

Institutional and cultural influences on international human resource management

❖ LEARNING OBJECTIVES

- ❖ To comprehend differences in national and regional manifestations of HRM with reference to institutional and cultural theories, as a basis for embarking on comparative studies
- ❖ To examine neo-liberal and neo-corporatist prescriptions for institutional structuring, and Marxist critiques
- ❖ To comprehend the concept of national/regional business systems
- ❖ To comprehend and criticize major cultural theories

Introduction

Despite the all-pervasive talk of globalization, the seasoned international business traveller will be acutely aware of differences in the 'way of doing things' from country to country and from region to region. Such differences are seldom more apparent than in the field of organization and management. Not only will the traveller be aware that conventions for doing business are culture-bound, but also that systems and structures for 'the management of people' are uniquely determined by forces of tradition. If the business traveller were to discuss the issue of fairness of pay with a Japanese worker, the latter could well reiterate the proverb 'The nail that sticks out should be hammered down', thus stressing the need for egalitarianism and group compliance. The counterpart of this worker in the USA however, particularly if a high performer, may well be aggrieved if his or her superior contribution to enterprise success is not individually recognized in financial terms. Similarly, as the recent case of the highly contested closure of the Paris branch of the UK-owned retailer Marks & Spencer (M&S) demonstrated, French employees' expectations of job security (and consultation in the case of job loss) are considerably higher than those of their British counterparts.

It is the purpose of this chapter to assist understanding as to *why* observed manifestations of HR and employment practices demonstrate distinctiveness and ‘embeddedness’ within specific geographic territories. It is therefore pitched at the intermediary level of analysis defined in Chapter 1, capturing regional and national influences on IHRM. We pursue two complementary lines of theoretical explanation, the first relating to *institutional arrangements*, which may be regarded as the ‘hardware’ of underlying systems for HRM, and the second concerning *cultural stereotypes*, which, continuing the metaphor, relate to the more intangible and psychological determinants of international diversity, or the systems ‘software’.

Institutional perspectives

According to the *Concise Oxford English Dictionary* (2002), an institution may be defined as ‘an official organization with an important role in a country’ or ‘an organization founded for a religious, educational, or social purpose’. In the era of globalization there has been serious debate concerning the status and viability of existing institutional arrangements, including nation states. Giddens, for example, argues that many institutions have become ‘shell’ like, and ‘have become inadequate to the tasks they are called upon to perform’ (2002: 19). Nevertheless, a common set of institutions can be found in most societies, including public and private enterprises, public utilities, financial establishments, educational institutions, trade unions and government/quasi-governmental agencies. The relative strength of these institutions can vary, as can the manner in which they interact.

Dore (2000: 45–47) refers to ‘institutional interlock’ as typifying national economies and the relationship between the economy and the broader society. Thus, it may be argued that in some societies, as a result of socio-political traditions, institutions operate in an interlocking, mutually supportive fashion, while in others, there exists a greater ‘space’ between key institutions, and an emphasis on institutional autonomy and self-support. For the purpose of this analysis, various complementary institutional perspectives are offered. First, broad policy prescriptions concerning the role of the state and related institutional arrangements are explored. Second, variations in ‘business systems’ from region to region depending primarily on patterns of ownership will be examined.

Neo-liberalist, neo-corporatist and socialist/Marxist perspectives

Current debates and controversies relating to globalization and, more generally, to the way in which economic systems should be ordered, are invariably based on ideologies that present a general plan of action for structuring economic and social orders. Such plans, which may emanate from politicians, policy makers, academics, management consultants and the like, are seeking to prescribe ideal forms of institutional states of existence to guide macro-level reforms. For our purposes, three influential ideologies are expounded.

Neo-liberalism

This doctrine has been substantially attributed to the late Nobel prize-winning economist Milton Friedman at the University of the Chicago’s School of Economics, although its origins can be traced back to the work of Adam Smith and his treatise *The Wealth of Nations* published in 1776. In essence, this perspective emphasizes the potency and desirability of market forces in allocating resources and engendering economic efficiency and wealth.

Freedom of movement of capital and labour is assumed, as is the ability of the individual economic actor to take responsibility for his or her own actions (Hollinshead and Leat, 1995). Thus, the essential concern of policy makers is to ensure that economic structures remain *deregulated*, that is, the state does not interfere in the behaviour of primary economic actors, and that 'freedom to manage' can occur without constraint.

According to Steger (2003), concrete neo-liberal measures include:

- privatization of public enterprises;
- deregulation of the economy;
- liberalization of trade and industry;
- tax cuts;
- 'monetarist' measures to keep inflation in check;
- control of organized labour;
- the reduction of public expenditure, particularly social spending;
- the downsizing of government;
- the expansion of international markets;
- the removal of controls on global financial flows.

Flowing from this, a negative view is taken of state-owned industry and trade unionism, both of which are regarded as possessing a monopolistic and collectivistic orientation that serves to impede the free flow of market forces. The doctrine is also consistent with the removal or reduction of state-funded provision for social welfare. Neo-liberalism became a highly influential political force in the USA and the UK in the 1980s and was associated with the wholesale privatization of state-owned and nationalized industries in the latter. These economies have also been referred to as *liberal market economies*, or LMEs (Edwards et al., 2005).

Moreover, in recent years neo-liberalism has been the guiding economic philosophy for powerful international agencies such as the World Bank and the International Monetary Fund (IMF) (Stiglitz, 2002), both operating from Washington, and instigating 'shock therapy' economic treatment in transitional and developing economies (e.g. in Latin America, East Asia, central and eastern Europe and Africa), which invariably involves the rapid privatization of formerly state-owned enterprises and the 'opening up' of these economies to western capital.

