

The Influence of Globalization on Institutions

Firms' Responses and their Implications from International HRM Perspectives

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Abstract

Building on institutional theory, this paper examines how globalization may interact with different forms or dimensions of local institutional forces to lead convergence, divergence, or crossvergence in international HRM practices for optimal productivity and resource utilization. We also present useful propositions for guiding future empirical research and theory development on the interaction between globalization and different forms of local institutional forces which in turn influence the formation of successful international HRM practices.

Introduction

International human resource management (IHRM) broadly covers a wide range of issues related to the management of people in an international context. When conducting business across borders, human resource management has been repeatedly recognized as one of the most challenging areas by both academics and practitioners. Because of rapidly developing global competition, firms are increasingly pressured to develop coherent global strategies, resulting in the coordinated internationalization of HR at all levels. To effectively meet this challenge, firms seek to lower costs by identifying best economic practices in general business operations and in human resource management (HRM) in particular, and standardizing these practices across their global operational units. As a result, we have seen general emerging patterns of convergence in some HRM practices across borders, such as related to basic employee benefits and individual performance-based pay (Von Glinow, Drost & Teagarden, 2002). Yet, the global standardization of human management practices has its limitation as countries still differ in their labor laws, political climates, religions, values and attitudes, stage(s) of economic and technological advancement, and labor force demographics. All of these factors may bedevil a convergence perspective and introduce a divergence imperative, where managing human resources on international and global scales becomes more challenging and complex than within one fairly

homogeneous domestic context.

Based on Scott's (1995) notion of the three institutional pillars, this paper helps to explicate convergence vs. divergence debate by examining how globalization may interact with different forms or dimensions of local institutional forces to actually lead to convergent, divergent, or other responses in international HRM practice for optimal productivity and resource utilization. We also present useful propositions for guiding future empirical research and theory development on the interaction between globalization and different forms of local institutional forces which in turn influence the formation of international HRM practices. This research also has important implications for managers in assessing the impact of globalization within and across their organizational units and forming appropriate HRM policies and practices that maximize global integration yet simultaneously optimize local responsiveness.

Institution Theory and Globalization

According to North (1990), institutions are defined as “the humanly devised constraints that structure human interaction” (1990: 3), which include formal rules (laws, regulations) and informal constraints (customs, norms, cultures). Scott (1995) has developed an integrated model of institutions that consists of three “pillars” or foundational constructs: regulative, normative, and cognitive. First, the regulative pillar is represented by the coercive power of governments. For example, governments enact and enforce laws and rules, and anyone violating these laws will be punished. As such, force, sanctions, and expedient responses are central ingredients of the regulative pillar (Scott, 1995: 36). Second, the normative pillar refers to how the external rules, standards, roles, and other social prescriptions influence the behavior of individuals and firms. Values and norms produce conformity as a result of social expectations and moral obligations. As Scott (1995: 37) explains, “Values are conceptions of the preferred or the desirable together with the construction of standards to which existing structures or behavior can be compared and assessed. Norms specify how things should be done; they define legitimate means to pursue valued ends.” Accordingly, forces in the normative pillar are typically viewed as imposing constraints on social behavior (Scott, 1995: 38). Finally, the cognitive pillar, closely related to the concept of national or societal culture, refers to the internalized values and beliefs that guide the individual and firm behavior, and is based on shared conceptions that constitute the nature of social reality.

Conformity to institutional pressures is driven by legitimacy motives (Scott, 1995; DiMaggio and Powell, 1983), and Scott's three different pillars of institutions reveal three “related but distinguishable bases of legitimacy” (Scott, 1995: 47). In response to institutional pressure from one or more of the pillars, firms adopt appropriate practices to gain legitimacy and acceptance as well as to ensure survival (Powell and DiMaggio 1991; Gooderham, Nordhaug and Ringdal 1999). The most commonly observed responses are the following:

Imitation. Organizations tend to model themselves after similar counterparts in their field that they perceive to be more legitimate or successful and representing “best practices.” The purpose of such universality of mimetic processes is to enhance efficiency.

