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Cultural and Institutional Context of Global Human Resource Management

LEARNING OBJECTIVES

After reading this chapter you should be able to

- describe the basic characteristics of culture and explain how cultural dimensions can be used in global HRM,
- describe how the institutions of society can shape HRM policies and procedures,
- discuss the possibility of the convergence of HRM across countries,
- explain how the heritage of state socialism continues to influence the context of HRM in transition economies, and
- discuss the effects of cultural and institutional context on the HRM role and on employee expectations.

Springtime in Paris

As she savored the last bite of her croissant, Martha Pereaux, HR director for C3 Technologies, thought about how she would approach her latest “cross-cultural collision,” as she had come to think of them. In the year since she had moved to Paris from Houston, there had been many, but none quite as bizarre as this one.

Martha had taken the big promotion to head up the HR division of the joint venture between Houston-based SuperChem and the French company. C3 developed technology for the oil industry, primarily new types of concrete that formed the barrier wall for offshore oil and gas wells. The joint venture was meant to take on the likes of the giant Schlumberger on its own turf and compete with them for valuable technical staff.

Everyone said she was the perfect choice, having grown up in a bilingual family in Canada, with a chemical engineering degree and an MBA with an emphasis in international management. But nothing had really prepared her for the day-to-day challenges she faced in Paris. Every time she thought she had the French figured out something new would arise that mystified her. They could be so “French” she thought.

She had called the meeting this morning with the lead chemist Dr. Bertrand to discuss his rejection of her recruit Frank Reynolds, a recently graduated PhD from MIT and an expert in synthetic polymer chemistry, which C3 desperately needed. Despite what to Martha seemed impeccable credentials Bertrand had refused even to interview him. “The graphology report shows him to be unreliable,” said Bertrand. Graphology—handwriting analysis—thought Martha, what will it be next?

It’s still early, she thought as she paid for her breakfast. I might as well walk the few blocks over to the office in the seventh arrondissement and try to figure out where Bertrand’s thinking is coming from. It’s a lovely spring morning and I could use the exercise. The bread in France is wonderful, but it’s not doing much for my figure.

Introduction

While the use of handwriting analysis as a selection technique, as mentioned in the opening vignette, may be peculiar to a few countries such as France, HRM policies and practices do vary significantly in different countries in which global firms operate. Thus, global HRM is not only about understanding the HRM practices of international organizations but also about the ways in which the context that different countries provide influence human resource management.¹ In this chapter we discuss both cultural and institutional factors of societies that shape HRM.²

Cultural Context

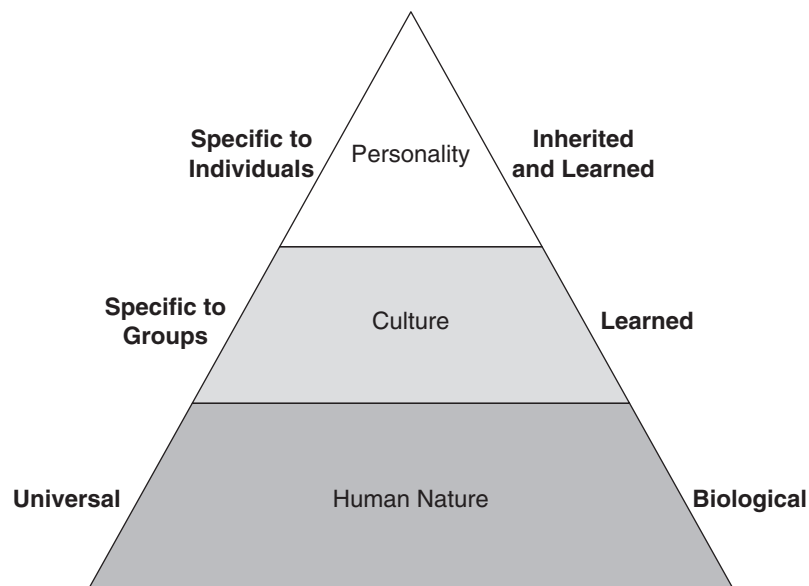
Culture is a widely recognized word, but its exact meaning can be elusive. A useful way of thinking about culture is that it is the mental programs that are shared by groups of

people and that condition their responses to their environment.³ Therefore, in terms of establishing the context for HRM, culture consists of values, attitudes, beliefs, and assumptions about appropriate behavior that are shared in a society. In order to understand how this cultural context influences HRM, it is important to know some basic characteristics of culture, the way in which cultures vary in a systematic way, and how culture has its influence.

Characteristics of Culture

Several general characteristics of culture are important to keep in mind in order to understand the effect that the cultural context has on HRM. These are that culture is *shared*, it is *learned*, and it is *systematic and organized*. Also, cultures can be *tight* or *loose*. By definition, culture is something that is shared by a specific group of people and is not readily available to individuals outside this group. This may be one of the reasons that Martha in the opening vignette is having a difficult time understanding the French culture even though she speaks the language fluently. If we think of culture as mental programming, culture exists at the middle of three levels as shown in Figure 2.1.

Figure 2.1 Three Levels of Mental Programming



Source: Adapted from Hofstede (1980).

At the base level, all human beings share certain biological characteristics. At the highest level are the personality characteristics that are unique to each of us. Culture occurs at an intermediate level and consists of the elements of mental programming that we share with others in our specific group. Also, as indicated in Figure 2.1, culture is transmitted through the process of learning and interacting with the environment. Over time, societies develop patterned ways of dealing with their environment, and this is passed on from generation to generation. For example, guidance about appropriate behavior in a particular culture is often contained in the stories parents tell their children.⁴

A third important characteristic of culture is that culture is not a random assortment of customs and beliefs but is an organized system of values, attitudes, and meanings that are related to each other. The visible artifacts of culture (language, customs, dress, etc.) are related to a deeper set of meanings that are not accessible to outsiders but are taken for granted by members of a cultural group. Thus, because of the mental programming imposed by our own culture, the cultures of others often seem strange and illogical, as indicated in Martha's feelings about graphology in the opening vignette. Because much of culture is hidden, the superficial and visible elements of culture have been likened to the tip of an iceberg, with more fundamental aspects well below the surface.⁵ Icebergs have as much as 90% of their mass below the surface of the water, leaving only a small percentage visible. Like the iceberg, it is the deep underlying assumptions of culture that are the ultimate source of values and action. It is at this level that the logic and coherence of a culture can be understood. Thus, a deeper understanding can often reveal the logic in beliefs and behaviors that seem strange and illogical on the surface.