While neo-liberalism has been in the ideological ascendancy over the past decade or so, its tendency to create 'winners' and 'losers' at national and global levels has been the subject of protestation and controversy, a theme that is taken up in Chapter 3. Recently, the principles of neo-liberalism have been openly and robustly questioned across national and political spectrums as a result of the global financial crisis leading to the injection of billions of dollars of state-provided funds into the US finance and automobile sectors, and into the economy at large. Currently, the G20 group of advanced industrial nations are to discuss the establishment of a 'new global financial structure'.

Neo-corporatism

Neo-corporatist ideology, in contrast to neo-liberalism, envisages an active role for the state in seeking to mediate and integrate the interests of various powerful societal groupings, particularly those representing labour and capital. An underlying presumption of neo-corporatist philosophy is that the unbridled flow of market forces potentially leads to

unpredictable outcomes (Hollinshead and Leat, 1995), and is associated with considerable material inequity within societies, which is detrimental to the public good and longer-term economic competitiveness. Consequently, neo-corporatism upholds that market orientation should be tempered by social awareness of market outcomes, which is instigated through consensus decision making involving major societal actors.

A dominant institutional paradigm advocated by the neo-corporatist school is therefore 'social partnership' that engages representatives of labour and capital in decision making at various economic levels. This 'stakeholder' model of economic management is consistent with high levels of worker skill acquisition and commitment to corporate objectives, and is founded on highly developed national infrastructures and systems for social welfare. Neo-corporatist ideology has been influential in continental Europe, notably in Germany, the Netherlands and Scandinavia, which have also been referred to as *coordinated market economies*, or CMEs (Edwards et al., 2005).

Concrete neo-corporatist measures include:

- the involvement of 'stakeholder', including worker, interests at national, industrial and enterprise level;
- Consensus decision making;
- government intervention into economies in order to moderate market forces and protect social priorities;
- relatively high taxation rates;
- highly developed national infrastructures and considerable public expenditure;
- high levels of social expenditure;
- constructive engagement of trade unions.

Neo-corporatism has guided the formulation of EU institutional and procedural arrangements as well as the rationale for numerous social and employment policy measures. In recent years, however, neo-corporatist tendencies in the EU and its core economies have tended to give way to a powerful agenda of deregulation in the context of global competition and the associated needs for cost reduction and employment flexibility.

Marxism

Marxist ideology, which has inspired socialist movements across countries, is fundamentally critical of modes of capital accumulation associated with market economies, and particularly neo-liberalism. In essence, the Marxist view holds that political equality is a 'myth' (Miliband and Panitch, 1993), and that the state always works in the interests of the ruling economic class and supports 'capital' (Macionis and Plummer, 2002). Central to Marxist analysis is the conviction that unequal power relations in industry do not exist in isolation, but are buttressed by patterns of inclusion and exclusion associated with various institutional arrangements, including education, health and housing. Marxist ideology holds that unemployment and insecurity is an integral feature of capitalist systems, enabling employers to promote intensification of work among those who fear redundancy. Alienated employees are systematically denied 'the fruits of their labour' in terms of profit or production as these are unfairly appropriated by employers and other vested interests. Marxism, then, emphasizes the divisions in society and concentrates on issues of power, struggle and inequality (Giddens, 2006).

According to Giddens (2006: 114), broad Marxist ideas are as follows:

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- The main dynamic of modern development is the expansion of capitalistic economic mechanisms.
 - Modern societies are riven with class inequalities, which are basic to their very nature.
 - Major divisions of power, like those affecting the differential position of men and women, derive ultimately from economic equalities.
 - Modern societies as we know them today (capitalist societies) are of transitional type – we may expect them to become radically re-organized in the future. Socialism, of one type or another, will eventually replace capitalism.
 - The spread of western influence across the world is mainly a result of the spread of capitalist enterprise.
- ”

Marxists would assert that modern patterns of foreign direct investment and the activities of western-owned MNEs in emerging and developing economies may only be understood against the backcloth of post-colonialism and international dependency (ibid.)

As a legacy of colonial rule, under which richer countries exploited the natural resources of ‘Third World’ nations, as well as creating markets for finished products in the latter countries, post-colonial countries have developed economic dependency on ‘the West’. It should also be noted that, despite the global influence of neo-liberalism over the past few decades, Marxist and socialist political persuasions remain a potent political force in various countries, particularly a number in Latin America, southern and eastern Europe, Russia and China.

Business systems and varieties of capitalism

Neo-liberal and neo-corporatist perspectives outlined above would support the assertion that ‘varieties of capitalism’ serve to order political and economic structures across global regions. This theme has been taken up by various commentators. Albert (1993) draws a distinction between ‘Anglo-American’ and ‘Rhineland’ capitalism. The characteristics of each are presented in Table 2.1.

Table 2.1 The characteristics of Anglo-American and Rhineland capitalism

	Anglo-American (liberal market economic orientation)	Rhineland (coordinated market economic orientation)
Source of finance	Stock market	Institutional investors
Primary responsibility of management	Shareholders	A wide variety of stakeholders, including employee representatives
Restraints on takeovers	Low	High
Perspective	Long term/investment	Short term/cost-effectiveness/minimization

Source: Adapted from Hyman (2004).

Hyman (2004: 140) states that, in CMEs reflecting neo-corporatist ideology, a dense network of institutions exists, sustained by law, custom and moral values that subject the decisions of managers and trade union representatives to extraneous and regulative influences. In LMEs, in keeping with neo-liberalist principles, 'freedom to manage' is well established, with primary economic actors enjoying considerable autonomy and little statutory or regulative interference into their affairs (Hall and Soskice, 2001; Hollingsworth and Boyer, 1997; Kischelt et al., 1999; Streeck, 2001).

Institutional analysis is integral to Whitley's (2002) representation of regional typologies of *business systems*. According to Whitley, a business system constitutes a collection of institutions serving to shape economic transactions, cooperation and control inside and between business organizations (Sorge, 2004). For Whitley, means of ownership represents a key determinant of the form of business system, as well as degrees of competition or collaboration between industrial and commercial concerns and the quality of relationships between management and employees/trade unions.

