

SUSTAINABLE ENTREPRENEURSHIP PROJECT

Human Resources: A Global Survey of Theory and Research

**SUSTAINABLE ENTREPRENEURSHIP PROJECT
RESEARCH PAPER SERIES**

Dr. Alan S. Gutterman
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Human Resources: A Global Survey of Theory and Research

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About the Project

The Sustainable Entrepreneurship Project (www.seproject.org) engages in and promotes research, education and training activities relating to entrepreneurial ventures launched with the aspiration to create sustainable enterprises that achieve significant growth in scale and value creation through the development of innovative products or services which form the basis for a successful international business. In furtherance of its mission the Project is involved in the preparation and distribution of Libraries of Resources for Sustainable Entrepreneurs covering Entrepreneurship, Leadership, Management, Organizational Design, Organizational Culture, Strategic Planning, Governance, Corporate Social Responsibility, Compliance and Risk Management, Finance, Human Resources, Product Development and Commercialization, Technology Management, Globalization, and Managing Growth and Change.

About the Author

Dr. Alan S. Gutterman is the Founding Director of the Sustainable Entrepreneurship Project and the Founding Director of the Business Counselor Institute (www.businesscounselorinstitute.org), which distributes Dr. Gutterman's widely-recognized portfolio of timely and practical legal and business information for attorneys, other professionals and executives in the form of books, online content, webinars, videos, podcasts, newsletters and training programs. Dr. Gutterman has over three decades of experience as a partner and senior counsel with internationally recognized law firms counseling small and large business enterprises in the areas of general corporate and securities matters, venture capital, mergers and acquisitions, international law and transactions, strategic business alliances, technology transfers and intellectual property, and has also held senior management positions with several technology-based businesses including service as the chief legal officer of a leading international distributor of IT products headquartered in Silicon Valley and as the chief operating officer of an emerging broadband media company. He received his A.B., M.B.A., and J.D. from the University of California at Berkeley, a D.B.A. from Golden Gate University, and a Ph. D. from the University of Cambridge. For more information about Dr. Gutterman, his publications, the Sustainable Entrepreneurship Project or the Business Counselor Institute, please contact him directly at alanguutterman@gmail.com.

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§1:1 Introduction

The human resources (“HR”) function is at the forefront of a company’s efforts with respect to two of the key elements of organizational design—people and organizational structure. While HR practices differ around the world, it would seem to be universally true that in order for companies to successfully achieve their strategic goals and objectives they must strive to attract, motivate, and retain those employees who are best qualified to carry out the necessary activities of the company and make sure that they are placed into the right spots in the most effective organizational structure. The traditional role of HR was perceived as being largely administrative—recruiting and interviewing prospective employees, administering benefit plans and writing policies—and is often referred to as the “personnel administration” approach; however, forward thinking companies now realize that the HR function must be part of the company’s strategic planning activities and that HR leaders must engage in what is common referred to as “human resources management”, or “HRM”, strategy, and proactively suggest new policies and initiatives to the senior executives of the company to ensure that the company has access to appropriate knowledge and talent in each of the markets where it is active. The personality profile for HR managers and specialists has also changed radically in recent years due to the fact that the HR function now provides a wide array of services to persons throughout the company’s organizational structure including training and development, job analysis, oversight of workplace conditions and mediation of disputes between employees and the company.¹

Globalization, combined with growing diversity within domestic workforces, has driven companies toward seeking a better understanding of the influence of societal culture on workplace activities. As a result, there has been a consistently expanding interest in cross-cultural studies of human resources management (“HRM”) as a tool for providing managers with insights into how cultural factors should be considered in developing and implementing HRM strategies and practices. Cultural understanding is important for selecting, managing and motivating employees in foreign business units, improving communications between employees working in different countries, and establishing and managing global teams formed to take advantage of competencies that are widely disbursed across regions and time zones. Comparative and cross-cultural studies of HRM focus on national-institutional differences in human resources practices, strategies and systems using a variety of dimensions of societal culture that may be relevant to understanding workplace dynamics including attitudes regarding verbal and non-verbal communication; concepts of time and physical space; group dependence; accepted cultural norms regarding hierarchy, authority and decision-making processes; and tolerance for risk and change.² In addition, however, managing employees in different countries requires an understanding of relevant historical, political and industrial factors.

¹ For further discussion of human resources management, see “Human Resources: A Library of Resources for Sustainable Entrepreneurs” prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

² R. Henson, “Culture and the workforce”, in K. Beaman, (Ed.), *Boundaryless HR: Human capital management in the global economy* (Austin, TX: Rector Duncan & Associates, Inc., 2002), 121-141.

As with other topics falling within the general scope of comparative management, there is a robust debate among the advocates of both culture-specific and culture-free approaches to HRM. In general, those on the side of culture specificity argue that country-specific approaches to HRM, also referred to as “contextual” approaches, are the most effective and will allow firms to become and remain more competitive.³ On the other hand, the culture-free HRM position is based on the belief that the steady, and seemingly permanent, march toward a global marketplace dictates that firms must be prepared to embrace “global” HRM practices and gradually minimize the influence of local differences.⁴ The culture-free position is based on the premise of “convergence” in HRM practices worldwide and proponents offer up evidence that firms everywhere have begun to adopt certain HRM practices and policies that are argued to be necessary for pursuing and achieving competitive advantage and which include “higher employee empowerment and the promotion of a diverse and egalitarian culture, decentralization of responsibility, a trend towards higher customer orientation which can provoke a great sharing of risks and rewards (e.g., by performance-related remuneration schemes), flexibility with regard to job assignments and decisions, and a greater involvement of employees by ameliorated communication structures and sharing of the company’s goals with all employees”.⁵

The middle ground has been staked out by various “contingency” theories that assume that there are “contingency factors” (i.e., size of firm, ownership of firm, organizational structure and type/scope of business activities) that must be taken into account when developing HR practices and that organizational effectiveness hinges on the ability of managers to achieve alignment between such practices and the relevant organizational characteristics.⁶ Contingency theorists believe that “[c]ertain bundles of HR practices are suitable for certain types of companies, regardless of their country of origin”,⁷ essentially an argument for limited universality. Still another way of looking at the debate is the argument that different HRM practices come with varying degrees of cross-cultural transferability. For example, Rosenzweig and Nohria have argued that it is logical to expect that technical HR activities such as recruitment or training would be less culture-

³ See, e.g., P. Sparrow C. Brester and H. Harris, *Globalizing Human Resource Management* (London: Routledge, 2004).

⁴ See, e.g., W. Braun and M. Warner, “The culture-free versus culture-specific management debate” in M. Warner and P. Joynt (Eds.), *Managing Across Cultures: Issues and Perspectives* (2nd Ed.) (London: Cengage Learning, 2002), 13-25.

⁵ C. Scholz, H. Bohm and T. Bollendorf, “Introduction” in C. Scholz and H. Bohm, *Human Resource Management in Europe: Comparative analysis and contextual understanding* (London: Routledge, 2008), 1-30, 17 (citing P. Sparrow, R. Schuler and S. Jackson, “Convergence or divergence: human resource practices and policies for competitive advantage worldwide” in M. Mendenhall and G. Oddou (Eds.), *Readings and Cases in International Human Resource Management* (Scarborough: Routledge, 2000), 42-203, 64-65). Scholz et al. cautioned, however, that even if these practices are spreading globally research still needs to be done to understand how they are being “conceived”, or implemented, in specific countries and how they are being understood and received by organizational leaders and employees in each country. Id.

⁶ See, e.g., I. Nikandrou, R. Campos e Cunha and N. Papalexandris, “HRM and organizational performance: universal and contextual evidence” in H. Larsen and W. Mayrhofer (Eds.), *Managing Human Resources in Europe* (London: Routledge, 2006), 177-198.

⁷ C. Scholz, H. Bohm and T. Bollendorf, “Introduction” in C. Scholz and H. Bohm, *Human Resource Management in Europe: Comparative analysis and contextual understanding* (London: Routledge, 2008), 1-30, 14.

specific but that certain other activities, such as performance appraisal and reward systems, would be more strongly influenced by socio-cultural factors and thus would need to be designed and carried in a manner that is more sensitive to local attitudes.⁸

While the noise associated with the “culture-specific versus “culture-free” debate continues, practical observation, as well as a variety of research studies, allows us to reasonably conclude that, at some level, societal culture does influence HRM. For example, Scholtz et al. noted that Sparrow and Hiltrop had identified a variety of areas as to which culture was relevant to some aspect of HRM including the definition of an effective manager, feedback mechanisms, patterns of communication, negotiation and participation, internal career dynamics and mobility, reward systems, the manager-subordinate relationship and the mindsets regarding decisions about organizational structures.⁹ Scholtz et al. also reported on the results of research by Raghuram et al. that provided support for the proposition that differences in societal culture might explain inter-country variations with respect to acceptance and type of “flexible employment practices”: part time work was related to power distance and individualism; contract work was related to uncertainty avoidance and individualism; shift work was related to uncertainty avoidance, power distance and individualism; telework was related to femininity; and, in general, telework, part time work and temporary work were less popular in societal cultures that could be classified as being high in uncertainty avoidance.¹⁰ In addition, many of the well-known comparative studies of societal culture have produced results that could be related to workplace values and practices.¹¹

The placement of societies on the individualist-collectivist continuum has been found to be predictive of the most often used and effective HR practices in those societies. Triandis summarized some of the major results of the research as follows¹²:

- In individualist societies, people were selected on the basis of individual attributes, while in collectivist cultures they were selected on the basis of their group memberships.

⁸ P. Rosenzweig and N. Nohria, “Influences on human resource development practices in multinational corporations”, *Journal of International Business Studies*, 25(2) (1994), 229-251.

⁹ C. Scholz, H. Bohm and T. Bollendorf, “Introduction” in C. Scholz and H. Bohm, *Human Resource Management in Europe: Comparative analysis and contextual understanding* (London: Routledge, 2008), 1-30, 16 (citing P. Sparrow and J-M. Hiltrop, “Redefining the field of European human resource management: A battle between national mindsets and forces of business transition?”, *Human Resource Management*, 36(2) (1997), 201-219).

¹⁰ C. Scholz, H. Bohm and T. Bollendorf, “Introduction” in C. Scholz and H. Bohm, *Human Resource Management in Europe: Comparative analysis and contextual understanding* (London: Routledge, 2008), 1-30, 16 (citing S. Raghuram, M. London and H. Larsen, “Flexible employment practices in Europe: country versus culture”, *International Journal of Human Resource Management*, 12(5) (2001), 738-753).

¹¹ For detailed discussion of various studies on cultural differentiation based on employee work attitudes, including studies conducted by Haire et al., Sirota and Greenwood, Hofstede, Redding, Ronen and Kraut, Griffeth et al. and Badawy, see the Part on “Cross-Cultural Studies” in “Globalization: A Library of Resources for Sustainable Entrepreneurs” prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

¹² H. Triandis, “The many dimensions of culture”, *Academy of Management Executive*, 18(1) (2004), 88-93, 91.

- In general, more training occurs in collectivist societies than in individualist societies because employees in collectivist societies are more loyal to the organizations for which they work and thus have higher levels of organizational commitment which make it less likely that they will leave the organization causing the organization to lose the benefits of its investment in training.
- Collectivist societies are more likely than individualist societies to embrace paternalistic leaders and leaders in collectivist societies tend to be much more involved in the lives of their followers, know more about their followers and engage in activities to help their followers.
- Managers in individualistic societies are more concerned about performance than managers in collectivist societies; however, when it comes to interpersonal relationships managers in collectivist societies pay much greater attention than their counterparts in individualistic societies.

There has often been an assumption within the HR research community that HR practices and policies created, implemented and perfected in the US and other industrialized countries are the “preferred approach”; however, it is now widely accepted that “context matters” and that HR professionals, as well as organizational leaders outside of the HR function, must select those practices and policies that are most appropriate for their location in light of factors such as societal culture, history, level of technology and the structure and influence of institutions (e.g., trade unions). As explained by Davila and Elmira as they commented on the failed attempts by managers of foreign multinationals in Latin America to implement HR practices imported without adjustment from industrialized countries: “the human relations theory developed in industrialized countries assumes a culturally mature worker who seeks individual achievement in the workplace . . . [a] description [that] does not fit the average Latin American worker”.¹³

Until recently, topics of interest, and methodologies used, in comparative HRM research have often overlapped with the study of international human resource management (“IHRM”), which has typically focused on the strategies, systems, and practices that companies apply to leverage their employees' potential worldwide.¹⁴ The cross-cultural topics that have interested IHRM researchers include global staffing practices in multinational enterprises¹⁵, social policy practices and employee participation across

¹³ A. Davila and M. Elvira, “Culture and human resource management in Latin America” in M. Elvira and A. Davila (Eds.), *Managing Human Resources in Latin America: An Agenda for International Leaders* (London and New York: Routledge, 2005), 3-24, 11.

¹⁴ H. Steinmetz, C. Schwens, M. Wehner and R. Kabst, “Conceptual and methodological issues in comparative HRM research: The Cranet Project”, *Human Resource Management Review*, 21(1) (2011), 16-26, 17 (for reviews see, e.g., M. Lazarova, M. Morley and S. Tyson, “International comparative studies in HRM and performance - The Cranet data”, *International Journal of Human Resource Management*, 19(11) (2008), 1995-2003; and R. Schuler, P. Budhwar and G. Florkowski, “International human resource management: Review and critique”, *International Journal of Management Review*, 4(1) (2002), 41-70).

¹⁵ D. Collings, M. Morley and P. Gunnigle, “Composing the top management team in the international subsidiary: Qualitative evidence on international staffing in US MNCs in the republic of Ireland”, *Journal of World Business*, 43(2) (2008), 197-212; and D. Collings, H. Scullion and M. Morley, “Changing patterns of global staffing in the multinational enterprise: Challenges to the conventional expatriate assignment and emerging alternatives”, *Journal of World Business*, 42(2) (2007), 198-213.

countries¹⁶, the cultural dependence of vocational training¹⁷, foreign subsidiary autonomy in setting HRM practices¹⁸ and HRM consequences of different employment systems¹⁹. However, a number of scholars have recommended that more attention be paid to comparative cross-national HRM studies, often citing the continuous trend toward globalization and internationalization that places a premium on managers knowing more about human resources practices and issues in other parts of the world. According to Budhwar and Debrah, it has now become imperative that “we . . . highlight the major factors that impact on HRM policies and practices in different contexts as such an evaluation will contribute to the development of HRM theories and relevant policies and practices”.²⁰ With respect to comparative HRM, they suggested that key research questions would include²¹:

- How is HRM structured in individual countries?
- What HRM strategies are developed by organizations?
- Do organizations implement such HRM strategies?
- What are the similarities and differences in “HRM systems” in different countries?
- What are the reasons for such similarities and differences?
- What is the influence of national factors such as culture, government policy and education systems on national patterns of HRM?
- Is HRM converging or diverging at the cross-national level?
- To what extent are HRM models established in Western nations applicable to other parts of the world?

¹⁶ J. Brandl, W. Mayrhofer and A. Reichel, “The influence of social policy practices and gender egalitarianism on strategic integration of female HR directors”, *International Journal of Human Resource Management*, 19(11) (2008), 2113-2131; and E. Poutsma, P. Kalmi and A. Pendleton, “The relationship between financial participation and other forms of employee participation: New survey evidence from Europe”, *Economic and Industrial Democracy*, 27(2) (2006), 637-668.

¹⁷ N. Beck, R. Kabst and P. Walgenbach, “The cultural dependence of vocational training”, *Journal of International Business Studies*, 40 (2009), 1374-1395.

¹⁸ M. Fenton-O’Creevy, P. Gooderham and O. Nordhaug, Human resource management in US subsidiaries in Europe and Australia: Centralisation or autonomy?, *Journal of International Business Studies*, 39(1) (2008), 151-166.

¹⁹ P. Gunnigle, D. Collings and M. Morley, “Employment relations in subsidiaries of U.S. based multinationals: Ireland as a host country”, *Perspectives on Work*, 11(1) (2007), 10-13; and N. Heraty, M. Morley and J. Cleveland, “Complexities and challenges in the work-family interface”, *Journal of Managerial Psychology*, 23(3) (2008), 209-214.

²⁰ P. Budhwar and Y. Debrah, “Introduction” in P. Budhwar and Y. Debrah, *Human Resource Management in Developing Countries* (London: Routledge, 2001), 1-15, 2 (including citations to works of researchers who have called for more comparative cross-national HRM studies such as, for example, C. Brewster, O. Tregaskis, A. Hegewisch and L. Mayne, “Comparative Research in Human Resource Management: A Review and an Example”, *The International Journal of Human Resource Management*, (7) (1996), 586-604; P. Budhwar and Y. Debrah, “Rethinking Comparative and Cross-National Human Resource Management Research”, *The International Journal of Human Resource Management*, 12(3) (2001), 497-515; and P. Budhwar and P. Sparrow, “An Integrative Framework For Determining Cross-National Human Resource Management Practices”, *Human Resource Management Review*, 12(3) (2002), 377-403).

²¹ P. Budhwar and Y. Debrah, “Introduction” in P. Budhwar and Y. Debrah, *Human Resource Management in Developing Countries* (London: Routledge, 2001), 1-15, 2. For discussion of methodological challenges of comparative research in the context of international human resource management, see H. Steinmetz, C. Schwens, M. Wehner and R. Kabst, “Conceptual and methodological issues in comparative HRM research: The Cranet Project”, *Human Resource Management Review*, 21(1) (2011), 16-26.

A useful framework for examining cross-national HRM has been proposed Budhwar, Debrah and Sparrow and includes three levels of factors and variables which they believe are known to influence HRM policies and practices and suitable for cross-national examination.²² The first level includes “national factors” such as national culture, national institutions, business or industrial sectors and dynamic business environment. The second level includes “contingent variables” at the organizational level (e.g., age, size, nature of activities, ownership and life cycle stage, level of technology, presence of formal HR department, presence and influence of trade unions and HR strategies and the interests of different stakeholders). The third level includes specific organizational strategies and policies related to primary activities of the HR function and internal labor markets. While noting that each of these levels is important, they conceded that when attempting to include developing countries, where HRM is relatively new, in a cross-national comparison of HRM the time and effort that needs to be invested in analysis is best focused on the influence and impact of the “national factors”, which they described as having the following sub-components²³:

- *National culture*: Socialization processes; common values, norms of behavior and customs; influence of pressure groups; assumption that shape managers’ perceptions, insights and mindsets; management style; meaning of work and values; personal dispositions, attitudes and manners; approaches to cultural diversity; and match to organizational culture
- *Institutions*: National labor laws²⁴; trade unions; politics; educational and vocational training set up; labor market; professional bodies; international institutions; industry by itself; employers federation; consulting organizations; placement organizations; trade bodies; government institutions; local authorities; and voluntary bodies

²² P. Budhwar and Y. Debrah, “Introduction” in P. Budhwar and Y. Debrah, *Human Resource Management in Developing Countries* (London: Routledge, 2001), 1-15, 6 (citing P. Budhwar and Y. Debrah, “Rethinking Comparative and Cross-National Human Resource Management Research”, *The International Journal of Human Resource Management*, 12(3) (2001), 497-515; P. Budhwar and P. Sparrow, “National Factors Determining Indian and British HRM Practices: An Empirical Study”, *Management International Review*, 38(2) (1998), 105-121; and P. Budhwar and P. Sparrow, “An Integrative Framework For Determining Cross-National Human Resource Management Practices”, *Human Resource Management Review*, 12(3) (2002), 377-403).

²³ P. Budhwar and Y. Debrah, “Introduction” in P. Budhwar and Y. Debrah, *Human Resource Management in Developing Countries* (London: Routledge, 2001), 1-15, 7-8. The authors also include extensive citations to the work of other researchers who have studied the relationship between one or more of the four “national factors” and HRM.

