Impact of national culture on hrm practices

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According to Brewster (1995, cited by Wilton, 2010), an organisation's Human Resource Management policies are dictated by international, national, and organisational constraints. The impact of such limitations, particularly in the midst of an increasingly globalised society, is of particular importance with the continued growth of Multinational Corporations (MNCs). With business extending across regional, national and international boundaries, now characterized by heightened permeability, adaptations in HRM practices are necessary to account for the variations apparent between nations. As reiterated by Schuler (1998), with MNCs competing in a global marketplace, it has become increasingly important to recognise the significance of the admonition ' When in Rome, do as the Romans do'. Including both institutional (hard) and cultural (soft) discrepancies, MNCs must not only seek to understand the social framework embedded in foreign cultures, but must develop a means to overcome the impediments associated with it to insure the success of the corporation's subsidiaries abroad. Research illustrates that MNCs often attempt to transfer existing HRM practices to their foreign subsidiaries, however, in the midst of

significant cultural gaps; such methods are correlated with high failure rates(Morris et al, 2009; Tayeb, 2005). As national culture is engraved into the skeletal framework of a society, and hence, its organisations, an approach that adapts to the local environment and established social norms, is of pivotal importance (Newman et al, 1996; Morris et al, 2009; Tayeb, 2005).

National Culture: A Brief Overview

Despite the controversies apparent in its definition, there is wide consensus that national culture encompasses a cornucopia of shared assumptions, norms, values, and beliefs that are embedded into the very core of society (Wilton, 2010; McSweeney, 2002; Maih et al, 2007). A system of values, national culture is perceived as ' collective programming of the human mind', which, in turn, directly influences the behavioural manifestations of a society within the environment and the group itself (Sackmann, 1992). As reiterated by Schein (1985, cited by Wilton, 2010), national culture is a means of overcoming the universal obstacles within society, that of external adaptation and internal integration. It is a thread that intertwines the heart of a nation with the essence of each individual, community and organisation – a thread that stitches an otherwise fragmented society into a tapestry of commonality. As a nation's human and institutional foundations are the fruit of its cultural roots, national culture has a significant impact on business operations within MNCs, particularly in regards to the ' soft' aspects of organisations, such as HRM policies. As emphasized by Hickson and Pugh (1995, cited by McSweeney, 2002), a nation's culture has a broad spectrum

of influence, shaping every thought, every decision, every action, every organisation.

Conceptualising National Culture

The values embodied by the vast array of cultures worldwide are highly diverse, and so, with business operations no longer constrained by geographical boundaries, MNCs must acknowledge this diversity and its subsequent implications for management (Miah et al, 2007; Newman et al, 1996). While the permeability of global barriers is widely acknowledged, the transferability of HRM practices from the country of origin to those of the subsidiaries is fraught with difficulties, and so, the implications of culture for corporations, as emphasized by Hofstede's model of national cultural differences, are indispensible for MNC management (McSweeney, 2002). Based on research conducted at IBM and its foreign subsidiaries, Hofstede concluded that differences between the values, norms and beliefs of national cultures could be categorized into four dimensions. Despite significant criticism in regards to methodology and obsolescence of data(McSweeney, 2002), the cultural differences apparent in Hofstede's model may have implications for an organisation's HRM policies in terms of the leadership style, importance of regulations and whether compensation should be linked to individual performance or seniority (Leat et al, 2007).

Table 1: Hofstede's Model of Cultural Differences (Adapted from Wilton, 2010)

Hofstede's Dimensions of National Culture

Cultural Dimension

Significance

Power Distance

A reflection of the acceptability of the social inequality that underpins the functioning of all societies, this dimension indicates the extent to which unequal power distribution is accepted within nations. While in high power societies, inequality is largely accepted, giving rise to autocratic management practices, low power societies are characterized by a desire for equality, stronger interpersonal relationships and heightened employee involvement

Uncertainty

Avoidance

A reflection of the extent to which uncertainty and unpredictability are accepted in a society. In societies with high uncertainty avoidance, the creation of a sense of security and long term predictability is the central focus. On the other hand, in societies with low uncertainty avoidance, unpredictability and risk – taking is encouraged. Hence, the importance of regulatory procedures is of less importance.

Individualism vs.

Collectivism

A reflection of the degree to which self – identity is reliant on individual or group characteristics. While in individualist societies, individual

responsibility, initiative and concern predominates, collectivist societies are characterized by loyalty and concern for a much wider social network. Such societies are hence, more reliant on the organisation, community and country.

