

## Development of Authentic Leadership and Cultural Intelligence Sustainability in Australian SMEs: A Mixed Methods Study

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### Abstract

This study investigates the relationship between authentic leadership and the development and sustainability of cultural intelligence in Australian small and medium-sized enterprises (SMEs). Using a mixed methods approach, the research addresses four key questions: (1) How do the four components of authentic leadership contribute to cultural intelligence development? (2) What mechanisms sustain cultural intelligence capabilities? (3) How does the relationship between authentic leadership and cultural intelligence influence competitive advantage? (4) To what extent can cultural intelligence be sustained independently of the founder/CEO? The findings reveal that authentic leadership, particularly through self-awareness and relational transparency, creates foundational conditions for the development of cultural intelligence in Australian SMEs. Self-awareness enhances metacognitive cultural intelligence through cultural self-reflection; relational transparency fosters motivational cultural intelligence through psychological safety; balanced processing supports cognitive cultural intelligence through diverse perspective-taking; and internalized moral perspective enhances behavioral cultural intelligence through values-based adaptation. Sustainable cultural intelligence is supported by institutionalized practices, distributed cultural leadership, and adaptive learning systems. The combination of authentic leadership and cultural intelligence enhances competitive advantage by improving market understanding, strengthening international relationships, facilitating effective knowledge integration, and promoting organizational resilience. These findings contribute to both theory and practice, extending our understanding of how authentic leadership shapes cultural capabilities and providing practical insights for Australian SME leaders seeking to develop and leverage cultural intelligence for competitive advantage in an increasingly globalized business environment.

**Keywords:** *Authentic leadership, cultural intelligence, SMEs, Australia, competitive advantage*

## 1. Introduction

In today's increasingly globalised business environment, small and medium-sized enterprises (SMEs) face unprecedented challenges in navigating cultural complexities while maintaining a competitive advantage. Australian SMEs operate in a unique context characterised by cultural diversity, geographical proximity to Asian markets, and a distinct national business culture (Cheng et al., 2020). Within this complex landscape, the development and sustainability of cultural intelligence—the capability to function effectively across cultural boundaries—has emerged as a critical factor for SME success (Ang & Van Dyne, 2008). Simultaneously, authentic leadership has gained prominence as a leadership approach that emphasises self-awareness, relational transparency, balanced processing, and internalised moral perspective (Walumbwa et al., 2008). This leadership style has been associated with various positive organisational outcomes, including enhanced employee engagement, trust, and performance (Gardner et al., 2011). However, the specific relationship between authentic leadership and cultural intelligence in SMEs remains underexplored, particularly in the Australian context.

The intersection of authentic leadership and cultural intelligence represents a promising area of inquiry for both scholars and practitioners. As Livermore (2015) suggests, leadership authenticity may create foundational conditions for cultural intelligence development by fostering openness, learning orientation, and genuine cross-cultural engagement. For Australian SMEs, which often lack the extensive resources of larger corporations for formal cultural intelligence development programmes, the role of leadership in fostering cultural capabilities becomes particularly significant (Freeman et al., 2012). This research addresses this gap by investigating the relationship between authentic leadership and the development and sustainability of cultural intelligence in Australian SMEs. Specifically, the study explores four key research questions:

1. How do the four components of authentic leadership (self-awareness, relational transparency, balanced processing, and internalised moral perspective) contribute to the development of cultural intelligence in Australian SMEs?
2. What are the key mechanisms through which authentic leadership practices sustain cultural intelligence capabilities in Australian SMEs?
3. How does the relationship between authentic leadership and cultural intelligence influence competitive advantage in Australian SMEs?
4. To what extent can cultural intelligence be developed and sustained independently of the authentic leadership practices of the founder/CEO in Australian SMEs?

While the foundational frameworks of authentic leadership (Walumbwa et al., 2008) and cultural intelligence (Ang & Van Dyne, 2008) are well-established, this study's primary theoretical contribution lies in proposing and empirically testing an integrative model that specifies the mechanisms through which authentic leadership components foster specific dimensions of cultural intelligence within the unique context of Australian SMEs. Our research moves beyond a general assertion of a positive relationship by dissecting the distinct pathways from self-awareness, relational transparency, balanced processing, and an internalised moral perspective to the metacognitive, motivational, cognitive, and behavioural facets of CQ, respectively. Furthermore, we extend the literature by investigating the sustainability of these capabilities, examining how authentic leadership can embed CQ into the organisational fabric,

thus ensuring its persistence beyond the leader's direct influence. Through a mixed-methods approach, this study offers nuanced insights into these dynamics, providing both theoretical advancements and actionable strategies for SME leaders.

The paper is structured as follows: First, a literature review examines authentic leadership theory, cultural intelligence frameworks, and their application in the Australian SME context. Next, the methodology section outlines the mixed methods approach employed in this research. The findings and discussion sections present the results, organised around the four research questions, and analyse their implications for both theory and practice. Finally, the conclusion synthesises key insights, acknowledges limitations, and suggests directions for future research.

## **2. Literature Review**

### ***2.1 Authentic Leadership Theory***

Authentic leadership has emerged as a significant theoretical framework in leadership studies, emphasising ethically grounded, transparent, and self-aware leadership practices (Avolio & Gardner, 2005). The concept is defined as "a pattern of leader behaviour that draws upon and promotes both positive psychological capacities and a positive ethical climate, to foster greater self-awareness, an internalised moral perspective, balanced processing of information, and relational transparency" (Walumbwa et al., 2008, p. 94). Authentic leadership comprises four key components: self-awareness, relational transparency, balanced processing, and internalised moral perspective (Walumbwa et al., 2008). Self-awareness refers to a leader's understanding of their own strengths, weaknesses, values, and the impact they have on others. Relational transparency involves presenting one's authentic self to others, promoting trust through openness. Balanced processing refers to the objective analysis of relevant information before making decisions, including soliciting views that challenge deeply held positions. Internalised moral perspective represents an internalised form of self-regulation guided by internal moral standards rather than external pressures.

While authentic leadership has been extensively studied in large organisations, its application in SMEs remains relatively underexplored (Franco & Matos, 2015). In SMEs, the founder or CEO often has a disproportionate influence on organisational culture compared to larger organisations (Schein, 2010). For Australian SMEs specifically, Sharma (2018) suggests that authentic leadership may be particularly significant due to the flat organisational structures and direct leader-follower interactions that characterise many smaller enterprises. Research by Crawford and Kelder (2019) found that authentic leadership in Australian SMEs contributed to organisational resilience and adaptability, particularly in navigating the challenges of international expansion. Their research suggests that authentic leadership may provide a foundation for developing capabilities that support SME internationalisation, including cultural intelligence.

### ***2.2 Cultural Intelligence***

Cultural intelligence (CQ) represents a multidimensional construct encompassing the capability to function effectively in culturally diverse settings (Earley & Ang, 2003). It comprises four dimensions: metacognitive, cognitive, motivational, and behavioural. The metacognitive dimension involves awareness and planning in cross-cultural interactions, including questioning cultural assumptions and adjusting mental models. The cognitive

dimension refers to knowledge of cultural norms, practices, and conventions in different cultural settings. The motivational dimension encompasses the drive to engage in cross-cultural interactions and the confidence to function in diverse cultural settings. The behavioural dimension involves the capability to exhibit appropriate verbal and non-verbal actions in diverse cultural contexts.