²⁴ In the US, for example, various federal and state laws and regulations apply to a business’ employment practices, from the recruiting and hiring through discipline and possible termination. In addition, working conditions are regulated by workplace safety regulations and workers’ compensation laws. Finally, aspects of the employment relationship may be impacted by common law rules regarding formation of the employment relationship and wrongful termination; laws regulating labor-management relations; laws regulating family and medical leaves; federal immigration laws; common law rules and statutes regarding ownership and use of inventions and trade secrets and non-competition and non-solicitation agreements; and statutes governing administration of retirement and pension plans and continuation of health insurance benefits. For further discussion, see “Human Resources: A Library of Resources for Sustainable Entrepreneurs” prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

- *Business/Industrial sector*: Common strategies, business logic and goals; regulations and standards; sector-specific knowledge; informal and formal benchmarking; cross-sector cooperation; common developments in business operations; labor or skill requirements; merger activity; workforce mobility; and capital mobility²⁵
- *Dynamic business environment*: Competition; business alliances; changing composition of workforce; restructuring; focus on total customer satisfaction; facility of information; technological change; and globalization of business

Other researchers have highlighted additional factors that might well be integrated into a comprehensive theoretical framework or model or provided their own endorsement of some of the factors mentioned above. For example, Murray and Dimick argued that a company's HRM strategy must take into account economic conditions, pressures from powerful outsiders and the advocacy of positive interest groups.²⁶ De Cieri and Dowling noted that inter-organizational networks within countries are an important exogenous factors influencing HRM and that the structure and strategy of multinational companies impacts the HRM practices used in each of the countries where the company operates.²⁷

Finally, the influence of societal culture on selection, implementation and effectiveness of HRM practices in developing countries has become an important topic for researchers as more attention is paid to management and motivation of employees in those countries. While there is a robust debate among the advocates of both culture-specific and culture-free approaches to HRM, it is generally acknowledged that, at some level, societal culture does influence HRM.²⁸ Triandis argued that the placement of societies on the individualist-collectivist continuum was predictive of the most often used and effective HR practices in those societies.²⁹ In addition, it is clear that the influence of gender, and particularly gender inequality, in the workplace is a universal issue and it can be expected that the gender-related practices of companies will be impacted by societal differences

²⁵ The focus of this factor is on industrial sectors that are "well connected to similar sectors in other competing countries and markets around the world" and thus have their own unique and important set of social networks, ownership control relationships and vertical logistical links that ultimately lead to sector-specific HRM practices, such as regulations and benchmarks that are applied across borders. To the extent that a country has one or more sectors that are large in relation to its overall business system, the sector-specific HRM practices have a similarly large influence on the overall HRM profile for the country. Examples provided by the authors included the Finnish forest sector, the Danish milk products sector and the Japanese car sector. P. Budhwar and Y. Debrah, "Introduction" in P. Budhwar and Y. Debrah, *Human Resource Management in Developing Countries* (London: Routledge, 2001), 1-15, 7.

²⁶ V. Murray and D. Dimick, "Contextual influences on personnel policies and programs: an explanatory model", *Academy of Management Review*, 3(4) (1978), 750-761.

²⁷ H. De Cieri and P. Dowling, "Strategic human resource management in multinational enterprises: Theoretical and empirical developments" in P. Wright, L. Dyer, J. Boudreau and G. Milkovich (Eds.), *Research in Personnel and Human Resources Management: Strategic Human Resources Management in the Twenty-first Century*, Supplement 4 (Stamford: Emerald Group Publishing Limited, 1999), 305-327.

²⁸ For discussion of the culture-specific and culture-free approaches to HRM, see "Human Resources: A Library of Resources for Sustainable Entrepreneurs" prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org). See also the literature review in Aminu Mamman & Bolanle Adeoye, *Performance Management in Multinational Companies in Africa: Implications for Transferability of Human Resource Management Innovation to Developing Countries* (May 2007).

²⁹ H. Triandis, "The Many Dimensions of Culture", *Academy of Management Executive*, 18(1) (2004) 88, 91.

identified by researchers with respect to the level of gender differentiation and the degree to which gender role differences are emphasized (i.e., societies can be classified as “gender egalitarian” or “gender differentiated”). Power distance and collectivism at the societal level have been cited as important drivers of the strong influence of “respect for authority” and “social relationships” embedded in Latin American work values.³⁰ Notice has also been taken that elements of societal culture in Asian countries are often reflected in “traditional” characteristics of companies in those countries that include hierarchical and vertical organizational structures, closed and hierarchical corporate cultures and unilateral internal communication practices.³¹ Finally, researchers have examined the influence of societal culture on specific aspects of HRM and have found, for example, that culture was likely relevant to how an “effective manager” was defined, feedback mechanisms and patterns of communication, negotiation and participation, internal career dynamics and mobility, reward systems, the manager-subordinate relationship and the acceptance and type of “flexible work arrangements”.³²

§1:2 Israel

Reward systems in Israeli companies must take into account the motivational priorities and preferences around the country and the high cost of living in Israel, which is continuously escalating, means that salary is an important factor and source of motivation.³³ Israelis also value recognition and distinguishing themselves from colleagues at similar levels in the organizational hierarchy and having opportunities to spend time with their families. While fairness is considered to be an important characteristic for effective management in the Israeli workplace, it is understood that directors and managers will often turn to friends or family when filling positions and will give great weight to recommendations provided by close friends or family members on behalf of prospective employees. However, privileges and apparent favoritism of this type do not extend to salary and promotion decisions in the workplace and those actions are typically made based on merit.

Israelis as a whole are highly educated and eligible to take advantage of an extensive educational system during their younger years and seven university-level institutions, a number of regional colleges, and an Open University program. Major changes in the Israeli economic environment, notably the growth and development of high technology and globalization, have led to what Harpaz and Meshoulam have described as “harsher

³⁰ A. Davila and M. Elvira, “Culture and Human Resource Management in Latin America”, in M. Elvira and A. Davila (Eds.), *Managing Human Resources in Latin America: An Agenda for International Leaders* (2005), 3, 6.

³¹ W-W. Park, “Human Resource Management in South Korea”, in P. Budhwar and Y. Debrah, *Human Resource Management in Developing Countries* (2001), 34, 53.

³² C. Scholz, H. Bohm and T. Bollendorf, “Introduction”, in C. Scholz and H. Bohm, *Human Resource Management in Europe: Comparative Analysis and Contextual Understanding* (2008) 1, 16 (citing P. Sparrow and J-M. Hiltrop, “Redefining the Field of European Human Resource Management: A Battle Between National Mindsets and Forces of Business Transition?”, *Human Resource Management*, 36(2) (1997), 201; and S. Raghuram, M. London and H. Larsen, “Flexible Employment Practices in Europe: Country versus Culture”, *International Journal of Human Resource Management*, 12(5) (2001), 738).

³³ Foreign Affairs and International Trade Canada: Centre for Intercultural Learning, *Cultural Information: Israel*.

competition, management of uncertainty, and pressure for flexibility and fast reaction”.³⁴ This has led to a substantial increase in the interest of Israelis, particularly younger workers, in pursuing formal business education training and there has been a dramatic expansion of the number of business administration programs and improvements in the quality of those programs.³⁵ Another issue that Israel has been grappling with is what Harpaz and Meshoulam referred to as “a demand for talent” due to the rapid growth of the high technology industry that “constitutes a major challenge for human resources”.³⁶ The old human resources model for Israeli industry, limited mobility, protected employment and highly unionized, has largely crumbled and several sources have emerged for fulfilling the human resources requirements in the technology sector—the release of employees from government-owned businesses, many in the Israeli aircraft industry, to join high technology firms; high number of immigrants from the former Soviet Union, including a number of educated, trained and experienced technicians, engineers and scientists; highly educated military personnel with technical training and experience; and Israelis who had left the country for education and other reasons and decided to return in order to participate in the development of the technology sector.³⁷

A group of Israeli experts polled during the global survey of entrepreneurship conducted by the Global Entrepreneurship Monitor (GEM) in 2007 was highly critical of the quality of education and training in Israel and noted that education and training was “in such a decline as to threaten the development of Israel as a country, and does not properly support the training of Israel’s future entrepreneurs”.³⁸ These criticisms were directed at both the general level of the educational system in Israel and to training programs they believed to be necessary to develop successful entrepreneurs.³⁹ Similar concerns about the “neglect” of “people, education, excellence and entrepreneurship” in Israel over the last decade were included in a comprehensive report on Israeli venture capital.⁴⁰

Harpaz and Meshoulam have observed that the Israeli employment relations system is “based on the European corporatist model”, which they explain as being characterized by “regulating the labor market, as well as wider social aspects, based on tri-partite collective bargaining among employers, employees, and the state.”⁴¹ For decades the Histadrut federation of labor was a dominant force with respect to economic and social policies in Israel in two very different, yet overlapping ways—it used its influence to negotiate collective bargaining arrangements for Israeli workers that covered most of the

³⁴ I. Harpaz and J. Meshoulam, “The Meaning of Work, Employment Relations and Strategic Human Resources Management in Israel”, *Human Resource Management Review*, 20(3) (September 2010), 212, 218.

³⁵ *Id.*

³⁶ *Id.*

³⁷ *Id.* at 218-219.

³⁸ E. . Menipaz, Y. Avrahami and M. Lerner, *Global Entrepreneurship Monitor (GEM): Israel National Entrepreneurship Report 2007* (Beersheba, Israel: Ben-Gurion University of the Negev, 2009), 61.

³⁹ *Id.*

⁴⁰ PwC Israel, *The PwC Israel MoneyTree Report: Venture Capital in the First Decade of the Third Millennium* (PwC Israel, 2011), 3.

⁴¹ I. Harpaz and J. Meshoulam, “The Meaning of Work, Employment Relations and Strategic Human Resources Management in Israel”, *Human Resource Management Review*, 20(3) (September 2010), 212, 216-217.

employers in Israel while, at the same time, its position as the second largest employer in Israel, next to the State, caused it to temper the demands of workers with respect to pay and benefits due to the impact on the bottom line of the enterprises it controlled. The State, led by coalitions constructed by the socialist democratic Labor Party through the mid-1970s, benevolently oversaw the activities of the Histadrut in return for ongoing political support and adopted protectionist policies that insulated Israeli firms from foreign competition and influence. The end result was a relatively stable Israeli labor market in which the State exercised a substantial degree of control as long as the Labor Party remained unquestionably in power.⁴²

The political landscape in Israel changed dramatically in 1977 when the Likud bloc broke the stranglehold that the Labor Party had on control of the State and, while the Labor Party remains a force in Israel, the last thirty years have seen what Harpaz and Meshoulam called “a new era in Israeli employment relations”.⁴³ For example, the Histadrut’s position in the Israeli economy and politics has been substantially diminished due to its divestiture of most of its non-union function and activities and, even more importantly, the drastic drop in the union participation rate in Israel from 80% to just 25% of the labor force as of 2007.⁴⁴ In addition, the tight relationship between Histadrut and the government maintained during the long period of Labor Party control has disappeared as the leaders of the Likud bloc came to perceive the union as a major potential impediment to their political agenda and the government has frequently attempted to undermine, if not completely eliminate, the Histadrut’s main bargaining chip—the right to strike. Harpaz and Meshoulam note that today “[t]he Histadrut is still a major force in wage and employment issues, predominantly in the public sector”; however, the relationship between Histadrut and the employers’ associations has decreased substantially collective bargaining in general has shifted toward decentralization and negotiation of a national framework agreement for employer-employee relations, which was the practice before 1977, has been replaced by talks and agrees that are specific to industry sectors, occupational groups and local plants.⁴⁵

Harpaz and Meshoulam have argued that there has been a substantial and dramatic transformation of the human resources profession and activities in Israel over the last several decades that has been driven by a variety of forces and events.⁴⁶ Until 1967, Israel’s economic environment was largely one of isolation and Israel was a closed and small local market with export activities limited to agricultural products and controlled arms sales. The manufacturing sector was relatively primitive and foreign multinationals were reluctant to invest in, or do any type of business with, Israel due to threats of

⁴² Id.

⁴³ Id. at 216.

⁴⁴ Id. at (citing I. Harpaz, “The State of Trade Unionism in Israel”, in C. Phelan (Ed.), *Trade Union Revitalization: Trends and Prospects in 34 Countries* (Oxford: Peter Lang, 2007), 445). Harpaz and Meshoulam noted that the main reason for the decline in union membership was the statutory prohibition on the ability of labor unions to offer health care services, which was passed in 1995.

⁴⁵ I. Harpaz and J. Meshoulam, “The Meaning of Work, Employment Relations and Strategic Human Resources Management in Israel”, *Human Resource Management Review*, 20(3) (September 2010), 212, 217.

⁴⁶ Id. at 217-218.

boycotts from Arab nations. After 1967, however, the Israel economy has undergone what Harpaz and Meshoulam described as “major changes, such as growing immigration, exposure to the global market, introduction of new, sophisticated, high technology products and changes in the political climate”.⁴⁷ Other new influences on the Israeli economy and workplace have come from increased interest in investment in research and development by foreign companies, a phenomenon that has been accompanied by the introduction of new methods of management into Israel firms including the replacement of the traditional “personnel management” philosophy with principles associated with “human resources management”. Supporting this transformation has been changes in the Israel infrastructure—computer networks, telephone systems and transportation—needed to facilitate commercial growth and entry into the global economy and improvements in training focusing on technical, managerial and professional skills.⁴⁸

Research conducted by Harpaz and Meshoulam has led them to conclude that Israeli workers have become more individualistic and materialistic since the 1980s, and less collectively oriented, and they have observed that this trend will definitely have an impact on employment relations and organizational policies in the Israeli workplace in the years to come.⁴⁹ They noted that Israeli workers appear to be much more focused on “themselves” and this is illustrated by increased emphasis on pursuit of materialistic values, self-benefit, career progress, status and prestige. They caution that when workers place personal satisfaction over the needs of society or their organizations the level of commitment and loyalty to specific organizations is bound to deteriorate and the interpersonal and social relations systems within organizations will also be impacted by a heightened sense of competitiveness. On the other hand, Harpaz and Meshoulam note that these changes, driven by “economic and technological developments that are part of global processes . . . [and] not unique to Israel”, can have positive consequences for both individual workers and society as a whole. For example, individuals will be motivated to invest more resources in their training, thus increasing the overall level of human capital; and workers will be open to performance-based incentives and assuming more responsibility for their actions in the workplace. Israel managers must be mindful of these changes and seek to accommodate them while guarding against adverse effects such as the loss of teamwork and collaboration that were the hallmarks of the long-standing collectivist tradition in Israel.

⁴⁷ Id.

⁴⁸ Id. at 218.

⁴⁹ Id. at 213-216. The researchers have continuously analyzed the “meaning of work” in Israel by collecting data from representative samples of the Israeli labor force in 1981, 1993 and 2006 using the same questionnaire each time. Over time they notice a significant increase in the percentage of respondents who chose “if you get money for doing it” as the primary definition of work accompanied by a steep decline in the percentage of respondents who defined work as “something done in order to contribute to society (the State)”. Other notable trends included the emergence of “pay received for work” as the most important work goal along with the rise of “job security” in the ranking of work goals. Harpaz and Meshoulam commented that this was likely a reflection of occupational insecurity in the Israeli job market—high unemployment rates in 1990s and early 2000s—and the erosion of the power of Israeli trade unions accompanied by a shift from a “tenure establishment” with collective bargaining agreements to individual contracts. Id.

One of the most important developments in the Israeli economy has been the gradual, yet steady, increase in the influence of the high technology sector and this transition has had a significant impact on the path of human resources management in Israel. Harpaz and Meshoulam note that while the Histadrut, Israel's centralized and dominant labor union, was in its ascendancy most of the labor issues relevant to workers all around the country—compensation and benefits management—were resolved through collective bargaining led by union representatives and the role of human resources departments was typically limited to “labor relations and administrative management”.⁵⁰ In fact, many of the people who assumed management positions in the human resources department had a long background in union affairs. Mobility for employees was limited and the main focus from a human resource perspective for most firms was “productivity”. As a result, those training programs that did exist were generally aimed at increasing productivity and not on “utilization of employees’ potential and growth”. Harpaz and Meshoulam succinctly summed up the situation as follows: “An overall view of an individual as a resource that needs to be developed and utilized, and, perhaps, assists a company in acquiring competitive advantage, was not part of management’s planning.”⁵¹

The emergence of the high technology sector, accompanied by the simultaneous erosion of popularity and influence of the Histadrut, led to what Harpaz and Meshoulam described as a “rethinking of management-labor relations for the organization, in general, and Human Resources, in particular.”⁵² High technology firms, subject to global competition for markets, technology and resources of all types and exposed to foreign influences through direct investment arrangements, actively rejected unionization in favor of direct individual negotiation and introduced a number of new human resources measures perceived to be necessary to foster the required spirit of innovation and attract and retain experienced, educated and qualified technical workers. Examples mentioned by Harpaz and Meshoulam included tying compensation to performance, eliminating and replacing seniority-systems for setting compensation and promotions, establishing aggressive mobility programs and implementing professional methods for screening and selecting people and orienting new employees. Human resources issues also contributed to changes in organizational culture and structure, including “empowerment, flexibility, collaboration, better use of employees’ collective wisdom, and less formal structures”.⁵³

Harpaz and Meshoulam have catalogued a number of changes precipitated by the increased globalization of the Israeli economy and the corresponding challenges for Israeli human resources professionals. Among some of the key issues that they found were the following⁵⁴:

- Israeli managers in general have had to learn and apply a “more sophisticated approach to management”, including leadership development, establishing processes for distance management, expatriate management and recognition of cultural diversity

⁵⁰ Id. at 219.

⁵¹ Id.

⁵² Id.

⁵³ Id.

⁵⁴ Id. at 220-221.

in the workplace and among key stakeholders such as customers and supply chain partners. Other specific skills mentioned by Harpaz and Meshoulam that had to be developed by human resource professionals included a deeper appreciation of corporate culture, conflict management and change management.

- Human resource managers in Israel need to learn how to cope with, and thrive in, the new environment of global competition, which means focusing on the strategies that will enable them to recruit well from a highly educated and innovative workforce and retain those workers by providing them with challenging work, autonomy and competitive compensation schemes tied to performance.
- Human resources managers must facilitate effective communication and collaboration with business partners from different cultural backgrounds and establish procedures for managing workers located in distant locations as Israeli companies become multinationals and establish operations in foreign countries all around the world. As described by Harpaz and Meshoulam, there is an increasing need among expanding Israeli firms “to deal with cross-cultural relationships and physical distances among workers, often accompanied by different languages, values, and beliefs.” They also point out that this is especially challenging, yet important, for Israel given that it is far from major markets and especially dependent on its ability to penetrate foreign markets in order to survive since its domestic market is so small.
- New human resource management issues require a fresh approach to the human resources profession in Israel and mechanisms need to be created to allow for sharing of data and knowledge so that human resources professionals can provide the necessary support to their firms. Harpaz and Meshoulam suggested that Israel needs to develop strong professional associations for human resources specialists and an accreditation process to set qualifications and standards.
- The last challenge mentioned by Harpaz and Meshoulam was for human resource professionals to find ways to “enrich the boy of knowledge”, particular in fields most relevant to international activities. Among the areas mentioned were leadership development; staffing, particularly recruitment, selection and management of employees who will be working in foreign subsidiaries; and management of so-called “technical issues”, such as compensation and benefits, labor relations and labor laws.

Sagie and Weisberg studied what they characterized as the transformation of human resource management in Israel due to the transition of the Israeli economy from the Socialist approach to the “free market” approach accompanied by the emergence of a high technology sector to stand and operate alongside the traditional low technology industries that have long been in place in Israel.⁵⁵ They argued that these changes, which begin in the early 1980s and have continued steadily over the last three decades, have forced human resource managers in Israel to “assume new roles, adopt different work values, and apply appropriate strategies”.⁵⁶ Sagie and Weisberg compared and contrasted the human resources strategies used in the “low-tech” and “high-tech” sectors and found that while “HR managers in the low-tech industry still adhere to traditional values and strategies, including a reliance on trade unions and an emphasis on job security and the

⁵⁵ A. Sagie and J. Weisberg, “The Transformation in Human Resource Management in Israel”, *International Journal of Manpower*, 22(2) (2001), 226.