Cultures differ not only in their details but also in the extent to which they are shared among members of society. Some cultures have widespread agreement about correct behavior, while others have greater diversity and tolerance of difference.⁶ So-called *tight* cultures, such as Japan's, have broad agreement on cultural norms and are often based on homogeneous populations or the dominance of particular religious beliefs. Countries with diverse populations, such as Canada, have relatively *loose* cultures with a greater degree of variability of thought and action accepted and even encouraged. Thus, it is important to remember that there can be very different degrees of consensus among members of society on culturally-based values, attitudes, beliefs, and assumptions about appropriate behavior.⁷

Comparing Cultures

Societal culture is best expressed in the complex interactions of values, attitudes, and behavioral assumptions among its members. However, in order for the concept of culture to be useful in management studies, much of our understanding has been achieved by reducing the analysis to the study of values. Value differences arise from the solutions that different societies have devised over time for dealing with fundamental problems. Because there are a limited number of ways in which a society can manage these problems, it is possible to develop a system that categorizes and

compares societies on this basis.⁸ By examining the choices that societies have made we can infer their values, that is their preferences for the way things ought to be or the way one should behave.

Despite being devised at widely different times and with different methods, some very similar sets of cultural dimensions have been identified. Because none of these dimensional approaches is entirely satisfactory as a basis for cultural comparison, we briefly review the major frameworks that have been devised for categorizing and comparing cultures. This review leads to a more in-depth look at the concept of individualism and collectivism and its relationship to other elements of the socio-cultural system.

Kluckhohn and Strodtbeck's Framework

Early studies in comparative anthropology produced a framework that has influenced the way the management literature has conceptualized cultural variation.⁹ This categorization identified six dimensions along which a society can be categorized. These variations in value orientations concern the following issues:

- *Relationship to nature*—People have a need or duty to control or master nature (domination), to submit to nature (subjugation), or to work together with nature to maintain harmony and balance (harmony).
- *Beliefs about human nature*—People are inherently good, evil, or a mixture of good and evil.
- *Relationships among people*—The greatest concern and responsibility is for one's self and immediate family (individualist), for one's own group that is defined in different ways (collateral), or for one's groups that are arranged in a rigid hierarchy (hierarchical).
- *Nature of human activity*—People should concentrate on living for the moment (being), striving for goals (achieving), or reflecting (thinking).
- *Conception of space*—The physical space we use is private, public, or a mixture of public and private.
- *Orientation to time*—People should make decisions with respect to traditions or events in the past, events in the present, or events in the future.

Hofstede's Study

A framework that has received a great deal of attention is Hofstede's now classic study of work values.¹⁰ Based on attitude surveys of 117,000 employees of a large U.S. multinational corporation (later identified as IBM), Hofstede extracted four dimensions with which he could classify the 40 different countries represented. These dimensions were named *individualism-collectivism*, *power distance*, *uncertainty avoidance*, and *masculinity-femininity*.

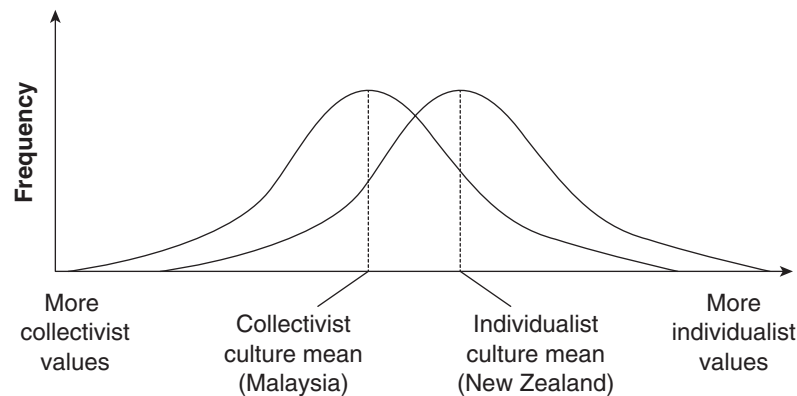
Individualism-collectivism is the extent to which one's self-identity is defined according to individual characteristics or by the characteristics of the groups to which the individual belongs on a permanent basis and the extent to which individual or group interests dominate. Power distance refers to the extent that power differences are accepted and sanctioned in a society. Uncertainty avoidance is the extent to which

societies focus on ways to reduce uncertainty and create stability. Masculinity-femininity refers to the extent to which *traditional* male orientations of ambition and achievement are emphasized over *traditional* female orientations of nurturance and interpersonal harmony. By giving each of the 40 countries (later 50) a score, ranging from 0 to 100 on each of the four dimensions,¹¹ Hofstede derived a classification of national cultures. In an effort to investigate the possibility of a Western bias in this classification, a subsequent study in 23 countries¹² revealed a new cultural value orientation important in Chinese culture, *Confucian work dynamism* (later called *long-term/short-term orientation*),¹³ interpreted as dealing with society's search for virtue. Societies with long-term orientation tend to show preference for order, thrift, and persistence. Recently, a sixth value orientation called *indulgence versus restraint* was identified. Indulgence stands for pursuit of gratification of basic needs and desires and hedonistic behaviors, while restraint describes societies with strict social norms where gratification of needs is suppressed.¹⁴

It is particularly important to point out that Hofstede's value scores were the average score for all participants in each country. Therefore, it is not appropriate to infer that because two nations differ on a particular value dimension that any two individuals from those countries will differ in the same way. Within each nation there might be variation on a particular dimension, such that a particular individual will not be at all representative of the mean score. For example, Figure 2.2 shows the hypothetical distribution of individual scores on individualism-collectivism between a collectivist country (Malaysia) and an individualist country (New Zealand).

As shown in Figure 2.2, it is entirely possible to find an individual in New Zealand who scores lower on individualism than someone in Malaysia.

Figure 2.2 Hypothetical Distribution of Individualism–Collectivism Scores



Source: Thomas (2008, Figure 3.2).

Schwartz Value Survey

In what can be seen as a refinement of Hofstede's earlier work, several additional large-scale surveys of values have been conducted.¹⁵ Each of these studies adds something new to our understanding of cultural differences. The first of these is the Schwartz Value Survey.¹⁶ Based on a review of previous theory and research, Shalom Schwartz and his colleagues conducted a series of studies on the content and structure of human values based on three universal human requirements. The first is the nature of the relationship between the individual and the group, the second is the preservation of the society itself, and the final problem relates to the relationship of people to the natural world. From these requirements that all societies share, Schwartz and his team derived values that reflected various ways of satisfying these needs.

