

8.1. Introduction

This chapter covers one major components of learning objectives/outcomes that are likely to examine via coursework or examination. This chapter will enable students to build their knowledge on *global human resource issues* faced by international business, such as the staffing, recruitment and selection, performance appraisal and training and development along with compensations policies.

This chapter will cover the following topics:

- Human resource management function
- International human resource management (IHRM)
- International HRM approaches
- IHRM policies and practices
- Work practice in an international context

8.2. Human resource management function

HRM can be described as a strategic, integrated and coherent approach to the employment, development and well-being of the people working in organizations. The practice of Human Resource Management (HRM) is concerned with all aspects of how people are employed and managed in organizations. It covers activities such as:

- resourcing (human resource planning, recruitment and selection, and talent management);
- performance management;
- learning and development;
- reward management
- employee relations;
- employee well-being.

Human resource management is important for various reasons. One of the most important reasons is that human resource management practices are associated with employee performance in the organization.

Many research findings indicated that effective human resource management enables organization in achieving and sustaining competitive advantages. Similarly evidence shows that in effective or poor management of human resource leads to employee dissatisfaction and in turn leads to high absenteeism, low productivity, increase in conflicts among employees.

Some of the research findings are illustrated below indicating that effective human resource management leads to high performance.

Researcher(s)	Methodology	Outcomes
Huselid (1995)	Analysis of the responses of 968 US firms to a questionnaire exploring the use of high-performance work practices.	Productivity is influenced by employee motivation; financial performance is influenced by employee skills, motivation and organizational structures.
Patterson <i>et al</i> (1997)	The research examined the link between business performance and organizational culture and the use of a number of HR practices.	HR practices explained significant variations in profitability and productivity (19 per cent and 18 per cent respectively). Two HR practices were particularly significant: (1) the acquisition and development of employee skills and (2) job design including flexibility, responsibility and variety.
Appelbaum <i>et al</i> (2000)	Study of the impact of high-performance work systems (HPWSs) in 44 manufacturing facilities – over 4,000 employees were surveyed.	HPWSs produced strong positive effects on performance. They are associated with workshop practices that raise the levels of trust, increase workers' intrinsic reward from work and thereby enhance organizational commitment.
Guest <i>et al</i> (2000)	The Future of Work Survey covered 835 private sector organizations. Interviews were carried out with 610 HR professionals and 462 chief executives.	A greater use of HR practices is associated with higher levels of employee commitment and contribution and is in turn linked to higher levels of productivity and quality of services.
Thompson (2002)	A study of the impact of high-performance work practices such as team working, appraisal, job rotation, broad-banded grade structures and sharing of business information in UK aerospace establishments.	The number of HR practices and the proportion of the workforce covered appeared to be the key differentiating factor between more and less successful firms.

8.3. International Human Resource Management (IHRM)

IHRM is concerned with HRM issues that cross national boundaries or are conducted in locations other than the home country headquarters.

IHRM is concerned with the relationships between the HRM activities of organisations and the foreign environments in which the organisations operate.

IHRM includes *comparative* HRM studies; e.g. differences in how companies in Japan, Thailand, Austria and Switzerland plan for upgrading of employee skills and so on.

IHRM does *not* include studies that are focused on issues outside the traditional activities inherent in the HRM function. E.g. leadership style is *not* IHRM, unless specifically linked to an HRM function; developing a selection programme to measure and select global leaders would arguably lie within the domain of *organisational behaviour*

IHRM does *not* include studies of HRM activities in single countries. E.g. a study of personnel selection practices in Saudi Arabia is a study about domestic HRM in Saudi Arabia. Though such studies may have interest to those who work in international HRM issues, they are essentially examples of domestic HRM research

IHRM and organizational structure

The type of international organisational structure adopted by the MNE will provide the context for many of the IHRM issues faced by the company

The five readily identified ‘types’ of organisational structure include:

- ***International division structure*** is often used in early stage of internationalization within an ‘international division’ merely added to the existing divisional structures.
- ***International geographic/regional structure*** involves separating out the different geographical/regional areas in which the MNE operates. Each geographic area maybe given its own division which its own functional departments. MNE with a wide variety of products in their product portfolio sold across many geographic areas often adopts this organizational structure.
- ***International product structure*** is where an MNE’s divisions are established on the basis of related product lines rather than geographical area. Each

product division is responsible for all functions relating to those items in that particular product portfolio. This structure is often adopted by MNE with a variety of unrelated product lines (e.g. conglomerate MNE).