⁵⁶ *Id.* (Abstract).

employees' years of work experience and seniority as key criteria for promotion", human resource managers working with firms in the high technology sector had "adopted new values and developed new strategies, including human resource management programs, employee empowerment, higher salaries and better benefits, while placing an emphasis on employees' talents and qualifications".⁵⁷ Following the same theme, Dressler found that human resources departments in the low-tech sector emphasized "traditional" activities such as deploying conventional methods for recruiting and testing new employees and administering collective agreements, and Sagie and Weisberg found that human resources departments in the high-tech sector were engaged in activities that could be characterized as more "strategic" and which included design and implementation of sophisticated human resources management programs such as "top quality management" and "management by objectives".⁵⁸ Key differences between the employer-employee relationship in the low-tech and high-tech sectors can be summarized as follows⁵⁹:

Dimension	Low-Tech Sector	High-Tech Sector
Contract Basis	Collective agreements	Personal contracts
Unionization	Frequent	Infrequent
HRM Managerial Practices	Infrequent	Frequent
International Contacts	Infrequent	Frequent
Employee Empowerment	Infrequent	Frequent
Employee Initiatives	Infrequent	Frequent
Identification with Firm	Lower	Higher
Employee Qualifications	Less Important	More Important
Years of Work Experience	More Important	Less Important
Seniority	More Important	Less Important
Length of Workday	Shorter	Longer
Job Security	Higher	Lower
Compensation	Lower	Higher

Human resources management in Israel has been profoundly influenced by significant shifts in societal culture and workplace values that have been occurring over the last three decades and these changes have arguably been most clearly manifested among the country's technology-focused emerging companies. Drory and Vigoda-Gadot discussed the impact that the rise of the Israeli high-tech sector had on societal culture and noted that "[t]he start-up industry is by nature short-term oriented, emphasizing cutting-edge and rapidly changing technologies, short product life cycles and high employee turnover" and that shortages of highly skilled employees force companies to offer excessive salaries

⁵⁷ Id.

⁵⁸ J. Lund, J. Manion, I. Teller, T. Tran and A. Zak, Israel: Country Briefing (2004) (citing G. Dressler, *Human Resource Management* (Upper Saddle River, NJ: Prentice-Hall, 2000) and A. Sagie and J. Weisberg, "The Transformation in Human Resource Management in Israel", *International Journal of Manpower*, 22(2) (2001), 226).

⁵⁹ A. Sagie and J. Weisberg, "The Transformation in Human Resource Management in Israel", *International Journal of Manpower*, 22(2) (2001), 226 (cited in J. Lund, J. Manion, I. Teller, T. Tran and A. Zak, *Israel: Country Briefing* (2004)).

and benefits in order to attract the scientists, engineers and other professionals that they need in order to be successful in intensively competitive and turbulent markets.⁶⁰ As a result, the organizational culture of many new technology companies in Israel is based on immediate gratification and short-term psychological contracts between employers and employees. According to Drory and Vigoda-Gadot, Israeli workers “now place greater emphasis than they did in the past on values such as employee empowerment, participation in decision-making, job enrichment, and career development”.⁶¹ These changes have paralleled the rapid and precipitous decline in influence of Israel’s trade unions, which has forced employees to adopt free market competition norms based on individual employment contracts entered into without protection from the unions. Harpaz similarly concluded that instrumental achievements gradually but clearly began to outweigh contributions to society through the 1980s in terms of importance of work goals among Israeli workers, a telling indication of the shift away from collectivism toward individualism and materialism among those workers.⁶²

§1:3 Japan

Pudelko and Harzing surveyed the heads of HR departments among the 500 largest corporations in Japan in 2009 to identify the perceived attributes of then-current Japanese HRM practices and the likely direction of changes that might occur in the future.⁶³ Perceptions of the attributes of the Japanese HRM model were derived by collecting information from the respondents with respect to 20 pairs of opposing statements that were developed by researchers spanning seven HRM categories. At the same time, the researchers conducted similar surveys among HR executives from large US and German multinationals in order to create profiles of HRM models for all three countries that could be compared. The researchers found that, in general, the HRM models of the three countries clearly differed from one another and, in fact, on 16 of the 20 scales the US and Japan were closer to opposite poles while German practices tended to fall in the middle and closer to the US model than the Japanese model. Among the statements regarding the main characteristics of the Japanese HRM system that the Japanese HR executives expressed the strongest agreement with in their responses, and which were clearly distinguishable from the characteristics typically associated with the US HRM system, were the following:

- Recruitment and Release of Personnel: Recruit of new graduates to a permanent employer-employee relationship; more senior positions are filled exclusively using internal personnel (“people-oriented”); selection based on inter-personal skills; and low labor turnover (i.e., high degree of loyalty between employer and employee).
- Training and Development: Widespread training for broadly defined tasks with the goal of creating generalists; and tendency to be extensive and focused on work group.

⁶⁰ A. Drory and E. Vigoda-Gadot, “Organizational Politics and Human Resource Management: A Typology and the Israeli Experience”, *Human Resource Management Review*, 20 (2010), 194, 200.

⁶¹ *Id.* at 199.

⁶² I. Harpaz, “The Transformation of Work Values in Israel”, *Monthly Labor Review*, 122 (1999), 46.

⁶³ M. Pudelko and A-W. Harzing, *Japanese Human Resource Management: Inspirations from Abroad and Current Trends of Change*, R. Bebenroth, *International Human Resource Management in Japan* (London: Routledge, 2010).

- Employee Assessment and Promotion Criteria: Heavy weight on seniority and contributions to collective achievements and career path encompassing several departments and areas.
- Employee Incentives: Pay depends on seniority and little difference in pay between top managers and average workers.
- Internal Communications: Coordination primarily through horizontal communication.
- Decision Making: Participative, collective and consensus-oriented decision making behavior and tendency to base decisions on qualitative variables (“soft facts”).
- Superior-Subordinate Relationship: Person-oriented with superior also concerned with the well-being of the subordinate.

The researchers also found that the Japanese respondents looked to the US system of HRM management as a powerful source of inspiration for changes that should be implemented among Japanese companies in the future to make them more competitive in a changing global business environment. One respondent commented that “due to globalization and liberalization adoption of American management is unavoidable” and a list of some of the most commonly mentioned changes among the Japanese respondents included “performance orientation”, “result and objective orientation”, “performance and result oriented remuneration”, “turning away from the seniority principle”, “turning away from lifelong employment respectively flexibility of recruitment, release of personnel and change of employer”, “position based remuneration”, “remuneration on annual instead of monthly basis”, and “increased formation of specialists and turning away from the formation of generalists”. The researchers concluded that while all signs pointed to stronger individualism of HRM practices in Japan the journey would not be easy given the anticipated conflicts with deeply-held societal cultural norms that are tilted toward group, rather than individualistic, orientation.

A unique and well-publicized aspect of Japanese management was the traditional practices of “lifetime employment” and generalist career paths coupled with seniority-based evaluation, promotion and compensation systems. There is little dispute about the characterization of Japanese management as “patriarchal”. It was often observed that these human resources practices built tremendously loyal workforces and a strong sense of family within Japanese businesses and also provided other advantages such as reduced turnover and the development of an internal labor market.⁶⁴ For example, in the mid-1980s, Haak described elements of Japanese human resource management as follows: “Trust and loyalty between the company and the employees play as large a part as balancing management and staff interests to benefit the company. Indeed it would not be an exaggeration to say that the Japanese have a human resource philosophy that has overtones of employee equality. This philosophy is defined by intense communication between employees and their superiors that extends beyond the working day, a strong willingness on the part of employees to perform well, be disciplined and be committed to the company, and on the part of the company to care for its employees beyond the

⁶⁴ J. Keys and T. Miller, “The Japanese Management Theory Jungle”, *The Academy of Management Review*, 9(2) (April 1984), 342.

workplace relationship.”⁶⁵ However, the economic challenges that have confronted Japan since the late 1990s have made it more difficult for Japanese firms to sustain these practices. In addition, Western style management practices have become more prevalent as Japanese firms gain more and more exposure to such practices through joint ventures and the need to manage Western workers in foreign subsidiaries.⁶⁶

An article distributed by Venture Japan emphasized the importance that Japanese society places on careers and noted that, “to a great extent a Japanese man and his family are socially ranked by the reputation of the company he works for and the position and prospects he has there”.⁶⁷ The article offered several illustrations of how this works in practice. For example, before a man’s proposal of marriage is accepted, his prospective wife and her family want assurances that he has a good steady job with a reputable company and solid prospects of advancement. When a man is looking for an apartment in a respectable suburb, the agent for the landlord will seek and collect extensive information on the man’s professional background and the business and financial strength of the company he works for and when there is competition for the same apartment the landlord will typically prefer the applicant working for the wealthier and more established firm. Finally, the chances of gaining entry to the “better” schools for new kindergarteners are clearly influenced by the quality of the father’s employer, the length of his employment with that firm and the position that he has attained.

§1:4 Nordic Europe

Nielsen et al. noted that while Denmark is an economy made up of mostly smaller companies, appraisal of HR practices is taken seriously even in cases where the company does not have a formal HR department.⁶⁸ Employee development has become a major priority for governmental policymakers, educators and managers and it is widely recognized and accepted that investment in HR can lead to important and tangible benefits including higher worker satisfaction, reduction in absences, lower personnel turnover and higher profitability. Nielsen et al. pointed out that “[i]n Denmark HR has gained much respect and influence within companies, and many HR departments have been able to make themselves felt in the business, including at the strategic level”.⁶⁹ They identified several future trends and challenges for Denmark’s HRM sector including acceptance of a changed labor market structure and adjustment to those changes; more flexible and individually agreed contracts and remuneration packages;

⁶⁵ R. Haak, “Introduction: A View on Japanese Human Resource Management”, in R. Haak (Ed.), *The Changing Structure of Labour in Japan: Japanese Human Resource Management between Continuity and Innovation* (2006), 1, 5.

⁶⁶ Demographic changes, notably the retirement of older workers and an increasing number of younger highly-educated workers, have also triggered changes in management styles and practices and Western management theories are now readily accessible through Western educational programs that have become popular among Japanese. Management Styles: International Management Styles, <http://www.amasuweb.com/files/ob.ppt>.

⁶⁷ Venture Japan, *The Japanese Company in Japan’s Culture*.

⁶⁸ K. Nielsen, M. Norlem, A. Leschly, C. Grunbaum and J. Larsen, “HRM in Denmark: On the Top of Europe”, in C. Scholz and H. Bohm (Eds.), *Human Resource Management in Europe: Comparative Analysis and Contextual Understanding* (2008) 85.

⁶⁹ Id. at 96.

competitiveness as regards to benefits and training and development opportunities; networking opportunities and competencies in order to share best practices; and motivation and retention of skill employees.⁷⁰

A 2005 survey by a professional organization of HR managers in Denmark identified four important future issues for those managers including training and development; the visibility of HR on the “bottom line” of their organizations; talent management; and a lack of qualified staff. Staffing shortages were particularly challenging and required HR managers to look to foreign countries for qualified and motivated candidates and develop the incentives that would be sufficient to induce those candidates to leave their home countries and come to live and work in Denmark.⁷¹ These incentive packages could become quite expansive and complex and include housing, childcare, schools, language course and social security. Other core challenges for Danish HRM are the low birth rate in the country, which is expected to contribute to the staffing shortage identified above, and different expectations and demands of younger workers, who were expected to seek more flexibility and independence.⁷²

Nielsen et al. identified a number of crucial fields of action for HR management in Denmark.⁷³ With respect to recruitment, HR professionals will be expected to focus their line managers on structuring work in ways that satisfy the desire and expectation of candidates for professional and personal development and opportunities to have influence in the jobs and assignments. HR managers should also implement programs for successfully inducting and integrating new employees into the workforce and making sure that all employees have opportunities for continuous learning. Another important aspect of retention within Danish companies is the implementation of formal individualized career development plans that include day-to-day dialogue with colleagues, superiors and other managers; performance appraisals and feedback; personal objectives and success criteria; and personal development and career plans. Finally, Danish HR managers will need to be leaders in the transition of rewards and benefits programs and Nielsen et al. noted that future debate around remuneration in Denmark will include flexible working hours, not necessarily few hours but opportunities to work at different times and locations; extra holidays instead of pay raises; training and development possibilities; and career opportunities that include not only advancement within the company but creation of paths that permit specialized in areas of interest to a particular employee.

Bevort et al. noted that labor markets in Denmark after World War II were well organized and characterized by low levels of conflict based on alignment of the strategic goals of trade unions and employers’ associations to create a labor market that was based on high salaries and good physical working conditions in exchange for highly efficient

⁷⁰ Id. at 95.

⁷¹ Id. at 89.

⁷² Id. at 90.

⁷³ Id. at 90-94.

production.⁷⁴ Bevort et al. pointed out that the lack of big mass-production companies in Denmark, coupled with the cooperative system of labor relations, tended to inhibit the development of a large HRM profession or a proliferation of HR specialists and that HRM was not as important in Denmark as in other countries and was generally not differentiated from general management practices.⁷⁵ As time went by, however, the debates regarding employment contracts and employment relations shifted from the level of national representative organizations down to individual firms and greater emphasis was placed on ensuring that human resources were used efficiently. By the late 1980s, Danish HRM was shifting from the traditional personnel practices (i.e., administration, recordkeeping, mediation and recruitment) toward a greater concern for employee education and development.⁷⁶ At the same time, expectations for employees regarding the use of their newly-acquired knowledge and skills were increasing and companies embraced joint decision making between managers and employees and emphasized horizontal communications for collaboration and the use of quality circles and service management techniques. Bevort et al. pointed out that Danish workers were being given the authority to make decentralized decisions and expected to have the interpersonal skills required to collaborate efficiently with their supervisors and co-workers.⁷⁷

In a survey conducted in the early 1990s, Bevort et al. found evidence to support their description of the then-future HRM situation in Denmark, which included the following variables: the working environment is an important part of management's responsibility to workers; personnel planning and personnel development would be a central part of the firm's strategy; increasing productivity, flexibility and quality awareness in the workforce would be a high priority and would be pursued through greater investment in training and education; firms have social responsibilities; and decentralization of responsibility and dialogue between management and employees would become the normal situation.⁷⁸ Interestingly, Bevort et al. referred to the changing role of middle managers in Danish firms and argued that those managers would no longer simply be passing along orders and directions from senior management but would be acting as a "people manager" responsible for assisting subordinates in understanding the overall strategy of the company and providing them with necessary information, training and other resources to carry out their jobs. In order for middle managers to be successful in these activities, however, they would need support from senior management and the HRM staff.⁷⁹ Bevort et al. argued that the study indicated that Danish workers were eager to participate in a dialogue relationship with management provided that management acted fairly and acknowledged the worth of employees. If this were to occur, management could reasonably expect that employees would be committed to their jobs and their companies and feel a large degree of common interest with management.⁸⁰

⁷⁴ F. Bevort, J. Pedersen and J. Sundbo, "Denmark", in I. Brunstein (Ed.), *Human Resource Management in Western Europe* (1995) 31, 35.

⁷⁵ Id. at 36.

⁷⁶ Id. at 38.

⁷⁷ Id. at 41.

⁷⁸ Id. at 46 (citing F. Bevort, J. Pedersen and J. Sundbo, *Personnel Management in the 1990s* (1992)).

⁷⁹ Id. at 49.

⁸⁰ Id. at 51.

Fey et al. set out to compare HRM practices among Russian, Chinese and Finnish subsidiaries of three Swedish MNCs by collecting information through interviews with a handful of key people associated with each subsidiary, including the general manager, the HR manager, a manager and employee from two different functional areas and a representative from headquarters.⁸¹ The researchers found that less attention was paid to recruitment and selection in Finland than in the other two countries and observed that this might be attributed to the fact that the mindsets and training of candidates in Finland were more homogeneous than in the other countries. Recruitment and selection in Finland was also made easier by the greater availability of well-developed recruiting agencies, job fairs and databases of potential candidates, all of which could be used to quickly and efficiently identify persons with suitable qualifications to fill vacancies. Finns did use standardized tests in their screen processes for hiring; however, the greatest weight was given to extensive interviews and the researchers noted that line managers were very involved in the interview and selection process and that HR was much less involved and generally limited its role to initial screen of potential candidates.

With regard to performance appraisals, the Finnish subsidiaries used many of the standard tools including personal planning and development, management planning and development and individual planning sessions, and the researchers observed that managers were very familiar with each of these tools. In addition, feedback from managers to subordinates was commonplace and expected and generally provided in an informal manner rather than through a structure formal system. While Finnish managers were accustomed to providing feedback, it was believed that employees were responsible for their performance and part of that responsibility was seeking out feedback from their managers. In addition, employees were expected to find out how things worked around the company on their own rather than waiting for formal training and Finnish managers were much more comfortable with empowering their subordinates than their counterparts in Russia and China, although this could be traced, at least in part, to the historical tendency toward hierarchical organizational structures in both Russia and China. In fact, the researchers found that training and development were much more formalized, and received greater attention, in the Russian and Chinese subsidiaries than in the Finnish subsidiaries, and suggested that the greater homogeneity and experience among the Finnish employees, as well as their tendency to be conformists, reduced the need for providing them with formal training. The experience level of the Finnish employees also contributed to a different emphasis in the training that was provided, with Finns receiving instruction relating to the development of their management skills as opposed to more basic information. While Finnish managers accepted the informal approach to organizing training, they did not necessarily think that it was the best or most efficient way to develop their employees.

⁸¹ C. Fey, "A. Pavlovskaya and N. Tang, Does One Shoe Fit Everyone?: A Comparison of Human Resource Management in Russia, China, and Finland", *Organizational Dynamics*, 33(1) (2004), 79. The firms are Ericsson (fixed line and mobile telecommunications equipment), The Electrolux Group (home appliances—white goods), and Tetra Pak (solutions for packaging liquids and ice cream). For additional information on Finnish HRM, Fey et al. recommended S. Vanhala, "Human Resource Management in Finland", *Employee Relations*, 17(7) (1995), 31.

Fey et al. reviewed several other elements of HRM practices in the three countries. For example, they found that while the compensation systems in each of the countries were quite similar and included performance-based components, Finnish employees were less inclined than their colleagues in other countries to consider personal development as part of their compensation for services. Fey et al. also found that internal communication flowed much more easily and informally in Finland than in the other countries and that the employees of the Finnish companies were more likely to share useful information with their co-workers. While the HR departments in each of the countries established formalized information-sharing systems (e.g., intranets, newsletters, regular department/company meetings, suggestion boxes/systems, etc.), Finnish employees typically had most of the information before it was made available through these formal channels. Finally, the role of the HR department in the Finnish subsidiaries with respect to coordinating HRM activities was much less pronounced, and less visible to employees, than in the other countries and the researchers noted that in Finland HRM practices were communicated to employees in a less formal fashion and line managers played a much more important part in carrying out HRM.

Muller et al. analyzed data from data from the surveys of European HRM conducted in the 1990s under the supervision of the Cranfield Network of European Human Resource Management to compare HRM practices in Austria, Germany and Sweden.⁸² At the outset they noted that cultural differences among these three countries have typically been characterized as relatively small and that, in fact, they are often clustered together as part of a North Europe group⁸³; however, some researchers have suggested that Swedish business culture is closer to Anglo-American countries such as the U.S. and U.K. and that managerial practices from those countries, such as participation, are readily embraced in Sweden.⁸⁴ Muller et al. found that there were no significant differences among the countries with regard to the existence of personnel department and the evaluation of their performance; however, Swedish companies were much more likely than their counterparts in the other countries to have written mission statements, corporate strategies and human resource strategies and the researchers explained that these tools were consistent with the effective decentralization of decision making that had occurred during the late 1980s and early 1990s among Swedish firms. Also of interest to Muller et al. was the finding that Swedish firms were more likely to have the personnel department involved in the development of HRM strategies than the Austrian and German firms. In addition, the researchers observed that line managers in Sweden typically had much broader responsibilities for major HR decisions than their counterparts in the other two countries, a finding that was consistent with prior empirical research showing significant devolvement of responsibility from personnel departments to line management in Sweden. The percentage of personnel managers who were human resources specialists was higher in Sweden than in the other two countries. Finally, the Swedes were the

⁸² M. Muller, N. Lundblad, W. Mayrhofer and M. Söderström, *A Comparison of Human Resource Management Practices in Austria, Germany and Sweden* (1999).

