

Corporate culture and hrm in germany



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“ Immigrants seem to be flooding into Germany nowadays; I don’t know why, because history suggests that if they wait around long enough, Germany will come to them”, Jay Leno, Tonight Show

Germany is considered to be the world’s third largest economy which has proved its competitiveness in the manufacturing sector. Its management practices are more appreciated than followed in the different parts of the globe. The Japanese capitalist model, which is considered to be closely related to the German capitalism, still shows considerable differences from it. The corporate practices in Germany are highly influenced by its traits of its national culture, and its convergence towards a market-led capitalist economy has been repeatedly argued by the scholars around the world.

The choice of Germany is based on the fact that it presents an interesting model of industrial relations, which is substantially different from the conventional Anglo-Saxon practices. According to Berhens and Jacoby (2004) “ many scholars and policy-makers have held up Germany as a model of co-operative labour relations with bilaterally negotiated and cohesive character of German institutions and practices since 1980s. Also, many commentators have emphasized a style of change in German industrial relations that amounts to continuous adaptation or incrementalism (Katzenstein 1987: 136)”. This project looks into the various aspects of capitalism, corporate culture and human resource management in Germany, from the perspective of an MNC. The convergence of German Capitalism towards the Anglo-Saxon practices is analyzed. Also, the German model of capitalism is compared against the standard market-led and corporate -led models, and its impact on the corporate culture is contemplated.

2. The German Capitalist Model

Capitalism may be defined as an economic system in which the means of production are privately owned, wage labor is predominant over self employment; market forces determine the supply, demand and price rather than by government regulations and profit is distributed to the stakeholders of the firm (Wikipedia, 2010). The most important task of the firms operating in a purely capitalist society is to generate maximum profits for its stockholders. There are basically four types of capitalist models:

Market-led

In a market-led capitalist model, firms operate primarily for the benefit of its stockholders. The financial markets are highly sophisticated and the property rights are extremely well protected. The U. S. and the U. K. are good examples of market-led capitalism (aug. edu).

Corporate

A corporate model is dominated by large conglomerate firms which bind the employees together as a family. It works on the Japanese lean-team system and the capital, knowledge and human resource is highly mobile within the different domains of the organization.

Social Democratic

The social democratic model focuses on equality and creation of public sector employment. Scandinavian countries, which score very low on the Masculinity Index of Hofstede's study and follows the law of Jante to the core, are good examples of such model.

State-led

State-led capitalist societies are the ones which are highly regulated by their government policies. The demand and prices are supervised closely by the government in such societies.

The German model of capitalism can be termed as a mix of social democratic and state-led models. As argued by Streeck (1995), “ the West German combination of external competitiveness and normalized high-wage employment reflects the operation of a distinctive set of socio-economic institutions. These, in turn, reflect a complex historical compromise between liberal capitalism, as introduced after the Second World War, and two different countervailing forces, Social Democracy and Christian Democracy, as well as between traditionalism and two alternative versions of modernism, liberalism and socialism, and of course between capital and labour”.

Streeck (1995) also summarises the German economy on the basis of Markets and Firms. He argues that the markets in Germany are “ politically instituted and socially regulated, and regarded as creations of public policy deployed to serve public purposes”. Social welfare of the state is placed at the centre of all economic activities. Firms operating in such an environment are more of a social enterprise than just being private institutions working for the profit of its stake holders. They are subjected to extensive social regulation by law and industrial agreements, which basically focus on the welfare and upliftment of the society. Also, only a small part of the productive capital is traded at the stock exchange and the primary source of finance for these firms is a long-term bank credit.

2. 1 Comparison with the Japanese Model

Both the German and Japanese models of non-liberal capitalism have been supported extensively by their socially embedded economic institutions. Besides being substantially different from the Anglo-American model of capitalism, these models exhibit striking differences between themselves. Streeck and Yamamura (2003) argue that “ post-war Germany and Japan represented distinctive versions of non-liberal capitalism embedded in, and managed through, national institutions supported to different degrees by a strong-nation state”. Also, the economically influencing institutions in Germany are politically negotiated and typically legally constitutionalized. Germany follows the model which can be termed as a social-democratic or state-led capitalism, whereas Japan is more of a corporate capitalist society.

2. 2 Comparison with the Anglo-Saxon Model

In the 1970s and 1980s, Germany and Japan proved their international economic competitiveness without following the conventional Anglo-Saxon market-led capitalist model. Instead of concentrating on the profit for the shareholders, the German firms focus on quality products and efficient management systems. It's said that if one asks a manager from Ford (an American firm), the reason of the firm's existence, he would most probably reply that it is for creating maximum profits for its shareholders. If the same question is asked from a manager of BMW (a German firm), his reply would be that the firm exists for making quality cars. This difference in opinions from the companies belonging to the same sector is primarily due to the corporate culture and the kind of capitalist model followed by the country it operates in.

