Human Resource Management in the US, Europe and Asia: Differences and Characteristics

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ABSTRACT

Aim of this study is to discuss differences and characteristics between HRM in the US, Europe and Asia. Divergence can be seen in HRM practices between markets due to cultural and legal differences that enables international firms to adapt local norms. To identify characteristics provides a firm of effectively managing their international HRM practices. Therefore, literature studies demonstrate different characteristics in managing human resources between markets.

To clarify differences and characteristics in HRM between the US, Europe and Asia enables organizations to adapt their HRM practices to local norms. Literature studies propose that differences in HRM are due to differences in cultural and legal systems. This is important to MNCs that experience the decision between adopting local standards or maintain home country HRM practices.

Literature studies also demonstrate different characteristics between the US, European and Asian HRM. While US firms have more managerial autonomy, European HRM is more restricted in management of employees. In Asian transitional economies, HRM departments need to develop organizational learning for knowledge organization to increase innovation. Therefore, this study aims to explore differences and characteristics in HRM between the US, Europe and Asia.

Keywords: Human Resource Management, Differences, Characteristics, the US, Europe, Asia,

IMPACT OF CULTURAL SYSTEMS, NATIONAL INSTITUTIONAL SETTINGS AND MNCS ON HRM

Institutional factors generate national and regional differences due to extended historical processes, national business systems and cultural systems; therefore, are antecedents of management practices (Gooderham et al., 2006), and limit firm action by placing decision-making authority with third-parties (Richey, Wally, 1998: 82).

Firstly, impact of culture on HRM can be seen in individualism and collectivism, and differences in short- and long term orientation. Brewster (2004) says, US individualistic culture and achievement orientation results in US reward systems such as individual-based rewards and performance-related pay. Secondly, high individualism is related to development of human capital in organizations where employees are considered as critical resources (Cleveland et al., 2000); therefore, individualism is associated with the development of internal labor market (Hegewisch et al., 1997: 1). On the other hand, collectivist orientation leads to trade union recognition and collective bargaining that characterize industrial relation in Europe instead of direct management and employee communications in the US (Cleveland et al., 2000: 13). Moreover, in collectivist cultures there are more cases of in-group recruitment because there is so much social pressure to help out friends in need (Tanova, Nadiri, 2005: 695). Trustworthiness, loyalty and compatibility between managers and employees are key characteristics for job applicants in collectivist Eastern culture; whereas, competence is key to an applicant characteristic by managers in individualistic Western culture (Tanova, Nadiri, 2005: 695). In addition, in collectivist culture integration to group is important; therefore, firms do not hire foreign employees but hire local; however, in individualistic culture firms prefer foreign employees (Rouzies et al, 2003: 71). Thus, in a recruitment decisions less individualistic cultures such as German managers may place more weight on group cohesiveness while in individualistic culture such as the UK might emphasize individual characteristics related to performance.

In addition, the US and Asian firms can differ on long-term orientation. For example, Hong Kong firms have long-term, US firms have short-term orientation (Fields et al., 2006: 172). Long-term orientation in Japanese firms provides them of investing in projects with long-term payoffs (Kaplan, 1994), e.g., in training and development so that employees can learn firm-specific skills and knowledge (Tanova, Karadal, 2006: 143). Therefore, this is because, might be, growth or market share is key element to evaluating firm success in Japanese companies while short-term profits or share is key to US firms (Kaplan, 1994: 511). Thus, performance of Japanese managers is evaluated with current cash flows. Therefore, market share orientation forces Japanese firms to be price-
competitive and cost-effective, which are associated with Kaizen and continuous improvement (Basu, Miroshnik, 1999: 727).

Moreover, in China workers have moral connection to firms, and in the US workers have calculative relationships with their firms (Fields et al., 2006: 174). Therefore, training and development in China refers organizations to fulfilment of moral obligations to employees so that they feel accepted part of collective unit. In the US training is to develop employee technical and interpersonal skills because workers are interested in furthering their self-interests (Fields et al., 2006: 175).

In addition, levels of power distance and uncertainty avoidance have an impact on recruitment interview, communication, negotiation and participation processes (Sparrow, Hiltrop, 1997: 206). For instance, expectations of manager and subordinate relationships influence performance management and motivation.

Secondly, institutions affect on employment practices in Europe but provide guideliness for HRM practices in the US. In China, country’s powerful institutions represent China’s ideological frameworks, and govern the way individuals and firms behave (Law et al., 2003: 255). Labor regulations and trade unions have an impact on communication with employees in Europe. These legal frameworks and systems of industrial relations constrain firms from applying market-driven management practices (Goodeham et al., 2006: 1496). Moreover, employment legislations encourage corporate responsibility, and discourage employers from making employee redundant (Sparrow, Hiltrop, 1997: 204). In addition, mixed economic systems and old political systems significantly influence economic activities in China although the country is undergoing a rapid transition to a market economy (Law et al., 2003: 255). However, firms are more autonomous in the US, and therefore, there is a direct communication between management and employees in the US (Cleveland et al., 2000: 13).