To define cultural dimensions at the level of national culture, Schwartz and colleagues performed an analysis that yielded seven value types that were labeled as the following:

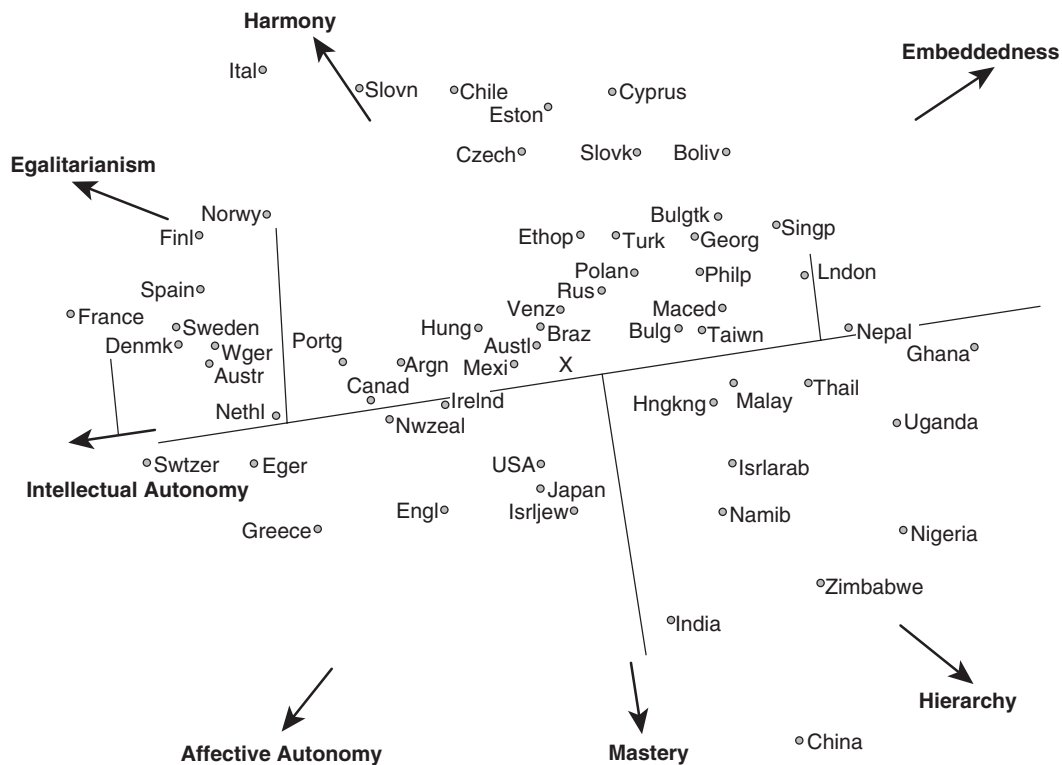
1. *Egalitarianism*, recognition of people as moral equals
2. *Harmony*, fitting in harmoniously with the environment
3. *Embeddedness*, people as embedded in the collective
4. *Hierarchy*, unequal distribution of power is legitimate
5. *Mastery*, exploitation of the natural or social environment
6. *Affective autonomy*, pursuit of positive experiences
7. *Intellectual autonomy*, independent pursuit of own ideas

A procedure that generates a two-dimensional graphic representation of the relationship of countries to each other on all seven dimensions simultaneously produces the diagram shown in Figure 2.3.¹⁷

As shown in Figure 2.3, the location of countries along the seven value vectors indicates their relationship to each other. The direction of the vector indicates the increasing importance of the value type in relationship to the center of the diagram marked by the X. For example, the line drawn on Figure 2.3 indicates the importance that each country attributes to *intellectual autonomy*. To locate a country on this dimension, a perpendicular line is drawn from the position of the country to the vector. The lines drawn on the figure indicate that this dimension is very important in France, less so in Norway, India, and Singapore, and very unimportant in Ghana.

The GLOBE Study

The most recent study of cultural differences in value orientations was undertaken as a part of the Global Leadership and Organizational Behavior Effectiveness (GLOBE) program.¹⁸ One of the outcomes of the GLOBE research was the construction of nine dimensions of cultural variation. The first four of these dimensions are

Figure 2.3 Co-Plot of Value Dimensions Across 57 National Cultures

Source: Sagiv & Schwartz (2000).

described as direct extensions of Hofstede's work, with the exception that two dimensions of collectivism are presented. These four dimensions are the following:

- *Institutional Collectivism*—The degree to which organizational and societal institutional practices encourage and reward collective distribution of resources and collective action
- *In-Group Collectivism*—The degree to which individuals express pride, loyalty, and cohesiveness in their organizations or families
- *Power Distance*—The degree to which members of a collective expect power to be distributed equally
- *Uncertainty Avoidance*—The extent to which a society, organization, or group relies on social norms, rules, and procedures to alleviate unpredictability of future events

The next two dimensions can be seen as reconceptualization of Hofstede's masculinity-femininity dimension. They are the following:

- *Gender Egalitarianism*—The degree to which a collective minimizes gender inequality
- *Assertiveness*—The degree to which individuals are assertive, confrontational, and aggressive in their relationships with others

The next two dimensions have their origins in the work of Kluckhohn and Strodtbeck on the nature of people and time orientation presented previously and are the following:

- *Humane Orientation*—The degree to which a collective encourages and rewards individuals for being fair, altruistic, generous, caring, and kind to others
- *Future Orientation*—The extent to which individuals engage in future-oriented behaviors, such as delayed gratification, planning, and investing in the future

The final dimension is derived from work on achievement motivation,¹⁹ but is also related to Hofstede's masculinity concept.²⁰ This dimension is the following:

- *Performance Orientation*—The degree to which a collective encourages and rewards group members for performance improvement and excellence

The country scores for GLOBE data are presented in the Appendix. However, an additional way of understanding similarities and differences across cultures is to examine which countries cluster together in their positions on measures of cultural values. Based on the GLOBE data these clusters are shown in Figure 2.4.