- **International functional structure** gives each functional department of the MNE responsibility for the international operations of that function.
- **Matrix or mixed structures** bring together the functional, geographical and products structures and combine them in an attempt to meet the needs of a specific activity or project. Once the activity or project is completed, the ‘team’ is often disbanded and return to their original position within the divisional or other structures of the MNEs.

8.4. International HRM approaches

There are mainly four IHRM approaches. These include ethnocentric approach, polycentric approach, geocentric approach, and regiocentric approach (Wall et al, 2010).

The suitability of the type of staffing policy adopted by MNEs depends on the strategy used by the company.

Focus on Multicultural
Differences

High	Polycentric Strategy	Geocentric Strategy
Low	Ethnocentric Strategy	Regiocentric Strategy
	Low	High

Focus on Multicultural
Commonalties

Source: Nitsche (2003, p.44).

8.4.1. Ethnocentric approach

In the ethnocentric approach, all key positions in the host country subsidiary are filled by nationals of the parent company. The policy makes most sense for firms pursuing an international strategy.

An ethnocentric staffing policy is attractive when

- ✓ the firm believes there is a lack of qualified individuals in the host country to fill senior management positions
- ✓ the firm sees an ethnocentric staffing policy as the best way to maintain a unified corporate culture
- ✓ the firm wants to transfer knowledge of core competencies to the foreign operation

The ethnocentric approach to staffing is falling out of favor because

- ✓ it limits the advancement of host country nationals. This can lead to resentment, lower productivity, and increased turnover
- ✓ it can lead to cultural myopia (the firm's failure to understand host-country cultural differences that require different approaches to marketing and management)

8.4.2. Polycentric approach

Polycentric approaches to staffing policy emphasis on recruiting host country nationals to manage the subsidiaries in their own country. This means that host country nationals are recruited to manage subsidiaries in their own country, while parent country nationals occupy the key positions at corporate headquarters. This allows the MNE to take lower profile in sensitive economic and political situations and helps to avoid intercultural management problems.

This approach minimizes the dangers of cultural myopia, but it also helps create a gap between home and host country operations. The polycentric policy is best suited to firms pursuing a localization strategy.

The advantages of the polycentric policy are that

- ✓ the firm is less likely to suffer from cultural myopia
- ✓ it may be less expensive to implement

The disadvantages of the polycentric policy are that

- ✓ host country nationals have few opportunities to gain foreign experience and so cannot progress beyond senior positions in their own subsidiaries
- ✓ a gap can form between host country managers and parent country managers

8.4.3. Geocentric approach

This approach utilizes the best people for all key jobs throughout the organization, whatever their nationality or whatever the geographical location of the post to be filled. In this way an international executive team can be developed.

This approach is consistent with building a strong unifying culture and informal management network. It makes sense for firms pursuing either a global or transnational strategy to adopt geocentric staffing policies. However immigration policies of national governments may limit the ability of a firm to pursue geocentric staffing policy.

The advantages of a geocentric approach to staffing are that it

- ✓ enables the firm to make the best use of its human resources
- ✓ builds a cadre of international executives who feel at home working in a number of different cultures

The disadvantages of geocentric approach include

- ✓ difficulties with immigration laws
- ✓ costs associated with implementing the strategy

8.4.4. Regiocentric approach

Here the MNE divides its operations into geographic regions and moves staff within a particular region. Examples include Europe, America, Asia rather than between regions.

Staffing Approach	Strategic Appropriateness	Advantages	Disadvantages
Ethnocentric	International	Overcomes lack of qualified managers in host nation Unified culture Helps transfer core competencies	Produces resentment in host country Can lead to cultural myopia
Polycentric	Localization	Alleviates cultural myopia Inexpensive to implement	Limits career mobility Isolates headquarters from foreign subsidiaries
Geocentric	Global standardization and transnational	Uses human resources efficiently Helps build strong culture and informal management networks	National immigration policies may limit implementation Expensive

Centralisation or Decentralisation of IHRM

Similarly the adoptions of a specific staffing policy and integration or decentralisation of IHRM depend on the following factors:

1. **Degree and type of internationalisation.** There is a range of options for international firms as to how they may expand, from exporting through to using wholly owned subsidiaries. In general an integrated and more ethnocentric approach to IHRM is often adopted for the wholly-owned subsidiary, with the MNE retaining centralised control over the way in which its employees are managed.
2. **Types of industry and market served.** Porter (1986) suggests that strategies for the global industry are more likely to involve the firms in integrating its activities worldwide, especially where strong brand images are involved. For the global industry, IHRM is more likely to be ethnocentric while for the multi-domestic industry IHRM is more likely to be polycentric and to resemble that typically used in the particular country in which the subsidiary operates.
3. **Characteristics of Staff.** The types of employees may well influence the degree to which the IHRM function is decentralised. For example if the employees of the subsidiary consist of highly skilled, experienced and fully committed staff, the IHRM function may be decentralised. However, where the employees mainly consist of unskilled and temporary staff, then headquarters will usually wish to exercise a greater degree of control over the corporate foreign subsidiary.
4. **Cultural preferences.** The degree of integration or decentralisation will also depend on the cultural preferences towards either of these approaches to management in both the organisation and in the country in which the subsidiary operates. The latter reflects Hofstede's idea of national culture.

Advantages and disadvantages of a 'decentralised' approach to IHRM

Advantages	Disadvantages
Group within the subsidiary can gain in status	Tendency to become 'exclusive'
Groups within the subsidiary become more cohesive, fostering group identity	Loss of central control, higher administrative costs as HRM function is sent 'down the line'
IHRM takes place within a culture appropriate to the local workforce and customers	Loss of organisational control and organisational identity

8.5. IHRM policies and practices

Key elements within an IHRM program includes

- Recruitment and Selection
- Training and Development
- Pay and international employee relations
- Performance appraisal

8.5.1. Recruitment and Selection

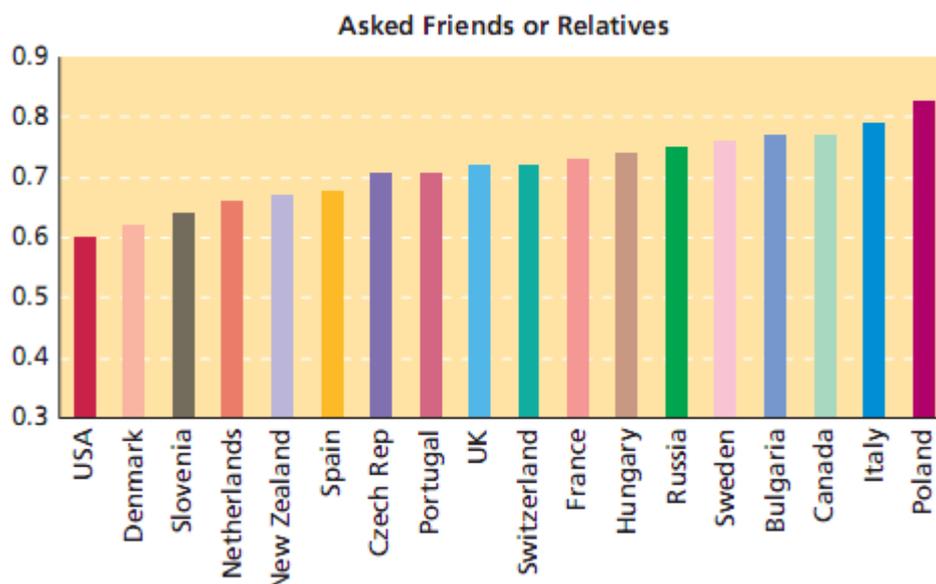
The staffing policies discuss earlier already has covered significant portion of the area. In this section, basic aspects of recruitment and selection will be covered.

Recruitment refers to the process of identifying and attracting qualified people to apply for vacant positions in an organization. The recruitment stage usually begins with a company's assessment of its needs in terms of human resources. The company then decides how it will make potential applicants aware of the job vacancies.

Recruitment methods include among others, applications and advertisements placed in news papers or on the Internet, internal job postings where companies post a list of vacancies on their websites or internally, use of private or public agencies and use of recommendations from current employees (Cullen and Parboteeah, 2010).

Research shows that US managers see newspaper advertising as one of the most effective recruitment channels, while university recruitment was judged among the most effective only for professional and technical jobs. In contrast, other forms such as employee referral and use of personal contacts for recruitment purposes are not seen as very effective (Cullen and Parboteeah, 2010).