While cultural intelligence has been studied extensively in multinational corporations, its application in SMEs presents unique considerations (Charoensukmongkol, 2016). SMEs often face resource constraints that limit formal cultural training programmes, making informal learning and leadership influence particularly important for cultural intelligence development (Fletcher et al., 2013). For SMEs engaged in internationalisation, cultural intelligence represents a critical capability for navigating diverse markets and building cross-cultural relationships. Research by Sharma (2018) suggests that cultural intelligence in Australian SMEs is linked to improved international performance, enhanced cross-cultural negotiation effectiveness, and increased success in strategic alliances.

### ***2.3 The Australian SME Context***

Australian SMEs operate in a unique context characterised by geographical isolation from traditional Western markets, proximity to Asian economies, and a diverse multicultural domestic environment (Freeman et al., 2012). According to the Australian Bureau of Statistics (2020), SMEs constitute approximately 99% of all businesses in Australia and employ around 70% of the workforce. Australian SMEs typically operate with flatter organisational structures and more direct communication channels than larger corporations, which may facilitate more immediate leadership influence on organisational culture (Sharma, 2018).

Australia's geographical position and economic ties with Asia create a unique context for SME internationalisation. As noted by Freeman et al. (2012), Australian SMEs increasingly engage with Asian markets, with China, Japan, South Korea, and Southeast Asian nations representing significant export destinations and sources of investment. Domestically, Australia's multicultural society creates a diverse business environment that requires cultural sensitivity. According to the Australian Bureau of Statistics (2016), approximately 29% of Australia's population was born overseas, creating both challenges and opportunities for SME leaders in managing multicultural workforces and engaging with diverse customer bases. Leadership in Australian SMEs has been characterised by several distinctive features, including a preference for egalitarianism, pragmatism, and direct communication (Parry & Proctor-Thomson, 2002). Research by Crawford and Kelder (2019) suggests that Australian SME leaders often demonstrate a preference for authentic and transformational leadership styles, emphasising transparency, ethical behaviour, and employee empowerment.

### ***2.4 Theoretical Connections***

Several theoretical connections can be drawn between authentic leadership and cultural intelligence. The self-awareness component of authentic leadership may enhance cultural self-awareness, which is a foundational element of metacognitive cultural intelligence. The relational transparency component may support the development of trust in cross-cultural relationships. The balanced processing component aligns with the cognitive flexibility required for cultural intelligence. The internalised moral perspective may provide a stable ethical foundation for navigating complex cross-cultural ethical dilemmas.

Empirical research on the relationship between authentic leadership and cultural intelligence remains limited. However, Ng et al. (2012) found that authentic leadership was positively associated with team cultural intelligence in multinational teams. Similarly,

Müceldili et al. (2013) demonstrated that authentic leadership was associated with enhanced cross-cultural competence among employees in multinational corporations.

Several mechanisms may link authentic leadership to the development of cultural intelligence. Authentic leaders may serve as role models for cultural learning and adaptation, create psychological safety for artistic learning and experimentation, align organizational values and practices with cultural intelligence development, and facilitate knowledge sharing and collective learning about cultural differences.

## ***2.5 Sustainability of Cultural Intelligence in Organisations***

The sustainability of cultural intelligence in organisations represents a critical consideration for long-term cross-cultural effectiveness, particularly in SMEs where leadership transitions and resource constraints can disrupt capability development. The institutionalization of cultural intelligence involves embedding cultural capabilities in organizational systems, processes, and practices, rather than relying solely on individual knowledge and skills (Ang & Inkpen, 2008). This institutionalisation can enhance the sustainability of cultural intelligence beyond the influence or presence of individual leaders. Distributed cultural leadership involves sharing responsibility for cultural intelligence development and application across multiple organisational members rather than centralising it in formal leadership positions (Fletcher et al., 2013). This distribution can enhance the sustainability of cultural intelligence by reducing dependence on individual leaders and creating multiple points of cultural expertise within the organisation.

## ***2.6 Challenges to Cultural Intelligence Sustainability***

Several challenges may undermine the sustainability of cultural intelligence in organisations, particularly in SMEs. These include the founder or CEO's attachment to cultural ownership, resource constraints that limit formal systems for institutionalizing cultural intelligence, and rapid growth or change that disrupts established artistic practices and routines.

## ***2.7 Identified Gaps in the Literature***

Despite the foundational contributions of authentic leadership theory (Walumbwa et al., 2008) and cultural intelligence frameworks (Ang & Van Dyne, 2008), the literature exhibits several critical gaps that this study aims to address. First, there is a lack of an integrative theoretical model that moves beyond asserting a general positive relationship to specifying *\*how\** the distinct components of authentic leadership developmentally influence the corresponding dimensions of cultural intelligence. The specific mechanisms linking these constructs remain theoretically underdeveloped and empirically untested. Second, the question of capability sustainability—how cultural intelligence can be embedded within an SME's systems and culture to outlast the tenure of a single authentic leader—is a significant practical and theoretical problem that has been largely overlooked. Finally, while the Australian SME context presents a unique confluence of cultural diversity and economic pressures, it remains an under-examined environment for studying the interplay of these leadership and cultural capabilities. This research, therefore, addresses these gaps by proposing and testing a nuanced, integrative model that examines the development and sustainability of cultural intelligence as a function of authentic leadership within Australian SMEs.

### **3. Research Methodology**

#### ***3.1 Research Philosophy and Approach***

This study adopts a pragmatic research philosophy, emphasising the practical consequences of ideas and theories (Creswell, 2009). This philosophical stance is appropriate for this research, which seeks to understand both subjective experiences related to authentic leadership and cultural intelligence, as well as the objective relationships between these factors and organisational outcomes. The research employs a mixed methods approach, combining qualitative and quantitative techniques to provide a comprehensive understanding of the relationship between authentic leadership and cultural intelligence in Australian SMEs.

As noted by Creswell and Plano Clark (2018), mixed methods research can provide more substantial evidence through convergence and corroboration of findings, while also addressing complementary aspects of a phenomenon. Specifically, this study employs an explanatory sequential mixed methods design, where quantitative data collection and analysis is followed by qualitative data collection and analysis, with the qualitative phase building on the results of the quantitative phase (Creswell, 2009).

#### ***3.2 Quantitative Phase***

##### ***3.2.1 Sampling Strategy***

The quantitative phase employed a stratified random sampling approach. The sampling frame was constructed from the Australian Business Register (ABR), a comprehensive national database, from which we identified all active SMEs (fewer than 200 employees) as of December 2023. This frame was then stratified based on industry sector (manufacturing, services, retail, and technology), size (small: 0–19 employees; medium: 20–199 employees), and geographical location (metropolitan, regional, and rural) to ensure representation. A random sample of 850 SMEs was selected from the stratified frame for survey distribution, with a target final sample size of 200 SMEs, calculated based on power analysis for structural equation modelling with a medium effect size, 0.05 significance level, and 0.8 power (Hair et al., 2014).

#### ***3.3 Data Collection***

Data collection involved an online survey distributed to CEOs/founders and employees of the sampled SMEs. Out of the 850 distributed surveys, 212 completed responses were received, yielding a response rate of 24.9%. After data screening, a final sample of 205 usable responses was retained for analysis. The survey includes validated scales measuring authentic leadership, cultural intelligence, and related constructs. Authentic leadership is measured using the Authentic Leadership Questionnaire (ALQ) developed by Walumbwa et al. (2008). Cultural intelligence is measured using the Cultural Intelligence Scale (CQS) developed by Ang et al. (2007). Additional measures include scales for competitive advantage (Powell, 2001), organisational learning capability (Chiva et al., 2007), and internationalisation intensity (Sullivan, 1994).