Thirdly, multinational companies (MNCs) can transfer their HRM practices that depends on the degree of host country institutional, legal and cultural compatibility with HR practices (Hayden, 2006: 747). However, firm-specific internal factors such as low productivity can also force MNCs to maintain home country HRM practices in the subsidiaries. For example, US MNCs and Japanese firms confronted productivity problems in their UK and Belgian subsidiaries (Basu, Miroshnik, 1999: 715, Clauss et al., 2002: 439). Therefore, Clauss et al. (2002) say that productivity growth, foreign direct investment and MNCs have an impact on HRM in Belgium. Moreover, Toyota and Nissan maintain their own management styles in their UK subsidiaries to increase productivity despite cultural differences, and have influenced a number of UK companies associated with their operations (Basu, Miroshnik, 1999: 715). Further, due to less regulated labor market economy US MNCs implement home country HR practices in the UK and Ireland, and have a greater impact on local HR practice (Cleveland et al., 2000: 12).

**HRM IN ASIA: ORGANIZATIONAL LEARNING, KNOWLEDGE ORGANIZATION AND INNOVATION**

Japanese HRM offers lifetime employment to employees to cultivate them through internal on-the-job training so that employees possess firm-specific knowledge and skills for productivity and quality increase (Cho, 2005: 417). Therefore, Japanese firms rely on internal advancement in recruitment. This is because market share and growth orientation in Japanese firms requires them to have organizational capabilities in price-competition, cost-reduction and quality-enhancement (Kaplan, 1994: 511).

Furthermore, large Korean companies followed Japanese style HRM prior to Asian economic crises (Cho, 2005: 417). After the crises they turned more to US HRM model where interfirm mobility exists in flexible labor market. However, most Korean companies still have Japanese approaches; therefore, firms rely on internal advancement rather than outside scouting in recruitment same as in Japan (Cho, 2005: 417).

Transitional economies in Asia such as China, India, and South East Asian countries have different requirements in HRM. Firms need human capital, knowledge and technology development to increase their innovation in order to compete with global competitors. Thus, HRM in Asia should develop and retain more knowledge human resources (Othman, Teh, 2003: 394) because global companies are emerging in Asian transitional economies with high-quality products (Butler, Lee, 2003: 368). Therefore, firms have to adopt sophisticated technological processes. Thus, contingency perspective in HRM may be more appropriate to Asian firms rather than universalistic perspective.
Contingency perspective is that HR strategy is more effective when integrated with a specific organizational and environmental context such as product market strategy, e.g., cost-reduction strategy, quality enhancement strategy or innovation strategy (Chang, Huang, 2005: 437). In contrast, universalistic perspective is that HRM has a simple linear relationship with firm performance. For example, Chang and Huang study (2005) confirmed validity of contingency model in Taiwan.

On the other hand, universalistic model may be more valid for US firms. Because US firms have human capital and resource-based view qualities (e.g., innovation, competence and capability) in order to set up a simple linear relation between HRM and firm performance. Therefore, literature studies about HRM and firm performance relationship in the US (Arthur, 1994; Huselid, 1995; Becker, Gerhart, 1996; Delaney, Huselid, 1996; Huselid, Jackson, Schuler, 1997; Yeung, Berman, 1997; Rogers, Wright, 1998; Harel, Tzafrir, 1999; Gelade, Ivery, 2003) have universalistic perspective.

Recent liberalization and global competition in China and India encourage firms for innovation and technology development. Therefore, HRM in these countries is to develop employees who are knowledgeable and skilled in a particular technology, and is to enable employees to use knowledge to leverage innovations (Khandekar, Sharma, 2005: 628). This is because innovation emerges from capable employees in an organization. Thus, HRM departments should develop organizational learning capability such as experiment, knowledge transfer, teamwork, leadership and mission clarity (Bhatnagar, 2006: 420). Therefore, Khandekar and Sharma (2005) found that HRM practices such as staffing, training, performance measurements, rewards, career planning, skilled and innovative human resources are positively correlated to organizational performance in India. Moreover, Indian HRM departments are under severe pressure to build capabilities, resources, competencies and strategies to respond proactively to the environmental pressure caused by economic liberalization (Bhatnagar, 2006: 418).