Compliance. This organizational response is characterized by obedience to or incorporation of values, norms, or institutional requirements.

Compromise. Organizations are often confronted with conflicting institutional demands, or with inconsistencies between institutional expectations and internal organizational objectives related to efficiency or autonomy.

Therefore, firms under a similar level of pressures generally will develop similar intra-industry structures and organizational practices. Rosenzweig and Nohria's (1994) study found that firms adopt similar practices under similar political and economic environments due to the mimetic intention to gain legitimacy in the institutional environment. The embedded institutionalized elements greatly influence HRM policies and strategies that lead to performance in terms of effectiveness, competitiveness, and social well-being. Organizations sharing the same environment will employ similar practices through adoption and diffusion of organizational practices.

The following section will discuss the impacts of globalization on Scott's three pillars and firms' responses along with their implications from international HRM perspectives. In developing the logical underpinning of our arguments, we found the analytical framework of these three pillars quite useful but imperfect. The distinction between the normative and cognitive pillar could be somewhat blurry since social behavior is constrained not only by forces within the normative pillar but also by the profound cultural dimension of the cognitive pillar. It is not uncommon that we use the terms, *cultural* values and norms. For the sake of the clarity of our discussion in this paper, we include all the discussion of *cultural* values and norms under the cognitive pillar, which we refer to hereafter as the "cultural-cognitive pillar." (See Table 1)

 Insert Table 1 about here

Influence of Globalization on Institutions and Firms' Subsequent Responses

Regulative Pillar and Divergence Effect. Driven by the advance in technology and dissemination of the information, globalization has made emerging economies such as China and India embrace concepts of market economy and capitalism. Yet, political, economic, and legal environments within the regulative pillar of the respective countries will remain rather intact and independent. Although the debate on nation states continue to be a one of controversy, it is reasonable to assume that as long as nation states exist, each country's government will attempt to maintain its own political, economic, and legal system. Kostova's (1999) notion of 'institutional distance emphasizes the difference between the 'country institutional profile' (CIP) of the firm's home country and the host country. Some countries will allow their workers to form labor unions while others will continue to prohibit their formation. Nation states have sovereignty rights on how to run their countries as long as they do not conflict with the rights and interests of other countries. This sovereignty principle in practice means that the overall convergent effect of globalization has a limited influence on the way different countries will be run. Naturally, firms' responses to this regulatory pillar will be compliance to meet the requirements set by the regulatory institutions of the host country.

What are the HRM implications of the regulative pillar for MNCs conducting businesses across borders? They should be well aware of and acquiesce to distinctive legal requirements and forces within regulative pillar of the host country to achieve company success. Cross-border mergers and acquisitions (M&A) are cases in point. The political and legal environment in which an M&A agreement takes place may influence the way the transaction is structured and the

nature of subsequent HRM practices. For example, some cross-border M&A agreements may contain government-imposed stipulations on foreign MNCs related to target percentages of future host country management, or support for employee retraining should layoffs be necessary. In addition, managers should be familiar with the role of unions and different labor relations policy approaches in different countries (Bryson, 2003). For example, labor laws of the EU and many countries in Europe make reaching an M&A deal in Europe more challenging than in the US. This is because M&As taking place within European borders are subject to stronger regulations and stringent restrictions on employee dismissals. Unfortunately, many companies have commonly overlooked the role of HRM in creating a successful integration involved in a cross-border M&A (Aguilera & Dencker, 2004; DeNisi & Shin, 2004; Bryson, 2003; Cartwright & Cooper, 1996). This discussion therefore leads to our first proposition:

Proposition 1: *Globalization will have a limited influence on the regulative pillar forces of different countries as nation states prefer to maintain their sovereignty. Firms will typically respond to these institutional changes by complying with different legal and regulatory environments, resulting in divergence in HRM practices.*