The following typologies manifest various configurations of business system characteristics in various global regions, and are derived from Sorge (ibid.).

Fragmented

- Small owner-controlled firms engaged in high levels of competition.
- Short-term results orientation.
- Flexibility to convert the firm from one product or service to another.

Example: Hong Kong

Coordinated industrial district

- Links exhibited between competing firms and across sectors.
- Economic coordination geared to long-term perspectives.
- Cooperation, commitment and flexibility emphasized in the sphere of work relations and management.
- Economic cooperation not necessarily achieved via trade unions.

Example: Italian industrial districts and other European regional districts

Compartmentalized (associated with LMEs)

- Large enterprises that integrate activities between sectors, in the industrial chain and through shareholdings.
- Little cooperation between firms.
- In product and labour markets, adversarial competition and confrontation occurs.
- Owner control exercised at arm's length through financial markets and shareholding.

Example: the UK and former UK colonies

State-organized

- More or less socialist, but dependent on state coordination, support and governance.
- Integration across and within production chains.

- In capitalist systems may involve family ownership of firms.

Examples: Korea and France

Collaborative (associated with CMEs)

- Substantial associative coordination (through industrial, employer and employee associations and quasi-governmental agencies).
- Credit financing of enterprises and alliances of share ownership as opposed to dispersed ownership as in 'compartmentalized' systems above.
- Emphasis on long-term interests and development of high trust between major institutional actors.

Examples: Western Continental Europe, German-speaking and Scandinavian

Highly coordinated

- Alliance form of owner control.
- Extensive alliances between large companies that are usually conglomerates.
- Differentiated chain of suppliers.
- High levels of employer–employee interdependence.
- A major part of workforce 'incorporated' into the enterprise.

Example: Japan

It is argued that different elements of business systems interrelate in a complex whole, giving characteristic patterns of business behaviour in different countries that persist over time in such areas as corporate governance, managerial structures and labour market issues.

Implications of institutional perspectives for HRM

How, then, do institutional factors impact on the policy and practice of HRM? While the over-generalization of corporate orientations within nation states and regions should be avoided, Marginson (2004) suggests that enterprises embedded in LMEs (such as the USA and the UK) tend to place more emphasis on short run financial performance, and adopt investment strategies that are driven by purely financial criteria. In such systems, employees are likely to be regarded as disposable resources, or even liabilities, which conditions employment and HR policies. So, for example, the employer operating in the LME is likely to be orientated towards closely managing individual performance, possibly through the use of financial incentives (and penalties) and may tend to see training and development as an 'overhead' assuming low priority when competition is high. There is likely to be considerable movement of labour between enterprises, and, within enterprises, an emphasis placed on the 'flexible' deployment of staff. Management teams and line managers will be empowered to take control of many aspects of HRM and employee motivation. LMEs place an emphasis on international competitiveness, cost-effectiveness and flexibility, yet potential drawbacks, in a climate of competitive 'leanness' are lack of employee commitment, morale and inferior quality of product and service.

Organizational and HR principles associated with liberal market economies are as follows:

- 'freedom to manage';
- emphasis on short-term competition;

- flexible deployment of staff;
- pay linked to individual performance;
- training regarded as an 'overhead'.

On the other hand, enterprises embedded in CMEs (such as Germany and Scandinavia) are likely to prioritize longer-run performance and to pursue investment strategies involving product and process innovation and associated skill development (Marginson, 2004). Employees tend to be regarded as enduring assets constituting a valuable resource for competitive advantage, an emphasis being placed on their training and development, and on the nurturing of 'internal labour markets', that is, the existing body of employees. Related features of employment would include relatively high levels of job security, including protection for staff in the event of takeovers and mergers, and robust arrangements for employee consultation and involvement in order to engender employee commitment. In such systems managerial decision making is frequently constrained by extraneous influences, including employment laws and regulations imposed by government, and other stakeholder (particularly trade union) agendas. In CMEs, employee motivation and commitment is likely to be high, this being associated with high-quality products and services, yet such economies may run the risk of lack of global competitiveness due to high cost and 'rigid' employment practices.

Organizational and HR principles associated with CMEs are as follows:

- constraints on managerial freedom through state regulations and other influences;
- longer-term orientation;
- investment in training;
- relative job security;
- employee involvement and participation.

While institutional analysis assists with understanding the 'embedded' determinants of HRM policy and practice across nations, the use of 'business systems' and related approaches for calibrating national diversity needs to be accompanied by certain academic provisos.

First, following Pollert (1999), the concept of the business system provides an imperfect device to explain national variations in employment/HR structures. Even as an 'ideal type', it is argued that the notion of national business systems obscures non-national institutional differences, such as those between different corporate cultures within nation states, or the 'merging' of institutions through regional convergence; for example, via pan-European integration policies.

Second, there is, in reality, not a simple 'cause and effect' and highly delineated relationship between business systems and observed manifestations of HRM and employment practice. As Hardy (2002) asserts, 'local isomorphism', that is, the conditioning effects of the local environment, is more likely in certain areas of HRM because of the constraints of host country regulations and practices. For example, issues such as wage determination, hours of work, job contracts and redundancy procedures are highly subject to local institutional influence. On the other hand, in respect of systems for employee involvement and consultation, or equal opportunities and health and safety at work, enterprises may be subject to regulative effects at regional or international level, which occur 'outside the reach' of the national business system.

Activity

Imagine you are the HR team for a medium-sized, domestically owned, engineering company in a country of your choice. Formulate a PEST (political, economic, social and technical) analysis of the contextual factors impacting on your business. To what extent are they indicative of an 'LME' or 'CME' national institutional context?