3. Changing Face of German Capitalism

Liberalization, privatization and globalization have changed the face of corporate practices around the world. According to many scholars, Germany, to certain extent, has also been affected by this wave of change. However, it is interesting to see that there is not much change in the ideologies of the German corporate functionalities and the way they operate in the global competitive environment. It was argued by Lutz and Eberle (2008) that although the German regulatory framework for internal corporate governance has converged towards the Anglo-Saxon model, the basic structure of its institutional internal governance, have still been untouched.

The Control and Transparency Act (Kontroll- und Transparenzgesetz, KonTraG) of 1998 was the first attempt by the German government to re-design a regulatory framework which aligns to the Anglo-Saxon model of capitalism. The aim of this Act was to make the German firms more attractive for private investors. However, it faced strong opposition from the trade unions, which saw it as a threat to the collective bargaining system. By 1999, the total market valuation of German stock quoted companies rose to 55% of GNP (Nikkei Weekly). A second attempt for convergence was made in 2002, with the introduction of an official code for the German market which focused on institutional investors than equity culture. The Finanzplatz Deutschland campaign of turning Frankfurt into a leading financial centre, and the location of European Central Bank in Frankfurt have also pushed the German society towards a more capitalist economy.

4. Comparison Based on Dimensions used by Hofstede

4.1 Power Distance Index (PDI) (Score [Rank])

Germany scores lowest when compared with the U. S and Japan in terms of the Power Distance Index. A relatively low score is an indicator of a narrower gap between the employee-employer goal alignments.

4.2 Individualism Index (IDV) (Score [Rank])

Very often, the state-led capitalist societies are confused with collectivism. As we can clearly see from the figures stated in the Individualism Index, Germany is more of an Individualistic society but still it follows the state-led capitalist model.

4.3 Uncertainty Avoidance Index (Score [Rank])

Germany scores significantly different from Japan on the Uncertainty Avoidance Index despite of the fact that both the countries do not follow the Anglo-Saxon Capitalist model.

4.4 Long Term Orientation Index (LTO) (Score [Rank])

Japan, which scores lower than Germany and the U. S. on the Individualism Index, scores high on the Long Term Orientation Index. This clearly indicates family coherence and long-term commitments with the suppliers and business partners, which are aspects of corporate capitalism.

4.5 Masculinity Index (MAS) (Score [Rank])

Germany and the U. S. rank almost equally on the Masculinity Index, which again shows contradiction if we consider the capitalist model in both the societies.

5. The Case of DaimlerChrysler merger

DaimlerChrysler was founded in 1998 when Germany based car manufacturer Daimler-Benz Germany merged with the American Chrysler Corporation. The \$37 billion stock-swap deal was termed as “merger of equals” and considered to be profitable for both the organizations. The new company thus formed had a market capitalization of \$100 billion and massive employee strength of 442. The aim of this union was build more cost effective models for retail sales, purchasing, distribution, product design, research and development, and to bring the organization among the Big Three automotive companies in the world.

As a part of the merger strategy, several million dollars were spent on the cultural workshops for the employees; however, a number of significant differences remained in business practice with almost no change in the management sentiment. James Holden, Chrysler president from September 1999 through November 2000, described what he saw as the “marrying up, marrying down” phenomenon. “Mercedes [was] universally perceived as the fancy, special brand, while Chrysler, Dodge, Plymouth and Jeep [were] the poorer, blue collar relations”. This, along with the fact that the American workers used to get more salary than their German counterparts, fuelled an ongoing tension (Grasslin, 2000). Dore(2000) supports the argument by saying that the ‘enterprise culture’ problem of integration are faced by mergers and acquisitions which involve a German firm. He further adds that both in Japan and Germany the majority stakeholders of a firm are more concerned about their business relationships with the company than the profits on its shares.

Considering all the above mentioned facts, it is clear that there was a significant corporate cultural conflict at the management level of DaimlerChrysler. Now, if it is assumed that the corporate culture is influenced by the national culture of a country, the immediate course of action would be to analyze both the countries on the basis of dimensions used by Hofstede. As mentioned in the last section, out of the five dimensions, the U. S. and Germany differ significantly in terms of Individualism Index (IDV) and Uncertainty Avoidance Index (UAI). If the idea of national culture is extended to the corporate culture in the MNCs operating in Germany, these two dimensions may have a profound effect on the failure or success of a firm. For instance, there might have been a conflict between the German managers (who score higher on the UAI than the Americans) and their American counterparts, in terms of forming strategies which involve some potential risk and uncertainty.

