

E X C H A N G E

The Relational Perspective and East Meets West:

A Commentary

by Anil K. Gupta

Executive Overview

In their essay on East Meets West, Chen and Miller argue that the relational philosophy rooted in the East and in particular China has much to offer for managers in both the East and the West. They suggest, however, that managers must avoid dangerous extremes and that an “ambicultural” approach that combines elements of Eastern and Western philosophies is likely to be far more effective than either approach in isolation. This commentary challenges some of Chen and Miller’s contextual assumptions about the East versus the West. At the same time, it also lends support to their central tenet—that is, the imperative for an ambicultural approach. I do this by providing an in-depth analysis of the two contrasting philosophies (the relational and the transactional perspectives) and note that, while each approach has major advantages, each also suffers from some serious—almost pathological—limitations. Importantly, however, the advantages and limitations of the two approaches complement each other. Thus, an integrated approach has the potential to significantly mitigate the hazards associated with either approach in isolation.

In their essay on how business leaders in both the West and the East could benefit from adopting the relational philosophy, Chen and Miller (2011) argue that the relational approach offers an ideal path toward future success at the level of individual organizations as well as the broader society.

The Chen and Miller perspective provides fertile ground for some serious agreement as well as some serious disagreement. I agree fundamentally with their central tenet that the most effective approach to management is one that combines the relational and the non-relational philosophies. At the same time, however, one could question and challenge several of their contextual assumptions. Is it valid to assume that the “East” and the “West” are relatively homogeneous societies in terms of their cultural values? Is it valid to assume that the relational philosophy originated

primarily in the East and specifically in China (Cappelli, Singh, Singh, & Useem, 2010)? Is it valid to assume that social and business relations in contemporary China are guided by Confucianism rather than by a hybrid of several potent philosophies including Confucianism, Taoism, Buddhism, communism, and capitalism (McGregor, 2007; Pomfret, 2007)? Is it valid to assume that China’s economic success over the past 30 years is due primarily to the influence of Confucianism rather than the adoption of market-driven capitalism (Huang, 2008)? These are just some of the contextual assumptions where one could challenge Chen and Miller.

This commentary is organized as follows. I begin with an examination of the terminology adopted by Chen and Miller and argue that the current terminology risks ambiguity and potential misinterpretation. I also propose a way to reduce

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these risks by drawing a clear distinction between two ideal types: a “relational” philosophy and a “transactional” philosophy. In the two sections that follow this terminological clarification, I discuss the advantages and limitations of each of these philosophies, thus putting into sharper relief why I agree with Chen and Miller’s central idea: The most effective approach will be one that combines elements of both approaches. These two sections are followed by an examination of how a focal actor might go about integrating the two approaches. I close by outlining some avenues for future research. This section also incorporates my challenge to some of Chen and Miller’s contextual assumptions.

Toward Terminological Clarity: Relational vs. Transactional Perspectives

While Chen and Miller frame their paper as an argument in support of the “relational” perspective, they caution—correctly, as I argue in the next two sections—that an excessive reliance on it can be just as dysfunctional as too little reliance. Building on this need for caution, Chen and Miller warn against adopting “*the wrong kind of relational thinking*” and urge managers to adopt “*a true relational approach*” (italics added) (p. 9).

In my view, readers need greater terminological clarity than Chen and Miller currently provide. They note correctly that the relational approach lies at one end of a continuum. They do not, however, provide much elaboration regarding the other extreme. Thus, the reader is left wondering whether there are different types of relational approaches (a “wrong” type vs. a “right” type, a “true” type vs. a “false” type, and so forth) from which managers must pick and choose or whether effective management comes down to a balance between a relational approach and its counterpart.

In the interest of greater terminological clarity, I propose that we think in terms of two ideal-type philosophies: a “relational” philosophy and a “transactional” philosophy. Both philosophies have been simultaneously operational in most societies for millennia—the relational philosophy as the primary driver of interactions within families

and tribes and the transactional philosophy as the primary driver of interactions between distant traders. Below are definitions of the two philosophies.