However, many of the collectivist societies such as Japan, South Korea and Taiwan, referrals from friends or family tend to be much more important. In South Korea, many blue-collar jobs are filled through referrals from friends and family. Such practices are not surprising as collectivist societies place emphasis on harmony and loyalty. By only recruiting from friends and family or other important social groups (e.g. high schools, universities, clubs), an MNC can maximize the chances of finding someone who can fit the organization's culture (Cullen and Parboteeah, 2010). The figure 8.1. below shows recruitment via asking relatives or friends by countries



Source: Cullen and Parboteeah (2010, p. 398).

Figure 8.1: Recruitment methods

After recruitment, MNEs must carry out their selection process. **Selection refers** to the process by which a company chooses people to fill a vacant position. Similar to recruitment, selection is also affected by cultural practices. One of the most critical differences pertains to more collectivist countries.

In selecting employees, collectivist cultural norms value trustworthiness, reliability, and loyalty over performance-related background characteristics. Personal traits such as loyalty to the company, loyalty to the boss, and trustworthiness are the traits that family members can provide. As such, in smaller companies, preference is given to family members.

8.5.2. Training and development in an international context

Training and development refer to the efforts of the MNC to provide education and other programs to better equip its employees to do their job. Such training at work may involve formal training, informal training, learning embedded in the workplace and other forms of learning.

Training and development increases in complexity as MNEs move abroad. The type of training that takes place would usually depend on a number of factors;

1. The degree to which management is centralized

2. The types of workers employed in subsidiaries or joint venture
3. The importance of branding, and the extent to which employees are expected to reflect the brand
4. The cultural expectations of training.

In a global company, the training will be centralized so that suppliers, employees and distributors are aware of the brand image that needs to be communicated. For example Ford set up centralized training programs and then translated and delivered to all main suppliers, subsidiaries and distributors. However, if more polycentric approach is taken, then the training may well be far more local, and more in line with the local culture.

Cross cultural training is also vital in order to prevent problems that arise with team-working. In a cross-cultural context, it is not only the personality types that have to be taken into account, but also the very real cultural differences and approaches between team members. Therefore attempts at cross-cultural team training are becoming increasingly prominent in MNEs.

Many MNEs run extensive training programmes for employees going overseas, designed to provide individuals with information and experience related to local customs, cultures and work habits so that they can interact and work more effectively with local colleagues. Also such programs may run for spouses and children to ensure that employees sent abroad are fully immersed in the foreign culture.

Some of the training programs involve

1. Environmental briefing regarding geography, climate, housing and schools
2. Cultural orientation designed to familiarize the individual with cultural institutions and value systems of the host country
3. Cultural assimilations to provide participants with inter-cultural encounters
4. Language training
5. Sensitivity training designed to help develop attitudinal flexibility
6. Field experience which sends the participants to the country of assignment to get them used to the emotional stress of living and working with people of different culture.

8.5.3. Pay/compensations and international employee relations

The way in which an organization seeks to reward its employees may be critical to its success. Due to the global competition, organizations are demanding and encouraging its staff to engage in high performance work practices or go beyond the minimum expectations.

Compensation includes the efforts of the multinational to distribute wages and salaries, incentives such as bonuses, and benefits such as retirement contributions. Compensation is also a critical aspect of what human resource management policies companies use to motivate their employees.