6. Labour Economics in Germany

McConnell et al., define labour economics as an instrument which examines the organization, functioning and outcomes of labour market; the decisions of prospective and present labour market participants; and the government regulations or policies related to the employment of labour resources. In Germany, the union membership was close to 26% in the period of 1998-2000, according to the OECD Report. In the same period the U. S. data showed that the union membership was only 13%. This data is justified by the fact that Germany is more concerned about the rights of the workers, than just generating revenues for the operating firms.

6. 1 Trade Unions

According to Berhens (2003) et al., “ compared to other labour movements, especially in the Anglo-Saxon countries, German unions are marked not only by the importance they have historically attached to democratization, but also by their strong institutional embeddedness in society, hence the strongly institutionalized system of German industrial relations”. The members of the labour unions in Germany work towards collective bargaining and unlike their American counterparts, they have a strong say in the management decisions.

These unions have enjoyed great deal of strength in the past; however, as pointed out by many researchers, their powers seem to be declining as the MNCs diffuse in a different form of corporate practices. The major reason for this downfall can be the expatriate Anglo-Saxon managers, who tend not to be very fond of the concept of labour unions. In masculine cultures like the UK and the Republic of Ireland there is a feeling that conflicts should be resolved by a good fight ... The industrial relations scene in these countries is marked by such fights. If possible management tries to avoid having to deal with labour unions at all, the labour union behaviour justifies this aversion” Hofstede (1991: 92)

6. 2 European Work Council (EWC)

European Work Council (EWC) is a group of delegates from the different parts of an MNC, from different countries. Like the labour unions, EWC also acts as the mouthpiece of employees; however, its domain is limited to the functionalities of an MNC only. Sartre (1976) used the metaphor of a bus queue: though the passengers have a common interest in travelling on the

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bus nothing binds them together; where they alight from the bus is evidence of their individual agendas. The MNCs operating in Germany have to consider and respect the importance of EWC by integrating the voice of its employees in the corporate decisions. EWC has advanced into coordinative virtual network (Pulingnano, 2009), through the use of information communication technology to coordinate disseminate and facilitate collective action beyond their national borders in order to speed up communication among members and the general public (Pulingnano, 2009; Whittal et al 2009).

7. Corporate Culture in Germany

Corporate culture can be defined as the “ Term used to refer to the basic system of values which influences personnel management and employees’ motivation to work within a company. It includes the particular organization culture concerned, i. e. the matrix of underlying assumptions developed by a group of people who have acquired considerable shared experience of resolving problems relating to adjustment to the external context and integration within the internal context” (eurofound. europa. eu). Edwards and Ferner (2002) argued that industrial relations of an MNC operating in a foreign land are shaped by the Country of origin, Dominance effect, the degree of international and integration of operations and the host country effect. But if the MNC is strong enough, it can bend the corporate culture to certain extent by transferring practices. According to Tom Kirchmaier of the corporate governance program at the London School of Economics, “ German corporate governance is quite unique and awkward, and it comes out of this postwar consensus,” (nytimes. com).

Being a low power distance society, Germany provides a corporate culture which nurtures healthy relationship between the employer and the employee. It provides an opportunity for the employees to interact with their seniors and reach to a mutual agreement. Also, the corporate culture in Germany works on a set of rules and every employee specializes in his own domain. If the employee takes leave for some reasons, it is very difficult for the firm to replace him temporarily and make someone else work in his domain. In contrast to this, the lean-team system in Japan makes sure that every employee gets to work in different areas of the firm's operations, so that he gets an understanding about the whole business. However, because he can be easily replaced, the lean-team system might result in the reduction of an employee's significance in his organization. The specialization of German employees in their respective domains makes them very valuable for the organization.

8. Human Resource Management issues faced by the MNCs in Germany

It has been proved from the previous researches that the MNCs follow a mechanism through which innovative or new employment practices are diffused from one country to another (Bean, 1995, Ferner and Javier, 2002, Ferner 2005). The following dimensions of Hofstede's study can be considered while planning a human resource management strategy in Germany:

Power Distance

Most of the managers who come from a high power distance society are not used to the employee-employer relationship in the German corporate

culture. They often find it surprising and inconvenient to consult with their subordinates on the management issues. This poses a significant threat to the professional relationship within a firm, which can further affect its productivity.

Long Term Orientation

Long term orientation also poses potential threat for the Japanese firms operating in Germany. As Germany scores significantly lower than Japan on the Long Term Orientation Index, it is important for the Japanese managers to work out an strategy which may be compatible with the German managers.

9. Conclusion

After analyzing all the facts stated in the previous sections, it is clearly seen that the German capitalist model is slowly converging towards the Anglo-Saxon model. Also, the study based on the five dimensions used by Geert Hofstede, have provided insight into the corporate culture in Germany. According to Edwards and Ferner (2002), with multinational companies affecting the power balance in the industrial relation system with their cross border activities, Trade Unions have also transformed in their structure and size, while expanding their activities for the purpose of cross border collective bargaining.