In its pure form, *a relational philosophy* can be defined as one that treasures a harmonious maintenance of existing social relations above all else. As Chen and Miller argue, in the relational perspective, every individual has an assigned role (father, son, leader, follower, employer, employee, and so forth). Social norms define how individuals in various roles are expected to behave and relate to each other. Going beyond role definitions and norms regarding dyadic interactions, the relational perspective also expects every individual in the community to place extremely high value on the survival of the community as a whole.

Just as strongly as the relational perspective relies on the power of social norms and ongoing continuity of the relationships between the interacting parties, *a pure transactional perspective* can be defined as one that relies solely on the power of explicit or implicit prices to guide decisions and actions. It operates on the premise that each transaction is complete in itself and that interacting parties make no assumptions about the continuity of the relationship beyond the focal transaction. As may be evident, in its pure form the transactional perspective is the exact counterpart to the relational perspective.

In the next section, I examine the advantages and limitations of each perspective. As should become clear, in terms of their strengths and weaknesses, the two philosophies are mirror images of each other. This is precisely why a combination of the two holds the promise of greater success than either approach in isolation.

The Relational Perspective: Its Advantages and Its Limitations

I begin with a discussion of the key advantages of the relational perspective followed by an analysis of why it also suffers from some very serious economic as well as moral limitations.

Advantages of the Relational Perspective

There are three major advantages of a relational approach.

First, a robust relational perspective will generally result in a dramatic reduction in agency costs (Jensen & Meckling, 1976) and the associated need for the vast bureaucratic apparatus that organizations put in place to ensure that people do what they are expected or asked to do and that the actions of different individuals are coordinated. We would expect this because a relational perspective holds the promise of ensuring a very high degree of goal alignment between managers and their subordinates.

A pervasive relational perspective creates an intrinsic desire to behave in a role-defined manner and to willingly respond to requests or directives from appropriate others in the organization. Also, because every individual is intrinsically committed to preserving the health of the organization, people are likely to engage voluntarily in actions that may not be predefined but would keep the organization healthy. When there is eight inches of snow, do employees try to figure out how to get to work or are they busy figuring out excuses to make it a holiday? If a natural disaster were to cause a disruption on a Friday, would employees volunteer to show up over the weekend or would they need to be persuaded via monetary incentives to consider showing up? Answers to questions such as these depend very much on the pervasiveness of the relational perspective within the organization. A stronger relational perspective can be expected to result in a sharply decreased preference for shirking behavior.

Second, a robust relational perspective will generally lower transaction costs between the firm and its suppliers and customers. As Dyer and Chu (2011) have observed, strong partnership-like relationships between Japanese auto companies and their suppliers are the primary reason why the purchasing bureaucracy tends to be much thinner and lighter in Japanese companies than in their American counterparts. Given mutual belief that the relationship will endure over time, buyers and sellers see lower risks in incomplete contracts than would otherwise be the case. Mutual trust should also make them more willing to invest in partner-specific assets. When making such investments, they are likely to see the risks of being held hostage as minimal or nonexistent—a radically

different situation from one where either party could be expected to act with self-centered opportunism (Williamson, 1985).

Third, a robust relational perspective increases the likelihood that buyers and sellers (as well as employers and employees) will search for win-win rather than win-lose solutions. Win-lose solutions are, by definition, zero-sum and thus destructive to the focal players' willingness to continue the relationship beyond the focal transaction. However, if both sides place extremely high value on the continuity of the relationship, their intrinsic motivation to search for win-win solutions is likely to be high.

At the level of an entire society, Germany demonstrated the power of such a perspective as it weathered the global economic crisis of 2008 through 2010. The government, the unions, and the companies met and came to an agreement that, rather than lay people off, companies would reduce the workweek. In turn, all three parties would share the cost of workers' lost wages. The government would provide a subsidy, the employers would share part of the cost, and the workers would also accept a pay cut (but one much smaller than the extent of reduction in the workweek). As a result of this win-win solution, the German economy has rebounded from the crisis much faster than any other large developed economy.

Limitations of the Relational Perspective

Notwithstanding the above-noted advantages, a heavily relational perspective (without being balanced by a transactional orientation) also runs an extremely high risk of becoming pathological. I discuss some of the likely pathologies that can bedevil organizations and societies governed exclusively or heavily by a relational perspective.

