global *managers*. Global *management teams* are the real key to future success in international enterprise.

In closing I am quite encouraged by the publication of the excellent book, *Culture Matters* (Harrison and Huntington 2000). It is an edited book including some twenty-two articles on topics related to culture and its influence on economic progress. My favourite title among them is Lucian Pye's "Asian Values: from Dynamos to Dominos". Hopefully the book will help rekindle the interest in culture's pervasive influences that Max Weber (1930) and others initiated so long ago.

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