Bhatnagar study (2006) shows that organizational learning partly supports firm performance in India. Therefore, HRM should design practices to leverage organizational learning against with competitors. Hence, firms need training, appraisal, reward, motivation and control to develop human capital so as to produce more technological innovation (Li et al, 2006: 681). For example, a highly qualified workplace in Taiwan’s high-tech firms enables them to compete on market responsiveness, product and service quality, and technological innovation (Chang, Chen, 2002: 622). Therefore, firms tend to hire technically skilful employees to facilitate the development of specific know-how. Furthermore, Malaysia is behind Singapore, Hong Kong and Taiwan in human capital and innovation (Othman, Teh, 2003: 394). Therefore, they need organizational learning to develop organizational knowledge; thus, Malaysian firms invest in considerably more training hours than US firms.

**HRM IN EUROPE: IMPROVE KNOWLEDGE AND TECHNOLOGY TO ENHANCE INNOVATION**

Europe has a stakeholder economy and the US has a shareholder economy (Brewster, 2004: 369). System of social security (Gooderham et al., 2006), and increased role of social partners in employment relationships (trade unions and employee representatives) (Sparrow, Hiltrop, 1997) might lead to a stakeholder approach in Europe. Therefore, states and governments intervene and regulate market and management of employees in Europe to maintain social security. In the US people are calculative; thus, shareholder economy exists. But, today, the US might also have a stakeholder approach due to agency costs after Enron event.

Due to labor market approach (Morley, 2004) governments in Europe issue labor law to protect employees (Mayrhofer et al., 2004: 475). Therefore, Europe is a regulated economy while the US is free-market economy where organizations have managerial autonomy in employment practices (Morley, 2004: 355; Mayrhofer, Brewster, 2005: 3). The difference emerges from the type of industrial relations and social concerns (Hegewisch et al., 1997: 4).

European firms have more restricted levels of organization autonomy in HRM decisions such as recruitment, dismissal and training (Sparrow, Hiltrop, 1997: 201). Therefore, labor regulation and strong trade union (Morley, 2004), and employment protection and legislation for employment contract (Brewster, 2004), and a relatively high degree of job security (Sanchez, Kepir-Sinangil, 2003) impede on employment creation in Europe; in contrast to, employers greater economy and state laissez-fairedom in business operations in the US (Morley, 2004: 355). Therefore, many countries such as Germany, France and Spain have made moves toward a more flexible employment contract by relaxing hiring and firing rules, and have facilitated recruitment of staff on a part-time or temporary basis for employers (Sparrow, Hiltrop, 1997: 204).
Moreover, European workforce management includes non-market institutional forces such as state intervention, legislation, trade union involvement and consultation and dialogue and communication between social partners (Morley, 2004: 355). Therefore, European HRM tries to achieve harmony of interests between governments, employers and labor unions (Brewster, 2004: 369). In the US there do not appear to be a set of strong parties setting HRM policies and practices (Richey, Wally, 1998: 83). In the US legislation provides guideliness for HRM policy and practices (Ozcelik, Aydinli, 2006).

Furthermore, there is a convergence or divergence debate towards European HRM. Divergence can be seen in HRM practices across Europe due to differences in cultural and societal context and law systems (Mayrhofer, Brewster, 2005: 5; Mayrhofer et al., 2004: 127). On the other hand, common management systems and institutional forces can develop uniformity in organizational processes that might lead to convergence due to, for example, supranational and institutional power of European Union in employment practices (Mayrhofer, Brewster, 2005; Mayrhofer et al., 2004: 127). Therefore, convergence towards European HRM can be achieved in HRM policies, but divergence can be seen in HRM practices. For example, European HRM might have policy in organizational career management about flexible work practices (e.g., annual hours contracts, fixed term contracts, home-based work), career planning, and succession planning.

European HRM might have concepts in cultural accommodation and productivity, and knowledge and innovation. Since Europe is not becoming more similar, cultural accommodation is the key to understanding European management practice (Sparrow, Hiltrop, 1997: 205). Secondly, MNCs’ operations in Europe show that productivity can be a business problem for organizations such as Japanese firms in the UK and US MNCs in Belgium. For example, training in Nissan’s UK subsidiaries has resulted in a sharp increase in productivity level of British workers, which at the beginning of the operation was very low (Basu, Miroshnik, 1999: 721). Moreover, US investments in Belgium leads to a considerable productivity improvement by modernizing industry (Claus et al., 2002: 440). Belgian productivity was low due to an old pre-war industrial infrastructure. Therefore, the European Employment Task Report emphasized the importance of training and development that productivity of European enterprises depends on building and maintaining a well-educated, skilled and adaptable workforce (Morley, 2004: 360).