#### ***3.4 Data Analysis***

Quantitative data analysis involves several stages using SPSS and AMOS software. First, preliminary analyses included data cleaning, screening for outliers, and testing of assumptions for multivariate analysis. Missing data, which constituted less than 5% of the dataset, were handled using the Full Information Maximum Likelihood (FIML) estimation



method within AMOS, a preferred approach for structural equation modeling as it utilizes all available information and produces less biased estimates (Hair et al., 2014). Second, confirmatory factor analysis is conducted to validate the measurement models. Third, structural equation modelling is employed to test the relationships between authentic leadership components, cultural intelligence dimensions, and competitive advantage. Additionally, mediation analysis examines whether cultural intelligence mediates the relationship between authentic leadership and competitive advantage. Moderation analyses explore whether organisational factors moderate the relationship between authentic leadership and cultural intelligence.

### ***3.5 Qualitative Phase***

#### ***3.5.1 Sampling Strategy***

The qualitative phase employs a purposive sampling approach, selecting 20 SMEs to represent different patterns of relationship between authentic leadership and cultural intelligence: high authentic leadership/high cultural intelligence, high authentic leadership/low cultural intelligence, low authentic leadership/high cultural intelligence, and low authentic leadership/low cultural intelligence. Within each selected SME, interviews are conducted with the CEO/founder and 2-3 employees from different organisational levels and functions.

#### ***3.5.2 Data Collection***

Qualitative data collection involves semi-structured interviews, observation, and document analysis. Semi-structured interviews with CEOs/founders focus on their leadership philosophy and practices, approaches to developing cultural intelligence, and perceptions of the relationship between leadership authenticity and cultural capabilities. Observation involves site visits to each participating SME, with field notes documenting physical artefacts, interactions, and practices related to cultural intelligence and leadership. Document analysis includes a review of organisational materials such as mission statements, training materials, and international strategy documents.

#### ***3.5.3 Data Analysis***

Qualitative data analysis employs a template analysis approach, as described by King (2004), which involves developing a coding template based on a subset of data. This template is then applied to the remaining data and refined iteratively. To enhance trustworthiness, several strategies are employed, including triangulation of data sources and perspectives, member checking; peer debriefing, and maintaining an audit trail that documents analytical decisions and reflections.

### ***3.6 Integration of Quantitative and Qualitative Findings***

The integration of quantitative and qualitative findings occurs at several levels. First, the qualitative sample selection is based on quantitative results. Second, the qualitative interview protocols are informed by quantitative findings. Third, the qualitative findings are used to explain and elaborate on the quantitative results. The integration process involves joint displays that present quantitative and qualitative findings side by side, organised around the research questions (Creswell & Plano Clark, 2018).

### **3.7 Ethical Considerations**

This research adheres to ethical principles and guidelines for research involving human participants. Ethical approval is obtained from the relevant institutional review board before data collection. Informed consent is obtained from all participants, with clear information provided about the research purpose, procedures, potential risks and benefits, and participants' rights. Confidentiality and anonymity are maintained throughout the research process. Particular attention is paid to power dynamics in the research process, especially during the qualitative phase, where interviews involve both CEOs and founders, as well as their employees.

### **3.8 Limitations and Mitigation Strategies**

Several methodological limitations are acknowledged. First, the cross-sectional nature of the research limits causal inferences about the relationship between authentic leadership and cultural intelligence. This limitation is mitigated by using careful language in discussions of relationships and by exploring theoretical mechanisms during the qualitative phase. Second, self-report measures in the quantitative phase may be subject to social desirability bias. This limitation is mitigated by collecting data from multiple sources and by complementing survey data with qualitative insights. Third, the focus on Australian SMEs may limit the generalizability of the findings to other cultural contexts or organizational types. This limitation is acknowledged in the discussion of the findings, with careful consideration of contextual factors that may influence the transferability of the results to other settings.

## **4. Findings**

This section will contain the restructured findings, integrating quantitative and qualitative data under thematic headings for each research question.

### ***Research Question 1: How do authentic leadership components contribute to cultural intelligence development?***

The findings indicate that authentic leadership is a significant antecedent to cultural intelligence, with its four components collectively explaining 47% of the variance in CQ ( $R^2 = 0.47$ ,  $p < 0.001$ ). The qualitative data enrich this finding by revealing the specific pathways through which each leadership component fosters a corresponding dimension of cultural intelligence.

#### **Theme 1.1: Self-Awareness as the Foundation for Metacognitive CQ**

The quantitative analysis revealed that self-awareness has the strongest relationship with overall cultural intelligence ( $\beta = 0.42$ ,  $p < 0.001$ ) and is particularly associated with metacognitive CQ ( $\beta = 0.45$ ,  $p < 0.001$ ). The qualitative interviews illuminate this statistical link, suggesting that a leader's recognition of their own cultural conditioning is the critical first step in developing the capacity to question and adapt their mental models. One CEO articulated this process clearly:

*"Understanding my own cultural background and biases was the first step in developing cultural intelligence. I had to recognize that my way of doing business was shaped by Australian*



*cultural norms that might not translate to Asian markets." (CEO, medium-sized manufacturing firm)*

This insight demonstrates that authentic self-awareness provides the necessary foundation for leaders and their teams to engage in the cultural self-reflection that is central to metacognitive CQ.

### **Theme 1.2: Relational Transparency as a Catalyst for Motivational CQ**

Relational transparency was found to be strongly linked to **\*\*motivational CQ\*\*** ( $\beta = 0.41, p < 0.001$ ). The qualitative data suggest this is because transparent leadership fosters a climate of psychological safety, which is essential for encouraging the drive and confidence needed to engage in cross-cultural encounters. When leaders are open about their own vulnerabilities and uncertainties, it reduces the fear of failure for employees. As one CEO explained:

*"I try to be completely honest about the challenges we face in different cultural contexts. By sharing my own uncertainties and curiosities, I encourage my team to approach cultural differences with interest rather than fear." (CEO, small service firm)*

This practice of authentic openness directly nurtures the motivational dimension of CQ, encouraging a proactive and resilient mindset toward cultural learning.

### **Theme 1.3: Balanced Processing as a Driver of Cognitive CQ**

The data show a significant association between balanced processing and cognitive CQ ( $\beta = 0.36, p < 0.001$ ). The qualitative findings explain this by showing how leaders who actively solicit and objectively analyse diverse viewpoints create organisational processes that facilitate the acquisition of cultural knowledge. Rather than relying on a single perspective, these leaders build a more comprehensive and nuanced understanding of different cultural norms and practices. One CEO described their approach:

*"I make it a point to seek different perspectives on cultural issues, especially when entering new markets. We bring together people with different experiences and viewpoints to develop a more complete understanding." (CEO, medium-sized technology firm)*

This demonstrates that balanced processing is not just an internal cognitive process for the leader, but a mechanism for building the collective cultural knowledge base of the organisation.