The psychological 'software': cultural perspectives

To what extent are differences in national practices in HRM attributable to cultural differences? This is a difficult question to answer, not least because of the intangible nature of culture itself. Geert Hofstede (2001), a seminal writer on culture, has referred to culture as the 'software of the mind', while Hodgetts and Luthans (2003) suggest that it possesses the following attributes:

- It is *learned*. Culture is not inherited or biologically based. It is acquired by learning and experience.
- It is *shared*. People as members of a group, organization or society share culture. It is not specific to single individuals.
- It is *transgenerational*. Culture is cumulative, passed down from one generation to the next.
- It is *symbolic*. Culture is based on the human capacity to symbolize or use one thing to represent another.
- It is *patterned*. Culture has structure and is integrated. A change in one part will bring changes in another.
- It is *adaptive*. Culture is based on the human capacity to change or adapt, as opposed to the more genetically driven adaptive process of animals.

Dahl (2004), drawing on the work of Hofstede (2001), Trompenaars and Hampden-Turner (1997) and Spencer-Oatey (2000), asserts that there are various levels to culture (resembling the layers of an onion), ranging from the easily observable and changed outer layers (such as behavioural conventions, artefacts and conventions, observable practices) to the more 'difficult to grasp' inner layers (such as assumptions and values). This is a valuable insight in the context, for example, of international joint ventures as internationally diverse teams may appear, at face value, to possess cultural consonance, yet more rigorous interaction may become dysfunctional as a result of deeply held preconceptions of key actors. In this section we explore seminal theories of culture.

Hall and Hall's high and low context cultures

Hall and Hall (1990) contend that context refers to 'the information that surrounds an event; it is inextricably bound up with the meaning of that event'. In low context countries (including the former West Germany, Switzerland, Scandinavia and North America),

interaction between individuals tends to be explicit, unambiguous and formal in tenor. An emphasis is placed on time management, deadlines and punctuality, and work and home life is quite rigidly separated.

In high context cultures (e.g. Japan, Asia, Africa, Latin America, the Middle East and southern Europe), it is assumed that most information resides in the person and therefore greater emphasis is placed on 'interpersonal chemistry' and 'body language' as manifested in informal, word-of-mouth, face-to-face communication. In such cultures activities may be carried out simultaneously; there is less emphasis on time management, and a blurred division between work and domestic activities. This theoretical contribution would seem to have particular value as joint ventures between low and high context regions are becoming more commonplace, potentially creating clashes in values, norms and mutual expectations.

Hofstede's study

The study of Geert Hofstede, originally based on survey data obtained from two company attitude surveys conducted in 1968 and 1972 and involving 116,000 IBM employees across over 60 countries, has provided influential insights into varying cultural predispositions across national barriers. Initially, four dimensions were identified that possessed universal applicability across cultures, with a fifth subsequently being added. For each dimension, Hofstede presented possible origins as well as consequences for management behaviour.

Power distance reflected the extent to which members of society are prepared to accept a hierarchical or unequal power structure. Tracing the anthropological roots of this cultural predisposition to the Islamic and Roman empires, it is apparent that in some societies the relationship between superior and subordinate is adhered to with greater rigidity and reverence than in others. This dimension clearly has explanatory value concerning varying degrees of organizational hierarchy and propensity towards managerial consultation across cultures. Northern Europe and the USA tend to have relatively low power distance, while those in southern Europe, Asia, Latin America and Africa are relatively comfortable with hierarchy and paternalism.

Uncertainty avoidance relates to the extent to which members of a society are prepared to tolerate ambiguity and risk. In risk-averse countries or organizations, regulations or institutional arrangements tend to be put into place to mediate the threat of uncertainty and ambiguity. Rule-making and bureaucracy would be a common feature of working life in such countries. In Europe, Germany, Italy and France tend to be risk-averse, while Britain and Sweden are relatively orientated towards risk. Japan and Latin American and Mediterranean countries also score highly on uncertainty avoidance. As Hofstede astutely observes, it is not necessarily the risk-taking countries (the USA and Great Britain) that have achieved the highest levels of economic performance in recent years.

Individualism versus collectivism. Individualism is prevalent in those societies in which the primary concern of people is to endure the well-being of themselves, or their immediate kin. In collectivistic societies, wider groupings and networks share extended responsibilities and loyalties. Hofstede asserts that modern management policies and practices tend to emanate from more individualistic societies (e.g. performance-related pay) and that they therefore possess limited applicability in collectivistic and developing countries. It is postulated that countries become more individualistic as they become more economically advanced.

English-speaking countries tend to be highly individualistic (notably the USA), while higher degrees of collectivism are to be found in continental Europe, Asia, Latin America, the post-socialist bloc and developing countries.

Masculinity versus femininity. This dimension represents the extent to which stereotypical male values such as high earnings, personal recognition and a challenging career take precedence over 'feminine' preferences for good personal relations, employee well-being and satisfaction, consensus orientation, nurturing and sharing. Highly masculine societies include Japan, Austria and Latin countries, while Scandinavian countries and the Netherlands are relatively feminine in orientation.

Long-term versus short-term orientation. This dimension was added in 1987, with the assistance of researcher Michael Bond, to counter the potential western bias of the IBM questionnaire and to embrace Asian values. Long-term thinking, prevalent in eastern 'Confucian'-oriented thinking, stresses virtues such as persistence and perseverance and is consistent with organizations building strategic plans over an extended time frame, while western, short-term, thinking is associated with results 'here and now' and puts pressure on businesses and employees to demonstrate immediate achievements.

Hofstede's study has been highly influential in academic and commercial circles as it has highlighted the significance of culture in international business engagements and in shaping managerial behaviours across national boundaries. The study, through its strong empirical orientation, sought to make tangible and quantifiable the nebulous notion of culture.