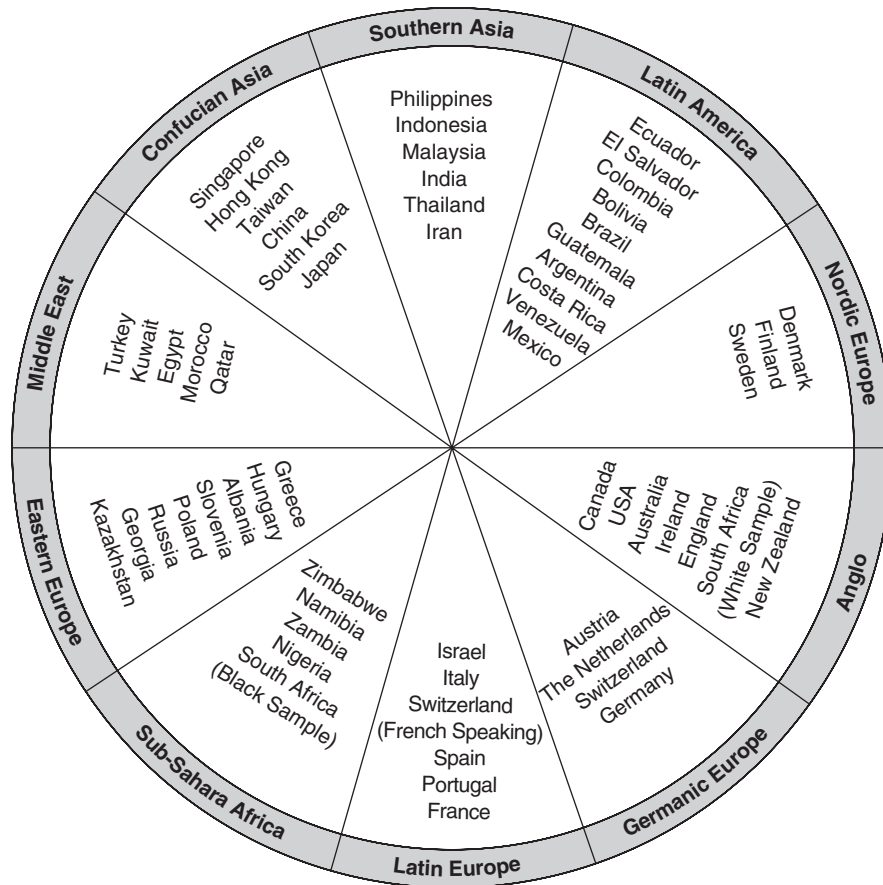
As shown in Figure 2.4 the clusters of countries reflect such factors as common language, common religion, common climate, common economic systems, and shared political boundaries, some aspects of which are discussed ahead in this chapter as culture and the institutions of society share a common history.

As the previous discussion indicates, the results of the major studies of national variation in value orientations have some remarkable similarities, despite being conducted at widely different times, with different samples, and using different methods. This consistency of findings shows the utility of this approach to describing cultural variation. In addition, however, because they appear in some form in all of the frameworks, individualism-collectivism and power distance (verticality) are perhaps more important to understanding cultural variation. These dimensions relate to two of the three fundamental issues that have been identified as being common among societies.²¹ The first has to do with boundaries between individuals and groups and the second with the preservation of order in society.

Horizontal and Vertical Individualism and Collectivism

Because they relate to fundamental differences among societies, individualism and collectivism are perhaps the most useful and powerful dimensions of cultural variation in explaining a wide range of behavior.²² Individualism refers to viewing one's self as independent of others and to be more concerned about the consequences of a particular behavior for one's self. Alternatively, collectivism refers to viewing one's self as interdependent with selected others, to being concerned about the consequences of

Figure 2.4 Country Clusters According to GLOBE



Source: Reprinted from House et al. (2004).

behavior for one's reference group, and to being willing to sacrifice personal interests for the good of this group. However, individualism-collectivism is not a dichotomy of self-interest and group interest. Both individualists and collectivists derive their sense of self, in part, from the groups with which they identify—their in-groups. Although both generally behave similarly toward members of their in-group, they differ in the way in which they decide who is a member of this group. Collectivists have very few of these groups, but the groups are broad in scope, encompassing many interrelated relationships. By contrast, individualists have many groups with which they identify, but their relationships within these groups are more superficial.

In addition to the differences in motives and in the specification of reference group members noted earlier, it is possible to differentiate between different kinds of individualism and collectivism. Most significant are the concepts of vertical and horizontal dimensions that relate to the way in which people view their status relationship with others.²³ In combination with individualism and collectivism, these two additional dimensions identify four types of self—independent or interdependent²⁴ and same or different.

Table 2.1 indicates how these different combinations of vertical and horizontal individualism and collectivism correspond to how people define themselves, their value orientations, their dominant political systems, and their typical patterns of social behavior. As shown in Table 2.1, this distinction between vertical and horizontal individualism and collectivism results in four different cultural profiles. However, vertical collectivism and horizontal individualism might be the dominant cultural profiles around the world.²⁵

Vertical collectivists see themselves as an aspect of an in-group, but members of the in-group are different in terms of status. These cultures are characterized by patterns of social relationships that emphasize communal sharing according to need and authority ranking, or the distribution of resources according to rank. They typically have social systems that do not reflect the values of individual freedom or equity. Inequality is the accepted norm, and serving and sacrificing for the in-group feature prominently.

Table 2.1 Culture, Self-Orientation, and Politics

	Vertical		Horizontal	
	Collectivism	Individualism	Collectivism	Individualism
Kind of self	Interdependent	Independent	Interdependent	Independent
	Different from others	Different from others	Same as others	Same as others
Fiske orientation	Communal sharing	Communal sharing	Communal sharing	Communal sharing
	Authority ranking	Authority ranking	Equality matching	Equality matching
Rokeach values	Low equality	Low equality	High equality	High equality
	Low freedom	High freedom	Low freedom	High freedom
Political system	Communalism (e.g., Indian village)	Market democracy (e.g., United States, France)	Communal living (e.g., Israeli kibbutz)	Democratic socialism (e.g., Sweden, British Labour Party)

Source: Triandis (1995).

In horizontal individualism, the self is autonomous and people are generally equal. These cultures are characterized by patterns of social behavior that emphasize equity in resource sharing according to contribution and distribution of resources equally among members. They have social systems that emphasize both the values of equality and individual freedom. What these two dominant syndromes suggest is that verticality serves to reinforce collectivism, and horizontalness reinforces individualism.

The previous discussion has examined the main attempts that have been made to identify dimensions along which cultures could be systematically described and compared. Of the dimensions identified, the constellation of concepts encompassed by individualism and collectivism appear to be especially important in describing and comparing social behavior.