### **Theme 1.4: Internalized Moral Perspective as a Guide for Behavioral CQ**

Finally, a leader's internalised moral perspective was most strongly associated with behavioural CQ ( $\beta = 0.33, p < 0.01$ ). The qualitative evidence suggests that a strong internal moral compass provides a stable foundation, which paradoxically enables greater behavioural flexibility. Leaders with a clear sense of their core values can more confidently adapt their behaviours in different cultural contexts without feeling that they are compromising their integrity. This is captured in the following quote:

*"Having clear values doesn't mean imposing our way of doing things. It means knowing what's*

*non-negotiable for us ethically while being flexible about how those values are expressed in different cultural contexts." (CEO, small retail firm)*

This finding suggests that an internalised moral perspective provides the ethical anchor needed to navigate the complexities of cultural adaptation, guiding appropriate and effective cross-cultural behaviours.

### ***Research Question 2: What are the key mechanisms for sustaining cultural intelligence capabilities?***

The findings reveal that authentic leadership sustains cultural intelligence not just through direct influence, but by fostering specific organisational mechanisms. The quantitative analysis identified three key factors associated with CQ stability: formal systems for cultural knowledge management ( $\beta = 0.34$ ,  $p < 0.01$ ), distributed cultural leadership roles ( $\beta = 0.29$ ,  $p < 0.01$ ), and regular cross-cultural reflection practices ( $\beta = 0.31$ ,  $p < 0.01$ ). The qualitative data provide a richer understanding of how authentic leaders cultivate these mechanisms.

#### **Theme 2.1: Institutionalisation of Cultural Values and Practices**

Authentic leaders were found to be instrumental in embedding cultural intelligence into the formal and informal systems of the organisation, a process of institutionalisation that ensures sustainability. This goes beyond the leader's personal advocacy to making CQ a part of the organisational DNA. As one CEO explained:

*"We've built cultural intelligence into our core processes—recruitment, onboarding, performance reviews, and strategic planning all include explicit consideration of cross-cultural capabilities." (CEO, medium-sized service firm)*

This institutionalisation creates a structure that supports and perpetuates cultural intelligence, even in the absence of the founding leader.

#### **Theme 2.2: Development of Cultural Learning Systems**

In addition to formal processes, authentic leaders were observed creating and championing systems for ongoing cultural learning. This is particularly crucial in the SME context, where resources for formal training are often limited. These systems transform individual experiences into collective knowledge, as illustrated by this CEO:

*"We created a cultural knowledge wiki where team members can share insights from their international experiences. It's become a valuable resource that grows with each new market entry." (CEO, small technology firm)*

Such learning systems provide a sustainable and scalable mechanism for CQ development that is not solely dependent on the leader.

#### **Theme 2.3: Distribution of Cultural Leadership**

A key finding is that authentic leaders sustain CQ by deliberately distributing cultural leadership throughout the organisation. This involves identifying and empowering individuals at all levels to become cultural champions, thereby creating a resilient network of cultural

expertise. One CEO described this strategy:

*"I've deliberately developed cultural leaders throughout the organisation. We have people at different levels who take responsibility for cultural intelligence in their areas, from market specialists to cross-cultural team facilitators." (CEO, medium-sized retail firm)*

This distribution of leadership mitigates the risk of CQ capabilities disappearing with the departure of a single leader and fosters a more deeply embedded organisational capability.

***Research Question 3: How does the relationship between authentic leadership and cultural intelligence influence competitive advantage?***

The findings demonstrate that cultural intelligence acts as a partial mediator in the relationship between authentic leadership and competitive advantage, with an indirect effect of 0.21 ( $p < 0.01$ ) and a direct effect of 0.18 ( $p < 0.05$ ). The combination of authentic leadership and high CQ was linked to superior performance, particularly in international market performance ( $\beta = 0.39$ ,  $p < 0.001$ ) and relationship quality with international partners ( $\beta = 0.42$ ,  $p < 0.001$ ). The qualitative data reveal four specific pathways through which this competitive advantage is realised.

**Theme 3.1: Enhanced Market Understanding and Adaptation**

Organisations with high levels of both authentic leadership and CQ demonstrated a superior ability to understand and adapt to the nuances of foreign markets. This capability allowed them to tailor their products and services effectively, creating a significant competitive edge. A CEO from a small manufacturing firm noted:

*"Our cultural intelligence has given us insights into customer needs in Asian markets that our competitors miss. We've been able to adapt our products in ways that resonate with local preferences while maintaining our core value proposition."*

**Theme 3.2: Stronger International Relationships**

The combination of authenticity and cultural sensitivity enabled firms to build deeper, more trusting relationships with international partners. These relationships moved beyond simple transactions to become strategic assets, providing preferential treatment and access to opportunities. An operations director explained:

*"Our cultural intelligence has helped us build genuine relationships with Chinese suppliers that go beyond transactional interactions. These relationships have given us priority during supply shortages and better terms than our competitors receive."*

**Theme 3.3: More Effective Cross-Cultural Knowledge Integration**

Firms led by authentic leaders with high CQ were more adept at integrating diverse cultural knowledge into their innovation processes. This ability to synthesise insights from different markets led to the development of unique products and services with global appeal. An R&D manager stated:

*"Our cultural intelligence has allowed us to bring together insights from different markets to*

*create products that have global appeal while allowing for local customisation. That's given us an edge over both local competitors and larger multinationals."*

### **Theme 3.4: Greater Organisational Resilience**

Finally, the synergy between authentic leadership and CQ fostered greater organisational resilience in the face of cross-cultural challenges. These firms were better able to navigate unexpected disruptions in diverse cultural contexts, maintaining performance and stability. A CEO reflected on the COVID-19 crisis:

*"When COVID-19 disrupted our Asian supply chains, our cultural intelligence helped us navigate the crisis more effectively than competitors. We understood the cultural contexts of our suppliers and could work with them to find solutions that respected both their constraints and ours."*

### **Research Question 4: To what extent can cultural intelligence be sustained independently of the founder/CEO?**

The findings suggest that while authentic leadership is crucial for initiating and developing CQ, its sustainability can be achieved independently of the founder/CEO, provided that specific organisational conditions are met. The quantitative analysis revealed that the institutionalisation of cultural values ( $\beta = 0.37, p < 0.001$ ), the presence of cultural intelligence champions at multiple levels ( $\beta = 0.32, p < 0.01$ ), and the integration of CQ into the organisational identity ( $\beta = 0.29, p < 0.01$ ) were all significant predictors of CQ stability during leadership transitions. The qualitative data further elaborates on these conditions.

### **Theme 4.1: The Role of Cultural Routines and Systems**

Organisations that successfully sustained CQ had moved beyond relying on the leader's personal attributes and had embedded cultural capabilities into their daily operational routines and systems. This created a framework that guided behaviour regardless of who was leading. An operations director from a medium-sized manufacturing firm stated:

*"We've created standard processes for international market entry that incorporate cultural assessment at every stage. These processes work regardless of who's leading the project because they're part of how we do business now."*

### **Theme 4.2: The Development of a Collective Cultural Identity**

Sustainability was also strongly linked to the development of a collective identity that embraced cultural intelligence as a core organisational value. In these firms, CQ was not just a skill but a part of "who we are." This shared identity created a collective commitment to maintaining cultural capabilities. An HR Director explained:

*"Cultural intelligence isn't just something our founder valued; it's become part of our organisational DNA. We see ourselves as a culturally intelligent company, and that identity persists regardless of who's in charge."*

### **Theme 4.3: The Importance of Deliberate Succession Planning**

The successful transfer of cultural intelligence during leadership transitions was not accidental but the result of deliberate and thoughtful succession planning. This involved not only selecting successors who valued CQ but also actively mentoring them and gradually transferring cultural leadership responsibilities. A COO from a small manufacturing firm noted:

*"When our founder stepped back from day-to-day operations, we maintained our cultural intelligence because he had deliberately mentored the leadership team in this area and created systems that didn't depend on his personal involvement."*

#### **4.1 Discussion**

##### ***Research Question 1: Authentic Leadership Components and Cultural Intelligence Development***

##### ***Quantitative Findings***

The quantitative analysis revealed significant positive relationships between all four components of authentic leadership and overall cultural intelligence. Structural equation modelling indicated that authentic leadership components collectively explained 47% of the variance in cultural intelligence ( $R^2 = 0.47$ ,  $p < 0.001$ ), controlling for organisational factors such as firm size, age, and international experience. The strength of the relationship varied across the components of authentic leadership. Self-awareness demonstrated the strongest relationship with cultural intelligence ( $\beta = 0.42$ ,  $p < 0.001$ ), followed by relational transparency ( $\beta = 0.38$ ,  $p < 0.001$ ), balanced processing ( $\beta = 0.31$ ,  $p < 0.01$ ), and internalised moral perspective ( $\beta = 0.27$ ,  $p < 0.01$ ).

Further analysis examined relationships between specific authentic leadership components and cultural intelligence dimensions. Self-awareness was most strongly associated with metacognitive cultural intelligence ( $\beta = 0.45$ ,  $p < 0.001$ ). Relational transparency showed the strongest relationship with motivational cultural intelligence ( $\beta = 0.41$ ,  $p < 0.001$ ). Balanced processing was most strongly associated with cognitive cultural intelligence ( $\beta = 0.36$ ,  $p < 0.001$ ). Internalised moral perspective demonstrated the strongest relationship with behavioural cultural intelligence ( $\beta = 0.33$ ,  $p < 0.01$ ). Mediation analysis revealed that the relationship between authentic leadership and cultural intelligence was partially mediated by organisational learning capability (indirect effect = 0.18,  $p < 0.01$ ).

##### ***Qualitative Findings***

The qualitative findings provided deeper insights into how each component of authentic leadership contributes to the development of cultural intelligence in Australian SMEs. Self-awareness has emerged as a foundational component for the development of cultural intelligence, particularly in relation to metacognitive cultural intelligence. CEOs with high self-awareness demonstrated a greater recognition of their own cultural biases and limitations, thereby creating an openness to cultural learning. As one CEO explained:

*"Understanding my own cultural background and biases was the first step in developing cultural intelligence. I had to recognise that my way of doing business was shaped by Australian*

*cultural norms that might not translate to Asian markets." (CEO, medium-sized manufacturing firm)*

This self-awareness created a foundation for questioning cultural assumptions and adapting mental models during cross-cultural interactions—key aspects of metacognitive cultural intelligence. Relational transparency emerged as particularly important for motivational cultural intelligence, with transparent leader-follower relationships creating psychological safety for cultural learning and experimentation. CEOs who demonstrated openness about cross-cultural challenges fostered similar motivational orientations among employees:

*"I try to be completely honest about the challenges we face in different cultural contexts. By sharing my own uncertainties and curiosities, I encourage my team to approach cultural differences with interest rather than fear." (CEO, small service firm)*

Balanced processing demonstrated strong connections to cognitive cultural intelligence, with leaders who actively sought diverse perspectives facilitating broader cultural knowledge acquisition. CEOs who practiced balanced processing created formal and informal mechanisms for gathering cultural insights from multiple sources:

*"I make it a point to seek different perspectives on cultural issues, especially when entering new markets. We bring together people with different experiences and viewpoints to develop a more complete understanding." (CEO, medium-sized technology firm)*

Internalised moral perspective showed significant connections to behavioural cultural intelligence, with value-based leadership creating consistency in cross-cultural interactions. CEOs with strong internalised moral perspectives articulated clear values that guided cross-cultural behaviours while allowing for cultural adaptation:

*"Having clear values doesn't mean imposing our way of doing things. It means knowing what's non-negotiable for us ethically while being flexible about how those values are expressed in different cultural contexts." (CEO, small retail firm)*

## **5. Discussion**

The findings regarding authentic leadership components and cultural intelligence development contribute to both theoretical understanding and practical application. The strong relationship between self-awareness and metacognitive cultural intelligence aligns with previous research, which suggests that cultural self-awareness is a foundational element of cultural intelligence (Ang et al., 2007; Thomas et al., 2008). The connection between relational transparency and motivational cultural intelligence represents a novel contribution to the literature. While previous research has established the importance of psychological safety for learning in organizations (Edmondson, 1999), this study links explicitly authentic leadership transparency to motivational aspects of cultural intelligence.

The relationship between balanced processing and cognitive cultural intelligence aligns with research on learning orientation and knowledge acquisition (Ang et al., 2007). Still, it extends this work by highlighting the role of leadership in creating organisational systems for diverse perspective-taking. The connection between internalized moral perspective and behavioral cultural intelligence contributes to understanding how value-based leadership influences cross-cultural behavior. Previous research has identified tensions between cultural



adaptation and organisational identity (Thomas et al., 2008); however, this study suggests that clear, values-based leadership facilitates appropriate behavioural flexibility by providing a stable foundation for adaptation.

## **5.1 Research Question 2: Mechanisms for Sustaining Cultural Intelligence Capabilities**

### *5.1.1 Quantitative Findings*

The quantitative analysis identified several organisational factors associated with sustained cultural intelligence capabilities. Multiple regression analysis revealed that the presence of formal systems for cultural knowledge management ( $\beta = 0.34, p < 0.01$ ), distributed cultural leadership roles ( $\beta = 0.29, p < 0.01$ ), and regular cross-cultural reflection practices ( $\beta = 0.31, p < 0.01$ ) were significantly associated with stability in cultural intelligence scores over time. Path analysis indicated that authentic leadership had both direct effects on cultural intelligence sustainability (direct effect = 0.25,  $p < 0.01$ ) and indirect effects through these organisational mechanisms (indirect effect = 0.23,  $p < 0.01$ ). Moderation analysis revealed that the relationship between authentic leadership and cultural intelligence sustainability was stronger in smaller organisations (interaction effect = -0.18,  $p < 0.05$ ) and in organisations with less international experience (interaction effect = -0.16,  $p < 0.05$ ).

### *5.1.2 Qualitative Findings*

The qualitative findings provided rich insights into the specific mechanisms through which authentic leadership practices sustain cultural intelligence capabilities in Australian SMEs. Three key mechanisms emerged from the data: the institutionalisation of cultural values and practices, the development of cultural learning systems, and the distribution of cultural leadership. Authentic leaders fostered the institutionalisation of cultural intelligence through embedding cultural values and practices in organisational systems and routines:

*"We've built cultural intelligence into our core processes—recruitment, onboarding, performance reviews, and strategic planning all include explicit consideration of cross-cultural capabilities." (CEO, medium-sized service firm)*

This institutionalisation took various forms across the sampled SMEs, including formal policies and procedures, technological systems for knowledge management, and cultural artefacts that reinforced the importance of cultural intelligence. Authentic leaders established systems for ongoing cultural learning that sustained cultural intelligence capabilities through continuous development rather than one-off training:

*"We created a cultural knowledge wiki where team members can share insights from their international experiences. It's become a valuable resource that grows with each new market entry." (CEO, small technology firm)*

These learning systems were particularly important for Australian SMEs with limited resources for formal cultural training programmes. Authentic leaders fostered the distribution of cultural leadership throughout their organisations, reducing dependence on the CEO/founder for cultural intelligence capabilities:

*"I've deliberately developed cultural leaders throughout the organisation. We have people at different levels who take responsibility for cultural intelligence in their areas, from market specialists to cross-cultural team facilitators." (CEO, medium-sized retail firm)*

This distribution created multiple points of cultural expertise and influence, enhancing the sustainability of cultural intelligence capabilities.