However, Hofstede's contribution may be criticized on a number of counts:

- It is out of date. The empirical studies carried out in the late 1960s and early 1970s occurred before the intensification of globalization and related developments (such as the invention of the Internet), which has impacted on values and attitudes on a global scale. Similarly, key concepts may be regarded as somewhat passé, such as stereotypical masculine and feminine values, which predated much feminist thinking.
- The concentration on the nation state as the primary cultural reference point might now be regarded as misguided as social and commercial interactions now frequently transcend national borders, which has created new and eclectic cultural 'hybrids'.
- Social sub-groupings within the nation state, fragmenting its cultural unity, have become increasingly apparent; for example, ethnic and religious minorities and economic migrants.
- The theory tends to present culture as a static phenomenon, thus rendering it measurable, while in reality it is clear that homogeneity in culture may not be taken for granted over time.
- It is methodologically flawed. Not only may one take issue with the notion that components of culture can be dissected and scored, but also the exclusive sample of IBM employees may be regarded as offering only a partial picture of national norms and values.

Trompenaars and Hampden-Turner

The work of Trompenaars and Hampden-Turner (1997) serve to supplement Hofstede's study by offering an alternative set of cultural dimensions, and by placing a focus on meanings, or humans' interpretations of the world around them. Trompenaars' empirical investigation occurred in the early 1990s and involved the distribution of questionnaires to over 15,000 managers in 298 countries. He identified five 'relationship orientations', as follows:

Universalism versus particularism relates to the extent to which individuals are inclined to apply universal principles or rules to social situations or events or whether they are prepared to modify those principles according to each specific occurrence. While formal notions of fairness and truth are regarded as significant in universalistic cultures, particularism places a greater emphasis on the building and protection of relationships. Thus, according to Trompenaars, in particularistic cultures witnesses to a road accident in which the driver was breaking the speed limit would feel obliged to testify in favour of that driver if he or she is a friend or relative. Western countries such as the USA, Australia and the UK ranked high on universalism, while China, Latin and developing countries were more particularistic in orientation.

Individualism versus communitarianism is reflective of Hofstede's equivalent dimension and essentially refers to whether the individual's primary orientation is towards the self or to common goals and objectives. In embracing a wider range of nation states in a later era, Trompenaars interestingly unearths national cultural predispositions that would seem to contradict the thrust of Hofstede's analysis. Thus, following the relatively recent inception of market liberalism in their domains, Mexico and the Czech Republic tend towards individualism. Japan, on the other hand, remains strongly collectivist in orientation.

Achievement versus ascription refers to the extent to which social status is achieved either by what people have *done*, that is, what they have achieved through their own exertions (educational qualifications, performance measurements, etc.), or through who they *are*, as a product of birth, family, gender, age or religion. It is argued that the USA, the UK and western societies tend to be achievement oriented, while Asian cultures and those in developing societies place greater value on ascribed characteristics.

Neutral versus affective relates to the extent to which feelings and emotion, or impersonality and rationality, are expressed in interpersonal encounters. According to Trompenaars, and Hampden-Turner (1997), Japan has a highly neutral culture, while Mexico is strongly affective or emotional.

Specificity versus diffuseness relates to the distinction drawn between the individual's private and public spaces. In specific cultures, compartmentalization occurs between work and private life, while in more diffuse societies various spheres of life are closely integrated, and the 'whole person' is involved in business relationships. As with other dimensions, a broad separation is apparent between western societies and others, with western countries tending towards specificity.

Sequential versus synchronic distinguishes cultures on the basis of their perceptions of time. Some nationalities and regions are most oriented towards *monochrony*, which assumes that time is linear and sequential, while others are *polychronic*, where time is multiple and diffuse. In the former, activities tend to be separated into sequences, while in the latter, individuals are inclined to undertake several activities at the same time. This dimension also relates to the extent societies are oriented towards the past, present or future.

Inner versus outer directedness reflects fundamental notions as to whether individuals and groups can control their own destiny, or whether external factors and luck play a decisive part. In inner-directed societies, it is believed that strategic choices and planning are important in shaping organizations and their environment, while outer directedness emphasizes the force of political conditions and 'acts of God'. Personal networking has a high premium in outer-directed societies.

While both Hofstede and Trompenaars have provided highly influential insights on cultural diversity, it may be argued that other, perhaps less vaunted, works provide equally valid insights for understanding the cultural complexities of international business (Kupta et al., 2008).

In particular, Lewis (1999) draws distinctions between 'clusters of countries' (Ronen and Shenkar, 1985) on the basis of *Linear-Active-Multi-Active* (LAMAS) and *Dialogue-Orientated-Data-Orientated* (DODOS) scales. According to these classifications, cultures that follow multi-active (DODOS) time systems, such as Mediterranean and Latin American cultures, tend to engage in various activities simultaneously, are more flexible and have less rigid management conversational rules. In contrast, Swedes, Swiss, Dutch or Germans, in relatively 'linear' (LAMAS) societies, exhibit sequential action patterns, focus on single acts, time consciousness and punctuality. Lewis (1999) suggests that DODOS countries tend to have more closely knit social networks, which enable them to gather information about business partners through informal networks of friends and families. In contrast, Germans, Swiss, North Americans and New Zealanders 'love to gather solid information and move steadily forward from that database' (Kupta et al., 2008) (ibid. 46).

The World Values Survey

The World Values Survey has provided a wide-ranging and contemporary survey of international value systems in the era of globalization. A wide spectrum of countries is covered, ranging from impoverished to affluent global extremities. Results are derived from interviews, using a standardized questionnaire, with representative national samples measuring changing values concerning religion, gender roles, work motivations, democracy, good governance, social capital, political participation, and tolerance of other groups, environmental protection and subjective well-being (World Values Survey, 2008).

Even though the survey encompasses a number of cultural zones and embraces both liberal and authoritarian regimes, two major dimensions of cross-cultural variation are identified: *traditional/secular-rational* and *survival/self-expression*. Figure 2.1 depicts how societies manifest these two dimensions.