Thirdly, European HRM might also have policies to improve knowledge and technology for innovation. Because, in 1997, the European Union believed that by 2007, 80 percent of the technology and knowledge of workers will be obsolete, and replaced by new or advanced technology (Segalla et al., 2001: 45). Therefore, in 2000, the European Council accepted a program to build knowledge infrastructure and enhance innovation in Europe to become the most dynamic knowledge-based economy in the world (Morley, 2004: 354).

### US HRM MODEL

Brewster (2004) articulates two core assumptions for US HRM model. The first assumption is that employing organization has freedom in management of employees. Organizational autonomy is reflected as less state intervention in external and internal labor markets of organizations, right of managers to manage human resources, less corporate and social responsibility toward full employment, antagonism toward unions (Sparrow, Hiltrop, 1997: 204). Therefore, US HRM includes contingent pay policies, a weak involvement of trade unions and sole responsibility for training and development; thus, proposes direct communication with employees, and away from collective channels (Hegewisch et al., 1997: 9). Unions in the US were weakened, and management and shareholders increased their power due to increased international competition in the 1970s, the use of information technology, flexible specialization and high-value added products in American mass production systems (Goooderham et al., 2006: 1494).

A second core assumption is involvement of HRM with business strategy. Therefore, US HRM is calculative in managing human resources (Goooderham et al., 2006: 1491). Indicators of the calculative relationship is the use of individual performance appraisals, individual performance-related rewards, and monitoring the effectiveness of training. Thus, US model of HRM includes management of pay and performance, management of diversity and management of managerial careers (Hayden, 2006: 747).
In addition, US HRM has local adaptation perspective within a global framework. US firms face in determining balance between central control and local autonomy in employment relations policy and practice when differences in national business systems and national institutional arrangements exist (Sparrow, Hiltrop, 1997; Cleveland et al., 2000; Hayden, 2006: 747). Local adaptation or maintain home country HR practices depends on the degree of host country institutional, legal and cultural compatibility with HR practices. For example, US MNCs implement home country HR practice in the UK and Ireland due to their less regulated labor market economy (Cleveland et al., 2000: 12). However, if there is a divergence between local institutional settings and parent institutional settings, local adaptation in HRM practices will be increased (Gooderham et al., 2006: 1494). Gooderham et al. (2006) found that US subsidiaries adapt to the local institutional settings, and their findings also indicate that US MNCs apply their own HRM practices to their subsidiaries in foreign countries. Therefore, US MNCs experience the tension between the need for local adaptation and global integration. Because differences in state ownership, framework of corporate governance, labor legislation, role of trade union and cultural factors (e.g., manager and subordinate relationship) exert an important influence on HRM practices to adopt local norms (Cleveland et al., 2000: 10).

National context is key determinant of MNC practices over parent national origin (Holden, 2001) because HRM practices are often “culture-bound” and therefore, difficult to standardize across foreign business units (Rouzies et al., 2003: 68). National institutional arrangements (e.g., work councils, employment rights, employee participation) can also explain the extent to which US MNCs impose home country practise or conform to host country norms. Therefore, MNCs in Europe have deferred to national contexts, and have set HRM policies on a nation by nation basis (Richey, Wally, 1998: 92). For example, social legislation system, concept of personnel management, government-mandated training, labor unions and high tax burden for employees increase localization needs for HRM practices of international firms in Belgium (Clauss et al., 2002). Further, the regulatory environments in EU countries such as Germany and Sweden may force US MNCs to adopt sets of HRM practices which are quite distinct from those in the US (Cleveland et al., 2000: 12). However, firm-specific internal factors can force MNCs to implement home country HR practices in their subsidiaries. For example, Japanese firms (Toyota and Nissan) in the UK (Basu, Miroshnik, 1999) and US MNCs in Belgium (Clauss et al., 2002) maintain their own management practices due to low productivity.

CONCLUSION

To conclude, culture, institutions and legal systems determine the degree of organizational autonomy in HRM decisions. Firstly, HRM departments in individualistic culture implement individual-based HRM practices such as in the US. HRM in collectivist culture has to consider strong third parties in management of employees. Secondly, due to impact of institutions such as extensive state regulations and labor law European HRM are more restricted in managing human resources but US HRM are more autonomous.

Asian HRM departments in transitional economies need to develop knowledge organization for technology developments and innovation. Therefore, HRM departments should generate organizational learning capability in organizations. Knowledge improvement and technology development to enhance innovation should have priority for HRM departments in Europe. Because low productivity issues in organizations can stem from outdated knowledge and technology. Therefore, HRM departments should improve human capital so that their employees have contemporary knowledge and skills.

REFERENCES