Masculinity vs.

Femininity

A reflection of the significance of social differentiation between genders within a society as well as the degree to which traditional male orientations are emphasized over those linked with females. Masculine societies are characterized by ambition with success linked to the acquisition of material possessions. In feminine societies, however, interpersonal harmony is core, and so, quality of life, consideration for the environment and emotional satisfaction is fundamental

2

A noteworthy comparison dominating current HRM literature is that of the individualistic Anglo-Saxon countries and the collectivist Asian countries (Rowley et al, 2002). From the early 1960s, East Asia has been regarded as having one of the most rapidly developing economic environments in the world (Harzing et al, 2004). As a result of such rapid development, MNCs from Anglo Saxon countries, namely the USA, have developed operations in the likes of Japan, China and Taiwan. However, the development of appropriate HRM practices within their respective foreign subsidiaries has been fraught with difficulties, largely as a result of the differences in cultural

parameters (Ralston et al, 1997). Values, norms and beliefs in Asian countries are deeply rooted in tradition and the notion ' workplace is family' (Ralston et al, 1997). As such countries are a highly collectivist culture, characterised by high power distance high uncertainty avoidance, HRM policies developed by the USA – which, according to Hofstede, are markedly different – would be ineffective without contextualisation (Rowley et al, 2002).

Hence, as reiterated by Schuler et al (1998), congruence between culture and management practices is of pivotal importance as such an approach (1) demonstrates cultural awareness (2) intertwines policy with ingrained behavioural patterns and (3) is correlated with heightened financial performance . While institutionalists argue that institutional systems, such as the macro-economy, governance and legislation, are the main determinants of HRM policy differences(Leat et al, 2007; (Rowley et al, 2002), research findings derived from studies regarding the effect of national culture on HRM practices in Asian countries (Miah et al, 2007; Sparrow et al, 1998), the Middle East (Leat et al, 2007), Europe (Newman et al, 1996) and North America (Rosenzweig et al, 1994; Schuler et al, 1998) suggest quite the contrary. Such notions are further supported by Budhwar(2000, cited in Leat et al, 2007), whom asserts that while management practice may be influenced by ' culture free' institutional factors, HRM practices are determined largely by those which are culture bound.

National Context: Implications for HRM

National culture is engraved into the skeletal framework of a society, and so, as reiterated by Rosenzweig and Nohria (1994, cited in Leat et al, 2007),

HRM is both historically and socially embedded and so, it is the area of management most susceptible to cultural differences. National culture, therefore, influences numerous facets of a corporation's HRM policies, including resource administration, performance appraisal, strategic decision-making, leadership style, provision of developmental opportunities, and the management of employee relations (Tayeb, 2005). Reinforced by Sparrow et al (1998), HRM policies and practices in any given country are cultural artefacts – a reflection of the culture's values and norms in which all organizations are embedded.

3

While research illustrates that various MNCs have opted for the transferral of established practices from the country of origin to that of the host countries (Morris et al, 2009), the lack of ' contextualisation' accounts for the limited acceptance (Newman et al, 1996; Leat et al, 2007). As echoed by Newman (1996) and Miah (2007), the notion of ' one size fits all' is no longer relevant, and so, contextualisation of management practices is vital. According to Nohria et al (1994), the degree to which a MNC differentiates its HRM policy to fit the cultural context of its affiliates is directly correlated with heightened performance of the firm. Furthermore, HRM policies that are consistent with a nation's culture have been manifested in heightened employee motivation, self – efficacy and improved organisational performance (Newman, 1996). Therefore, the admonition ' when in Rome, do as the Romans do', appears to be applicable where international HRM practices are concerned. As congruence between the external environment and internal strategy is vital, a misfit between national culture and HRM

policies will cause rifts in the organisation's foundations, whereby even the most seemingly insignificant crevice will impact the effectiveness of the business (Gerhart, 2008). Hence, in order for Multinational corporations to be competitive on a global scale: " it is crucial that they recognize these relationships and adjust their compensation practices to the cultural specifics of a particular host country" (Schuler et al, 1998, p. 161)