Use of Cultural Dimensions

Being able to systematically define cultural variations provides a foundation for explaining and predicting HRM on a comparative basis. However, the ability to profile national cultures along a limited number of dimensions also opens up the possibility for a dramatic oversimplification of the effect of culture. This oversimplification results in stating that people from this particular type of culture behave this way, whereas those from that other type of culture behave like that. Often, this is done by referring to an existing typology of attributes of national culture (very typically Hofstede's now almost 30-year-old numeric ratings). In effect, by suggesting that culture works in this way, we have substituted *sophisticated stereotypes* of a culture for the complex reality that exists.²⁶ Therefore, instead of explaining cultural effects, this dimensional approach can have the opposite effect of constraining the way in which people regard members of another culture. For example, we run the risk of thinking of all Japanese people as high on *masculinity* and *uncertainty avoidance*, low on *individualism*, and moderate on *power distance*. The fallacy of this approach is apparent to anyone who has encountered behavior in members of another culture inconsistent with the picture painted by the profile. However, these problems do not render the systematic description of cultural variation useless. On the contrary, they can be valuable in selecting national cultures to compare when trying to assess the degree of similarity or difference on responses to particular HRM questions. In addition, they are useful tools, as long as their limitations are understood. It is also important to understand how culture exerts its influence. It is this topic that we discuss next.

Influence of Cultural Context on HRM

To avoid the oversimplification of the influence of cultural context that suggests that all people in a country behave in a particular way, we discuss the individual-level mechanisms through which variation in national culture influences global HRM. It is important to understand that individuals are embedded in specific national-level cultures and are affected by and express their cultural orientation through both *cognitive*

(what is perceived and interpreted) and *motivational* (what is desired) individual-level mechanisms.²⁷ Each individual will be different in the degree to which aspects of their culture are influential, but in general there is more similarity within cultural groups than between cultures.²⁸ First, from a *cognitive* perspective, culturally different individuals learn different sets of values (as discussed previously), which develop into cognitive frameworks (mental programs) that are used to help organize and process information about situations and events such as human resource management practices. Different priorities for what activities deserve attention, and the meaning we attach to these activities, are formed by gradually internalizing prevailing cultural patterns.²⁹ Individuals only attend and respond to those things that they have learned in their culture are important. From a motivational perspective, the appropriateness of human resource practices is fundamentally tied to how people view themselves and their relationship to others. Everyone evaluates activities according to the extent to which the activities contribute to personal self-worth and well-being³⁰. Motives to maintain a positive self-image are probably universal. However, what constitutes a positive self-view depends on the extent to which individuals see themselves as connected to or separate from others as learned in their culture. The extent to which a policy or practice has benefit to the individual or to others with whom they feel connected can be seen as more or less appropriate in different cultures.

In sum, the mechanisms of cultural influence at the individual level fall into these cognitive and motivational domains. Together, these mechanisms produce a reasonably complete picture of the mechanics of cultural influence. They are the mechanisms through which cultural factors influence individuals to see a particular policy or practice as important and also evaluate the extent to which it is beneficial. For example, the reasons that employee ownership plans are more likely to be found in some countries than others is influenced by individual preferences based on the cultural values of low power distance, high individualism, and low uncertainty avoidance.³¹

Cultural differences have been found to exist in a wide variety of HRM practices, including recruitment and selection (Chapter 6), reward allocation policies and compensation programs (Chapter 8), and social benefits programs. For example, organizations in countries which culture is characterized by high uncertainty avoidance are more likely to offer seniority-based compensation than organizations from low uncertainty avoidance cultures. However, the fact that societies might, in general, exhibit a culturally-based preference for a particular set of policies or practices should not be interpreted as requiring that firms adopt these practices in order to be effective.

While the idea that culture influences HRM across countries has long been embraced, culture can become “the catchall for complexity”³² if any differences between countries are quickly attributed to culture. Cultural differences are only one of many country differences, and variations in HR practices can be caused by a multitude of factors. Also, the assumption that culture drives HRM practices implies that organizations have only very limited managerial discretion in adopting HR practices.³³ While HRM practices may be culture-bound on average, diversity within countries does exist, and some evidence suggests adopting counter-cultural practices may pay off for the organization.³⁴ For example, pay for performance systems would seem to be

incompatible with collectivist cultures but in fact have been implemented with some success in China.³⁵ In fact, it is doing things that are unique (i.e., not average) that can result in a competitive advantage and make an organization more successful. Adopting atypical practices may also attract employees that are more open to change, easily adaptable, and less constrained by prevalent norms, which can result in additional benefits for the organization.³⁶

In the absence of clear evidence that shows that adapting HRM practices to local cultural values results in better organizational performance, organizations are best advised to use cultural values as only very general guidance as to what practices may or may not be culturally appropriate. Specific decisions on HRM practices should be driven not by the desire to achieve cultural fit but rather to build strong organizational identity and achieve superior performance.³⁷ This reminds us that culture is only one aspect of the context in which global HRM must operate and that other factors such as the institutions of society, discussed next, and the organizational context (Chapter 3) are important.

Institutional Context

Institutions are the structures and activities that provide stability to a society; they consist of the family, education, economic, religious, social, and political systems. These institutions shape organizations in that they are built into the fabric of society and constrain and set conditions on the actions of organizations and organization members. Failure to conform to these demands of society can be costly, increase risk, and reduce the organization's legitimacy.³⁸ One way of thinking about the influence of institutions on global HRM policies and practices is in terms of three mechanisms through which institutions have influence. These are *coercive* mechanisms that stem from institutions that are more powerful than the organization, *mimetic* mechanisms that result from response of the organization to uncertainty, and *normative* mechanisms that result from adopting standards associated with a particular context, such as an industry. With regard to global HRM, coercive mechanisms involve not only legislation and government policies regarding HRM but also the influence of trade unions and works councils. Mimetic mechanisms involve benchmarking against and imitating other similar and successful organizations. And, normative mechanisms result from engagement with professional bodies, employers' associations and the like.³⁹ Thus, as HRM policies and procedures are developed, implemented, and coordinated, they are influenced by the institutional context in which this occurs.⁴⁰

Another important consideration in understanding the effect of the institutional context is the extent to which particular institutional features in combination have an effect on how organizations interact with the institutions of society.⁴¹ In order to accomplish their goals, organizations need to interact with societal institutions in five spheres. First, they must interact with the industrial relations system to regulate wages and working conditions. Second, they need to ensure that employees have the requisite skills through their interaction with the vocational training and education system. Third, they must secure the cooperation of the workforce by interacting with employees. And finally, they must interact with institutions to raise capital and also secure access to

inputs and technology. These spheres combine in a variety of ways in capitalist economies. However, it is possible to simplify this effect by looking at two ends of the coordination spectrum. At one end are *liberal market economies* in which competitive markets coordinate the interaction of the organization with other aspects of the environment. At the other, are *coordinated market economies*, in which organizations typically engage more directly and strategically with trade unions, financial institutions, and other aspects of the institutional context. Whether a firm coordinates its endeavors through market relations or strategic interaction depends on the overall institutional setting. The characteristics of these two opposing settings are presented in Table 2.2.