First, while mutual trust between buyers and suppliers or between employers and employees can reduce transaction and agency costs, it can also lead to suboptimal lock-ins that can be debilitating to an organization's health. As industries evolve and globalization changes the structure of the world economy, companies must adapt to the new realities (Gupta, Govindarajan, & Wang, 2008). They may need to withdraw from businesses in which they can no longer win (such as

IBM's decision to sell its PC business to Lenovo) or rebalance their employee mix (such as IBM's ramp-up of its India-based workforce from fewer than 10,000 in 2004 to more than 100,000 by 2010; see Gupta & Wang, 2009). In an environment characterized by a rapid pace of change, a commitment to life-long relationships prevents an organization from adapting to external changes. The lack of adaptation can eventually lead to organizational death. It is precisely this recognition that led IBM to abandon its practice of life-long employment. This was also the reason why the Chinese government directed state-owned enterprises to slim down by laying off millions of workers in the 1990s.

Second, an exclusive or even heavy reliance on relationship-based governance runs the risk of resulting in an idiosyncratic resolution of conflicts that could be viewed as unfair by at least one of the parties. Given an asymmetric distribution of power within families, organizations, and societies, a philosophy that expects people to accept existing role definitions as "morally binding" will more likely than not result in continuing exploitation of the powerless by the more powerful. Look at families, an extreme case of a social unit governed solely by a relational philosophy. While mutual love is supposed to dominate relationships within the family, it is widely known that many families suffer from abuse of one family member by another and that the abuse often remains hidden for a considerable period of time. Consider now a large organization governed almost exclusively by the relational perspective. The potential for abuse of power can be much greater in such a context. As Kramer (2009) argued, some of the biggest abuses of power happen in relationships characterized by a high degree of (misplaced) trust.

In addition to the above-noted economic limitations, a society's heavy reliance on a relational philosophy can also lead to morally troubling outcomes—in the form of stunting social mobility and fostering greater disparity between the haves and have-nots. Consider, for example, Chen and Miller's description of some of the central features of a heavily relationship-driven society such as China: "According to tradition, not only is the individual defined within the context of the fam-

ily, but this mechanism of contextual definition serves as the prototype for all organizations. . . . To become established in the Chinese business world, for example, it is especially critical that newcomers position themselves within a context that the Chinese recognize and with which they are comfortable. This often means that mentioning the people with whom one is associated—family, friends, colleagues, or classmates—is appropriate in China, while in many Western contexts it may not be" (p. 9).

This type of social governance is a perfect setup for those who are well connected to powerful individuals and families to benefit disproportionately (in terms of job opportunities, bank loans, business licenses, and so forth) as compared with those without the connections. Given these cause-effect linkages, one cannot rule out the possibility that the very high and growing inequality in Chinese society owes its origins at least partly to the excessive need for *guanxi* (i.e., relationships), irrespective of one's qualifications or competence. Of course, China is not alone in this respect. As Khanna, Palepu, and Sinha (2005) argued, most emerging economies suffer from market failures and institutional voids. In such a context, relationships take on an outsized importance, with outcomes that can exacerbate social and economic stratification.

The Transactional Perspective: Its Advantages and Its Limitations

Now discuss the major advantages of the transactional approach as well as some of its most striking limitations.

Advantages of the Transactional Perspective

First, a transactional perspective, when embraced at the societal level, makes all organizations and the people within them largely free from entry and exit barriers. Past relationships have little or no bearing on the ability to form new relationships. Elimination of entry and exit barriers (or even a massive reduction in them) increases the intensity of competition. The resulting increase in the risk of failure keeps everybody motivated, which can lead to greater innovation. According to Saxenian's (1994) comparative analysis of the Route

128 area around Boston versus Silicon Valley, weak ties emerge as the primary explanation for why Silicon Valley has become a more innovative ecosystem than Route 128. Relationships are more fluid and people move from one organization to another at much greater speed in Silicon Valley than in the Boston area. As a result, Silicon Valley has become more Darwinian and more innovative than its East Coast counterpart.