Multinational Corporations and HRM policy

4As highlighted by Taylor et al, 1996, HRM policy orientation, defined as the general philosophy adopted by MNCs within their respective subsidiaries, must be geared towards addressing the tension between the dual imperatives of global integration (convergence) and local responsiveness (divergence)(Edwards et al, 2005). Based on research from Rosenzweig et al (1994), three generic HRM policy orientations may be adopted by MNCs within their foreign affiliates: Adaptive, Exportive and Integrative, which if often dependent on the stage of international corporate evolution (refer to table 2). Based on this typology, which links to that developed by Perlmutter in 1969, multinational corporation's management practices within overseas subsidiaries could mirror that of the parent company (ethnocentric), could resemble local practices (polycentric) or could seek idle ground between integration and differentiation(geocentric) (Morris et al, 2009). While early convergence theorists argue for the adoption of an exportive strategy based on the existence of ' universal truths', differences between national cultures in today's society are deeply rooted, and so, adaptation to local practices is of pivotal importance (Rowley et al, 2002). As argued by Kristensen and Zeitlin (2001, cited in Edwards et al, 2005), Thus, it is arguable that in the

midst of increasing globalisation, whereby the idea of readily transferable ' best practice' is no longer relevant, an adaptive or integrative HRM orientation strategy is more applicable. The central issue for MNCs is not to determine the most effective HRM policy per se, but to identify " the best fit between the firm's external environment, its overall strategy and its HRM policy" (Taylor et al, 1996, p. 961).

Table 2: MNC Human Resource Management Policies (Adapted from Taylor et al, 1996)

Adaptive

Exportive

Integrative

The Polycentric approach

The Ethnocentric approach

The Geocentric approach

HRM policy that mirrors the local environment / culture

Wholesale transfer of HRM policy from the parent company to the foreign subsidiaries

HRM policy that integrates the adaptive and exportive approaches

Low internal consistency within the MNC parent company and affiliates and high external consistency with the nation

High internal consistency within the MNCs and affiliates and low external consistency with the local environment

High internal consistency and moderate external consistency

Differentiation is emphasized whereby HRM policies reflect existing local practices

High integration whereby HRM policies are replicated in an MNCs foreign subsidiaries

Combines differentiation with integration strategy

Minimal transfer of HRM philosophy and policy between the MNC and subsidiaries

Complete transfer of HRM practice from the parent MNC to overseas affiliates

Multidirectional transfer of policies between the parent company and foreign subsidiaries

According to Porter (1986, cited in Taylor et al, 1996), HRM policy orientation is dictated by the international strategy adopted by the MNC – multidomestic or global. On a similar note, Nohria et al (1994) make the distinction between firm strategy that pursues ' differentiated fit' and that which strives for universal adoption of shares values. A multidomestic strategy (decentralisation) is often pursued in nations where the local market places high demands on MNCs for policy adaptation (Wilton, 2010; Taylor et al, 1996). As argued by Edwards et al (2005), while multiculturism is the primary argument for differentiation, this pressure is augmented by the need

to abide by national legislation, regulations and labour market institutions – termed ' local isomorphic' factors. As a result, based on contingency theory, such strategy requires policy differentiation to ' fit' the national conditions of each subsidiary (Nohria et al, 1994). MNCs pursuing a global strategy (centralisation), on the other hand, employ a set of shared values and goals to achieve a collective competitive advantage. Such a strategy is, hence, dependent on heightened levels of integration, centralization, coordination and control within the MNC and its respective overseas affiliates (Edwards et al, 2005). As emphasized by Wilton (2010) and Nohria et al (1994), a global strategy seeks to minimise the abyss of differences between national systems, placing emphasis on the importance of policy integration and mutual interdependence at an organizational level.

5

MNCs that adopt a multidomestic strategy, and hence are characterized by heightened independence and localization, are likely to pursue an adaptive HRM orientation (Brock et al, 2007). In MNCs geared towards the pursuance of a global strategy, however, an integrative approach to HRM policy is a more viable option. As noted by Taylor et al (1996), corporations that pursue a global strategy require higher levels of integration and internal consistency between the MNC and its respective foreign subsidiaries. However, as Bartlett and Ghoshal (1989, cited in Taylor et al, 1996, p. 968) argued, MNCs competing in an increasingly globalised marketplace must not only internationally integrated but locally responsive, and so, in spite of the trend toward internal convergence (ethnocentric), discrepancies between national cultures call for differentiation. Echoed by Rowley et al (2002), while