Table 2.2 Comparison of Institutional Settings Based on Varieties of Capitalism

Institutional Sphere	Coordinated Market Economies	Liberal Market Economies
Education and training	Industry associations have a major influence on the establishment of industry and legal standards and provide collaborative training schemes on industry specific skills.	Industry associations are weak, collaborative training programs for industry-specific skills are not well established, and workers invest in skill development that can be transported to other jobs.
Industrial relations	Strong trade unions, powerful works councils, and high levels of employment protection make labor markets less fluid and allow for longer job tenure.	Trade unions are relatively weak, employment protection low, and labor markets are fluid.
Firm-employee relations	Trade unions coordinate wage setting and employers and managers must rely on a more consensual style of decision making because of constraints imposed by workforce representatives and business networks.	Relationships are primarily contractual between the employer and individual employees, and managers have a great deal of authority over organizational activities, including layoffs.
Interfirm relations	Organizations are connected by important networks of cross shareholding and membership in strong employer associations, which allow the exchange of private information.	Technology transfer is accomplished primarily by licensing or taking on expert personnel, and standards are usually set by market races.
Financial markets	Access to capital is based on reputation as opposed to share value.	Large transparent equity markets—access to external finance depends on market valuation.
Examples	Austria, Germany, Japan, South Korea, Sweden, Norway, Finland, Denmark, Belgium, the Netherlands, and Switzerland	United States, Canada, United Kingdom, Australia, and New Zealand

By examining the characteristics of each setting, the way in which the five institutional spheres complement each other becomes clear. For example, long-term employment is more feasible where the financial system makes capital available based on terms that are not sensitive to current profitability. This approach helps us understand that the formal institutions of society allow for the coordination among organizations through the exchange of information, by monitoring firm behavior and also by sanctioning deviant behavior.

The institutional context has been found to influence HRM policies and practices even among countries that are relatively similar in terms of national culture.⁴² For example, the extent to which organizations employ a *calculative model* of HRM (aimed at ensuring that production activities are at all times efficiently supplied with the necessary input of human resources) versus a *collaborative model* of HRM (a humanistic focus, based on the value of employees to the firm and ethical matters related to the employment relationship) has been found to vary across the European countries of England, France, Spain, Germany, Norway, and Denmark.⁴³ Similar results have been found when comparing the institutional contexts of the subsidiaries of U.S. firms in Germany, the United Kingdom, Australia, Ireland, Denmark and Norway.⁴⁴ Therefore, we should expect variations in human resource management practices insofar as dissimilar institutions exist in the context in which the firm operates, regardless of similarities in culture. However, multinational organizations can influence the local context by creating organizational units that cross national and institutional contexts, lobbying for change in national regulations and exerting influence on the way in which national as well as international institutions function.⁴⁵

Convergence, Divergence, or Equilibrium

Because of the effects of globalization (discussed in Chapter 1) and the tendency of multinational organization to be consistent wherever they operate (discussed ahead in Chapter 3), it can be argued that HRM policies and procedures are in the process of becoming more similar around the world. The key argument to support this idea is that as the world adopts a single economic system⁴⁶ and technology produces an increasingly information-driven business environment, business executives receive the same type of training, and as a result organizations and their HRM systems become more similar. This suggests the possibility of a universal set of best HRM practices that all organizations should adopt in order to be successful.⁴⁷ However, as discussed in this chapter, HRM systems are embedded in the cultural and institutional context of their home country. HRM may be somewhat resistant to the forces of globalization because its ability to change is limited by regulatory structures, interest groups, public opinion and cultural norms, which are relatively slow to change.⁴⁸ In fact, national differences in HRM practice in Europe persist in the face of globalization.⁴⁹ The reality is probably somewhat more complex than simply converging or diverging practices.

Two examples are provided by the concepts of *directional similarity* and *club convergence*. Directional similarity implies that over time organizations from different countries move in the same direction, but because of different starting points

they remain relatively parallel, maintaining the same relationship with each other. Directional similarity is indicated by the presence of similar trends across countries but without final convergence. For example, between 1992 and 2004 organizations in both Norway and Greece decreased their investment in employee training and development. However, despite moving in the same direction, they ended up in different places at the conclusion of this 12-year period because of different initial levels.⁵⁰ Research across Europe suggests limited directional similarity in some but not all core HRM elements. For example, there is clear evidence for an increased use of performance-related and flexible pay elements, but no significant directional trends have been observed in the investment of time and money spent on employee training and development.

*Club convergence*⁵¹ is the idea that countries with similar degrees of labor legislation tend to cluster together and that they look more like other countries belonging to the same cluster over time.⁵² This means that HR practices are more similar within than across clusters of countries. Groupings include a Latin cluster (including Spain, Italy, and France), a Nordic cluster (Sweden, Norway, Denmark), an Anglo-Saxon cluster (United Kingdom, United States, Canada, Australia, New Zealand), and a Germanic cluster (Germany, Austria, Switzerland) among others. While any classification of countries into clusters has its inherent problems, countries do exhibit certain similarities to other countries, and framing the study of HRM in terms of clusters may be a useful point of departure when examining HRM across the globe.

Global changes in HRM are a result of the complex, dynamic interaction of forces of convergence and the embeddedness of national business systems.⁵³ It may be that some practices are converging, others exhibiting directional similarity, and some may actually be diverging. Organizations may develop hybrid approaches in which they maintain local management values and practices but are very adaptable and flexible with regard to using best practices developed in other countries.⁵⁴ Also, different environments produce different institutional systems, but different environments can produce similar systems, and similar environments can produce vastly different cultures and institutions.⁵⁵ This creates multiple different equilibrium conditions in the institutional environments with which organizations must attend.⁵⁶ Institutions result from social interaction and form the structure of society based on patterns of thinking that persist over time.⁵⁷ Any change must consider the historical as well as current conditions that create the present institutional environment. The remnants of state socialism in transition economies provide a case in point, which is discussed in Box 2.1.

Box 2.1 Legacy of State Socialism

The essence of economic transition is the replacement of one set of institutions that govern economic activity with another. In former socialist countries, the institutions that support a Western-style, market-based economy have had to be adopted very

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rapidly, but they must also be acceptable within their society.⁵⁸ Therefore, it is not surprising that the institutions in transition economies retain some vestiges of their socialist past. Understanding the institutional context of former socialist countries requires some understanding of the previous environment.