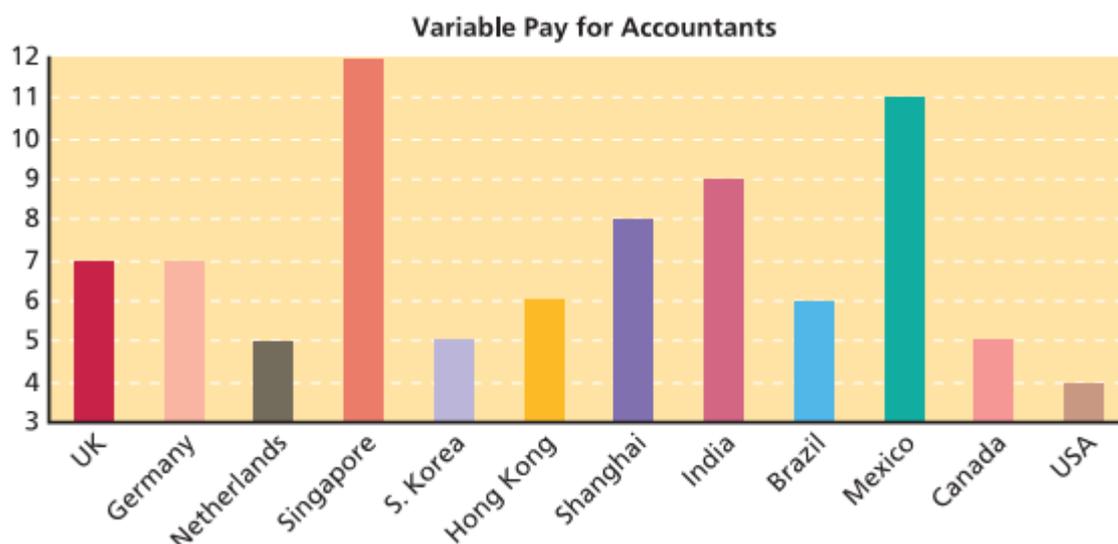
There are many factors that will be considered before drawing a compensation package for employees. The most commonly used method for designing a compensation package is 'Balance Sheet' approach (Wall et al, 2010).

Balance Sheet approach is a system designed to equalize the purchasing power of employees at comparable position levels living overseas and in the home country, and to provide incentives to offset qualitative differences between assignment locations.

In order to achieve such 'balance' the organization must take into account a number of factors when sending employees to a different country.

1. Income taxes incurred in both home and host country
2. Housing allowances (which might range from financial assistance to employees to providing company housing)
3. Cost of living allowances (to make up any differences in prices between home and foreign country)
4. Contribution to savings, pension schemes etc, while abroad)
5. Relocation allowances (including moving, shipping and storage of personal and household items and temporary living expenses)
6. Education allowances for expatriate's children (e.g. language tuition and enrolment fees in the host country or boarding school fees in the home country)
7. Medical, emergency and security cover

There are wide variations both among countries and among organizations within countries concerning how to compensate workers. Some differences stem from whether compensation should be based on achievement or performance. Other important differences include whether everyone in a team should be paid the same or whether compensation should be made based on individual performance.



Source: Cullen and Parboteeah (2010, p. 405).

Figure 8.2: Variable pays for Accountants

Cultural dimension that impacts compensation is the individualism–collectivism cultural dimension. Recall in the chapter on culture that in individualistic societies like the US, individuals are only loosely connected to each other. In contrast, in highly collectivistic societies, people tend to be more tightly connected to each other and there is focus on harmony. Given the above, it is advisable for multinationals to apply equity principles (compensate according to performance) in more individualistic societies. In contrast, equality or parity principles (compensate everyone equally) seem to be more sensible for collectivistic countries. In such countries, there is more emphasis on harmony and cohesion, and compensating all employees equally minimizes the risk of conflict (Cullen and Parboteeah, 2010).

The table below shows the pay variances among various countries due to the economic, political, social and technological differences that exist among the countries.

Country	Salary (Head of Sales and Marketing, \$)	Number of Days Off	Local Perks
India	56,171	31	Pay for health-care costs for parents of employees
China	92,402	23	Make contributions to housing funds to help employees buy a house
France	188,771	40	Offer use of company-owned chalets and beach houses for nominal fee
Hong Kong	149,905	26	Offer Chinese medicine coverage as part of overall health insurance
Mexico	163,591	23	Because of high pollution in Mexico City, companies offer all-expenses-paid "pollution escape trips" to the Pacific or Gulf coasts
Philippines	95,286	19	Offer rice or "rice allowances" that companies can convert into cash
Japan	148,899	35	Offer "family allowances" on top of pay
Brazil	208,691	40	Offer chauffeur-driven bulletproof cars to executives to avoid kidnapping
US	229,300	25	Offer free legal services or free financial planning to top executives
Russia	117,135	39	Offer company-sponsored mortgages to help employees get better credit rates

Source: Based on Jena McGregor, 2008, "The right perks," *BusinessWeek*, January 28, pp. 42-3.