Second, because a transactional perspective frees the actors from historical ties, it has the potential to foster more of a zero-based thinking as compared with a pure relational perspective. Since each transaction is complete in itself, there is no baggage of unfulfilled reciprocity from past interactions. The resulting zero-based thinking makes people and organizations more willing to abandon old paths in favor of more productive new ones. This is why boards of directors typically look outside the firm (and even outside the industry) when it is clear that the company needs a new strategic paradigm and the current leadership is too entrenched to go beyond incremental change.

The selection of Louis V. Gerstner Jr. as the new CEO of IBM at the height of the company's crisis in 1993 illustrates this logic starkly. Until then, IBM was primarily a hardware company. Given the rapid commoditization of all hardware segments (servers, workstations, and PCs), IBM was losing both market share and profitability at a rapid pace (Gerstner, 2003). The board of directors recruited Gerstner from RJR Nabisco, a cookie company. Gerstner had earlier worked at American Express and McKinsey & Company and was obviously not an expert in information technology. However, he knew well the world of large corporations, IBM's core customers. He rescued IBM by transforming it from a seller of "hot boxes" (as IBM called them) into a seller of integrated solutions comprising hardware, software, services, and consulting. As one of his first moves, Gerstner hired Jerome York, a banker, as the head of human resources. Gerstner's instructions to York were clear: Cut the fat, dramatically and quickly, without being bogged down by preexisting relational ties. Gerstner saved IBM. It is doubtful that any insider could have done this.

Third, a transactional perspective frees the or-

ganization to look for new ecosystem partners (e.g., suppliers) who may be able to provide better quality or lower cost inputs to the organization. It has been well documented that Wal-Mart brings a heavy dose of transactional perspective to its relationship with manufacturers. This transactional perspective on the part of Wal-Mart (as well as other retailers such as Sears and Target) has played a hugely significant role in the shift of manufacturing from the United States to China and the emergence of China as a heavily export-driven economy.

Fourth, a transactional perspective within organizations—and, indeed, the society as a whole—can be a significant enabler of social mobility and equal opportunities for all. When relationships (rather than simply qualifications and competence) matter in who gets hired, who gets a more fast-track assignment, who gets a bank loan, and so forth, the benefits accrue disproportionately to those who do have established relationships with people in power at the expense of those who do not. This is why most societies deplore nepotism and the existence of glass ceilings based on gender, ethnicity, or other factors not related to qualifications and competence.

Limitations of the Transactional Perspective

Notwithstanding the advantages discussed above, a transactional perspective also suffers from some serious limitations. I focus here on two of the most significant.

First, if society were to be governed solely by a transactional perspective, it would be impossible to create large organizations and to reap the resultant benefits of scale and scope. Large organizations require teamwork, which is impossible when the composition of teams is in continuous flux. Effective, efficient teamwork requires a high degree of stability in the identity of team members and an investment in the creation of relational norms, systems, and processes that guide how the team members interact with each other. As Chandler (1990) argued persuasively, the "visible hand" of corporate leaders played a very significant role in the transformation of the United States and Europe from agricultural economies composed

heavily of individual farmers to industrial economies composed heavily of large corporations.

Second, if interactions between firms were to be governed solely via a transactional perspective, no firm would make any investments in partner-specific assets (Williamson, 1985). Indeed, firms would find it extremely hazardous to do so. In order to mitigate the hazards, buyers and sellers could try to write contracts. However, if the interacting parties try to anticipate and account for all possible contingencies, contracts would become overly complex and costly aside from the attendant challenges of monitoring and enforcing complex contracts. Thus, contracts would at best remain incomplete and fail to provide the needed protection. This is why, despite a very strong disposition toward a transactional perspective, even Wal-Mart relies on a combination of transactional and relational perspectives. For example, the company has built very strong IT and supply chain linkages with major suppliers such as Procter & Gamble. Even with smaller suppliers, Wal-Mart's message is that the company favors long-term relationships. However, the vendor must remain the lowest cost supplier of the particular product (subject to Wal-Mart's requirements with respect to quality, delivery times, protection of labor rights, the environment, and so forth).

Integrating the Relational and the Transactional Perspectives

As should be clear from the above discussion of the relative advantages and limitations of the relational and transactional perspectives, the two complement each other. As a result, the best approach for individuals, corporations, and society is to embrace an "ambicultural" approach, one that combines the two approaches. This is exactly the central message of the Chen and Miller paper, and I concur wholeheartedly.