### *5.1.3 Discussion*

The findings regarding mechanisms for sustaining cultural intelligence capabilities contribute to understanding how authentic leadership influences the longevity of cultural capabilities in organisations. The importance of institutionalisation aligns with Schein's (2010) theory of organisational culture, which emphasises the role of systems and artefacts in embedding cultural values. The development of cultural learning systems supports previous research on the importance of organisational learning for cultural intelligence (Ang & Inkpen, 2008), but provides new insights into how authentic leaders create sustainable learning processes in SMEs. The distribution of cultural leadership represents a significant contribution to understanding cultural intelligence sustainability in SMEs. While previous research has noted the importance of leadership for cultural intelligence development (Ng et al., 2012), this study highlights how authentic leaders can reduce organisational dependence on individual cultural expertise through deliberate development of cultural leadership throughout the organisation.

## ***5.2 Research Question 3: Authentic Leadership, Cultural Intelligence, and Competitive Advantage***

### *5.2.1 Quantitative Findings*

The quantitative analysis revealed significant relationships between cultural intelligence, authentic leadership, and various measures of competitive advantage in Australian SMEs. Structural equation modelling indicated that cultural intelligence partially mediated the relationship between authentic leadership and competitive advantage (indirect effect = 0.21,  $p < 0.01$ ; direct effect = 0.18,  $p < 0.05$ ). Cultural intelligence demonstrated the strongest relationships with international market performance ( $\beta = 0.39$ ,  $p < 0.001$ ), innovation capability ( $\beta = 0.34$ ,  $p < 0.001$ ), and relationship quality with international partners ( $\beta = 0.42$ ,  $p < 0.001$ ). Moderation analysis revealed that the relationship between cultural intelligence and competitive advantage was stronger for SMEs with higher levels of internationalisation (interaction effect = 0.24,  $p < 0.01$ ) and those operating in culturally diverse domestic markets (interaction effect = 0.19,  $p < 0.05$ ).

### *5.2.2 Qualitative Findings*

The qualitative findings provided deeper insights into how the relationship between authentic leadership and cultural intelligence influences competitive advantage in Australian SMEs. Four key pathways emerged from the data: enhanced market understanding and adaptation, stronger international relationships, more effective cross-cultural knowledge integration, and greater organisational resilience in diverse cultural contexts. Organisations with both authentic leadership and strong cultural intelligence demonstrated superior understanding of international markets and more effective adaptation of products, services, and strategies to diverse cultural contexts:

*"Our cultural intelligence has given us insights into customer needs in Asian markets that our competitors miss. We've been able to adapt our products in ways that resonate with local preferences while maintaining our core value proposition." (CEO, small manufacturing firm)"*

Organisations with authentic leadership and cultural intelligence developed stronger relationships with international partners, suppliers, and customers, creating a competitive advantage through preferential treatment, better terms, and access to opportunities:

*"Our cultural intelligence has helped us build genuine relationships with Chinese suppliers that go beyond transactional interactions. These relationships have given us priority during supply shortages and better terms than our competitors receive." (Operations Director, medium-sized retail firm)"*

Organisations with authentic leadership and cultural intelligence demonstrated superior ability to integrate diverse cultural knowledge into innovation processes, enhancing competitive advantage through unique product and service offerings:

*"Our cultural intelligence has allowed us to bring together insights from different markets to create products that have global appeal while allowing for local customisation. That's given us an edge over both local competitors and larger multinationals." (R&D Manager, medium-sized manufacturing firm)"*

Organisations with authentic leadership and cultural intelligence demonstrated greater resilience when facing challenges in diverse cultural contexts, maintaining performance despite cultural complexities:

*"When COVID-19 disrupted our Asian supply chains, our cultural intelligence helped us navigate the crisis more effectively than competitors. We understood the cultural contexts of our suppliers and could work with them to find solutions that respected both their constraints and ours." (CEO, medium-sized manufacturing firm)."*

### 5.2.3 Discussion

The findings regarding authentic leadership, cultural intelligence, and competitive advantage contribute to understanding how cultural capabilities create value for organisations. The partial mediation of the authentic leadership-competitive advantage relationship by cultural intelligence supports previous research suggesting that leadership influences performance partly through organisational capabilities (Avolio et al., 2004).

The strong relationships between cultural intelligence and international market performance, innovation capability, and relationship quality align with previous research on the benefits of cultural intelligence (Ang et al., 2007; Thomas et al., 2008). However, this study extends prior work by identifying specific mechanisms through which these benefits emerge in the Australian SME context.

The finding that cultural intelligence contributes more significantly to competitive advantage for SMEs with higher levels of internationalisation and those operating in culturally diverse domestic markets supports the resource-based view of cultural intelligence as a capability whose value is context-dependent (Barney, 1991; Ang & Inkpen, 2008).

## 5.3 Research Question 4: Cultural Intelligence Sustainability Independent of Founder/CEO

### 5.3.1 Quantitative Findings

The quantitative analysis examined factors associated with the sustainability of cultural intelligence during leadership transitions and changes in founder/CEO involvement. Multiple

regression analysis revealed that several organisational factors were significantly associated with stability in cultural intelligence during such transitions: institutionalisation of cultural values in formal systems ( $\beta = 0.37$ ,  $p < 0.001$ ), presence of cultural intelligence champions at multiple organisational levels ( $\beta = 0.32$ ,  $p < 0.01$ ), and integration of cultural intelligence in organisational identity ( $\beta = 0.29$ ,  $p < 0.01$ ). Path analysis indicated that authentic leadership had significant indirect effects on cultural intelligence sustainability during leadership transitions through these organisational factors (indirect effect = 0.31,  $p < 0.01$ ).

Cluster analysis identified three patterns of cultural intelligence sustainability: high sustainability (characterised by strong institutionalisation, distributed cultural leadership, and cultural identity integration), moderate sustainability (characterised by some formal systems but continued dependence on key individuals), and low sustainability (characterised by high dependence on the founder/CEO with limited institutionalisation).

### 5.3.2 Qualitative Findings

The qualitative findings provided deeper insights into the conditions under which cultural intelligence can be sustained independently of the founder/CEO in Australian SMEs. Three key themes emerged from the data: the role of cultural routines and systems, the development of collective cultural identity, and the challenges and enablers of cultural intelligence transfer during succession. Organisations that successfully sustained cultural intelligence independent of the founder/CEO had established routines and systems that embedded cultural capabilities in day-to-day operations:

*"We've created standard processes for international market entry that incorporate cultural assessment at every stage. These processes work regardless of who's leading the project because they're part of how we do business now." (Operations Director, medium-sized manufacturing firm)".*

Organisations that sustained cultural intelligence independent of the founder/CEO had developed a collective identity that incorporated cultural capabilities as a core aspect of "who we are" as an organisation:

*"Cultural intelligence isn't just something our founder valued; it's become part of our organisational DNA. We see ourselves as a culturally intelligent company, and that identity persists regardless of who's in charge." (HR Director, medium-sized retail firm)".*

Organisations varied in their success at transferring cultural intelligence during leadership transitions, with several factors influencing this transfer:

*"When our founder stepped back from day-to-day operations, we maintained our cultural intelligence because he had deliberately mentored the leadership team in this area and created systems that didn't depend on his personal involvement." (COO, small manufacturing firm)".*

Successful transfer was associated with deliberate succession planning that included cultural intelligence development, gradual transition of cultural leadership responsibilities, and selection of successors who value cultural capabilities.