⁸³ See M. Haire, E. Ghiselli and L. Porter, *Managerial Thinking: An International Study* (1966); and D. Hickson and D. Pugh, *Management Worldwide: The Impact of Societal Culture on Organizations around the Globe* (1995).

⁸⁴ F. Trompenaars, *Riding the Waves of Culture: Understanding Cultural Diversity in Business* (1993).

leaders among the three countries with respect to reliance on formal career plans, “high flier schemes” and international experience schemes for employee development and were the least likely to implement assessment centers, succession plans and planned job rotation plans.

Trifunovska and Trifunovski set out to explore what motivated employees of Swedish multinational corporations (“MNC”) to work and did so by surveying employees of two large Swedish companies, Alfa Laval Lund AB and Sweco Environment AB.⁸⁵ The researchers were particularly interested in testing two propositions: first, what motivates employees depends on personal circumstances, where experience and family situation plays a significant role; and second, employees are most intrinsically motivated, rather than extrinsically. Their analysis showed that the most important motivational factors among the respondents were good working conditions, opportunities to do creative and challenging work, healthy relationships with supervisors and colleagues, having a flexible work schedule and opportunities for individual growth and career development. At that same time, the least important motivational factors were chances for promotion and advancement within the organization, high salary and job security. The researchers argued that their findings confirmed their original propositions and observed that motivations were different depending on the age of the employee; employees who were in the same profession were similarly motivated and satisfied in their work; and respondents preferred to work with projects where they are able to contribute and develop a solution to a problem.

§1:5 France

Rojot provided a useful summary of the evolution of human resources management practices in France from the beginning of the 20th century to the early 1990s, but conceded that there had been little in the way to generalized surveys on the use of HRM practices and noted that it was difficult to create a national HRM profile for France due to the large number of small- and medium-sized enterprises that typically operated without much formalization of their human resources policies.⁸⁶ According to Rojot, the first appearance of HRM in France was at the beginning of the 20th century with creation of the role of “foreman” and the introduction of “shop rules”, which were “unilaterally established by the employer as he sees fit, covering almost all areas of employee behavior that he wishes within the limits of public order and enforced by the foreman”.⁸⁷ At the same time, some of the larger French companies adopted comprehensive welfare policies under the influence of the social doctrine of the Catholic Church and philanthropic ideas of others that included lodging and medical care. Workers’ cooperatives were also formed at this time; however, Rojot noted that they were largely focused on improving the lives of workers outside of the workplace rather than on the conditions workers faced in the workplace and that the general feeling was that “[t]he plant is ‘a place to produce’,

⁸⁵ K. Trifunovska and R. Trifunovski, *Human Resource Management: Motivation among Employees in Multinational Corporations* (2010).

⁸⁶ J. Rojot, “Human Resource Management in France”, in R. Pieper (Ed.), *Human Resource Management: An International Comparison* (1990), 87.

⁸⁷ *Id.* at 88.

and little or nothing is done to make it cleaner, easier to operate in or more convenient for employees, not to mention comfortable or attractive” and that organization of the workplace was “dictated by the imperatives of production and technology and no thought is given to the human resources implicitly supposed to adapt to it.”⁸⁸

As was the case in many industrializing countries, Taylorism was introduced in French manufacturing companies in the early 20th century and responsibility for personnel matters remained in the hands of the employer-owners or chief executive officers, who sometimes delegated various tasks to the works managers. After World War I, however, personnel management began to emerge as a specialized function in France as companies responded to a larger volume of statutory law relating to the employment relationship, vocation training became compulsory and testing and welfare programs became more popular. Larger French companies launched departments dedicated to a mixed set of “general services” that included not only personnel matters such as monitoring employee entrances and exits and timekeeping but also care of the building and grounds and guarding the premises against theft and fire. Some industries, such as banking, began systematically collecting information about their employees and organizing it into permanent individual personnel files. The rise in power and size of labor unions that began in the late 1930s and continued after the end of the Second World War required that employers implement policies and procedures to deal with elected employee representatives, requirements regarding paid vacations and 40 hour workweeks and the details of collective bargaining agreements, and personnel departments began to focus specifically on hiring, payroll, personnel administration, and relationships with the employee delegates.

A French national association of personnel managers was created in 1947 and by the early 1960s personnel managers found themselves engaged in a wide range of activities including hiring, manpower management, job evaluation, discipline, administering work rules, relations with employees, training and administration of welfare and retirement plans.⁸⁹ The personnel function was still referred to as the “personnel department; however, the level of formalization had increased and the department typically had achieved director status within the organizational structure. Personnel directors had high levels of formal training and were often expected to be involved in consideration of business policy issues for their companies. French workplaces at that time retained their highly bureaucratic structure and organizational culture and were characterized by centralization, a proliferation of impersonal rules and the influence of the country’s educational system that produced a continuous stream of elite managers that filled the highest positions in the organizational hierarchy and severely stifled upward mobility for those who do not have the requisite credential even if they were otherwise qualified. Statutory laws had a significant impact on the employment relationship in France, often addressing seemingly minor issues that were left to collective bargaining in other labor systems, and the role of the state as the largest employer in France could not be ignored since it obviously determined the wages and working conditions for large number of employees throughout the country.

⁸⁸ Id.

⁸⁹ Id. at 90.

Massive strikes in 1968 were the beginning of a series of shocks to the French economy and labor markets that continued for two decades. In successive waves, employers were called upon to deal with a whole host of new personnel issues such as immigrants and women in the workforce and the influence of multinationals that brought their own ideas regarding HRM into the country. During the 1980s, there were several interesting changes that permanently influenced the direction of French HRM including the erosion of the social promise of life-time employment due to the need to dismiss employees for economic reasons; the introduction of new approaches to employment, such as temporary employees, short-term employment contracts, part time work, call contracts and subcontracting; the introduction of outsourcing arrangements; and the introduction of new forms of compensation arrangements, including profit sharing, bonuses and premiums.⁹⁰ Companies also began to inject more individualism into the relationships with their employees by creating individual career plans; focusing on the relationships of managers and those who reported to them, including tracking and attempting to resolve employee dissatisfaction with managerial actions; implementing job enrichment tools to achieve better integration of employee goals with firm objectives; and adopting individualized incentives for performance in compensation arrangements. Training and teamwork also received greater attention as HRM strategies became more sophisticated.

Cerdin and Peretti picked up the story with their 2001 article that began by noting that French organizations would need to deal with several challenges owing to a demographic profile that reflected a low birth rate from 1930 to 1945, a post-war population explosion and a birth rate for generations born after 1978 that was higher than in France's main bordering countries.⁹¹ On the one hand, France was fortunate that the low birth-rate between 1936 and 1945 meant that the country would not have the problem of financing retirement that would likely burden other countries; however, the relatively large group of persons born between 1946 and 1955 would require attention to ensure that their skills did not become obsolete and that they remain committed to the workforce. In addition, France would not lack for young university graduates, but it would be important to find places for them in French firms and adopt HRM practices that were suited to their generational outlook. Cerdin and Peretti also pointed out that the state still played an influential role in French industrial relations at the turn of the century, as demonstrated by its push for reforms of work hours that led to the establishment of the 35-hour workweek, and that French labor unions, while still visibly active using "confrontational" bargaining strategies, were suffering a continuing and precipitous decline of their power and an erosion of their membership to levels far below the other main industrial countries.⁹²

Turning to specific HRM practices in France at the beginning of the 2000s, Cerdin and Peretti explained that French employees were accepting more and more individual responsibility for managing their careers and that the HR function shared responsibility

⁹⁰ Id. at 100-101.

⁹¹ J-L. Cerdin and J-M. Peretti, "Trends and Emerging Values in Human Resource Management in France", *International Journal of Manpower*, 22(3) (2001), 216.

⁹² Id. at 217-218.

with line managers and top management for supporting employee development in order to maintain their loyalty. It was clear to both employers and employees that companies could no longer guarantee long-term employment and that employees needed to be proactive in developing their own employability, both inside their current companies and on the general labor market. Cerdin and Peretti noted that HR managers typically gave more attention to offering career management services—career planning and coaching—to high potential employees from whom qualitative flexibility was expected and that these employees were more likely to be offered flexible compensation and specialized management and training.⁹³ Apart from career management, French labor laws mandated minimum levels of investment in training for employees and Cerdin and Peretti noted that, on average, French firms contributed 3% of total wages to training and that over 60% of the employees of larger companies participated in training programs. Access to training varied significantly based on qualifications with participation rates among unskilled workers being just 10% while access among technicians and executives was at the 60% level. According to Cerdin and Peretti: “The trend in training is for organizations to tailor their programs to their direct needs . . . [and] . . . [a] recent trend is to grant employees timesaving accounts for training, which they can use to develop their own employability.”⁹⁴

With respect to compensation arrangements, Cerdin and Peretti noted that while French companies had, up to the 1980s, relied on job-based compensation, the 1990s had seen a shift toward more flexible jobs and a growing tendency among employers to take into account employees’ competencies when making decisions regarding pay. In fact, they observed that “[t]he French are champions of the individualization of compensation” and the “widespread use of bonuses and exceptional premiums enables organizations to reward individual performance, yet keep a security margin in case the economy deteriorates”⁹⁵; however, they also pointed out that when increasing the variable part of individual compensation employers needed to be mindful of equity issues. Companies sometimes sought to achieve and preserve equity with respect to flexible compensation by offering cafeteria plans that increased employee satisfaction and firms also attempted to reduce individual distinctions, and build a sense of collectivity, by creating company-wide profit sharing programs. Implementing flexible compensation arrangements tied to organizational strategy was a challenge for HR professionals since they still had to take into account the mandatory benefit requirements imposed under French labor laws.

Reporting on the results of a comparative study of HRM in firms located in six European countries, Cerdin and Peretti noted that HR personnel in France were generally perceived positively with respect to the efficiency of carrying out their administrative functions, but that HR and line managers desired a more strategic role for the HR function in the future.⁹⁶ Cerdin and Peretti argued that one could identify several main trends relating to

⁹³ Id. at 219.

⁹⁴ Id. at 221.

⁹⁵ Id.

⁹⁶ Id. at 222 (citing P. Gooderman, O. Nordhaug and K. Ringdal, “Institutional and Rational Determinants of Organizational Practices: Human Resources Management in European Firms”, *Administrative Science Quarterly*, 3(44) (2009), 507).

French HRM at the beginning of the 2000s: increased foreign investment in France was driving HR managers to “add value to business performance” and implement innovative HR practices even in the face of challenges created by detailed and rigid national labor laws; HR functions were achieving substantial productivity gains using new technologies that allowed HR personnel to service an increasing number of employees, a trend that was expected to lead to a reduction in the size of HR departments; organizations were placing increased emphasis on, and investing in, competency approaches and practices; and the client-provider approach associated with the HR function during the 1990s was being replaced with a “partnership model” under which “HR professionals are becoming business partners both of top management and other managers and of each employee in the context of ‘people management’” and the HR function was proactively training line managers to become more expert in HRM in keeping with an overriding principle that “all managers are human resource managers”.⁹⁷

In order for France to successfully execute its plans for shifting economic activities toward radical innovation it was necessary to implement legal and regulatory reforms to facilitate the use of incentives that would cause the country’s technically skilled workers to pursue the more risky path of entrepreneurship with high-tech start-ups.⁹⁸ Traditionally, France’s most qualified scientists and engineers had completed their education at elite institutions and been placed directly into positions with government R&D laboratories or with one of France’s large industrial companies. These positions offered prestige and also came with the implicit promise and expectation of lifetime employment. In order to coax these persons away from their safe careers in government and industry, the government approved changes in France’s corporate governance framework to allow companies to offer stock options that would create the possibility of extraordinary compensation attractive enough to offset the much higher personal and professional risks associated with joining new start-ups. Stock options were also seen as a valuable device for aligning the interests of managers and key technical personnel with outside shareholders providing risk capital for these companies and motivating and incentivizing them to work hard to maximize the value of the company.

§1:6 Germany

Berlin entrepreneurs often complain about a shortage of high-quality programmers and engineers for their companies. While government officials have been attempting to provide assistance by fast-tracking visa applications from foreign technology professionals and other workers willing to move to Berlin, the long-term problem for the city is that it lacks a world-class engineering university that could spin out the programmers and software developers that are so desperately needed by local startups and provide funding and support for basic R&D projects that Berlin entrepreneurs could tap into as source for innovative business models.⁹⁹ However, there are five smaller

⁹⁷ Id. at 223.

⁹⁸ J. Vela, *Radical Innovation in the Transatlantic Economy: Is a Silicon Valley Possible in Europe?* (2009), 27-28.

⁹⁹ E. Westervelt, *The Next Silicon Valley?: Berlin Startups Catching Up With the Hype*, NPR All Tech Considered (July 9, 2012).

universities in Berlin and each of them has gradually increased their contribution to the talent base for the city's start-ups. In general, labor costs remain relatively cheap in Berlin, with younger workers willing to come to the city because of its "cool reputation"; however, shortages of key skills such as programming and engineering means that salaries for people qualified in those areas will like trend upwards.

Bau and Dowling analyzed the impact of an entrepreneurial company's initial organization on the structure of its reward and incentive systems, which were defined to include all monetary and nonmonetary rewards and incentives provided by the company, using data from entrepreneurial firms in Germany and found that the educational level of employees had the strongest impact on the application of different financial and nonfinancial rewards and entrepreneurial companies rarely implemented sophisticated financial reward systems.¹⁰⁰ They argued that the emphasis among the entrepreneurial companies that they studied on nonfinancial rewards was not surprising given that the companies generally operated with limited resources and under high levels of uncertainty and risk, thus tilting the focus of their reward and motivation systems toward nonfinancial incentives implicit to the work experience itself including a high degree of responsibility and acknowledgement of individual performance and social incentives such as team support, helpfulness and equal communication.¹⁰¹ Of course, the companies frequently offered direct financial rewards such as fixed base salaries and variable income, in the form of bonuses, based on individual performance; however, the surveyed firms made relatively little use of other financial reward such as retirement plans, equity incentive arrangements and revenue sharing programs.

Bau and Dowling also followed the opinions of others to the effect that management teams of entrepreneurial companies often lack the capacity and experience to design, implement and effectively administer sophisticated financial-based incentive systems.¹⁰² However, Bau and Dowling cautioned that the education level of the employees was an important determinant of the most effective reward and incentive structure for a particular company and that companies seeking to recruit and hire employees with higher levels of education and technical training should expect that those employees will have more sophisticated reward and incentive systems that will need to be recognized and satisfied

¹⁰⁰ F. Bau and M. Dowling, "An Empirical Study of Reward and Incentive Systems in German Entrepreneurial Firms", *Schmalenbach Business Review*, 59 (April 2007), 160.

¹⁰¹ *Id.* at 171. Bau and Dowling noted that while social incentives such as helpfulness and consideration and open information policies may be designed by management, they also may arise as a result of the weak organizational structures often found among start-up companies. See L. Greiner, "Evolution and Revolution as Organizations Grow", *Harvard Business Review*, 50(4) (July-August 1972), 37; and F. Bau and M. Dowling, "Reward and Incentive Systems in Start-ups—A Comparison of Approaches in Human Resource Management and Organizational Psychology", in *Frontiers of Entrepreneurship Research* (2001).

¹⁰² F. Bau and M. Dowling, "An Empirical Study of Reward and Incentive Systems in German Entrepreneurial Firms", *Schmalenbach Business Review*, 59 (April 2007), 160, 171. See also L. Greiner, "Evolution and Revolution as Organizations Grow", *Harvard Business Review*, 50(4) (July-August 1972), 37; and F. Bau and M. Dowling, "Reward and Incentive Systems in Start-ups—A Comparison of Approaches in Human Resource Management and Organizational Psychology", in *Frontiers of Entrepreneurship Research* (2001) (studying managers of entrepreneurial companies in German information technology industry and finding that they often lacked the time required to develop sophisticated employee incentive systems).

in order for the company to build and maintain the workforce need to be competitive. Highly-skilled workers would also presumably assign greater importance to some of the organizational incentives offered by the companies included in the survey such as flatter hierarchies, open information policies and participative leadership style.

One of the most striking and influential characteristics of corporate governance and human resources management in Germany, at least among the larger companies, is breadth and strength of employee participation in governance matters.¹⁰³ Due to legislative mandate, employee representation rights in Germany are quite strong and employees can rely on internal channels to provide them with access to information and opportunities for meaningful consultation on decisions rather than having to resort to external strategies such as strikes and similar collective actions that predominate in the US.¹⁰⁴ In addition, while union organizational models in the US tend to be either class-based unions, such as industrial unions, or occupation or craft-based unions, which are organized around particular sets of qualifications, Germany favors enterprise-based unions which recruit their members from specific enterprises (firms). Enterprise-based unionism allows German employees to pursue strategies of internal participation since those types of unions are primarily interested in long-term employment arrangements with the specific enterprise and the issues that arise for such unions tend to be related to factors associated with the long-term success of the enterprise.¹⁰⁵ Notice should be taken, however, that as companies in Germany transition from banks to markets as sources for their capital the relationship between those companies and their non-shareholder stakeholders, such as labor, may well evolve away from the co-determination models that have dominated in Germany in past years.¹⁰⁶

Aguilera and Jackson reported that training of production workers in Germany has traditionally been conducted through a collaborative system that includes employer associations, industrial unions and the state, and that firms have also participated by supporting the efforts of employees to obtain publicly certified occupational skills.¹⁰⁷ Firm participation is interesting in that the skills learned by their employees were portable and could be taken to competitors; however, on balance German companies believe that such participation was worthwhile because it assured high levels of training.

§1:7 Switzerland

Switzerland has attracted a significant number of high qualified foreign-born professionals who bring needed talents and experiences to Swiss start-ups.¹⁰⁸ Davoine

¹⁰³ R. Aguilera and G. Jackson, “The Cross-National Diversity of Corporate Governance: Dimensions and Determinants”, *Academy of Management Review*, 28(3) (2003), 447, 454.

¹⁰⁴ *Id.* at 456.

¹⁰⁵ *Id.*

¹⁰⁶ S. Nestor and J. Thompson, “Corporate Governance Patterns in OECD Economies: Is Convergence Underway?”, in S. Nestor and T. Yasui (Eds.), *Corporate Governance in Asia: A Comparative Perspective* (2000), 19, 38.

¹⁰⁷ R. Aguilera and G. Jackson, “The Cross-National Diversity of Corporate Governance: Dimensions and Determinants”, *Academy of Management Review*, 28(3) (2003), 447, 457.

¹⁰⁸ A. Brandt, *Why Switzerland Has Potential to Become Europe’s Startup Hotspot* (September 26, 2013).

studied the Swiss career model and concluded that in Switzerland the German career model was dominant, meaning that primary emphasis was placed on professional technical-technical competence and firm-internal networking.¹⁰⁹ Davoine noted that inter-firm mobility had traditionally been comparatively low in Switzerland but that this was changing and that movement between firms was gradually increasing.