Chen and Miller are silent, however, about how one might achieve the needed integration between the two perspectives. This is an important question with a non-obvious answer. Analogous to the question of how individuals and organizations can behave ambidextrously—that is,

achieve a balance between exploration and exploitation (see Gupta, Smith, & Shalley, 2006)—I would argue that the answer lies in making the right choices across three different dimensions: relationships, contexts, and time.

Differentiation across relationships requires the focal actor to decide which perspective will govern which set of relationships. For example, most people choose to govern relationships within the nuclear family almost exclusively through the relational perspective and those with the supermarket almost exclusively through the transactional perspective. For many interactions, however, a clean either-or choice such as this may be neither feasible nor optimal. An example would be interactions with one's colleagues at work. A pure relational perspective would be problematic as it could blind us to the likelihood of poor performance by our colleagues and constrain us from taking corrective action. At the same time, a pure transactional perspective would be problematic as it would prevent us from developing mutual trust and sharing tacit knowledge with each other. In such cases, the focal actor would need to rely on differentiation across contexts and/or differentiation across time in order to achieve the needed balance between the relational and the transactional perspectives.

Differentiation across contexts refers to an approach whereby the focal actor interacts with the same person through both the relational and the transactional perspectives but discriminates between the two depending on the context. Consider, for example, a situation where the CEO's son or daughter is employed as a junior manager within the same company. In such a situation, it may be highly desirable for the two to interact via a largely transactional perspective during office hours but a wholly relational perspective outside of the office.

Finally, differentiation across time refers to an approach whereby the focal actor adopts a longitudinal evolutionary perspective with respect to interactions with the same person over time. For example, a purchasing manager at a car company may start interacting with the sales representative at an auto parts supplier in a transactional manner. Over time, however, the relationship may

evolve into one with a high degree of mutual trust and affinity. In such a case, over time, the interactions may come to be governed more by the relational perspective rather than the transactional. The reverse scenario may also be possible. For example, a retailer such as Wal-Mart or Ikea may signal to its suppliers that it values them as long-term partners; however, it may also indicate that the continuity of the relationship is contingent on the supplier's being able to meet the quality, price, and dependability that any alternative supplier could potentially offer.

Looking Ahead

I commend Chen and Miller for taking a lead on the subject of "East" meets "West." As noted earlier, I agree with their call for a balanced approach between the relational and the individualistic/transactional philosophies. At the same time, however, I am inclined to challenge some of their specific contextual assumptions about the East and the West. These are discussed below. Each of these challenges also provides a fertile avenue for future research on the topic of East meets West.

First, terms such as "East" and "West" represent gross simplifications. Chen and Miller assume that the two represent distinctly different philosophies regarding how people should interact with each other and with the natural context around them. This assumption is highly debatable. Could it be that the terms "East" and "West" refer more to geographic regions of the world (Asia signifying the East and Europe plus the Americas signifying the West) than to distinct philosophies?

Take just the continent of Asia. Accounting for over 60% of the world's population and almost 30% of the world's land mass, Asia is the most diverse continent in the world along almost every dimension that matters: religion, language, cultural values, political systems, level of economic development, climate, demographics, and so forth. Western Asia is largely Muslim; Central Asia a combination of Islam and Christianity; South Asia largely Hindu; Southeast Asia a combination of Buddhism, Islam, Christianity, and Hinduism; and East Asia a combination of Buddhism, Confucianism, and Taoism.

Even East Asia is culturally far more diverse than is often assumed. China and South Korea are far more individualistic than Japan. Taiwan shares a strong common heritage with the People's Republic of China (PRC). Yet it is different from the PRC in two important respects. One, it escaped the influence of Communism; as a result, the role of the state is nowhere near as dominant in Taiwan as it is in the PRC. Two, the Taiwanese have embraced Christian philosophy with relatively greater vigor than have the mainlanders. It would be important for future researchers to tease out the implications of these differences.