The traditional/secular dimension refers to the extent to which religion is important in societies. 'Traditional' societies emphasize parent-child ties, deference to authority and traditional family values while rejecting divorce, abortion, euthanasia and suicide. In nearly all industrial societies values have shifted from traditionalism to secularism/rationalism, which rejects the traditionalist worldview specified.

The survival/self-expression dimension embodies value changes associated with the shift from industrial- to knowledge-based societies. While survival is a priority in pre-industrial and even in industrial society, in knowledge societies an increasing proportion of the population, comprising mainly young people (Inglehart, 2000), has grown up taking survival for granted. The World Values Survey (2008: 6) states:

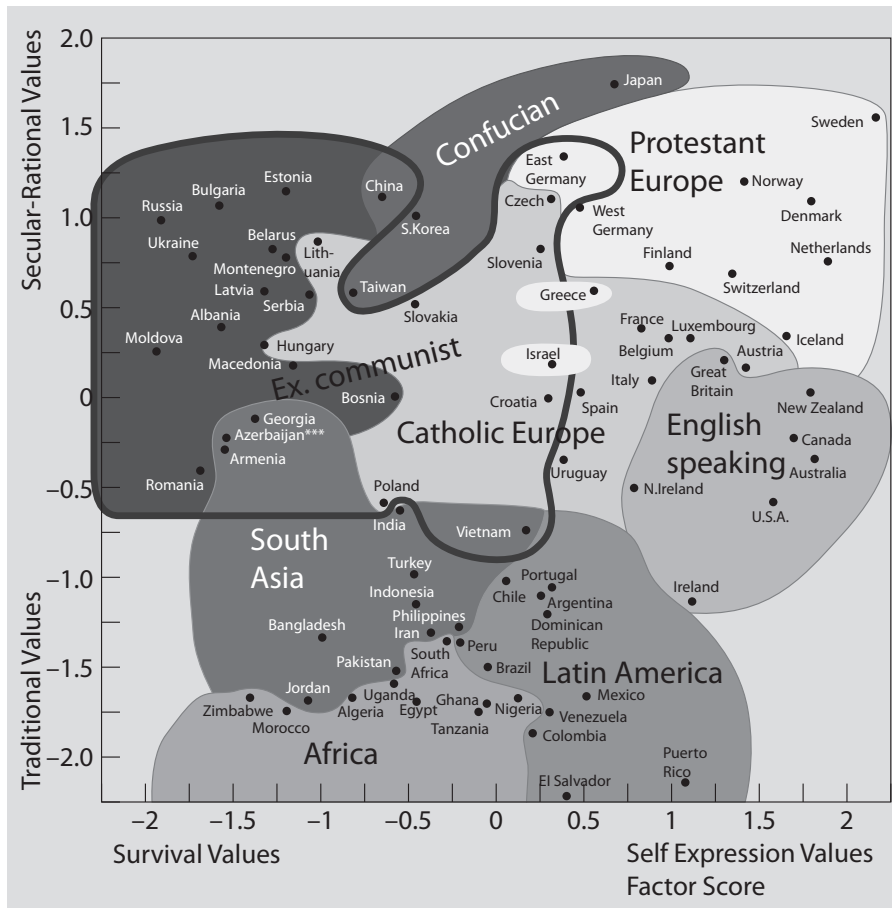


Figure 2.1 Cultural map of the world

Source: Ronald Inglehart and Christian Welzel, *Modernization, Cultural change and Democracy*, Cambridge University Press, 2005, p. 63. Reproduced from www.worldvaluessurvey.org.

“ Their priorities have shifted from an overwhelming emphasis on economic and physical security toward increasing emphasis on subjective well being, self-expression and quality of life. Self expression values give high priority to environmental protection, tolerance of foreigners, gays and lesbians and gender equality, and rising demands for participation in decision-making and political life. ”

This shifting worldview in developed societies has been described by Inglehart (2000) as ‘post-materialist’ and is associated with looser and flatter, rather than bureaucratic, organizational forms, and with a work/life balance that promotes imagination and individual freedom rather than hard work.

The World Values Survey provides a number of insights that are potentially useful for policy and practice in IHRM. First, referring to the traditional/secular dimension, there are clear implications for joint ventures and similar concerns emanating from ‘rationalist’ cultural

contexts and operating in 'traditional' contexts. Essentially, such concerns run the risk of being insufficiently sensitized to deeply-held religious and other convictions in the host environment, tending to impose westernized, yet perhaps inappropriate, organizational cultural and structural frameworks.

The worldview shift towards 'self-expression' identified by the Survey implies that younger generations across national frontiers possess a remarkably different outlook on work and life than their predecessors. If tolerance and a less materialistic orientation indeed represent primary facets of emerging international value systems, this will have implications for the motivation of future generations of international managers, who may be disposed towards quality of life benefits rather than financial reward, and who should be well disposed towards international team working and the assimilation of diversity. The dimension also has a bearing on preferred organizational structures in respect of which informal and democratic systems are likely to be valued above hierarchy and bureaucracy.

Implications of cultural perspectives for IHRM

Clearly, there are some powerfully intuitive connections between the cultural stereotypes and orientations theorized by Hall and Hall (1990), Hofstede (2001) and Trompenaars (1993), and observed manifestations of HRM across regions. Although such connections are far from empirically proven, the following example of organizational practice might be regarded as being influenced by culture:

- preferred organizational structures – flat/tall, consultative/authoritarian, and so on (power distance);
- recruitment, whether based on merit or nepotism (achievement v. ascription, high context);
- whether pay is individually determined (individualism v. collectivism);
- the level of statutory regulation in employment (uncertainty avoidance);
- maternity, paternity, childcare provisions, and so on (masculinity v. femininity).

While, however, cultural theory can provide a useful conceptual tool for understanding and judging comparative manifestations of HRM across borders, arguably its most telling contribution relates to the awareness it provides of the potential for cross-cultural ambiguity and misunderstanding in international team working.