Schroter and Davoine argued that Swiss enterprises had a “rather formal political culture”, one in which expertise is often relied on as a key quality of supervisors and “discretion of superiors is restricted through formal rules and procedures and the rather independent and autonomous status of subordinates as individuals able to make rational decisions is acknowledged as well as their involvement in decision-making processes”.¹¹⁰ Schroter and Davoine referred to the Swiss version of corporatism as “liberal”, and noted that it differed from other regular forms of corporatism in that it was not centrally focused on resolution of conflict between capital and labor.¹¹¹ They noted that while it is expected that labor will be integrated into formulation of human resources policies, trade unions in Switzerland, although wealthy, are structurally weak and essentially powerless, and that Swiss employers’ associations have exerted greater power and influence in the policy formation process, thus leading to a comparatively weak standard of legal protection for employees. Schroter and Davoine identified several other characteristics of Switzerland’s industrial relations system including a trade union code of conduct excluding strikes; a comparatively high degree of decentralization in wage bargaining; a high degree of coordination concerning managerial wage policy, which is provided for by employers’ associations; and a decentralized system of industrial relations. According to Schroter and Davoine, Switzerland has traditionally ranked at or near the top of OECD countries with respect to the loss of the fewest number of working days due to management-labor conflicts and they pointed out that while Switzerland is usually classified as “corporatist”, the comparatively low coverage of bargaining contracts and union density means that, in practice, Switzerland is much closer to Anglo-Saxon countries such as the UK and US. German-style co-decisional rights do not exist in Switzerland; however, Swiss managers are legally obligated to inform their employees about the economic development of the firm and provide employees with some opportunities for participation or involvement, but not formal voting rights, in certain issues such as work security, a transfer of the firm or massive layoffs.

Schroter and Davionine observed that due to Switzerland’s federal structure, there are many different systems of primary and secondary education; however, they noted that efforts have been made to coordinate and harmonize school systems to assure common

¹⁰⁹ E. Davoine, *Formation et Parcours Professionnel des Dirigeants d’Entreprise en Suisse*, 3 Dossier de la Revue Economique et Sociale 89 (2005) (as cited and described in O. Schroter and E. Davoine, *The Cross-National Transfer of HRM Practices in Multinational Companies Towards their Swiss Subsidiaries* (2009), 12).

¹¹⁰ O. Schroter and E. Davoine, *The Cross-National Transfer of HRM Practices in Multinational Companies Towards their Swiss Subsidiaries* (2009), 12.

¹¹¹ The discussion in this paragraph is adapted from O. Schroter and E. Davoine, *The Cross-National Transfer of HRM Practices in Multinational Companies Towards their Swiss Subsidiaries* (2009), 12-13.

standards across canton and regions.¹¹² Switzerland invests a significant percentage of its GDP in education and has a number of cantonal universities that are co-financed by the federation; two federal institutes of technology at Zurich (ETHZ) and Lausanne (EPFL), each of which have achieved recognition as world-class research institutes; several federally recognized technical colleges of higher education; and a comprehensive federally administrated system of dual vocational training. Schroter and Davioine explained that the dual vocational training courses, the content of which is collaboratively developed by employers, employee associations and the government, are quite similar to those found in Germany and Austria and have a workplace, rather than school, focus. According to Schroter and Davioine, the strong employer involvement in the design of the curriculum and the implementation of the courses contributes to the practical applicability of the contents incorporated into the courses. In other words, dual vocational training in Switzerland is strongly focused on teaching workplace and job-specific skills, and Schroter and Davioine also reported that more and more attention is being paid to “further education” (i.e., ongoing training of employees after they have completed the initial vocational training and begun working). While there has been an increasing tendency among young people toward a general education path in recent years, dual vocational training remains extremely important in Switzerland and is greatly relied upon by employers.¹¹³

Arvanitis et al. conducted a survey among Swiss firms to measure the impact of various human resources management (HRM) practices on both their propensity to innovate and the success of their innovation as represented by sales of innovative products.¹¹⁴ The specific HRM practices fell into four categories, including workplace organization (e.g., number of hierarchical levels, extent of decentralization); working time management (e.g., flexibility of the work schedule, extent of part-time employment); incentive pay (e.g., individual performance salary, group performance salary); and training intensity. The researchers found that variables representing workplace organization, with the exception of the variable for the decrease of the number of hierarchical levels, showed highly significantly positive associations with innovation propensity, and that new workplace organization practices were also important for innovation success, albeit less influential than with respect to propensity for innovation. Intensity of further training was also significantly positively associated with innovation success, but not with innovation propensity. Finally, working time management practices and incentive payment schemes appeared to have only a small impact on both innovation propensity and innovation success. Arvanitis et al. concluded that the linkages between innovative HRM practices and innovation propensity were stronger than the linkages between those practices and innovation success and commented that this result might be attributable to

¹¹² The discussion in this paragraph is adapted from O. Schroter and E. Davioine, *The Cross-National Transfer of HRM Practices in Multinational Companies Towards their Swiss Subsidiaries* (2009), 13-15.

¹¹³ Schroter and Davionine reported that dual vocational training was more prevalent in German-speaking Switzerland than in the French- and Italian-speaking regions. See O. Schroter and E. Davioine, *The Cross-National Transfer of HRM Practices in Multinational Companies Towards their Swiss Subsidiaries* (2009), 15.

¹¹⁴ S. Arvanitis, F. Seliger and T. Stucki, *The Relative Importance of Human Resource Management Practices for a Firm’s Innovation Performance* (September 2013).

the fact that innovation success, as measured by actual sales, is influenced by factors not studied in their survey such as production and marketing skills.

According to a survey of Swiss workers conducted by Towers Watson in 2012 the two most important criteria for them when selecting a prospective employer were a high level of employee autonomy and good job security.¹¹⁵ Other important factors included challenging work, base pay/salary and convenience of the work location; however, anxiety about job security clearly remained important among the Swiss even as the country one recovering fairly well from the financial crises of the prior years. When the focus of the questions turned to identifying the “top drivers of retention”, the Swiss were most concerned about base pay levels and the transparency and fairness of the pay system. While bonuses and long-term incentives were also of interest to Swiss workers, they were less important than the fundamental issue of base pay/salary. Other factors that were particularly influential to Swiss employees with respect to remaining with their employer included opportunities for career advancement, trust and confidence in senior leadership, the employee’s relationship with his or her supervisor/manager and job security. The percentage of Swiss workers who were “sustainably engaged” was higher than the European average, yet still significantly lower than the global averages found among Towers Watson surveys and the Towers Watson report admonished Swiss employers to proactively address frustrations among their workers about lack of the right resources and necessary support. When polled about the top drivers of sustainable engagement, the Swiss workers identified leadership; supervision; stress, balance and workload and communication as being most important.

§1:8 Africa

The colonial period in Africa introduced a concept that was novel in Africa and decidedly foreign from the traditional practice of economic activities centered in the family unit: the concept of “wage employment”.¹¹⁶ Before the Europeans arrived and brought their systems and requirements relating to commercial activities, external recruitment of labor was unnecessary and, as described by Inyang and Akpama, “[t]he only thing akin to recruitment was communal exchange of labour, and of course, there was no cash nexus involved, that is, economic relations were not moderated by exchange of labour for payment of monetary rewards”.¹¹⁷ Similarly, Eze described the situation during the pre-colonial era as one in which “there was no organizational paid work or employment under the modern organizational structural management; rather, there were family work, community work, and kingdom work”.¹¹⁸ In the view of Inyang, wage employment disrupted the communal life of Africans¹¹⁹ and Ahiauzu commented “that wage

¹¹⁵ Towers Watson, *Global Workforce Study 2012* (2012).

¹¹⁶ For further discussion of human resources management in South Africa, see the section on South Africa elsewhere in this chapter.

¹¹⁷ B. Inyang and A. Akpama, *Personnel management practice in Nigeria* (Calabar, Nigeria: Merb Business Centre, 2002), 15.

¹¹⁸ N. Eze, *Human resource management in Africa: problems and solutions* (Lagos, Nigeria: Zomex Press, 1995), 134-135.

¹¹⁹ B. Inyang, “The Challenges of Evolving and Developing Indigenous Management Theories and Practices in Africa”, *International Journal of Business and Management*, 3(12) (2008), 122-132.

employment in African communities did not evolve from the traditional mode of work organization, but was introduced to the Africans by the colonial administrators, in a manner that was uncomfortable to the early African workers, has created a dysfunctional impression towards wage-employment among average Africans".¹²⁰ The unfortunate result was that the lack of enthusiasm that African workers showed to this new and foreign work environment often led to unfair characterizations of Africans as lazy¹²¹, poorly motivated¹²², uncommitted and disloyal to their organizations¹²³. Several scholars have criticized the way that African workers have been portrayed, noting that comparisons to workers in advanced industrialized countries fail to take into account the very different historical path followed in Africa and that depicting Africans as lazy and leisure-loving ignores the evidence of flourishing economic activities in agriculture, industry and other areas of commerce during the pre-colonial period.¹²⁴

Several countries in Africa adhere to the International Labour Conventions relating to freedom of association and the right to engage in collective bargaining. However, many of the activities traditionally undertaken by labor unions are simply inconsistent with the dominant paternalistic-authoritarian management style that exists in Africa. In general, African managers are distrustful of the impact trade unions might have on their unfettered discretion with respect to managerial decisions and do not believe that trade unions can serve any useful purpose for the enterprise. As a result, while unions do exist, they lack support of management and are often impeded by restrictions imposed in government regulations and the limited number of wage-based positions in the local economies. Another impediment to the efforts of labor unions has been the intense loyalty that workers often show toward the owners and senior managers of their businesses, which creates reluctance among workers to embrace union activities that the owners and managers are clearly resisting. However, attitudes have slowly been changing as managers are beginning to gain a greater appreciation of the role the unions can play in improving firm performance. Moreover, the inevitability of some form of greater employee participation had begun to override traditional values.¹²⁵

Personnel decisions, such as recruitment and hiring policies, in Africa are significantly influenced by personal relationships between managers and employees as well as family affiliation and friendships as opposed to any objective assessment of the skills and qualification of applicants.¹²⁶ For example, it has been reported that Nigerian firms tend

¹²⁰ A. Ahiauzu, *The African industrial man* (Port Harcourt, Nigeria: CIMRAT Publications, 1999), 2.

¹²¹ R. Dumont, *False start in Africa* (London: Andre Deutsch, 1960).

¹²² M. Kiggundu, "Africa" in R. Nath (Ed.), *Comparative management: a regional view* (Cambridge, MA: Ballinger, 1988); and P. Blunt and M. Jones, "Exploring the limits of western leadership theory in East Asia and Africa," *Personnel Review*, 26 (1997), 6-23.

¹²³ M. Jones, "Management development: an African focus", *Management Education and Development*, 17(3) (1986), 302-316.

¹²⁴ See, e.g., A. Ahiauzu, *The African industrial man* (Port Harcourt, Nigeria: CIMRAT Publications, 1999), 2-3; and F. Abudu, "Work attitudes of Africans, with special reference to Nigeria", *International Studies of Management and Organization*, 16(2) (1986), 17-36.

¹²⁵ M. Mwaura, "Training and Development in Africa" in M. Waiguchu et al. (Eds.), *Management of Organisations in Africa: A Handbook of Reference* (Westport, CT: Quorum Books, 1999), 169-196, 172-173.

¹²⁶ Id.

to favor recruits that are either related or otherwise affiliated with current employees or who are part of the same tribe, village or region.¹²⁷ While this pattern is certainly consistent with the preference of business owners to surround themselves with people that they believe can be trusted, firms inevitably hire people who lack the qualifications necessary to fill positions and thus impair the performance of the company.¹²⁸ Another factor in promotion and recruitment practices is the dominant emphasis on the personality of the leader of the organization and, following the paternalistic-management style that prevails in Africa, business owners and top managers tend to exercise substantial control over appointments that might normally be made by a human resources department. Cynics have commented that many African managers, following appointment, are driven primarily to accumulate personal financial and material rewards and appoint other family members to positions of responsibility within the enterprise. Once again, this approach to management neglects the need to set and pursue organizational goals and objectives.¹²⁹

One of the important elements of the paternalistic management style in Africa is the emphasis placed on the welfare of employees. It has been observed that, in general, managers in Africa evidence a sincere concern for the psychological and social needs of their subordinates and an effort is typically made to provide employees with a range of extrinsic and intrinsic rewards and incentives. While there is always a certain amount of employee alienation and complaints, paternalism has tended to generate intense loyalty from workers toward owners and/or top managers and this has undermined the organizational efforts of trade unions in many instances.¹³⁰ Loyalty has not prevented workers from seeking higher paying jobs when opportunities for such position have appeared during good economic times; however, when business conditions have become more difficult the loyalty generated among workers has been an important tool in keeping troubled enterprises afloat.¹³¹

Planning and training activities within the human resources function are relatively immature in Africa and when such activities do occur they are rarely linked to the overall goals and objectives of the organization.¹³² Africa, like most developing regions around the world, has suffered from shortcomings in the area of management development and training. Efforts to develop a unique and effective set of management principles for Africa have often been hampered by misconceptions about the region. For example, it has often been assumed, even in the face of extensive anthropological evidence to the contrary, that the traditional ideas, institutions and beliefs that existed in Africa prior to

¹²⁷ F. Edoho, "Challenges of Management Ethics for Africa in the Twenty-First Century", in F. Edoho, *Management Challenges for Africa in the Twenty-First Century: Theoretical and Applied Perspectives* (Westport, CT: Praeger, 2000), 203-224, 211.

¹²⁸ Id.

¹²⁹ T. Ndongko, "Management Leadership in Africa" in M. Waiguchu et al. (Eds.), *Management of Organisations in Africa: A Handbook of Reference* (Westport, CT: Quorum Books, 1999), 99-124, 114.

¹³⁰ M. Mwaura, "Training and Development in Africa" in M. Waiguchu et al. (Eds.), *Management of Organisations in Africa: A Handbook of Reference* (Westport, CT: Quorum Books, 1999), 169-196, 173.

¹³¹ F. Edoho, "Challenges of Management Ethics for Africa in the Twenty-First Century", in F. Edoho, *Management Challenges for Africa in the Twenty-First Century: Theoretical and Applied Perspectives* (Westport, CT: Praeger, 2000), 203-224, 210-211.

¹³² M. Mwaura, "Training and Development in Africa" in M. Waiguchu et al. (Eds.), *Management of Organisations in Africa: A Handbook of Reference* (Westport, CT: Quorum Books, 1999), 169-196, 172.

colonization were little more than primitive. Acting as if African history did not begin until the colonies were established, those seeking to assist Africa in its development efforts have often ignored the deep-rooted social and cultural traditions and norms that have existed in Africa for centuries, as well as the unique ways that the community organized economic and political activities.¹³³ Another issue, of course, is the paternalistic emphasis on age that prevails among African organizations and which has clearly impeded the development of management development and training programs. Traditionally, senior managers in Africa moved to their positions “through the ranks” largely based on tenure as opposed to training and education. As a result, organizations generally saw little reason to devote resources to training younger workers in management techniques when it would be years before they reached a level where they would be exercising managerial authority and it was assumed that by that time they would have learned all they needed to know through the aging process and observation of their elders. Finally, until recently there have been relatively few undergraduate or graduate business programs in business administration in Africa and only a small percentage of the graduates of Africa universities have chosen to specialize in business-related fields.¹³⁴

One of the most significant issues for Africa has been the lack of the managerial experience and technical skills necessary for successful development and operation of the industrial systems and various political and economic institutions that are required to support growth. In fact, a World Bank study released in 1989 confirmed that the most important factor in explaining the poor economic performance in sub-Saharan Africa up to that time was the dearth of managerial, entrepreneurial, and technical skills in the region.¹³⁵ Others have noted that the weaknesses in managerial capacities have prevented Africa from developing the indigenous capabilities to launch and manage their own commercial ventures and perpetuated over-dependence on foreign assistance and expatriate advisors.¹³⁶ The failure to develop indigenous management techniques has left Africa dependent on management technology and principles developed and used in industrialized countries. Not only are these methods inappropriate for many issues that arise in Africa, it is generally impossible for African managers to keep pace with the rapid changes in management science that have occurred in order to keep pace with technological advances and globalization. In addition, as African managers struggle to develop the basic stock of managerial knowledge, the nature and scope of managerial duties continues to transform, constantly redefining the skills necessary for managers to

¹³³ F. Edoho, “Management in Africa: The Quest for a Philosophical Framework”, in F. Edoho, *Management Challenges for Africa in the Twenty-First Century: Theoretical and Applied Perspectives* (Westport, CT: Praeger, 2000), 73-90, 77-78.

¹³⁴ F. Edoho, “Challenges of Management Ethics for Africa in the Twenty-First Century”, in F. Edoho, *Management Challenges for Africa in the Twenty-First Century: Theoretical and Applied Perspectives* (Westport, CT: Praeger, 2000), 203-224, 209 (only about 10% of the graduates of Nigerian universities during the 1990s specialized in business administration).

¹³⁵ F. Edoho, “Managerialism: A Critical Analysis of the Issues, Contexts and Challenges”, in F. Edoho, *Management Challenges for Africa in the Twenty-First Century: Theoretical and Applied Perspectives* (Westport, CT: Praeger, 2000), 31-50, 33.

¹³⁶ Id. (citing F. Stewart, S. Lall and S.M. Wangwe, *Alternative Development Strategies in sub-Saharan Africa* (Basingstoke: Macmillan, 1992))

perform effectively. Another byproduct of the lack of management skills has been an inability to effectively adapt and exploit technology that has been transferred to parts of Africa from industrialized countries, a situation that has impaired the potentially positive impact of direct foreign investment.

As in other parts of the developing world, multilateral and bilateral development agencies, as well as other donors of significant financial support for public agencies and enterprises, have had significant input into the creation and implementation of training programs for public sector managers in Africa. This has been particularly true in the case of the parastatals that were established in Africa to take on and complete the large and complex infrastructure projects, particularly transportation services, which were considered to be fundamental to economic growth and development. For example, several fledgling national airlines in Africa entered into management contracts with airlines in the US and Europe to manage company operations and provide technical and managerial training to local staff in Africa. In addition, multilateral and bilateral development agencies established management institutes to provide training and consultation to public enterprises in Africa, including development of new teaching materials and case studies adapted to local business conditions, and worked with local business colleges to strengthen their curriculum.¹³⁷ While some of these initiatives, notably those undertaken in the airline industry, were relatively successful, one assessment concluded that the initial management development initiatives in Africa suffered from “weak autonomy, poor funding, inept staffing, and inappropriate incentives.”¹³⁸

Large multi-national firms doing business in Africa have tended to rely primarily on their own international training and developing departments. In those cases where multi-nationals have launched local management development initiatives in countries with a colonial history, there has been a tendency to rely upon management development initiatives on practices used in the former colonial parent. For example, Wallace and Mitiku have reported that it was common to find that firms in former British colonies in Africa combined their efforts and resources to launch and maintain national versions of the British Institute of Management and other larger associations of employers. These

¹³⁷ J. Wallace and A. Mitiku, “Management Development: A Solution for Africa?”, in F. Edoho, *Management Challenges for Africa in the Twenty-First Century: Theoretical and Applied Perspectives* (Westport, CT: Praeger, 2000), 243-258, 246-247.