Second, Chen and Miller assume that social and business relations in China are governed largely by Confucianism. One could challenge this contextual assumption also. Taoism preceded the emergence of Confucian thought. More recently, Chinese society has also been influenced by other potent philosophies—in particular, Buddhism, communism, and capitalism. As McGregor's (2007) and Pomfret's (2007) vivid descriptions of social and business interactions in contemporary China suggest, it is hard to assume that Confucianism is the dominant philosophy in today's China. More likely, today's China represents a hybrid of all of these philosophies as the society struggles to define what the dominant philosophy of tomorrow should be.

The recent wrangling regarding a prominent statue of Confucius in Beijing is indicative of the ongoing struggle between different philosophies in contemporary China. In late 2010, the Chinese government installed a 31-foot statue of Confucius in front of the National Museum near Tiananmen Square. At the time, it was hailed as an official embrace of Confucian philosophy by the leadership of the Communist Party of China. However, as reported by the media, in late April 2011, the statue was removed under cover of darkness and without any explanation. An article in *The New York Times* reflected on the ongoing philosophical struggle in China:

In his day, Mao condemned that system of philosophical thought as backward and feudal; during the decade of the Cultural Revolution, Red Guards were encouraged to deface Confucian temples and statues. . . . But that was then. Eager to fill the vacuum left by the fading of Maoist

ideology, the party in recent years has been championing Confucianism as a national code of conduct, with special emphasis on tenets like ethical behavior, respect for the elderly, social harmony and obedience to authority. . . . Some academics say that placing a mammoth paeon to Confucius a stone's throw from Mao's mausoleum may have gone too far. Chen Lai, a Confucian studies expert at Tsinghua University, suggested that those in the influential Central Party School who opposed the statue's placement near the square had been quietly agitating against it. (Jacobs, 2011)

Third, Chen and Miller assume that China's economic success over the past 30 years provides a persuasive basis to conclude that the relational philosophy as practiced in China is a useful guide to effective management not just within China but also in other parts of the East and the West. I would argue that Chen and Miller may be assuming a cause-effect linkage when what exists is a case of temporal association. Huang's (2008) analysis of China's economic development over the past 30 years suggests that the country's economy has demonstrated the fastest growth in precisely those sectors that abandoned crony capitalism and the strong arm of the state earlier and adopted market-driven capitalism with greater vigor. Thus, future researchers may need to examine the extent to which the prevailing relational philosophy as practiced in China has helped or hindered the country's economic development.

Fourth, it would be important to test for the generalizability of the notion that the set of ideas comprising the relational approach originated exclusively in the "East." The so-called "West" itself consists of major subcultures—the two most prominent ones being a Latin culture prevalent in Southern Europe and South America and an Anglo-Saxon culture prevalent in Northern Europe, the United Kingdom, and the United States. Could it be that the relational perspective is as dominant in Latin Europe and Latin America as it is in Asia?

Fifth, the cultural differences between how companies are organized and run in East Asia versus the West could be due to one or more of several factors: differences in ancient philosophies (such as Confucianism versus Protestantism), differences in stage of the country's economic development (such as emerging versus developed), and

differences in stage of the company's evolution (such as young and founder-led versus older and managed by hired professionals). It would be important for future researchers to tease out the relative importance of the various factors.

In conclusion, it would be hard to underestimate the importance of ongoing discussion and analysis on the subject of "East" (i.e., broadly signifying Asia) meets "West" (i.e., broadly signifying North America and Europe). Asia today accounts for about 24% of the world's GDP, roughly the same proportion as Europe and the United States. According to most projections (see, e.g., World Bank, 2011), it is extremely likely that, by 2025, Asia's share of world GDP will rise to over 40%—i.e., as large as that of the United States and Europe combined.

In other words, within one to two decades, Asia will account for not just the world's largest population base but also its largest economic base. Thus, just as Western philosophy has had a dominant influence on thinking about how to organize and manage corporations, it is inevitable that Asian philosophies will also start to play an extremely influential role. It is critical for management scholars to begin discussions and debates now regarding what the nature of this influence is likely to be. In doing so, however, it is important to remember that the so-called "East" is much larger and much more diverse than just China. As I have argued above, it may not be inaccurate to think in terms of not just one Eastern philosophy but many.

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