The key to understanding state socialism is recognizing the importance of three factors; undivided political power, state ownership of key elements of the economy, and bureaucratic coordination. These three factors motivated all the actors in the social system. In pretransition socialist economies, the single party system set rules for organizations as a form of legal power. There was no need for laws regarding business since formal constraints on organizations were part of the central planning regime. The various institutions of society were designed to have a monopoly in their own field: one labor union movement, one association of engineers, one academy of sciences, and so on. Power and prestige were determined by one's level in the hierarchy, with appropriate privileges (e.g., housing, medical care, access to goods and services, holidays) proportionate to rank. Individuals in power maintained their position through paternalism. Also, a kind of labor aristocracy in which reliable and skilled workers were recruited into the party existed.⁵⁹ With the transition to a market orientation, a shift in the balance of power came about, with the previous hierarchical distinctions becoming blurred.

A fundamental tenet of socialism is that labor is not a commodity but a resource to be employed. A central belief of the labor collective is that a worker has a right to a job and its associated benefits.⁶⁰ For example, in China factories approximated institutions, providing for all of the worker's needs: They fed, housed, hospitalized, and generally protected the working class as part of the wider social contract. The bureaucratic control of employment began with education, where choices open to individuals were severely limited or individuals were channeled to a particular type of work, and extends through all aspects of organizational life, including central determinations of wage rates. Pre-transition managerial behavior was also influenced by this bureaucratic control. As the state gradually relinquished its role in controlling organizations, institutions were required to fill the void. However, developing an institutional framework takes time, and the capacity of society to accept institutions and enforce their norms is questionable.⁶¹

Former socialist countries have faced a number of difficulties, including a slower than expected pace of change, growing differences between rural and urban areas, large income disparities, and in some cases declines in health care and life expectancies as well as social unrest.⁶² In some countries, the reality of economic transition is causing a resurgence of communist parties and move toward more conservative policies. Thus, the institutional context in these societies is far from stable.

The HR Function Across National Contexts

The institutional context has been found to influence not only HRM policies and practices but also the role, status, and position of the HRM function. The role and status of HRM varies considerably across countries. A key indicator of the status of HRM in the organization is the extent to which HRM is represented at the board level in organizations. Consistent with their cultural and institutional contexts, France, Spain, Sweden, and Japan report that 70% to 80% of organizations have an HR director on the main decision-making body of organizations (board of directors in publicly held companies).⁶³ In general, the figures in Central and Eastern Europe and Israel are much lower. The United Kingdom and Australia indicate that less than half of the organizations have HR representatives at the board level. In Germany and the Netherlands, employees have a legal right to be represented on the board, and in Germany the level of board representation has been increasing.⁶⁴ Another indicator of the role of HRM is the size of the HRM department relative to the size of the organization. Despite organizational downsizing and the introduction of new technology to automate or outsource some HR functions, the relative size of HRM departments has remained relatively stable.⁶⁵ Finally, the extent to which line managers versus HRM professionals are directly involved with personnel issues is indicative of the role and status of the HRM function. The trend toward giving line managers more responsibility and reducing HRM involvement in this regard, which was prevalent in the 1990s, seems to have reversed itself in some countries.⁶⁶ However, the relative positions with regard to the propensity to center this responsibility in an HR department has been relatively stable with, for example, Italians most likely to house these functions in HR, followed by the British, while in Denmark much more responsibility is given to line managers. Table 2.3, based on data drawn from the Cranfield Network on International Human Resource Management (CRANET) project, provides key data points about these developments over time.

Table 2.3 Data on HR Representation Around the World¹

Representation of HR on Board of Directors	1995	1999	2004	2008
Liberal market economies	52.1%	45.7%	44.1%	64.0%
Coordinated market economies	56.0%	58.1%	65.0%	65.6%
Mediterranean economies	63.8%	48.7%	48.1%	59.3%
Nordic economies	63.3%	65.4%	69.0%	75.8%
Central and Eastern European economies		48.6%	37.4%	61.9%

(Continued)

Table 2.3 (Continued)

Ratio of HR Employees Per 100 Organizational Employees	1999	2004	2008
Liberal market economies	1.57	1.26	1.48
Coordinated market economies	1.56	1.47	1.37
Mediterranean economies	1.30	1.36	1.43
Nordic economies	1.33	1.24	.97
Central and Eastern European economies	1.33	1.20	1.30

Assignment of HR Responsibilities to Line Managers²	1995	1999	2004	2008
Liberal market economies	2.60	2.67	2.69	2.71
Coordinated market economies	2.48	2.55	2.50	2.58
Mediterranean economies	2.34	2.55	2.57	2.49
Nordic economies	2.20	2.19	2.24	2.41
Central and Eastern European economies		2.13	2.21	2.08

¹ For all tables, *Liberal Market Economies* include Australia, Canada, Ireland, New Zealand, the United Kingdom and the United States; *Coordinated Market Economies* include Austria, Belgium, France, Germany, Netherlands, and Switzerland; *Mediterranean* countries include Cyprus, Greece, Italy, Spain, Portugal, Turkey, and the Turkish Cypriot Community; *Nordic* countries include Denmark, Finland, Iceland, Norway and Sweden; and *Central and Eastern European Countries* include Bulgaria, Czech Republic, Estonia, Hungary, Lithuania, Russia, Serbia, Slovakia, and Slovenia. Due to data restrictions, country configuration for each cluster varies in each year analyzed.

² The higher the number, the more responsibilities are assigned to line managers.

Psychological Contract Across National Contexts

In addition to the influence of the cultural and institutional context on the role and status of HRM is the effect that this context has on the expectation that employees have for their relationship with their organization. This expectation of a particular type of relationship with an organization is called the *psychological contract*. The term psychological contract refers to a set of individual beliefs or perceptions concerning the terms of the exchange relationship between the individual and the organization.⁶⁷ These beliefs are conditioned by the cultural and institutional environment in which individuals grow up.⁶⁸ Individuals learn what they should expect from their job both from the

values that have been instilled by their family and by the work relationships that are considered normal in society. Specific differences in the psychological contract have been documented in 13 countries; and another project has conducted an analysis of the psychological contracts in six European countries and Israel.⁶⁹ The nature of these beliefs about what organizations promise employees and what they are obligated to do in return can take a wide variety of forms. And the institutional context influences the kinds of employment relationships that are negotiable in that many conditions of employment can be prescribed by legal or other societal institutions. However, within this *zone of negotiability*,⁷⁰ it is possible to classify these forms according to the extent that employees expect long-term, broad, socio-emotional relationships characterized by commitment and loyalty (*relational*) or short-term, specific, pay-for-services rendered (*transactional*) relationships and the differences in power between employees and the organization. *Instrumental* contracts are transactional, and the parties have symmetric power. *Exploitive* contracts are also transactional, but the power between the parties is asymmetric. *Communitarian* contracts are relational with symmetric power, and *custodial* contracts are relational with asymmetric power. National-level cultural values predict the dominant form of the psychological contract with vertical individualist cultures (France is an example) describing their psychological contracts as primarily exploitive, horizontal individualist cultures (such as Canada) as primarily instrumental, vertical collectivist (such as China) as primarily custodial, and horizontal collectivist (such as Norway) as primarily communitarian. Understanding the expectation of employees is important for global HRM because meeting these culturally and institutionally based expectations about the employment relationship results in higher employee satisfaction, employee loyalty, and less turnover.⁷¹