¹³⁸ *Id.* at 248 (citing A. Roberts, *Contemporary Perspective on Crisis Intervention and Prevention* (Englewood Cliffs, NJ: Prentice-Hall, 1991)). Wallace and Mitiku have identified a handful of African management development programs which they believe were efficient and effective because they focused on problems of specific interest to trainees in their jobs and the transfer of skills to local workers carrying out their jobs, were conducted with the support and involvement of senior managers and incorporated some form of follow-up program to evaluate how well the ideas disseminated through the training were being implemented; however, they reported that such programs were often relatively short-lived or clearly underutilized and that sponsoring agencies either preferred to concentrate on shorter courses for large number of managers that lacked consultative and skill transfer features or changed the direction of their curriculum when leadership changes occurred, something that happens quite frequently in Africa where the average tenure of senior managers of development programs is no more than three years. For further discussion, see “Human Resources: A Library of Resources for Sustainable Entrepreneurs” prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

organizations provided short courses on relatively general topics, typically taught by outside experts recruited from international accounting firms and private consultants; however, training was only one of the goals established by the members and the organizations also played an important part in the development of common positions on labor and government issues.¹³⁹

In Africa, as in most countries and regions of the world, SBEs are the predominant form of business enterprise and management development programs for SBEs are crucial to development and generation of wealth in Africa. Unfortunately, however, Wallace and Mitiku have noted a variety of social and political hurdles that must be overcome in implementing management development programs for African SBEs. For example, many governments have failed to appreciate the potential importance of SBEs to job creation and economic development and, in fact, small businesses have often been discouraged in African countries that have followed socialist growth policies as governments in those countries have often formed large public enterprises to provide the same services typically taken on by smaller firms. In those countries where small businesses were permitted, government policies have often forced non-citizens and citizens of Asian descent to divest ownership to black African citizens, even though the purchasers lacked the necessary management skills. In addition, small business owners in Africa are generally short of funds and there often is simply no budget for investment in management development and training, particularly when it would mean making payments to outside consultants. Finally, many of the persons who have acted as trainers and consultants to SBEs in Africa were previously civil servants and lacked credibility with business owners. In turn, the civil servants were often unsympathetic to entrepreneurs, viewing them as exploiters, and thus tended to schedule training courses at times and places that were not convenient for the owners.¹⁴⁰

In an effort to overcome some of these problems, donors have attempted to partner with non-governmental agencies to provide assistance to African SBEs. For example, a large number of “private voluntary or nongovernmental organizations” have provided small loans to micro-enterprises in Africa, often coupled with training to improve management skills. In addition, efforts have been made to work with local vocational schools and craft organizations to provide training for persons interested in becoming self-employed. Unfortunately, while development agencies continue to support training programs, technology transfer initiatives and informational services for small firms in Africa, progress has been slow. Moreover, Wallace and Mitiku have cautioned that the outlook for the future is not bright, as governments have continued to fail to develop comprehensive reform programs for support of small- and medium-sized enterprises and depressed household incomes in Africa reduce the demand for products and services typically associated with firms of that size.¹⁴¹

¹³⁹ J. Wallace and A. Mitiku, “Management Development: A Solution for Africa?”, in F. Edoho, *Management Challenges for Africa in the Twenty-First Century: Theoretical and Applied Perspectives* (Westport, CT: Praeger, 2000), 243-258, 245.

¹⁴⁰ *Id.* at 248-249.

¹⁴¹ *Id.* at 249-250.

With respect to skills and talent, Omidyar Network noted that there was a good deal of “informal entrepreneurship” in Africa due to the pervasive nature of the informal sector across the continent and that this situation has contributing to SMEs have difficulty professionalizing and scaling their operations.¹⁴² There are African entrepreneurs with technical backgrounds in areas such as information technology and engineering; however, many of them lack training in business and management skills and this prevents them from building their businesses unless and until they are able to identify and recruit experience managers who can complement the company’s technical talent. It was clear from the Monitor Survey that high-growth entrepreneurship in Africa was being held back by the lack of entrepreneurship training in the education system. In addition, Omidyar Network argued that African entrepreneurs needed to be prepared to invest time and effort to overcome a lack of basic business culture among employees of SMEs, which Omidyar Network claimed was evidenced by common traits such as procrastination, poor client management and missing deadlines. Entrepreneurs needed to be ready to commit to training and building their available workforce.

Recommendations from Omidyar Network regarding improvement of skills and talent for entrepreneurial ventures in Africa included incorporating entrepreneurial and vocational training in the education system in Africa so that learners were exposed to entrepreneurship from a young age; leveraging Internet-based solutions that offered training in business skills and entrepreneurial management to provide assistance to entrepreneurs that was scalable and available at relatively low costs; establishing communications and career counselling programs that encouraged and guided young people towards the creation of entrepreneurial ventures; instituting secondment, mentorship and networking programs where seasoned executives (previously or currently employed) would support SMEs for limited periods by working alongside and training SME staff on key projects; and offering incentives (e.g., subsidies, tax advantages) to entrepreneurs who offered strong employee value propositions to prospective professional staff, such as stock option programs or specialized training.¹⁴³

The role of women is one of the most important and compelling issue in African societies. The traditional perception has been that women are considered to be inferior to men and this had led to widespread discrimination against women in African businesses with respect to recruitment and promotion. In certain areas, such as parts of Nigeria, religious discrimination severely limits the ability of women to gain access to the training and formal education necessary for them to enter the workplace.

§1:9 Brazil

Brazil’s population as of 2012 was 199,321,413—the largest number in Latin America and fifth largest in world ranking, 90% of whom are concentrated into an area that

¹⁴² Omidyar Network, *Accelerating Entrepreneurship in Africa: Understanding Africa’s Challenges to Creating Opportunity-Driven Entrepreneurship* (2013), 8-9.

¹⁴³ *Id.* at 10.

represents just 10% of the total land mass of the country.¹⁴⁴ In fact, the majority of people live in the south-central area, which includes the large industrial cities of Sao Paulo, Rio de Janeiro and Belo Horizonte, and Brazil has undergone a period of rapid urban growth—more than 80% of the total population lives in urban areas—that has supported economic development but has also created a number of serious social, security, environmental and political problems for the major cities. Projections indicate a total population of 211 million in 2020, and population stability at about 250 million in 2050. Brazil is noteworthy for the diverse range of ethnic backgrounds found among its residents; however, national identity is strong. The Brazilian population is young with 41.5% between 0 and 24 years old and 43.4% between 25 and 54 years old as of 2012.¹⁴⁵

As of 2012, Brazil's labor force was approximately 107.1 million, which ranked as the sixth largest in the world.¹⁴⁶ Brazil has a large pool of informal businesses that have elected not to register with the government and thus form a vast gray market that has become a significant part of the Brazilian economy. According to the International Labour Organization, 44.6% of the total jobs in Brazil were in unlicensed businesses, of which 14.3% were informal micro and small enterprises. Informal businesses do not pay taxes and do not make much of an effort to comply with labor laws and often engaged in the product and sale of counterfeit and low quality goods at prices well below those quoted by registered firms, thus creating a substantial competitiveness problem for legitimate businesses.¹⁴⁷

Brazil has a relatively high literacy rate for a developing country.¹⁴⁸ Until recently, Brazil had a fairly cost-ineffective education system, plagued by poor achievement and inequitable outcomes. During the last decade, Brazil increased its investment in education, from 4% of GDP in 2000 to 5.2% of GDP in 2009. Spending has become more equitable, through measures such as the provision of additional federal funds to poorer states. One of the key problems in Brazilian education is the quality of its teachers and in many areas of the country teachers have no more than a secondary school education. In May 2007, President Lula launched an ambitious education development plan ("PED"), which aimed to redress Brazil's long-standing education deficit within 15 years. The plan established a results-based education system for the first time in Brazil's history. Schools had to achieve targets set by the government in order to receive more resources. The PED also aimed at high schools and continuing education. In 2008, Brazil spent 1.13% of GDP on research and development.¹⁴⁹

¹⁴⁴ The summary of the Brazilian people in this section is adapted from Brazil, Background Notes, US Department of State, <http://www.state.gov/outofdate/bgn/brazil/191355.htm>.

¹⁴⁵ Brazil, The World FactBook, US Central Intelligence Agency, <https://www.cia.gov/library/publications/the-world-factbook/geos/br.html>.

¹⁴⁶ Brazil, Background Notes, US Department of State, <http://www.state.gov/outofdate/bgn/brazil/191355.htm>.

¹⁴⁷ R. Eunni, "Institutional Environment for Entrepreneurship in Emerging Economies: Brazil vs. Mexico", *World Journal of Management*, 2(1) (March 2010), 1, 5.

¹⁴⁸ Background Note: Brazil, Washington, DC: US Department of State, March 8, 2011.

¹⁴⁹ Bertelsmann Stiftung, BTI 2012—Brazil Country Report (2012).

Despite divergences among competing umbrella organizations, trade unions are strong political actors in Brazil. Following democratization, there was a gradual estrangement from traditional corporatist state models. Mobilization capabilities diminished during the 1990s and the level of trade union organization is on the decline, but trade unions are still important to many sectors of workers. President Lula co-opted many trade union leaders by awarding them government positions, and by issuing a decree which granted labor federations 10% of the compulsory labor union tax.¹⁵⁰ Entrepreneurs have a national umbrella organization, with the National Confederation of Industries in São Paulo State wielding the greatest influence.

Labor relations in Brazil are governed by two legal pieces: Federal Constitution and Consolidation of Labor Laws (“CLT”).¹⁵¹ In the Brazilian Constitution, social rights, which include labor rights, are covered by Articles 6 to 11. Article 7 begins with the phrase, “The following are rights of urban and rural workers, among others that aim to improve their social conditions:” and is followed by 24 social rights. These constitutional rights cannot be ignored either by laws, or by contractual agreements. As a result, all Brazilian workers have rights, for example, to severance pay (funded by employers, at 8% of monthly salary), a 13th month annual salary (equal to the monthly salary, usually paid half before June and half in December), annual vacation (30 days, plus a cash bonus equal one third of salary) and others. The CLT was promulgated in 1943, by President Getulio Vargas. At the time, Brazilian society was changing from rural to urban. In order to protect workers from abuse, in an unregulated, incipient labor market, the CLT declared the rights of workers. The CLT also consolidated the protection of labor in the judicial system. While some amendments have been adopted since its adoption, much of the law remains the same. Thus, several profound changes in Brazilian society, like urbanization, demographics and technology, are not reflected in the CLT.

The history and development of HRM practices in Brazil is closely connected to the country’s social, political, economic and technological context.¹⁵² The late 20th and early 21st centuries have been marked by a technology boom and the increasing complexity and size of Brazilian organizations, many of which became transnational. These new arrangements, apart from changes due to the pressures for more flexible production models that would accommodate non-standard products, have resulted in heightened dependence on the skills and knowledge of workers at all levels of the production process and Brazilian organizations have been forced to change their internal environment and ways of conducting work through initiatives like position enrichment, encouragement of semi-autonomous or self-managed groups and minimizing the centralized authority and control that dominated previous models of leadership and management.

HR managers in Brazil rely on a core set of HRM practices that they believe influence employee ties to an organization. Compensation is, of course, one of the tools typically

¹⁵⁰ Id.

¹⁵¹ Decree Law r. 5,452, promulgated May 1, 1943, *Consolidacao das Leis do Trabalho* (Consolidation of Labor Laws).

¹⁵² A. Scheible and A. Bastos, “An Examination of Human Resource Management Practices' Influence on Organizational Commitment and Entrenchment”, *Brazilian Administration Review*, 10(1) (2013), 57.

used; however, Brazilian HR managers have also been looking to increase job security or stability in order to support institutionalization of organizational values and harvest investments made in employees.¹⁵³ Another approach used by Brazilian HR managers is designing decentralized organizational structures with self-management and participation in decision making, since they tend to positively contribute to commitment. In addition, greater reliance has been placed on awards and recognition linked to organizational performance, which promote commitment and motivate employees to engage in behaviors that improve organizational performance.¹⁵⁴ HR managers also rely on training to enhance commitment, improve employees' perceptions of their self-importance and provide employees with a tangible illustration of organizational support for their well-being and aspirations.¹⁵⁵ One final strategy used by HR managers in Brazil to build commitment is improved communication and internal information exchange.¹⁵⁶

A report of a survey of Brazilian HR managers relating to trends that were projected out to be of importance in Brazilian HRM in 2015 found that the main subjects of concern among the respondents were talent management, evaluation of results and HR strategic management.¹⁵⁷ With respect to talent management, it was noted that in another survey more than half of the respondents complained of difficulties in filling job positions and that a major issue was the candidates' lack of qualifications and the necessary educational background, a situation that has often been linked to the poor quality of the educational system in Brazil. The report explained that Brazil has been undergoing a significant transformation in its mix of jobs, and related qualifications and requirements, as positions in the industrial sector have declined and more employment opportunities have opened in commerce and in the private sector. Another factor in play has been the growth in informal employment, which is the prevalent form of work arrangement for many services businesses. Greater labor mobility and international competition for talent were also cited as factors that influenced the talent management challenges for HR managers in Brazil.

Using data collected from 416 Brazilian respondents, including employees of large organizations and participants in MBA programs, Coda et al. were able to arrive at several interesting conclusions regarding various dimensions of HRM in Brazil.¹⁵⁸ First

¹⁵³ J. McElroy, "Work Commitment: Conceptual and Methodological Developments for the Management of Human Resources", *Human Resource Management Review*, 11(1) (2001), 177.

¹⁵⁴ Id. See also P. Morrow, "Managing Organizational Commitment: Insights from Longitudinal Research", *Journal of Vocational Behavior*, 79(1) (2011), 18.

¹⁵⁵ J. McElroy, "Work Commitment: Conceptual and Methodological Developments for the Management of Human Resources", *Human Resource Management Review*, 11(1) (2001), 177.

¹⁵⁶ Id.

¹⁵⁷ This paragraph is based on Brazilian Human Resource at a Polarized Latin America (2012). The report noted that similar surveys conducted in the 2000s indicated that the top concerns of Brazilian HR managers at that time included aligning HRM to business strategies; aligning people/performance/human competences to the business strategies; management development and qualification; retaining talented, high potential workers and seeking commitment to HRM from senior management. (citing L. Barreto, M. Silva, A. Fischer, J. Dutra, E. Veloso and W. Amorim, "Gestão de pessoas: projetando desafios e tendências para 2015", in *Anais do Eneo*, Brasil, 2010, Florianópolis, SC (2010)).

¹⁵⁸ R. Coda, A. Roux Valentini Coelho César, D. de Souza Bido and E. Louffat, "Strategic HR? A Study of the Perceived Role of HRM Departments in Brazil and Peru", *Brazilian Administration Review*, 6(1)

of all, the respondents confirmed the importance of developing and maintaining an appropriate personnel strategy to support the overall strategy of the organization; however, the HRM department was not perceived as being a key communication agent with the external environment of the organization (i.e., purchasers, local authorities, educational institutions, etc.). Second, the respondents agreed that establishing opportunities to enhance individual capability, such as training, was an important role for the HR department in the development area. Third, with respect to compensation and benefits, it was considered to be important for the HR department to develop and maintain a reward strategy pay contracted employees and others and implement and maintain processes to define employee's terms and conditions of employment. Fourth, the respondent perceived resourcing as an important strategic function and noted the significance of developing and maintaining workforce planning to support current and future requirements, recruiting and selecting people into the organization and identifying individual potential to develop and meet future resourcing requirements. Finally, providing processes for handling grievances and discipline was considered irrelevant, a finding that the researchers attributed to the high power distance in Brazil that supported the general belief in the workplace that only a few people hold power and that rules relating to negotiation of discipline and sanctions are clearly defined.

Coda et al. also analyzed the perceptions of the respondents regarding the current capacity of their HR departments with respect to specific activities and responsibilities. For example, the responses indicated that Brazilian HR departments were concerned about their capacity in various areas relating to strategy and organization including their ability to develop and maintain an appropriate personnel to support the overall strategy of the organization, enable the creation of an organization structure and work processes to maximize the performance of people at work, facilitate the development of organizational values and culture required to support its strategy and facilitate external relations. On the other hand, respondents generally believed that they had higher current capacity with respect to recruiting and selecting people into the organization, establishing training opportunities to enhance individual capability and ensuring compliance with personnel-related legislation and internal policies. Returning to areas of current weakness, the respondents generally expressed concerns regarding their ability to develop work structures to maximize either human or organizational performance, their ability to promote long-term development of personnel, the absence of strategic compensation systems and their capacity to provide counseling and welfare support to employees.

Brazilian startups pursuing talented engineers and scientists must be still compete with the large bonuses and other perquisites routinely offered by the government and well-financed oil and gas companies. It is also remains relatively rare for someone who already has what is perceived to be a stable position with the government or a large and more established business to leave to that job for a startup. While Brazil is not lacking

(January/March 2009). The researchers actually collected and analyzed data from Brazil and Peru to test various hypotheses regarding the presence of differences between those two countries with respect to the strategic importance credited to the HRM department and the perception of the HRM current capacity to comply with its strategic functions. The discussion in this section is limited to observations relating to Brazil.

when it comes to technical expertise, many of the engineers are not used to, or comfortable with, the “trial and error” and intense collaboration that is required in order to successfully navigate the highs and lows of developing a truly new prototype as opposed to replicating something that has already been done. As a result, many startups have trouble finding engineering candidates with the requisite passion and new companies often struggle with rapid turnover among their technical staff. However, it is expected that the number of qualified technical specialists in Brazil will continue to expand to the point where there will no longer be enough traditional positions available for all of them and that more and more of them will be forced to look to the technology-focused startup community as the place to launch their careers. Networking is an important source for new talent within the Brazilian startup community and entrepreneurs are advised to become and remain well connected in order to identify suitable candidates for their new ventures. Legislation has been passed to encourage academics to actively support a bridge between universities and private companies by allowing professors at federally-funded universities to take temporary leaves in order to participate in the launch of a startup.

§1:10 China

China’s population was 1,343,239,923 as of July 2012, making it the largest in the world.¹⁵⁹ As of 2011, China’s labor force was 795.4 million, which ranked as the largest in the world, and the population at working age (15-64 years) was 1.0024 billion. Based on 2005 figures the Chinese labor force is divided among industry (24%); agriculture (35%) and services (31%). While the mix is shifting from agriculture toward services and migratory patterns illustrate movement of large numbers of people from rural to urban areas there remains a significant social division between peasants, mostly subsistence farmers who are tied to working the land, and urban Chinese who were drawn to work in the factories. The State remains a larger employer in China; however, jobs in State-owned enterprises are dwindling and the private sector is becoming increasingly important as a job creator. The supply of workers exceeds demand in many sectors which drastically reduces the leverage of employees who might be unhappy with their working conditions. While labor costs—wages and benefits—in China are rising they still remain significantly lower than in developed countries such as the US. Productivity and efficiency of Chinese workers is increasing but many Chinese job candidates continue to lack the skills necessary to take on the roles that might be required by multinational companies operating in China.¹⁶⁰

China has a vast and varied school system that includes preschools, kindergartens, schools for the deaf and blind, key schools (similar to college preparatory schools), primary schools, secondary schools (comprising junior and senior middle schools, secondary agricultural and vocational schools, regular secondary schools, secondary teachers' schools, secondary technical schools, secondary professional schools), and

¹⁵⁹ China, Background Notes, US Department of State, <http://www.state.gov/outofdate/bgn/china/189475.htm>.

¹⁶⁰ The discussion in this paragraph is adapted from Labor and Working Conditions in China, <http://factsanddetails.com/china.php?itemid=367>

various institutions of higher learning (consisting of regular colleges and universities, professional colleges, and short-term vocational universities). In terms of access to education, China's system represented a pyramid; because of the scarcity of resources allotted to higher education, student numbers decreased sharply at the higher levels. Although there were dramatic advances in primary education after 1949, achievements in secondary and higher education were not as great.¹⁶¹ Although the government has authority over the education system, the Chinese Communist Party has played a role in managing education since 1949. Expenditure on education accounted for 4% of gross domestic product (GDP) in 2012 under the Medium and Long-term National Educational Reform and Development Plan (2010 – 2020). Although past funding was distributed unevenly across regions and institutions, favoring urban and coastal regions and tertiary institutions, the government has recently focused on rural areas.¹⁶²

Child and Warner have observed that since 1949 the “Chinese model of labour-management conflict resolution . . . has been based on a ‘top-down’ structure that was imported from the Soviet Union”.¹⁶³ Only one state-sponsored trade union federation, the All-China Federation of Trade Unions (ACFTU), was permitted and workers belong to trade union organizations that form the component parts of the ACFTU.¹⁶⁴ The ACFTU was originally formed in 1925 and was a fundamental part of the efforts of the Communists to systemize the trade union structure in their Trade Union Law of 1950. Child noted that the unions had administrative and representative functions and were charged with “implementing labor-management relations in enterprises to boost production output”.¹⁶⁵ Unions also provided their members with collective welfare services, cultural and technical studies, vocational training and recreational activities and were funded through payroll deductions. While unions were dismantled in 1966 as part of the Cultural Revolution, they were reinstated in 1978 to support the economic reforms that were initiated at that time and generally promote economic development and maintenance of social stability.¹⁶⁶

Child and Warner reported that worker organizations were not permitted to organize outside their ranks and that any attempt to organize an “independent union” would likely be suppressed. While union membership is not mandatory — in fact, applicable legislation explicitly allows workers to opt out of participation, in most cases workers

¹⁶¹ China, Country Studies, Library of Congress, [http://lcweb2.loc.gov/cgi-bin/query/r?frd/cstdy:@field\(DOCID+cn0005\)](http://lcweb2.loc.gov/cgi-bin/query/r?frd/cstdy:@field(DOCID+cn0005)).