Together, institutional and cultural theories provide a powerful conceptual frame for analysing and explaining international variations in HR and employment practices. While care needs to be taken to avoid overly deterministic links between such theoretical perspectives and actual manifestations of HR within national or regional settings, which denies the significance of enterprise autonomy and independent corporate strategies, complementarities exist in the 'predictions' of institutional and cultural theory. For example, a high incidence of performance-related pay may be found in countries that score highly on 'individualism' and which are strongly oriented towards neo-liberalism; each of these theoretical contributions captures the value of individual competition and material gain. Similarly, some correlation may be perceived between neo-corporatist and uncertainty avoidance tendencies, each of which are associated with commercial climates that manifest relatively high degrees of regulation and a preference for longer-term planning.

Case Study: Marks and Spencer



'FROM CONTINENTAL CHOCOLATES TO CONTINENTAL CLOSURE' By Moira Calvey, University of Hertfordshire Business School

The company background

Marks and Spencer (M&S) is a well-known high street retailer in the UK with stores nationwide. It was formed in 1894 by a partnership between Michael Marks and Tom Spencer and became a public company in 1926. During the 1970s the company began to expand on a global basis, opening its first overseas store in Canada in 1973 and in France and Belgium in 1975. In the late 1980s it acquired stores in the USA (which remained trading under the Brooks Brothers name) and opened stores in Hong Kong. By the mid-1990s, M&S had stores in around 30 countries worldwide, incorporating Europe, North America and Asia.

Known for its high quality, good service and value for money, the company developed into a highly profitable organization, even branching out into financial services in 1985. M&S was to become one of the most profitable retailers in Europe. However, when the recession hit the retail industry in the UK in the late 1990s, M&S began to make the news as its profits dropped sharply.

In 1999 M&S responded to the fall in profits by reviewing its management structure, stopping recruitment to its graduate training programme and reviewing its business operations. The first major overseas investment to go was in Canada, where in 1999 it closed its 38 stores, reportedly cutting approximately 900 jobs and paying around \$35 million in severance payments and closure costs (Warson, 1999). It also sold its Brooks Brothers stores in the USA in November 2001. It was, however, the closure of shops in France and Belgium in March 2001 that put M&S in the headlines, as we shall see below.

M&S's approach to people management

The company takes a paternal approach to managing people and, although not without its critics, it is often viewed as a 'good' employer. M&S prided itself on introducing staff 'welfare' services in the early 1930s that included the provision of pensions, subsidized staff canteens, health and dental care, hairdressing, rest rooms and camping holidays. Such practices have continued over the years and the company works at being seen to be fair with people. For example, when it was decided to freeze graduate recruitment in 1999, as a gesture of goodwill it gave the equivalent of one month's salary (around £1,500) to each of the graduates to whom it had withdrawn its offer of employment (Welch, 1999).

The company has promoted good human relations because, as Lord Sieff a former Chairman explained, 'we are human beings at work not industrial beings' (1984, quoted in Blyton and Turnbull, 1998) and 'good human relations at work pay off; they are of great importance if a business is to be efficiently run' (1990: 245, quoted in Blyton and Turnbull, 1998). The company's approach to trade unions is that employees have a

right to join one, but that unions are not recognized for negotiation purposes – except where legislation requires them to do so, as in mainland Europe. With good HR practices, M&S believe that trade unions are not necessary. However, although M&S have traditionally put a strong emphasis on personnel management, giving it strategic importance (Blyton and Turnbull, 1998), Clara Freeman lost her position as Executive Director for UK stores and personnel in September 2000 as part of the management restructuring programme (Cooper, 2000). An M&S spokesperson denied that the HR function was being downgraded as HR was being represented at executive level by the chief legal adviser and company secretary; nevertheless, a company analyst commenting on the situation suggested that ‘personnel directors do not make money’ (Cooper, 2000).

Continental closures

In order to retrench and cut costs, in 2001 M&S decided to close stores across Europe, and an announcement was made on 29 March that the shops in France and Belgium were to close. It is estimated that this restructuring involved around 38 stores in total and upward of 4,000 employees; in France, the numbers were reported as 18 shops and 1,700 workers.

The announcement caused great controversy and uproar, particularly in France. It was alleged that managers were informed by email and that the closure announcement took place only five minutes after the initial, informal, meeting with worker representatives, which reportedly did not constitute a consultation that conformed to the French work code. The timing of the announcement corresponded with the opening of the London Stock Exchange, 8.00 a.m.

Although trade unions are not recognized by M&S in the UK (as discussed above), some French workers were. On their behalf, several trade unions filed a complaint against M&S, claiming that it had broken French labour law by only informing the staff at the same time as it informed the UK Stock Exchange of the decision to close the stores. A French court later ruled that M&S had acted illegally by not consulting with employees before announcing closure; the company was told that it had to suspend its plans until a full consultation had taken place.

M&S denied having acted in any way to contravene legislation in France, claiming that it was abiding by UK law and the rules governing listed companies. It argued that under these rules a quoted company has to inform the market of any major developments in its activities without delay. Further, it was only announcing that it intended to close stores by the end of the year. The implication is clearly that worker consultation would have leaked the news and this may have affected stock market activity and share prices; as it was, M&S shares jumped 7 per cent on the day.

M&S appealed against the ruling that was later overruled. However, the jobs were saved as the stores were bought by the department-store group Galeries Lafayette which, as part of the deal, secured the jobs of the workers. Both trade unions and works committees in France were consulted prior to the deal.

Reaction to the closures

Following the announcement of the store closures, emotions were running very high. It was perceived that M&S was intent on restructuring due to a business crisis, but with little thought for the French workers. The French government encouraged trade union action against M&S's decision: the Labour Minister called for a Europe-wide trade union protest; the Prime Minister, Lionel Jospin, described the company's actions in closing the stores as 'unacceptable' and called for the Labour Ministry to launch its own enquiry.