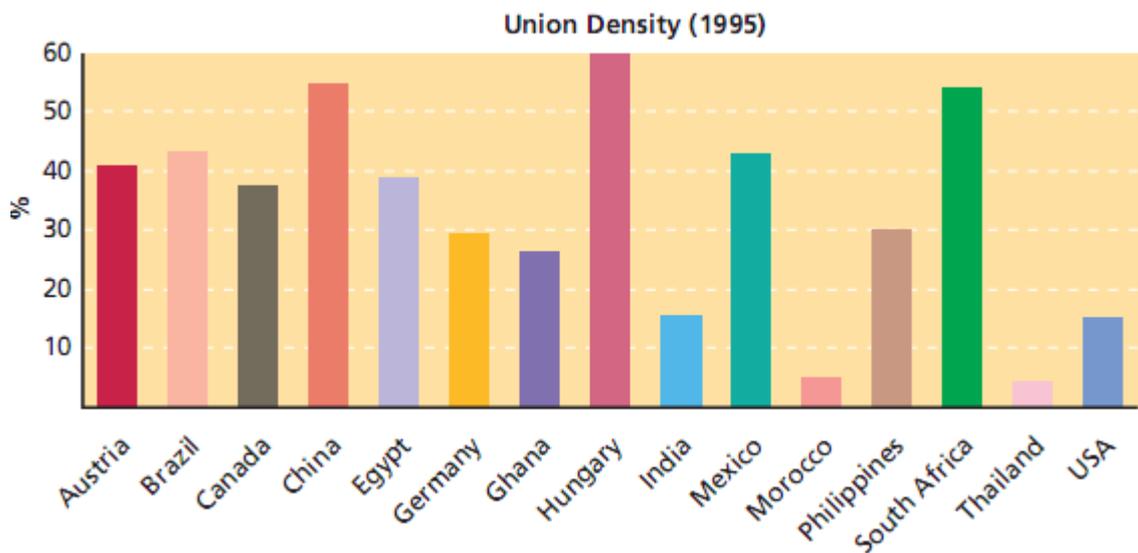
Employee/labour Relations

Labor relations provide an indication of the relationship between companies and their employees and the degree to which employees influence the company's operations. There are **wide variations in the patterns of labor relations** in different nations. These differences in patterns stem from cultural factors as well as historical factors.

Historical factors, such as the state of technological development during early unionization and the time when governments recognized the legality of unions, influence current union structure and activities. Management of labor relations also differ from country to country.

In the US, most unions remain at the regional level. Most local unions associate with some craft, industry, or mixed national union. There are approximately 170 national unions in the United States. However, the US has seen declining union membership. As trade globalizes, local unions are slowly losing their power on workers. **In Germany**, labor unions are more powerful and have an important influence in what companies do. At the company level, industrial democracy in Germany gives many

workers equal representation on the board of directors with those elected by the shareholders.



Source: Cullen and Parboteeah (2010, p.409).

Figure 8.3: Unions in selected countries.

8.5.4. Performance Appraisal

The process by which companies appraise their employees is known as **performance appraisal**. All companies must assess their employees' performance to identify people to reward, promote, demote, develop and improve, retain, or fire.

According to Wall et al (2010, p.332-333) the benefit of a comprehensive appraisal system include the following

1. It can identify an individual's strengths and weakness, and show how these can be overcome
2. It can reveal organization obstacles blocking progress
3. It can provide useful feedback to help improvement human resource planning
4. It can improve communications by giving staff a chance to talk about expectations

According to James (1998), performance has its roots in three key principles. People learn work/achieve more when they are given:

1. Adequate feedback as to how they are performing
2. Clear and attainable goals
3. Involvement in the setting of task and goals.

Not everyone can move up the ladder of the organizational pyramid and the performance appraisal function serves as an important assessment tool. Similarly performance appraisal techniques used in different countries differ due to cultural, or political factors. One of the dimensions that seems to impact performance appraisal is the collectivist cultural dimension. Recall that in collectivist societies, the group takes precedence over individuals and harmonious relationships are emphasized. As such, in more collectivistic cultures, both employer and employee accept as correct and fair that human resource decisions should take into account personal background characteristics more than achievement. In such cases, the usefulness of a US-style performance appraisal system is less clear because who you are and how old you are may count more than how you perform (Cullen and Parboteeah, 2010)

In other collectivist societies such as South Korea, there is preference for seniority-based promotions, rather than appraisal-based promotion. This follows from the Confucian tradition that strives to preserve harmony (since it is unseemly for younger employees to supervise older ones). While job performance is important and most companies do have appraisal systems, seniority is most important for advancement. Because of the long-term orientation of Korean culture, Korean performance appraisal systems focus on sincerity, loyalty, and attitude on an equal footing with job performance (Cullen and Parboteeah, 2010)