¹⁶² Bertelsmann Stiftung, BTI 2012 — China Country Report (2012).

¹⁶³ J. Child and M. Warner, “Culture and Management in China”, in M. Warner (Ed), *Culture and Management in Asia* (2003). See also A. Chan, “The Emerging Patterns of Industrial Relations in China and the Rise of the Two New Labour Movements”, *China Information: A Quarterly Journal*, 9(4) (1995), 36.

¹⁶⁴ For discussion of the history and purposes of the ACFTU, see S. Ng and M. Warner, *China's Trade Union and Management* (1998).

¹⁶⁵ J. Child, R. Loveridge and M. Warner, “Towards an Organizational Study of Trade Unions”, *Sociology* 7(1) (1973), 71.

¹⁶⁶ S. Ng and M. Warner, *China's Trade Union and Management* (1998); G. White, “Chinese Trade Unions in the Transition from Socialism: Towards Corporatism or Civil Society”, *British Journal of Industrial Relations*, 34(4) (1996), 433.

have no alternative but to join the union;¹⁶⁷ however, once they become members they find themselves in organizations that are passive rather than active and which operate without a “right to strike”. If disputes do arise they are referred to a complex arbitration and conciliation system.¹⁶⁸ Traditionally, most of the membership of the ADFTU worked in state-owned enterprises (SOEs) and the rate of unionization outside of the state-sector was much lower with union membership being very limited in smaller foreign-invested enterprises and collective and private firms. Differences in union activity could be observed between rural private firms where trade unions were almost non-existent, and urban private firms that often opted for the formation of company unions to represent the interests of their workers in disputes as opposed to having conflicts become subject to the external influence of the courts and/or government agencies.¹⁶⁹

While union membership, particularly among the SOEs, long provided workers with relative protections in the form of virtual lifetime employment, the economic restructuring that occurred over the last few years has changed the situation and more and more workers find themselves employed by firms, including many SOEs, that sometimes must consider downsizing as part of their efforts to achieve and maintain competitiveness in challenging markets.¹⁷⁰ In addition, the quality of union oversight of working conditions is being brought into question through increasingly contentious debates regarding labor standards.¹⁷¹

China has been continuously updating its portfolio of employment laws. For example, the Labor Contract Law, which took effect on January 1, 2008, was adopted to address certain unfair labor practices in China by identifying, and establishing specific standards for, three types of employment contract terms: fixed terms, open-ended terms and terms to expire upon completion of the job. Under the Law, the expiration of a fixed term contract creates an obligation for severance payment and it is expected that the use of fixed term contracts will be reduced substantially in the future and that open ended terms will become more common. This may create problems for employers since termination of an open ended contract can be more difficult and the probationary period for employees working under such a contract cannot exceed six months. The Labor Contract Law also addressed the previous absence of written contracts between companies and their employees by requiring that all employers produce a written employment contract

¹⁶⁷ Child and Warner note that union membership is “socially encouraged” and provide figures that indicate that 100% union membership was common among SOEs with an average of 92% membership being found at many locations. J. Child and M. Warner, “Culture and Management in China”, in M. Warner (Ed), *Culture and Management in Asia* (2003) (citing D. Ding, K. Goodall and M. Warner, “The Impact of Economic Reform on the Role of Trade Unions in China”, *International Journal of Human Resource Management*, 13(3) (2002), 431).

¹⁶⁸ J. Child and M. Warner, “Culture and Management in China”, in M. Warner (Ed), *Culture and Management in Asia* (2003).

¹⁶⁹ International Finance Corporation, *China’s Emerging Private Enterprises* (2000).

¹⁷⁰ M. Warner, “Globalization, Labour Markets and Human Resources in Asia-Pacific Economies: An Overview”, *International Journal of Human Resource Management*, 13(3) (2002), 384; G. Lee, L. Wong and K-H. Mok, *The Decline of State-Owned Enterprises in China: Extent and Causes*, Occasional Paper No. 2 (December 1999).

¹⁷¹ For an example of criticism of labor standards in China, see, e.g., A. Chan, *China’s Workers Under Assault* (2001).

with each employee that covers specified matters and which can be expanded to include other subjects such as probation period, training, confidentiality of trade secrets and supplementary insurance and benefits. Another law which also took effect on January 1, 2008, the Employment Promotion Law encouraged job creation, vocational and employment training and fairer employment practices, including the prohibition of discriminatory practices, among both local and foreign businesses.

The extensive disruptive period leading up to the enactment of the economic reforms in the late 1980s significantly damaged the foundation for the level of human capital necessary to support China's aspirations for industrialization and economic development. According to Redding China's education and training systems, as well as its labor market structure, were inadequate to meet the demands created by its rapid industrialization.¹⁷² At least part of the blame has been placed on the manner in which the state rigidly controlled almost every aspect of the human resources planning and policies in the country from 1949, when the Communists first came to power, to the beginning of the economic reforms in 1978. Nankervis and Lee have reported that state-owned enterprises (SOEs) during this period did not have human resources departments of the type commonly found in Western countries, and the relationship of employees to their employers was essentially a welfare system under which employees, generally without regard to performance, were guaranteed lifetime employment, wages at levels set by the state and promotions in accordance with seniority based systems.¹⁷³

Realizing that changes needed to be made with respect to training of managers and workers and labor market conditions, particularly given the need to meet the requirements imposed by foreign investors, China announced and implemented a variety of reforms, particularly within the last decade. For example, China became a member of the International Labour Organization, and the government passed a number of labor-related laws including the adoption of an employment contract system that reduced the stranglehold of the traditional welfare system by allowing firms to make hiring and termination decisions based on their actual operational requirements (i.e., employees could be laid off in order to reduce the impact of a business downturn and avert shutting down the entire enterprise).¹⁷⁴

Other commentators have reported that more and more Western-style human resources practices are appearing in China, although there is by no means universal acceptance of the changes. Specifically, notice has been taken of increasing use of "vacancy advertising and job hunting, application forms, testing, interviewing, reference checking

¹⁷² G. Redding, "The Capitalist Business System of China and its Rationale", *Asia Pacific Journal of Management*, 19 (2002), 221 (as referenced in R. Grainger and S. Chatterjee, *Chinese and Indian Systems: Divergent in the Midst of Global Trends*, in University of Sydney (Eds.), *Asia-Pacific Economic and Business History Conference* (2007), 1).

¹⁷³ A. Nankervis and N. Lee, "Managing Global Integration, National Values and Local Development in China", in S. Chatterjee and A. Nankervis (Eds.), *Asian Management in Transition: Emerging Themes* (2007) (as referenced in R. Grainger and S. Chatterjee, "Chinese and Indian Systems: Divergent in the Midst of Global Trends", in University of Sydney (Eds.), *Asia-Pacific Economic and Business History Conference* (2007), 1).

¹⁷⁴ Id.

and medical examinations” among Chinese enterprises.¹⁷⁵ Following implementation of the economic reforms, and abandonment of the command-economy system, slow but steady progress has also been made in channeling China’s human resources into more productive activities to capitalize on what many perceive to be one of China’s principal comparative advantages for the time being.¹⁷⁶ However, human resources and management practices had been neglected for so long that much still needs to be done in terms of resolving shortages and systemic issues in spite of the modernization efforts.¹⁷⁷ Even though changes in the human resources area are taking effect, albeit slowly, long-term prospects for continued growth and development in China depend on its ability to overcome the current shortage of skilled managers, particularly persons who have language skills and business experience to survive in a free market environment.

Deficiencies in management skills have obvious consequences in terms of potential problems with respect to planning and execution of enterprise strategies; however, another issue arising out of the new dynamism of the Chinese labor market, particularly the shift away from the traditional practice of a single employer for life, is that firms with poor managers can expect difficulties in recruiting and retaining skilled personnel who will likely move to other firms that are better managed and offer opportunities for higher wages and more sophisticated training.¹⁷⁸ In addition, foreign investors are focusing on the management skills of Chinese entrepreneurs during their due diligence process and are understandably reluctant to create ties with local enterprises that lack the requisite managerial experience and the capacity to communicate clearly with foreign partners.

Wehrich developed criteria to compare human resource practices, including procedures for recruiting new employees, factors influencing speed of promotion, performance assessment, training and development and security of employment.¹⁷⁹ According to him, Chinese firms tend to rely more heavily on schools than on other firms as sources of new employees, and Chinese workers have little loyalty to their firms or their profession. Performance reviews are infrequent, typically annually, and while workers typically receive regular salary increases the path for promotion is relatively slow. While promotions are supposed to be based on performance, potential ability and education, the reality is that family ties and good relations with top managers are extremely important for advancement. Like their firms, Chinese workers have their own long- and short-term goals and objectives with respect to training and development and progress is measured through state-organized examinations.

¹⁷⁵ Id.

¹⁷⁶ J. Child and M. Warner, “Culture and Management in China”, in M. Warner (Ed.), *Culture and Management in Asia* (2003).

¹⁷⁷ R. Grainger and S. Chatterjee, “Chinese and Indian Systems: Divergent in the Midst of Global Trends”, in University of Sydney (Eds.), *Asia-Pacific Economic and Business History Conference* (2007), 1.

¹⁷⁸ A. Nankervis and N. Lee, “Managing Global Integration, National Values and Local Development in China”, in S. Chatterjee and A. Nankervis (Eds.), *Asian Management in Transition: Emerging Themes* (2007).

¹⁷⁹ H. Wehrich, “Management Practices in the United States, Japan and the People’s Republic of China”, *Industrial Management*, 3 (March/April 1990).

Another emerging human capital issue for China is the actions that are needed in order to support the development and growth of the country entrepreneurial ecosystem. Blank noted that Chinese startups face significant challenges with respect to identifying, recruiting and retaining experienced technical and managerial talent.¹⁸⁰ Many new Chinese companies prefer to address projects and problems by hiring large numbers of relatively inexperienced workers, proceeding on the theory that things can get done simply by throwing a lot of bodies into the activity. While this strategy can be explained, in part, by the relatively low salaries that Chinese companies need to pay to find workers, it is not necessarily the most effective approach. Moreover, turnover among employees is quite high among companies located in Beijing and the tendency for employees to leave their jobs for better offers with no notice makes it extremely difficult for Chinese startups to build and maintain a dedicated and loyal team and fruitfully investment in employee training programs. Blank reported that tenacity was not always high among the founders of the young companies themselves, meaning that many entrepreneurs seemed quick to give up on their businesses if they were not successful within a relatively short period of time. All of this taken together, coupled with a reliance on taking the easy route of copying existing business models, meant that China's entrepreneurial ecosystem was struggling to develop the innovative flair seen in Silicon Valley and an acceptance and appreciation that innovation was typically a long and hard process that called for patience and resilience.

As for management at the highest levels, Blank reported that local investors had often complained about the lack of experienced C-level executives—persons who had been through the startup and growth phases of building a business many times in the past and had the know-how and connections to keep a new company on course.¹⁸¹ This situation obviously makes it difficult for new firms to find seasoned leaders; however, it also means that inexperienced leaders of new companies have few mentors in the larger ecosystem to turn to for advice and guidance. Lack of mentoring opportunities is a particular problem since many Chinese entrepreneurs have not had much, if any, prior work experience and little or no training in entrepreneurship as part of their formal education before starting their companies. In addition, management tools readily available in Silicon Valley have yet to catch on in China. Blank also noted that the founders and senior managers of Chinese startups are still struggling to understand their relationships with venture capitalists and other outside investors. In some cases, according to Blank, the management team sees the investor as “the boss” and the investor exerts a significant amount of influence over all of the day-to-day activities of the portfolio company. At the other extreme are management teams that take the money offered by their investors but are uninterested in any other advice or direction that investors and other board members might try to offer. Blank speculated that the relationship between members of the management team and their investors will improve and mature as investors begin to demonstrate their value to the management team beyond simply writing checks.

¹⁸⁰ S. Blank, *China Startups—The Gold Rush and Fire Extinguishers* (April 14, 2013), <http://steveblank.com/2013/04/14/china-startups-the-gold-rush/?preview=true> (accessed May 16, 2014).

¹⁸¹ *Id.*

Blank noted that in spite of the efforts of the Chinese government to manage information from abroad, including the construction and enforcement of the Great Firewall, local entrepreneurs have a strong working knowledge of software products and services that have been successful around the world.¹⁸² One reason for this is that there is a constant stream of educated Chinese engineers and programmers returning from the US who have been trained at prestigious universities such as MIT and Stanford and have also had the opportunity to work in Silicon Valley and thus observe firsthand how major global players such as Google, Microsoft, Facebook, Yahoo and Twitter develop their products and services. Blank also pointed out that the Chinese have become adroit at using VPN and similar tools to circumvent the Great Firewall and continue to access non-Chinese websites that the government has attempted to block.

Blank suggested that unleashing the creativity necessary for true innovation is a challenge in Chinese society for a variety of reasons including the long-lasting influence of an educational system that has in the past, and continues, to emphasize and reward rote learning and memorization and a political system that discourages people from asking questions and challenging the status quo.¹⁸³ In addition, innovation among Chinese entrepreneurs is a foreign and uncomfortable concept given that it typically requires risk taking and accepting a high chance of failure, both of which run contrary to cultural norms that continue to push young people toward “safe positions” with large established companies or the government. Innovation is also made more difficult by the restrictions on the flow of information within China as well as the barriers that the government has put in place on accessing new ideas with homes outside of China.

§1:11 India

India’s population was 1,205,073,612 as of July 2012, making it the second largest in the world, and some projections estimate that by 2050 India will have 1.5 billion people while China will shrink to less than 1 billion.¹⁸⁴ India is one of the youngest countries in the world: as of 2006 70% of the population was under the age of 35 and India has more persons in the 15 to 21 year old age group than any other country.¹⁸⁵ As of 2012, India’s labor force was 498.4 million, which ranked as the second largest in the world, and a key

¹⁸² Id.

¹⁸³ Id. However, Bill Gates has been quoted praising the Chinese educational system for the way it is approaching training of prospective scientists, engineers and programmers, noting that rather than follow the model used in the US that tries to teach students many different things each year the Chinese have focused on teaching a few things very well. See T. Risen, “Bill Gates Sees China as Tech Startup Competition”, US News and World Report, March 13, 2014, <http://www.usnews.com/news/articles/2014/03/13/bill-gates-sees-china-as-tech-startup-competitor> (accessed May 13, 2014).

¹⁸⁴ India, The World FactBook, US Central Intelligence Agency, <https://www.cia.gov/library/publications/the-world-factbook/geos/in.html>.

¹⁸⁵ R. Grainger and S. Chatterjee, “Chinese and Indian Systems: Divergent in the Midst of Global Trends”, in University of Sydney (Eds.), *Asia-Pacific Economic and Business History Conference* (2007), 1.

driver behind India's future economic growth will be the rapid growth of its working-age population, which will be one of the fastest growing groups between 2010 and 2050.¹⁸⁶

Like China, the foundation of India's rise to economic promise has been its human resources; however, Grainger and Chatterjee point out that the crucial difference between the countries is that India's HR advantage at the moment is based on its "intellectual capital", including the impressive annual output of engineers, physicians and business school graduates.¹⁸⁷ Drucker commented on the contrast between India and China as follows: "The greatest weakness of China is its incredibly small proportion of educated people . . . and there is the enormous manufacturing potential. In China, however the likelihood of the absorption of rural workers into the cities without upheaval seems very dubious. You don't have the problem in India because they have already done an amazing job of absorbing excess rural population into the cities . . .".¹⁸⁸ In light of the celebrated "education advantage", it is not surprising that India's accession has been fueled by its success in the information technology sector; however, critics argue that while credentialing figures for India are impressive, the quality of the services and the communications skills of the workers are often quite poor, and only a small percentage of the output provided by Indian firms meets or exceeds "world class" standards.¹⁸⁹

Given its emergence as a global services leader it is obvious that India has a significant need for a continuous flow of highly trained professionals. India has attained remarkable levels with respect to its annual output of graduates in engineering, medicine and business; however, for many years a number of best graduates left the country to pursue opportunities in the US, Europe and elsewhere. This trend appears to be reversing somewhat and Chatterjee has noted that a growing number of Indians are returning to their homeland and bringing with them their knowledge, experience, international connections and capital.¹⁹⁰ Bucknall and Ontaki had the following observation on the struggles that Indian firms face in satisfying their demand for highly trained workers: "People are something India has plenty of. But ask any business leader what the biggest problem is today and the chances are that he or she will say it is finding the right people and getting them to work productively. That may sound paradoxical. But the fact is that due to its late start on the road to development and strong history of union activity, India

¹⁸⁶ P. Coy, If Demography Is Destiny, Then India Has the Edge: Research from HSBC and Standard Chartered shows the US and other industrialized nations slipping while some surprising leaders emerge, http://www.businessweek.com/print/magazine/content/11_04/b4212009727572.htm.

¹⁸⁷ R. Grainger and S. Chatterjee, "Chinese and Indian Systems: Divergent in the Midst of Global Trends", in University of Sydney (Eds.), *Asia-Pacific Economic and Business History Conference (2007)*, 1.

¹⁸⁸ P. Drucker, Peter Drucker on the Future of India, The Institute for the Future Interview for Fortune Magazine, January 7, 2004 (as quoted in R. Grainger and S. Chatterjee, "Chinese and Indian Systems: Divergent in the Midst of Global Trends", in University of Sydney (Eds.), *Asia-Pacific Economic and Business History Conference (2007)*, 1).

¹⁸⁹ R. Grainger and S. Chatterjee, "Chinese and Indian Systems: Divergent in the Midst of Global Trends", in University of Sydney (Eds.), *Asia-Pacific Economic and Business History Conference (2007)*, 1 (also noting comments in Can India Fly?, The Economist — Special Report on Indian Business, June 3-9, 2006, 3-17 (2006), that the Indian tertiary education system produces graduates who are good at cheating on examination and poor with respect to communications skills).

¹⁹⁰ S. Chatterjee, "Perspectives of Human Resource Management in the Asia Pacific", in A. Nankervis, S. Chatterjee and J. Coffey (Eds.), *Human Resource Management in the Asia Pacific (2006)*.

has traditionally lagged in the systematic development of high productive talent.”¹⁹¹ Grainger and Chatterjee also noted that “[a]lthough [the Indian] diaspora has contributed expertise, skills shortages remain”.¹⁹²

Although a large number of Indian professionals have left the country and remained away, they have nonetheless retained strong ties with their homeland and the global network among Indians remains strong. Among other things, this had led to a significant volume of remittances by non-resident Indians back to India—\$23 billion from 20 million Indians living outside of the country in 2004—and the World Bank has noted that India generally stands at the top of the list of developing countries with respect to the cash inflows received from global family networks.¹⁹³ In fact, a description of the “global Indian network” compiled in 2006 included Malaysia’s Indian ethnic community, the largest around the world with an estimated 1.8 million people in 2000, as well as an estimated 40,000 Indians living and working in Russia. It was estimated that 78% of the Indians in the US in 2000 had university qualifications, which made them the most highly educated ethnic group in the US. In addition, female Indian migrants have been described as being among the best educated minority groups in many countries around the world.¹⁹⁴

The relative youth of the country, coupled with a relatively high level of basic literacy skills (the literacy rate in India — defined as people aged 15 and over who can read and write — is 61% and school life expectancy (primary to tertiary education) is 10 years), contributes to an open mindset and relatively broad acceptance of entrepreneurial values. This is reflected in survey results showing that as of 2005 about half the population was self-employed and could be characterized as “micro-entrepreneurs”.¹⁹⁵ Unfortunately, GDP growth in India has not always been accompanied by effective deployment of the workforce, and, in fact, the number of unemployed Indians rose by one million between 2005-06 and 2007-2008 and by 2008 the national unemployment rate was estimated to be around 9.2% with unemployment particularly problematic among younger workers.