### 5.3.3 Discussion

The findings regarding cultural intelligence sustainability, independent of the

founder/CEO, contribute to understanding organisational capability development and succession in SMEs. The importance of institutionalisation through routines and systems aligns with research on organisational capabilities (Nelson & Winter, 1982), which emphasises how routines embed knowledge in organisational practices. The role of collective cultural identity in sustaining cultural intelligence represents a novel contribution to the field of cultural intelligence. While previous research has examined organisational identity (Albert & Whetten, 1985) and cultural intelligence (Earley & Ang, 2003) separately, this study highlights how incorporating cultural intelligence into organisational identity creates sustainability through collective commitment to cultural capabilities. The findings regarding the transfer of cultural intelligence during succession extend previous research on succession planning in SMEs (Sharma et al., 2003) by highlighting the specific challenges and enablers of cultural capability transfer.

## **5.4 Synthesis and Integration of Findings**

Integrating the findings across all four research questions reveals several key insights about the relationship between authentic leadership and the development and sustainability of cultural intelligence in Australian SMEs.

First, authentic leadership creates foundational conditions for cultural intelligence development through its four components, with each component contributing distinctively to different dimensions of cultural intelligence. Self-awareness enhances metacognitive cultural intelligence through cultural self-reflection; relational transparency fosters motivational cultural intelligence through psychological safety; balanced processing supports cognitive cultural intelligence through diverse perspective-taking; and internalised moral perspective enhances behavioural cultural intelligence through values-based adaptation. Second, authentic leadership contributes to the sustainability of cultural intelligence through three key mechanisms: the institutionalization of cultural values and practices in organizational systems, the development of cultural learning processes that support ongoing capability development, and the distribution of cultural leadership throughout the organization.

Third, the combination of authentic leadership and cultural intelligence enhances competitive advantage through multiple pathways: improved market understanding and adaptation, stronger international relationships, more effective cross-cultural knowledge integration, and greater organisational resilience in diverse cultural contexts. Fourth, cultural intelligence can be sustained independently of the founder/CEO when certain conditions are met: establishment of cultural routines and systems that embed cultural capabilities in operations, development of a collective cultural identity that incorporates cultural intelligence as a core aspect of organisational self-definition, and deliberate attention to cultural capability transfer during succession planning and leadership transitions.

### **5.4.1 Conclusion**

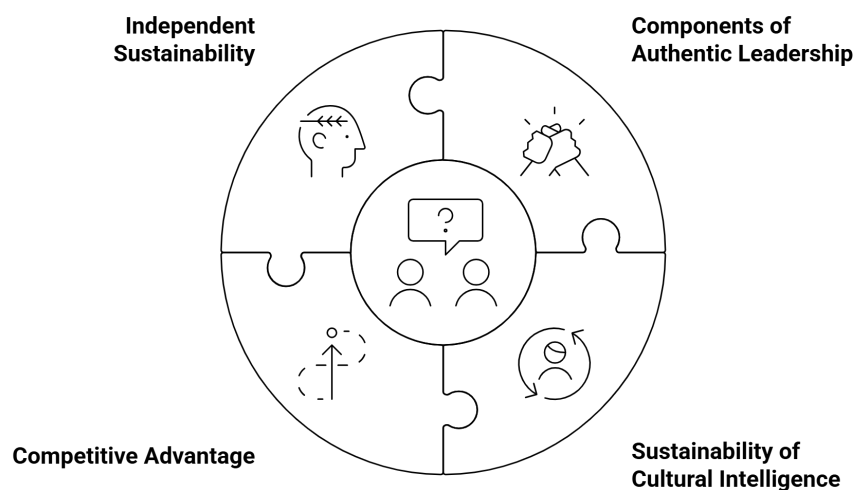
This study investigated the relationship between authentic leadership and the development and sustainability of cultural intelligence in Australian SMEs, addressing four key research questions through a mixed methods approach. The findings contribute to both theoretical understanding and practical application, offering insights into how authentic leadership shapes cultural capabilities and how these capabilities can be sustained to create competitive advantage.

## 5.5 Summary of Key Findings

The research revealed several important findings regarding the relationship between authentic leadership and cultural intelligence in Australian SMEs. First, all four components of authentic leadership (self-awareness, relational transparency, balanced processing, and internalised moral perspective) contribute positively to cultural intelligence development, with each component demonstrating stronger relationships with specific dimensions of cultural intelligence. Self-awareness particularly enhances metacognitive cultural intelligence; relational transparency fosters motivational cultural intelligence; balanced processing supports cognitive cultural intelligence; and an internalized moral perspective enhances behavioral cultural intelligence. Second, authentic leadership contributes to the sustainability of cultural intelligence through three key mechanisms: the institutionalization of cultural values and practices in organizational systems, the development of cultural learning processes, and the distribution of cultural leadership throughout the organization. These mechanisms reduce dependence on individual leaders and create organisational structures that support cultural intelligence beyond founder/CEO involvement.

Third, the combination of authentic leadership and cultural intelligence enhances competitive advantage through multiple pathways: improved market understanding and adaptation, stronger international relationships, more effective cross-cultural knowledge integration, and greater organisational resilience in diverse cultural contexts. These advantages are particularly significant for Australian SMEs engaging with Asian markets. Fourth, cultural intelligence can be sustained independently of the founder/CEO when certain conditions are met, including the establishment of cultural routines and systems, the development of a collective cultural identity, and deliberate attention to cultural capability transfer during succession planning and leadership transitions.

Together, these findings informed the development of an integrated framework, presented in Figure 1. The figure synthesises how the four components of authentic leadership shape different dimensions of cultural intelligence, how these in turn are embedded and sustained through organisational mechanisms, and how this dynamic ultimately underpins competitive advantage—particularly in Australian SMEs operating in Asian markets. It also depicts the conditions under which cultural intelligence can continue beyond the founder/CEO, highlighting the role of cultural routines, collective identity, and succession processes.