international trade and finance pressure firms to standardise management policy, the local customs and culture embedded in the fabric of the nation act as barriers to convergence (geocentric). As highlighted in the study conducted by Nohria et al (1994), the performance of MNCs that adopted an integrative policy orientation (high degree of differentiated fit and shared values) was significantly higher than other firms in the sample of 66 MNCs in 19 different countries. These results are consistent with the findings of Brock et al (2007), whom notes that MNCs that pursue a geocentric approach have higher sales, profit margins and significantly better market shares. Nevertheless, numerous authors acknowledge that while an integrative policy is most appropriate, few firms adopt such practice, often opting instead for an exportive HRM orientation (Taylor et al, 1996; Rowley et al, 2002; Harzing et al, 2004). While the " wholesale transplant of the HRM system" (Edwards et al, 2005, p. 8) will heighten integration among the MNC units and ensure the continuity of firm ethos, it fails to acknowledge both cultural and institutional barriers embedded into societies (Morris et al, 2009).

USA and Japan: A Case Study

6In today's society, foreign affiliates are the gladiators of the Coliseum that is the modern globalised environment (Pudelko et al, 2007). Hence, in the context of the USA and Japan, HRM policy must attempt to address the conflict between global integration and Local responsiveness (Brock et al, 2007). While American firms initially believed in the notion of ' one size fits all', which led to the transfer of policies abroad, low success rates by companies such as EBay within an Asian context (refer to table 3) provides

evidence to the contrary(Morris et al, 2009). According to Paul Schwamm, an entrepreneur based in Tokyo, EBay's lack of success in Japan is attributed largely to their lack of consideration of national culture differences. Instead of adapting to satisfy local needs, EBay attempted to manipulate consumers to fit the company's American – centric model (Lane, 2007). Furthermore, as echoed by Ferner (1994), where American firms have integrated a degree of ' Japanese' HRM practice into that of their own, they have only done so in a ' piecemeal' fashion. In Japan, an ethnically and religiously homogenous society with deep rooted nationalism, however, such practices are insufficient (Ralston et al, 1997).

Table 3: Comparison between Japan and the USA (Adapted from Morris et al, 2002 and Wilton, 2010)

Hofstede's Dimensions

United States

Japan

Power Distance

Low

Medium – high

Uncertainty Avoidance

Low – medium

High

Individualism

High

Medium – Low

Masculinity

High

Medium

As the conflict between western and eastern values, norms and beliefs provide a basis for policy differentiation; the adaptation of HRM policies to account for national discrepancies paves the road to organisational success, as can be seen in companies such as IBM, Canon, Sony, and Matsushita (Pudelko et al, 2007). Comparing subsidiaries of US firms in Japan and vice versa, those which have, to a certain extent, adapted practices to the national context (culture and institutional factors), experienced improved efficacy, commitment, employee satisfaction and higher performance (Ferner, 1994; Morris et al, 2009). Interestingly, however, Pudelko et al (2007) notes that while an integrative HRM orientation is apparent in numerous American and Japanese success stories, Japanese subsidiaries in the US are more willing to adopt local practices than their American counterparts are within Japan. This suggests that, while contextualisation is vital, MNCs within both Japan and the USA may still link the American HRM model as a code of ' best practice' (Pudelko et al, 2007). While Japanese MNCs, such as Nissan, Renault, Matsushita and Hitachi are moving away from traditional practices and are becoming increasingly ' Americanized',

traditional Japanese systems are still deeply rooted in various areas of the nation, and so, a degree of contextualisation by American firms is still paramount.

Conclusion

7According to Brock et al (2007, p. 354), MNC subsidiaries are faced with balancing dual roles: " as cogs in the wheels of their parent organisations, and as competitors in local markets". With increasing levels of globalisation, internationalisation of business, and heightened competition, consideration of the viability of HRM policies within different national contexts is of growing importance. National culture is engraved into the skeletal framework of a society, and so, it has significant bearing on business operations within MNCs and their respective subsidiaries, particularly in regards to the ' soft' aspects of organisations such as HRM policies, practices and philosophies. While research highlights trends towards global convergence of policies within MNCs and their respective foreign subsidiaries, discrepancies between national cultures and the norms, beliefs and values intertwined with their roots, call for differentiation. It is this need to bridge the concepts of integration and differentiation that justifies the adoption of an integrative HRM policy orientation in the midst of both a multidomestic and global management strategy. Hence, in order for MNCs to be successful, they need to adapt HRM policies to account for cultural diversity while maintaining the broader set of practices that reflect the firm itself.