In protest over the closures, M&S workers took to the streets. It was reported that more than 1,000 workers from across Europe protested outside the company's main UK store in London on 17 May 2001. There were also protests in Paris and at the European Parliament in Strasbourg.

In the UK, the French workers were supported by the Trades Union Congress (TUC), who supported the London demonstration. The TUC General Secretary was reported as saying, 'M&S thought they could export the UK's easy hire-and-fire rules to the rest of Europe' (Benham and Freeman, 2001). Contrary to this, an M&S spokesperson is quoted as saying, 'We're convinced that we complied with all legal requirements ... we're surprised by the reaction of the authorities' (*The Guardian*, 2001b).

French labour law, custom and culture

The French government takes an interventionist approach to employment relations. Their reaction discussed above was partly as a result of their drive to reduce unemployment in the country. Works councils were created by law in France in 1945 and are one of the channels of worker representation, the other two being workforce delegates and trade unions. In most companies these organizations coexist; however, works councils are playing an ever-increasing role. They are made up of elected employee representatives and they have the right to information and consultation that includes issues such as redundancy (EIRO, 1998; Hollinshead and Leat, 1995). It was the perceived failure of M&S to follow these consultation laws that caused unrest following the announcement of store closures.

Although not a direct result of M&S's action but spurred on by it, the French government rushed through proposals to increase employment rights in order to protect workers' jobs. The resulting 'social modernization' bill included: the doubling of minimum redundancy pay; increased powers for works councils with regard to redundancy and a longer time period for consideration of redundancy plans; and nine-month redeployment leave for redundant workers (EIRO, 2001a).

One of the factors that M&S may not have taken account of in its decision to announce the shop closures the way it did is the culture of the French people. The French are renowned for 'taking to the streets' to demonstrate for social and political reasons. In 1968, 10 million people went on strike to demand a fairer form of capitalism that would create an economy to benefit all; in June 2003, people took to the streets to demonstrate over pension reforms. The French people believe that organizations have a social responsibility. Books of condolence were set up in M&S shops and were filled by people who had empathy with their fellow workers. The feeling of the people was perhaps summed up by French Prime Minister Jospin when

he stated, 'the employees who enriched shareholders deserve better treatment. Such behaviour should be punished' (*The Guardian*, 2001b).

Sources: BBC (2001a, 2001b) CNN (2001a, 2001b) EIRO (2001a, 2001b) Marks (2003) *People* (2001) *The Guardian* (2001a, 2001b, 2001c).



Discussion questions

- 1 From the M&S experience described above:
 - a Discuss to what extent an institutional perspective would have assisted management in analysing and understanding cross-national employment relations.
 - b Discuss to what extent a culturalist perspective would have assisted management in analysing and understanding cross-national employment relations.
- 2 What appear to be the overarching ideological frames of reference employed by institutions in France? Give examples for your answer.
- 3 In your opinion, what is the ideological perspective in which M&S were operating? Give examples for your answer.
- 4 As the HR manager of a multinational organization, which analytical approach would you adopt when considering employment matters in a country different from your own? Explain your reasons.

Source: Adapted from Calveley (2005).

Activity

Imagine you are the management team of a US-owned pharmaceutical company entering into a joint venture with a partner in a Latin American country of your choice. Using Geert Hofstede's cultural dimensions, and other relevant materials, explore the potential cross-cultural problems in international team working between parent and subsidiary managers. Make recommendations as to how these problems might be overcome.

Summary

This section has offered two complementary strands of analysis to comprehend diversity in international HR systems – institutional and cultural. Institutional forms and structures, which may be regarded as the ‘hardware’ of national and regional business systems, impact fundamentally on the comparative status of the human resource. Institutional perspectives also cast light on the nature of pervasive ‘neo-liberal’ ideology emanating from the USA, associated with liberal market economies and the ‘alternative’ doctrine of ‘neo-corporatism’ that is associated with coordinated market economies of Europe.

Cultural perspectives may be represented as the ‘software’ conditioning international variations in values and mindsets. While major tenets of cultural theory may be regarded as being in need of updating to account for new global developments, intuitive connections may be established between cultural stereotypes and observed manifestations of country-specific HR practices. The World Values Survey offers a contemporary and comprehensive picture of changing and contrasting value systems at a global level, accounting particularly for distinctive worldviews in developing and developed countries, as well as among the ‘post-materialist’ generation.

Further reading

Harzing A.W. and Van Ruysseveldt, J. (2006) *International Human Resource Management* (2nd edn.), London: Sage Publications.

This edited volume offers theoretically grounded material on the role of IHRM in internationalization, multinational structures and strategies, and the role of HRM in mergers and acquisitions. A major part of the book is also devoted to the analysis of comparative HRM and industrial relations. Part 2, in particular, provides in-depth analysis of cultural and institutional perspectives on IHRM.

Crouch, C. and Streeck, W. (1997) *Political Economy of Modern Capitalism*, London: Sage Publications.

This book provides an in-depth explanation and analysis of business systems in European countries and the USA, delving into international variations in corporate governance and industrial relations.

Hofstede, G. (2001) *Culture’s Consequences: Comparing Values, Behaviors, Institutions and Organizations Across Nations* 2nd edn., Thousand Oaks, CA: Sage Publications.

This book represents a seminal work on culture, management and organization. An in-depth explanation is offered for the formulation of the renowned cultural dimensions, drawing on anthropological perspectives. Analysis is informed by intriguing illustrative material.

Useful websites

www.geerthofstede.com

An accessible digest of Hofstede's cultural theory, with brief explanations of key cultural dimensions.

www.worldvaluessurvey.org

As 'the world's most comprehensive investigation of political and socio-cultural change', this site provides links to detailed survey findings, surveys and publications.

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