**Figure 1:** Enhancing SME Success Through Leadership

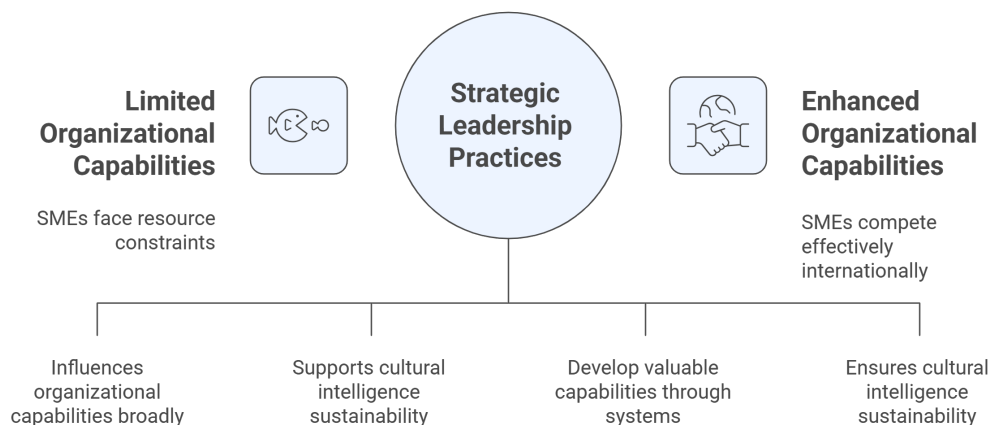


## 5.6 Theoretical Implications

These findings have several important theoretical implications. First, they extend authentic leadership theory by demonstrating how the four components of authentic leadership influence organisational capabilities beyond their previously established effects on employee attitudes and behaviours. This extension contributes to a more comprehensive understanding of authentic leadership outcomes across multiple levels of analysis. Second, the findings contribute to cultural intelligence theory by identifying leadership antecedents and organisational mechanisms that support cultural intelligence development and sustainability. The identification of specific mechanisms linking authentic leadership components to cultural intelligence dimensions provides a more nuanced understanding of how cultural capabilities develop in organisational contexts.

Third, the research contributes to the literature on capability development in SMEs by highlighting how resource-constrained organisations can develop and sustain valuable capabilities through leadership practices and organisational systems. This contribution is particularly relevant for understanding how smaller organisations can compete effectively in international markets. Fourth, the findings extend the literature on succession and capability transfer in SMEs by identifying factors that influence the sustainability of cultural intelligence beyond the involvement of the founder/CEO. The identification of organisational factors that support the sustainability of cultural intelligence provides a framework for understanding the persistence of capability in smaller organisations.

These theoretical implications are synthesised in Figure 2 that illustrates how, despite initially limited organisational capabilities, SMEs can leverage strategic leadership practices—such as authentic leadership behaviours and supporting systems—to build, sustain, and extend cultural intelligence and other valuable capabilities, ultimately enhancing their capacity to compete effectively in international markets.



**Figure 2:** Enhancing Organisational Capabilities Through Leadership

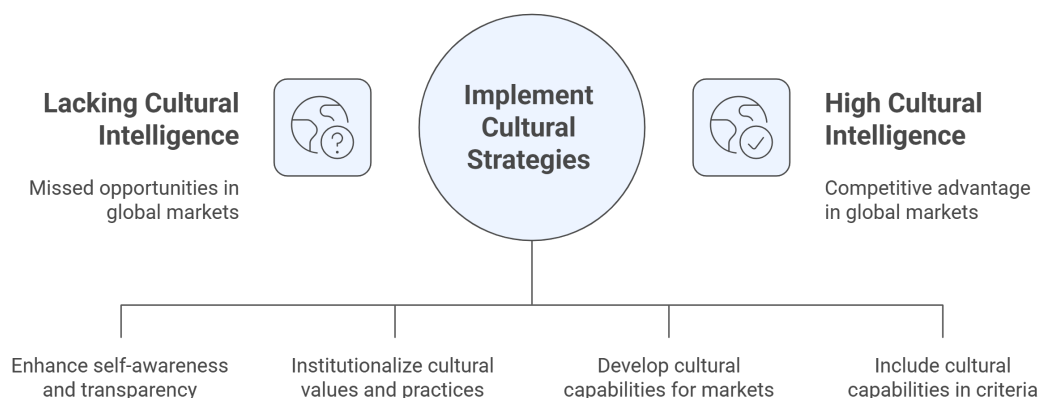
## 5.7 Practical Implications

The findings also have significant practical implications for leaders and managers of Australian SMEs engaging with diverse cultural contexts. First, they highlight the importance of developing authentic leadership capabilities as a foundation for cultural intelligence. SME leaders should focus on enhancing self-awareness through cultural self-reflection, practising relational transparency through open dialogue about cultural challenges, engaging in balanced processing by seeking diverse cultural perspectives, and maintaining an internalised moral

perspective that provides ethical guidance while allowing for cultural adaptation.

Second, the findings provide guidance for establishing organisational mechanisms that sustain cultural intelligence. SME leaders should focus on institutionalising cultural values and practices through simple but consistent systems, developing cultural learning processes that maximise available resources, and distributing cultural leadership throughout the organisation. Third, the research provides insights into how Australian SMEs can leverage cultural intelligence to gain a competitive advantage in international markets, particularly in Asia. SME leaders should focus on developing cultural capabilities that enhance market understanding and adaptation, strengthen international relationships, support the integration of cross-cultural knowledge, and build organisational resilience in diverse cultural contexts. Fourth, the findings provide practical guidance for succession planning that maintains cultural intelligence. SME leaders approaching succession should explicitly include cultural capabilities in succession criteria, mentor potential successors in cultural intelligence, gradually transfer cultural leadership responsibilities, and establish organisational systems and identities that support cultural intelligence beyond their direct involvement.

Figure 3 thus illustrates how SME leaders can move from low to high cultural intelligence by implementing targeted cultural strategies—enhancing self-awareness and transparency, institutionalising cultural values and practices, developing cultural capabilities for key markets, and embedding cultural criteria into succession and leadership decisions—to secure competitive advantage in global markets.



**Figure 3: Building Cultural Intelligence in SME**

## 5.7 Limitations and Future Research Directions

Several limitations of this study should be acknowledged. First, while the mixed methods approach provides both breadth and depth, the cross-sectional nature of the quantitative data limits causal inferences about the relationship between authentic leadership and cultural intelligence. Longitudinal research, which tracks changes in leadership practices and cultural capabilities over time, would provide more substantial evidence for causal relationships. Second, the focus on Australian SMEs may limit the generalizability of the findings to other cultural contexts or organizational types. Future research should examine the relationship between authentic leadership and cultural intelligence in various national contexts and within larger organizations to identify contextual factors that influence this relationship.

Third, while this study examined the four established components of authentic leadership, it did not explore potential cultural variations in how authentic leadership is conceptualised and practised. Future research should investigate whether the concept of authentic leadership varies across cultural contexts and how these variations might influence its

relationship with cultural intelligence. Fourth, this study focused primarily on the role of the CEO/founder in shaping cultural intelligence, with limited attention to the influence of other organisational members. Future research should examine how authentic leadership at different organisational levels contributes to cultural intelligence development and how these influences interact.

## 6. Conclusion

In an increasingly globalized business environment, cultural intelligence is a critical capability for SMEs operating in diverse cultural contexts. This study demonstrates that authentic leadership plays a significant role in developing and sustaining cultural intelligence in Australian SMEs, contributing to competitive advantage through enhanced market understanding, stronger international relationships, effective knowledge integration, and organisational resilience.

For Australian SMEs seeking to engage effectively with Asian markets and diverse domestic populations, developing authentic leadership and cultural intelligence capabilities represents a valuable investment in long-term competitive positioning. By understanding the specific components of authentic leadership that contribute to different dimensions of cultural intelligence and the mechanisms that support the sustainability of artistic intelligence, SME leaders can develop more targeted and practical approaches to cultural capability development.

As globalization continues to increase the cultural complexity of business environments, the relationship between authentic leadership and cultural intelligence will likely become increasingly important for organisational effectiveness and competitive advantage. Further research in this area has the potential to enhance both theoretical understanding and practical application, contributing to more effective leadership development and cultural capability building in organizations navigating diverse cultural contexts.

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