Normative Pillar and Convergence Effect. We argue that the normative pillar represents an institutional mainstay in which the impact of globalization has been felt to the greatest degree. The increased openness of communications and transparency across borders involved in globalization makes it easy for organizations to observe and emulate the practices and behaviors of successful aspiring company models and rivals. The dissemination of Western capitalism introduced new management approaches such as TQM and just-in-time systems to many companies in developing countries. Such penetration of new norms and values is evident even in academia. For example, many business schools outside the US are now having their MBA programs accredited by the highly recognized global business program standards certification body (e.g., AACSB), and as a result have begun to recruit the best students around the world by improving the quality of their education. This accreditation will tend to bring about greater harmonization of the graduate business school curriculum among different countries and encourage an increasing number of foreign students to enroll in MBA programs of the premier universities in Asia and Latin America.

The human resource management profession also has changed in the past decade, expanding across borders and moving toward a harmonization of competencies and professional standards based on recognized best practices. HR professionals earning a Global Professional in Human Resources (GPHR) certification (regulated by the HR Certification Institute, an affiliate of the now global Society for Human Resource Management), will be prepared to assume responsibilities across national borders, and to possess competencies in developing and implementing global HR policies. Earning GPHR certification demonstrates that HR professionals have learned the international HR body of knowledge and have accepted the challenge to stay informed of new developments in the international HR field. Due to the centralized certification governing body, these certified professionals are likely to introduce uniform and standardized HR policies and practices to their firms.

The above discussion indicates that globalization has facilitated convergence among institutional forces within the normative pillar. This assumption suggests that through globalization imperatives characterized by integration of markets and production, the normative value systems of managers become increasingly similar to one another. The rapid dissemination

of technology and information enables MNCs to apply relatively identical general business and specific human resource management (HRM) practices across countries. There is growing evidence of a convergence effect in international business and management practices, especially with regard to strategic planning (Sparrow et. al., 2004).

For example, hiring practices in different countries are undergoing major changes due to the globalization of modern industries and new applications of widely available technologies. In spite of prevailing cross-national differences, the trend toward convergence seems to be irresistible. In a comparative study of personnel selection practices in thirteen countries, Huo et al. (2002) found two criteria as the most commonly used selection practices in staffing across countries: (1) evidence of the person's ability to perform the technical requirements of the job, and (2) impressions gained from a personal interview. This evidence of convergence associated with the normative pillar of institutional forces leads us to a second proposition:

Proposition 2: *Globalization will make normative pillar forces of different countries more compatible and homogenous. Firms will typically respond to these forms of institutional changes by imitating the behaviors of successful companies, resulting in convergence in their HRM practices.*

Cultural-Cognitive Pillar and Crossvergence Effect. As defined above, the cultural-cognitive pillar concerns the internalized values and beliefs of a society, which are probably the most difficult and slowest to change. Douglas (1982:12) proposed that we should “treat cultural categories as the cognitive containers in which social interests are defined and classified, argued and negotiated, and fought out.” A recent study (Parboteeah et al., 2009) provides strong evidence that all forms of religions are related to important work outcomes. This carries a very important message for HR managers that often have to manage diverse group of people whose religious beliefs differ. Traditionally, religions have been considered as a source of conflict that impedes the effective management of people across different cultures. Research results, however, imply that MNCs from a country with predominantly Christian background can achieve business success in Islamic and Buddhist countries and vice versa. As such, cultural convergence implies that as nations become industrialized, they experience a significant change in values toward behaviors that embrace free-market capitalism and universalism.

Despite the global and regional integration of national economies, cultural differences still remain strong since blood is thicker than water. As Holton (2000) introduced the term “cultural polarization,” an opposite concept to cultural homogenization, global integration may not always result in cultural conformity and convergence. Managers still recognize the need to adapt management practices to the local environment. As Hofstede (1997) argues, for example, the cultural emphasis upon individualism that is so prevalent in Western society is often not so effective in Eastern society where collectivism is more valued. U.S., Australian, and Canadian firms demonstrated a striking similarity in hiring practices due to their common Anglo cultural roots. Likewise, East Asian countries such as Japan, Korea, and Taiwan demonstrated a remarkable similarity due to their historical and cultural ties. This similarity suggests that the impact of cultural differences is still strong in many human resources management practices despite the convergence effect driven by global integration.