Chapter Summary

This chapter examines the cultural and institutional context that shapes HRM in different countries. Culture exerts its influence and constraints informally, through internalized socially acceptable norms for behavior, while the influence of institutions is formal and backed by enforceable sanctions.⁷² Numerous attempts have been made to categorize national cultures on a set of value dimensions. While these dimensional approaches are an oversimplification, they provide a systematic basis for explaining and predicting HRM on a comparative basis. They are useful as long as their limitations are understood. Institutions are the structures and activities that provide stability to a society and set the conditions under which organizations and organizations' members must act. Institutions do not operate in isolation but combine to form a contextual system in which organizations are embedded. This context influences global HRM through coercive, mimetic, and normative mechanisms. The external environment of transition economies is a composite of the new global context in which all firms must operate combined with institutions that to some degree contain the vestiges of state socialism. This highlights the fact that changes in the cultural and institutional context must consider the historical as well as the current conditions that support a particular set of institutions. The cultural and institution context influences not only HRM

policies, including the role and status and position of the HRM function but also the expectations that employees have about their relationship with organizations.

Questions for Discussion

1. What are the three key characteristics of culture?
2. Discuss how the major studies of cultural values are similar.
3. What are the differences in collaborative and calculative models of HRM?
4. What is implied by convergence and divergence of HR practices? Do studies provide support for either idea?
5. Describe some of the ways in which state socialism affects the institutional environment in transition economies.
6. How might employee expectations about their relationship with their employer be different in different countries?

Notes

1. While we recognize that the academic literature is typically divided into international HRM (the study of HRM in international organizations) and comparative HRM (the study of differences in HRM policies and practices across countries, see Boxall, 1995), this distinction is largely irrelevant to practice. We consider global HRM to incorporate both of these perspectives.
2. In distinguishing between these two factors, we do not take a position as to whether culture is an institution of society or if institutions of society reflect the more fundamental societal characteristic of culture. Again, this academic debate is largely irrelevant to practice.
3. Hofstede (1980).
4. Howard (1991).
5. Schein (1985).
6. The idea of tight and loose cultures comes from Pelto (1968) as cited in Triandis (1995). See also Chan, Gelfand, Triandis, & Tzeng (1996).
7. Au (1999); Gelfand et al. (2011).
8. Kluckhohn & Strodtbeck (1961).
9. Kluckhohn & Strodtbeck (1961); Maznevski, DiStefano, & Nason (1993).
10. Hofstede (1980, 2001).
11. This was later extended to five dimensions with the addition of Confucian-Dynamism (Chinese Culture Connection, 1987) and most recently to a sixth with the addition of Indulgence versus Restraint (Hofstede, Hofstede, & Minkow, 2010).
12. Chinese Culture Connection (1987).
13. Hofstede (1991).
14. Hofstede & Minkow (2010).
15. Smith & Bond (1999).
16. Sagiv & Schwartz (1995); Schwartz (1992, 1994); Schwartz & Bilsky (1990).
17. Sagiv & Schwartz (2000).

18. House, Hanges, Javidan, Dorfman, & Gupta (2004).
19. McClelland (1962).
20. Peterson (2004).
21. See work by Schwartz and colleagues.
22. Triandis (1995).
23. This concept is conceptually similar to Hofstede's (1980) power-distance dimension and relates to the SVS (Schwartz, 1992) value orientations of hierarchy and harmony.
24. Markus & Kitayama (1991).
25. Triandis (1995).
26. Osland & Bird (2000).
27. See Thomas (2008) for an expanded discussion of these mechanisms.
28. Schwartz & Sagie (2000).
29. Markus & Kitayama (1991).
30. Erez & Earley (1993).
31. Schuler & Rogovsky (1998).
32. See Evans, Pucik, & Barsoux (2002).
33. Milkovich & Bloom (1998).
34. Caprar (2011).
35. Du & Choi (2009).
36. Gerhart (2008); Gerhart & Fang (2005).
37. Milkovich & Bloom (1998).
38. Lawrence & Shadnam (2008).
39. Paauwe & Boselie (2003).
40. We do not suggest that these forces are deterministic. However, a discussion of the influence of organizational agents in this regard is beyond the scope of this chapter. See Kostova, Roth, & Dacin (2008).
41. This section draws heavily on the work of Hall & Soskice (2001) and Hall & Gingerich (2009).
42. Dobbin, Sutton, Meyer, & Scott (1993).
43. Gooderham, Nordhaug, & Ringdal (1999).
44. Gooderham, Nordhaug, & Ringdal (2006).
45. Edwards & Rees (2006).
46. Eisentadt (1973).
47. See Mayrhofer, Brewster, Morley, & Ledolter (2011) for a discussion.
48. Brewster (2006).
49. Gooderham & Nordhaug (2011).
50. Mayrhofer, Brewster, Morley, & Ledolter (2011).
51. Fischer & Stirböck (2006 cited in Mayrhofer et al., 2011).
52. Mayrhofer, Brewster, Morley, & Ledolter (2011); Mayrhofer & Brewster (2005); Brewster (2004); Brewster (2007); Sparrow, Schuler, & Jackson (1994).
53. See also McGaughey & De Cieri (1999); Tregaskis & Brewster (2006).
54. See Rowley, Poon, Zhu, & Warner (2011) for a discussion.
55. Cohen (2001).
56. Dewettinck & Remue (2011).
57. See Rozin (1998) for a discussion from an evolutionary theory perspective.
58. Napier & Thomas (2004); Rock & Solodkov (2001).
59. Clark (1996).
60. Lee (1987).

61. Peng (2000).
62. Napier & Thomas (2004).
63. Mayrhofer & Brewster (2005).
64. Brewster & Mayrhofer (2011).
65. Brewster (2006).
66. Mayrhofer & Brewster (2005).
67. Rousseau (1995).
68. Thomas (2008).
69. Rousseau & Schalk,(2000); Psycones (2006).
70. Rousseau & Schalk (2000).
71. See Robinson & Morrison (2000); Robinson & Rousseau (1994); Turnley & Feldman (1999).
72. Tayeb (2005).