In international performance appraisals can be very complex. Consider also that while the major objective of performance appraisal is to provide feedback, some societies may not engage in such practices. In many Asian countries, such as China and Japan, feedback is generally not given to save face. Furthermore, to preserve harmony, appraisals may be done through group meetings rather than the more typical individual appraisals in individualistic societies (Cullen and Parboteeah, 2010)

The table below shows the cultural influences on appraisal systems with key aspects being whether the country is regarded as 'low context' or 'high context' (see chapter 5 notes)

See next page (page. 16)

Cultural variations: Performance appraisal

Dimension General	USA <i>Low Context</i>	Saudi Arabia <i>High Context</i>	Japan <i>High Context</i>
<i>Objective of Performance Appraisal</i>	Fairness, employee development	Placement	Direction of company/employee development
<i>Who does appraisal?</i>	Supervisor	Manager several levels up. Appraiser has to know employee well	Mentor and supervisor. Appraiser has to know employee well
<i>Authority of Appraiser</i>	Presumed in supervisory role or position. Supervisor takes slight lead	Reputation important (prestige is determined by nationality, sex, family, tribe, title, education). Authority of appraiser is important	Respect accorded by employee to supervisor or appraiser. Done co-equally.
<i>How often?</i>	Once a year	Once a year	Development or periodically once a month. Evaluation appraisal after first 12 years
<i>Assumptions</i>	Objective appraiser is fair	Subjective appraiser more important than objective. Connection are more important	Objectives and subjective. Japanese can be trained in anything
<i>Manner of communication and feedback</i>	Criticism direct. Criticism maybe in writing. Objective, authentic	Criticism subtle. Older more likely to be direct. Criticism not given	Criticism subtle. Criticism given verbally. Observe formalities in writing
<i>Rebuttals</i>	American will rebut appraisal	Saudi Arabian will rebut appraisal	Japanese would rarely rebut appraisal
<i>Praise</i>	Given individually	Given individually	Given to entire group
<i>Motivators</i>	Money and positions. Career Development	Loyalty to supervisor	Internal excellence

Source: Wall et al (2010, p.333).

8.6. Work practices in an International Context

Flexible working is increasingly sought after approach within many countries. The strategic IHRM director may have to evaluate the impacts of adopting flexible working on the organization, especially in times of global recessions.

Clearly HR thinking and practice needs to evolve in responses to these challenges of flexibility and environmental uncertainty, specifically in the areas of:

- Planning horizons
- Staff appraisal where there may be no formal supervisor/subordinate reporting relations
- Remuneration strategies where outputs are not easily attributable to individuals alone
- The structure of the workforce and the use of consultants and contractors
- Development, promotion and succession planning

The main organisational disadvantages of employment Flexibility

- Potentially reduced commitment and/or quality
- Potential loss of stability
- Problems with continuity and team working
- Training expenditure. Flexibility implies a necessity to significantly increase expenditure on training and yet temporary working implies minimal training commitment
- Conflict with the workforce and trade union opposition
- Resistance, especially from crafts people who are unlikely to willingly give up time-honoured job definition
- A redefinition of the role and focus of managers

Charles Handy's (1999) concept of the shamrock organisation depicts an organisation with 'core' and 'periphery' workers as well as a contractual fringe.

- Core employees possess key and scarce skills and enjoy relatively high status positions with good prospects of security and promotion.
- Periphery workers on temporary or part-time contracts act as a buffer against changes in demand.

These concepts provide a background against which consideration can be given to the different forms of flexibility, namely task, numerical and financial (Atkinson, 1984).

1. **Task or functional flexibility.** There is evidence that traditional demarcations between jobs are being eroded and employees are being required to undertake a wider range of tasks.
2. **Numerical flexibility.** Temporary, part-time, short-term contract working and sub-contracting have been in the ascendant in recent years and have been adopted by organisations as a means of responding to demand fluctuations. Numerical flexibility can be achieved by using both contractors and agency staff.
3. **Financial flexibility.** The growth of individualised and variable systems of reward has been noticeable and performance related pay schemes are now widely in use. Fees for service payments are used for increasing numbers of self-employed sub-contractors.

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