Cultural convergences versus divergence perspectives therefore represent polar extremes. As most firms struggle to find the optimal trade-off between globalization and localization, that is, “glocalization,” perhaps the reality is closer to a more balanced or middle-ground view called “crossvergence,” or hybridization, i.e., the intermixing of cultural systems between different

countries. The concept of hybridization contends that cultures are shaped and reshaped through interactions with other cultures in which people reflectively or unconsciously insert new meanings into their own cultural understandings (Shimoni & Bergmann, 2004; Bhabha 1994; Werbner & Modood, 1997).

Basically, crossvergence theorists argue that as globalization accelerates, countries will influence one another economically as well as culturally. Hybridization is concerned with interactions, negotiations, and mutual enrichment among different cultures (Shimoni, & Bergmann, 2004). It is important to note here that the concept of crossvergence corresponds to the very definition of the cultural-cognitive pillar. According to this perspective, since a certain production system, such as the Japanese just-in-time system, is embedded in a specific culture, it needs to be reinterpreted and recontextualized when it is introduced to a different country (Brannen et al., 1999). Globalization will make traditionally collectivistic developing countries take on more individualistic work values. This will in turn encourage the firms to introduce a merit-based compensation system, i.e., convergence of the normative pillar. However, actual implementation of this system could vary from one country to another since they may interpret the notion of merit differently. We therefore come to our third proposition:

Proposition 3: *Globalization will make institutional forces within the cultural-cognitive pillar of different countries more interactive and negotiable. Firms will typically respond to these institutional changes by compromising their own cultural perspectives with those of other parties, resulting in crossvergence in their human resource management practices.*

Conclusion

We believe that firms are much faster and more proactive to institutional changes than nation states since the former are more desperate than the latter to survive within the growing fray of global market competition. In contrast, nation states, i.e., governments, either reluctantly accept or slowly adopt the required changes driven by globalization. Therefore, substantial variation and a divergence effect across countries still exist within the regulative pillar of institutional forces, particularly comprised of legal and regulatory environments. For example, China's accession to the WTO, a leading international organization promoting globalization, failed to produce the expected results in terms of the required changes in the Chinese legal infrastructure. The protection of intellectual property rights in China is still inadequate compared to developed countries. China also falls behind in performance standards in core labor rights advocated by the WTO. Firms have very little leverage in inducing any changes, and must acquiesce to regulative institutions by complying with the laws and regulations that a host country requires. While most of us tend to believe that formal institutions such as law and regulations are easier to change than informal institutions based on culture, norms, and beliefs, the reality is that the influence of the globalization on a specific country's regulatory pillar i.e., formal institution is rather limited to the extent that respective countries want to maintain their national sovereignty. Witnessing a persistent divergence effect, human resource managers have to learn and customize their policies and practices, and abide by these regulations so that they do not violate laws and rules of the host country.

On the other hand, we argue that globalization has exerted more profound impacts on informal institutions such as those found in the normative and cognitive pillar. Globalization has brought about more significant institutional changes for firms that are more nimble and flexible than nation states in their effort to emulate the success of competitors. Human resource policies

and practices influenced by normative as well as cognitive pillar forces are quickly converging. Thus, overcoming the simplistic either/or discussion about the global standardization versus localization, a major contribution of this paper has been to clarify the intricacies of convergence versus divergence perspectives as globalization brings about different types and levels of changes in institutional pillars of the society.

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Table 1. The Impact of Globalization on Institutions, Company Responses, and IHRM Practice Dynamics

Institutional Pillars	Company Responses	IHRM Practice Dynamics
Regulative	Compliance	Divergence
Normative	Imitation	Convergence
Cultural-Cognitive	Compromise	Crossvergence