One of the most important challenges facing the Indian government is creating and implementing successful strategies for increasingly educating its current and future workforce. For example, 2006 figures indicated that India invested just 3.2% of GDP in education, which placed it 142nd in the world.¹⁹⁶ In rural areas, public schools are often staffed by teachers who are poorly trained and often miss work, with the result of dismal learning levels and high dropout rates. Even private schools are not at the standards necessary to produce graduates with the skills needed to survive and thrive in the modern

¹⁹¹ As cited in S. Chatterjee, “Bridging the Gap between Potential and Performance: The Challenges of Indian Management” (in S. Chatterjee and A. Nankervis (Eds.), *Asian Management in Transition: Emerging Themes* (2007), 83).

¹⁹² R. Grainger and S. Chatterjee, “Chinese and Indian Systems: Divergent in the Midst of Global Trends”, in University of Sydney (Eds.), *Asia-Pacific Economic and Business History Conference* (2007), 1, 39.

¹⁹³ Id.

¹⁹⁴ B. Lal, *The Encyclopedia of the Indian Diaspora* (University of Singapore Press, 2006).

¹⁹⁵ H. Davis, S./ Chatterjee and M. Heuer (Eds.), *Management in India: Trends and Transitions* (2005).

¹⁹⁶ India, *The World FactBook*, US Central Intelligence Agency, <https://www.cia.gov/library/publications/the-world-factbook/geos/in.html>.

economic environment. Vocational training is rare and poorly done, and functional illiteracy remains quite high among those aged 15 to 35. With regard to the skills of those Indians who are currently employed, the Indian public sector remains large and, as a result, the government still exerts a significant amount of influence in the development of the country's human capital through employment, education and training.¹⁹⁷ India does have a large number of public, private and accredited universities, independent institutes and colleges that collectively offer a wide range of degree and diploma programs.¹⁹⁸

Membership in labor unions in India is relatively small and the seven million unionized workers as of 2010 represented less than one-seventh of the workers in the organized sector and less than 2% of the total workforce in the country. Unions are found primarily in state-owned enterprises and most are linked to political parties.¹⁹⁹ While commentators have suggested that trade unions can and should play a more important role in India in fending off the demands of large employers aggressively looking to expand their workforces quickly and taking advantage of an excess supply of labor it has been difficult for union organizers to gain any traction. One problem has been the difficulty in identifying the exact size of trade union membership and union members are dispersed among several groups, a situation that makes coordination more difficult. Nonetheless, there appear to be indications that permanent and contract workers are seeking ways to cooperate in negotiating with employers and scandalous disclosures regarding working conditions throughout India have contributed to international pressure on Indian firms to address the collective concerns of their workers.

India's central and state legislatures have enacted more than 45 labor laws that regulate various aspects of employment, including industrial relations, service conditions, remuneration and social security benefits. The labor legislation depends primarily on the geographical location of the employer or establishment, number of employees, nature of the work carried out by employees and industry in which the employer is engaged. India has a number of laws that regulate wages, retrenchment, closure and layoffs. Businesses employing 100 or more workers must seek and obtain government approval before proceeding with layoffs or business closures, and the evidence is that approvals are not easily obtained.²⁰⁰

Culture plays a significant role in the interactions between managers and employees in the workplace and must be taken into account when selecting and implementing HRM practices in India. India is a high power distance society due to a variety of factors such as the traditional Indian caste system and British rule and this leads to the use of hierarchical organizational structures with numerous levels of authority between the top

¹⁹⁷ R. Grainger and S. Chatterjee, "Chinese and Indian Systems: Divergent in the Midst of Global Trends", in University of Sydney (Eds.), *Asia-Pacific Economic and Business History Conference* (2007), 1, 39.

¹⁹⁸ India, Country Studies, Library of Congress, <http://lcweb2.loc.gov/frd/cs/intoc.html>. The Indian government has established and sponsored a number of institutes of "national importance", such as the Indian Institute of Technology and the Indian Institute of Management.

¹⁹⁹ India, Country Commercial Guides, US Commercial Service, <http://export.gov/india/doingbusinessinindia/index.asp>.

²⁰⁰ Id.

and bottom of the organization. Employees are reluctant to disagree with, or question, those higher than them in the hierarchy. Indian culture is also very collectivist with tight social frameworks consisting of group based on the same caste, religion or family and recruiting, hiring and promoting employees from one's own caste is quite common. Social customs in India rely heavily on rituals, a practice which is thought to be based on a culturally driven desire to avoid uncertainty. Gender egalitarianism is low in India and it is common for women to encounter difficulties with respect to advancement in business settings. Grainger and Chatterjee emphasized the cultural influence of the Hindu tradition in India and argued that it has contributed to the popularity of Guna dynamics as a framework for employee training, team building and performance evaluation in the workplace. Among other things, several of the Guna dynamics, which are personality attributes that guide individual, group or organizational behavior, serve as motivators for workers to pursue higher values, actions and solutions while providing strength for them to fend off negative influences such as ignorance, corruption and lack of values.²⁰¹

Singh commented on the dearth of studies relating to linkages between HRM practices and organizational culture in India and set about to conduct research and analysis on the relationship between variables of HRM practices and organizational culture using a sample of 95 respondents from two private sector organizations.²⁰² After collecting and analyzing the data, Singh found evidence to support a significantly positive correlation between various HRM practices (i.e., planning, recruitment, selection, training and development, performance evaluation, career management and rewards) and organizational culture as measured by self-realization, status enhancement, inventive values and socio-economic support. The findings were particularly interesting in the context of Indian society and culture. For example, Sinha and Sinha found self-realization and inventive values as the highest form of work values in Indian culture²⁰³ and the results of the survey conducted by Singh confirmed that organizations appreciate corporate core values of self-realization and inventive values as they encourage and recognize innovation, creativity and achievement. In addition, status enhancement and socio-economic support are important in an Indian environment that has historically been "ridden with insecurities and lack of resources" and in which "people generally have a history of failures".²⁰⁴

A descriptive collection of common HR practices and policies in India compiled by Rao included the following²⁰⁵:

²⁰¹ R. Grainger and S. Chatterjee, "Chinese and Indian Systems: Divergent in the Midst of Global Trends", in University of Sydney (Eds.), *Asia-Pacific Economic and Business History Conference* (2007), 1, 31. See also S. Chatterjee, "Human Resource Management in India: 'Where From' and 'Where To?'" *Research and Practice in Human Resource Management*, 15(2) (2007), 92.

²⁰² A. Singh, *A Study of HRM Practices and Organizational Culture in Selected Private Sector Organizations in India* (2009).

²⁰³ J. Sinha and D. Sinha, "Role of Social Values in Indian Organizations", in H. Kao, D. Sinha and Ng Sek-Hong (Eds.), *Effective Organizations and Social Values* (1994).

²⁰⁴ A. Singh, *A Study of HRM Practices and Organizational Culture in Selected Private Sector Organizations in India* (2009), 64, 70-71 (citing J. Sinha, *Work Culture in the Indian Context* (1990)).

²⁰⁵ P. Rao, *Society for Human Resource Management: Human Resource Practices in India* (2007), www.shrm.org.../rao%20india%20hr%20practices%20to%20post.ppt.

- Resumes are closely examined to identify successful work experiences, career stability and, most importantly, continuous academic achievements such as enrollment in relevant graduate classes, certification and the like. Employers consider academic achievements to be significant indicators of the potential learning capability of an applicant.
- Employee referrals and succession planning are predominant in the Indian work environment, especially for middle and upper-level jobs. As noted above, India is a collectivist culture and thus there is an understandable preference for hiring and promoting employees who are known and it is believed that such staffing practices promote loyalty and retention.
- Employment testing is common for entry-level positions as employers use rigorous math, analytical and communications tests to identify high-potential learners and collect information necessary for ensuring reliability of the hiring process.
- The demands of online recruiting in India are staggering as new job postings inevitably attract huge numbers of resumes and rapidly expanding firms advertise large numbers of new positions annually. As a result, Indian HR departments are continuously struggling with screening resumes for authenticity and relevance.
- Branding is important in the recruitment process since Indian employees are quite status conscious and prefer to work for companies that have established themselves as well-recognized in employment and social circles.
- Personal questions (i.e., questions regarding marital status, caste and/or family background) are often asked during the hiring process on forms and while interviews are being conducted. This often results in discrimination in the hiring process as employees select candidates based on caste and shy away from hiring candidates who indicate that they intend to start a family.
- Indian companies invest substantial amounts of capital and time in training, which is considered to be an extension of the academic learning that is highly valued in India. Training programs in India are extensive and longer in duration and are thought of as a means of creating loyalty among employees to their companies. Training begins at the entry levels with a focus on practice and soft skills not often taught in university and college programs such as effective communications, team dynamics and also relevant product-based and technical knowledge.
- Performance management is challenging in India due to the collectivist culture that encourages close relationships between superiors and subordinates that can complicate attempts to impose formal appraisal processes. Personal relationships often cause superiors to inflate the work performance of their subordinates. In addition, organizational loyalty is often given preference over performance and efficiency and promotions are frequently based on tenure rather than the quality of work. However, many Indian companies are trying to implement more progressive methods for performance management (e.g., a 360-degree approach or management by objectives (MBO)).
- A base salary, usually amount to 40% to 50% of an employee's compensation package, is provided with several other allowances that are typical to Indian employers including support for housing and medical expenses and cost-of-living adjustments to take into account variations in living expenses in different locations

around the country. In addition, consistent with the collectivist notion of employees being members of an organizational family companies provide assistance in the form of short- and long-term loans and food subsidies.

- The importance of status in Indian culture explains the popularity of special perquisites for executives and other senior managers as a means for increasing their social status and wealth as a reward for work achievement and/or longevity.

§1:12 Indonesia

Indonesia's estimated population in 2012 was 248,645,008, making it the world's fourth most populous country.²⁰⁶ The island of Java, roughly the size of New York State, has well over half of Indonesia's people. It is the most populous island in the world and one of the most densely populated areas in the world. One of the most significant trends in Indonesian society is urbanization—from 1971 to 2010 the percentage of the population living in urban areas rose from 17% to 44%—and surveys have shown that the movement toward urban areas can be attributed mainly to the lack of employment in the countryside and the apparent willingness of migrants to tolerate the pollution, crime and poverty in the cities as short-term hurdles to be overcome on the way to a better life.²⁰⁷ While Indonesia is predominantly Muslim there is substantial ethnic and cultural diversity within what is a very large geographic area and this diversity leads to regional differences in HR practices within the country and distinguishes HRM in Indonesia from Western countries and other Asian nations.²⁰⁸

As of 2012, Indonesia's labor force was 119.5 million, which ranked as the fifth largest in the world.²⁰⁹ This was an increase from 71.7 million in 1990 and 95.7 million in 2000 and was attributable not only to population growth but also an increase in the participation rate of women in the labor force. In the last two decades, Indonesia has experienced a rapid economic and social transformation that has led to significant economic growth and affected the structure of the labor force; however, in spite of the growth employment creation, particularly in the formal sector, has been limited and there have not been enough new jobs to accommodate the demands of the increasing amount of labor supply. As a result, people who cannot find work in the formal sector have either remained unemployed or have sought to make a living in the informal sector. On the supply side Indonesia has continued to struggle with the low quality and education background of its labor force, the impact of globalization on the local labor market and a lack experience and skills in industrial relations. In Indonesia, unions and labor relations, which were long under government control, are still in the development stage and are

²⁰⁶ Indonesia, Background Notes, US Department of State, <http://www.state.gov/outofdate/bgn/indonesia/195233.htm>.

²⁰⁷ Indonesia, Country Studies, Library of Congress, <http://lcweb2.loc.gov/frd/cs/idotoc.html>.

²⁰⁸ For further discussion see M. Kelly, Comparison of Human Resource Management Practices and Perceptions of Agri-Business Employees Across Three Indonesian Subcultures (2008).

²⁰⁹ The discussion in this paragraph is adapted from M. Hasoloan, Country Report: The Indonesian Labor Market, <http://www.oecd.org/fr/emploi/emp/37873500.pdf>

expected to evolve as new laws affording greater protections to workers are introduced and adopted.²¹⁰

Bennington and Habir noted that the study of HRM in Indonesia was quite limited during the 1990s and early 2000s even though the country was experiencing significant growth and was coming under increased scrutiny from international investors with a potential interest in providing capital to Indonesian firms reliant on a local workforce.²¹¹ As mentioned above, they recognized the tremendous diversity within the Indonesian economy—45% of the labor force still worked in agriculture while industry and services employed 16% and 39% of the workforce, respectively—and that as much as 70% of the workforce during the late 1990s was toiling in the informal sector. In spite of these limitations, they were able to identify key characteristics of the general conditions of employment in Indonesia and issues in core HR functions (i.e., equal opportunity policy and practice; recruitment, selection, and retention; training; compensation; performance management; and separation and retirement). Bennington and Habir also observed that, as a general matter, “[a] common feature of the culture in Indonesian organizations is the *keluarga besar* concept, which means that staff are seen as part of one big family which shares common purposes, and friendly and familiar relationships”.²¹²

Bennington and Habir provided a detailed discussion of equal opportunity policies and practices in Indonesia and noted that while the national Constitution stipulated equal rights and obligations for all citizens, applicable laws did not explicitly forbid discrimination based on gender, race, disability, language, or social status and “equal opportunity” was generally not a priority for Indonesian companies.²¹³ Women faced discrimination in the form of lower wages and gender stereotyping of jobs in ways that put women at a disadvantage and were often hired as “day workers” in order to avoid an obligation on the employer to provide benefits. Sexual exploitation and harassment in the workplace was common and few incidents are reported since women feel that there is little chance of success with their cases. Of particular note in a country with significant racial, religious and ethnic diversity was the conclusion that discrimination on ethnic and religious grounds was rife in many parts of the country with ethnic Chinese, who constituted less than 5% of the population, being particularly negatively impacted and restricted from joining the civil service, state enterprises, the armed forces, the police force and from entering a university.

Bennington and Habir commented that recruitment and selection were high priority and challenging activities in the private sector given the tremendous growth (and corresponding hiring needs), the difficulties that firms could expect to encounter when

²¹⁰ A. Rachmi, *The HRM Practices of Indonesian Medium-Sized Companies in the Textile Industry in Java* (2013).

²¹¹ L. Bennington and A. Habir, “Human Resource Management in Indonesia”, *Human Resource Management Review*, 13 (2003), 373 (citing M. Hess, “Economic Development and Human Resource Management: A Challenge for Indonesian Managers”, *Indonesian Quarterly*, 23(2) (1995), 149).

²¹² L. Bennington and A. Habir, “Human Resource Management in Indonesia”, *Human Resource Management Review* (2003) 373, 378 (citing R. Rohdewold, *Public Administration in Indonesia* (1995)).

²¹³ The discussion in this paragraph is adapted from L. Bennington and A. Habir, “Human Resource Management in Indonesia”, *Human Resource Management Review* (2003) 373, 381-382.

attempting to unwind poor recruiting choices through dismissals and high turnover rates due in part to the low levels of loyalty among Indonesians and their tendency to move quickly and often between jobs. They noted that Indonesian companies relied on a variety of methods for recruitment but that hiring at the managerial levels was still often based on patronage and ethnic preferences (e.g., large Chinese Indonesian business groups and ethnic Malay companies normally recruit out of their own ethnic pool). As noted above, discrimination against women and other groups also plays a big part in recruitment and selection practices among Indonesian companies.²¹⁴

Bennington and Habir also touched on several other core HRM issues. For example, they noted that there was no government-imposed training levy that applied across all sectors in Indonesia and at the time they were collecting their data in the late 1990s and early 2000s it was estimated that companies typically invested about 1% of their payroll in training, a level that was on a par with the amounts spent in most of the other newly industrialized countries.²¹⁵ With regard to compensation practices in Indonesia, Bennington and Habir noted that there was “little transparency in the compensation systems that apply in both public and private sectors in Indonesia” and that there was “[an] enormous difference between the lowest and highest paid employees in many organizations”.²¹⁶ An important concern was the poor productivity and quality of labor in Indonesia and the high levels of absenteeism and inattention to the details of work by employees who were present and appeared to be more concerned with preparing for their “private” work. Performance appraisal schemes were hindered by societal culture characteristics such as a preference for consensus and harmony, a tendency to avoid open criticism and the importance of personal relationships over functional relationships.²¹⁷ Characteristics of Indonesian societal culture such as high power distance and collectivism also make it more difficult for HR managers to introduce practices celebrated in the West such as empowerment, participation, and incentive oriented human resource systems.²¹⁸

Bennington and Habir reported that “[t]he role of HR managers varies considerably and is somewhat dependent upon size, sector, cultural influences, and type of ownership of the business” and that “[t]he roles, although not mutually exclusive, vary between the provision of housing and social facilities for families in remote areas, personnel administration, relationship management, and preventing strikes”.²¹⁹ HR managers usually reported either to the most senior manager under the chief executive or directly to the chief executive and the Indonesian HR managers interviewed by Bennington and Habir often alluded to the challenges they faced in gaining credibility within their organizations and clarifying and justifying the roles they played. The HR function was not generally perceived as prestigious and HR departments were usually identified as either “Human Resource Development” or “Personal Administration” as opposed to

²¹⁴ The discussion in this paragraph is adapted from L. Bennington and A. Habir, “Human Resource Management in Indonesia”, *Human Resource Management Review* (2003) 373, 382-383.

²¹⁵ *Id.* at 383.

²¹⁶ *Id.* at 384.

²¹⁷ *Id.* at 386.

²¹⁸ *Id.* at 389.

²¹⁹ *Id.* at 387.

HRM. Bennington and Habir noted that efforts of HR managers in Indonesia to impose a more professional and comprehensive approach to HRM were hampered by external factors including the failure of the government to proactively implement and support laws and regulations that would promote fair compensation, prevention of occupational health and safety problems and development of workers.

Rachmi conducted research on an important and emerging sector for Indonesian business—medium-sized companies—through case studies and surveys to gain a better understanding of how HRM practices relating to recruitment and selection, training and development, remuneration and rewards, performance appraisals and industrial relations are implemented in companies of that size.²²⁰ Rachmi noted that family-owned businesses typically were not interested in formal HRM practices and that most of the activity was centered within proprietary limited companies which did seem to be open to formal organizational structures with a personnel or HRM department, formal HRM practices and clear job descriptions. Rachmi cautioned, however, that some of the HRM practices were loosely followed due to either cost efficiency or a lack of HRM knowledge and that most medium-sized companies considered HRM to be less important when resources were limited and tended to place more attention on finance and marketing.²²¹ Some of the specific findings identified by Rachmi included reliance on both formal and informal methods of recruitment and use of a formal selection process with specific criteria for new jobs that was sometimes upset by the occasional preference for family members and friends of current employees; “on-the-job training” at the beginning of the employment relationship used primarily to familiarize new employees with their jobs and working environment and ongoing training for skills development; and implementation of formal performance appraisals, including revealing the results to employees, conducted on a regular basis and used for consideration of wage increases and career development (e.g., promotion).²²² Rachmi also noted that the influences of Indonesian societal culture could be found in the workplace through paternalistic leadership styles, preferences for collective work rather than individual work, the high value placed on hierarchy, seniority and status and the view of the organization as a big family. Among other things, these cultural influences drove a preference for teamwork and other types of cooperative activity among workers.²²³

§1:13 Korea

As of 2012, the population of Korea was 48,860,500, making it the 25th largest in the world, and Korea remained one of the most densely populated countries in the world with Seoul, the capital, being the largest city and home to more than 10,442,000.²²⁴ Koreans

²²⁰ A. Rachmi, *The HRM Practices of Indonesian Medium-Sized Companies in the Textile Industry in Java* (2013). This work is also recommended as source for descriptions of prior research activities relating to development of HRM practices in Indonesia.

²²¹ A. Rachmi, *The HRM Practices of Indonesian Medium-Sized Companies in the Textile Industry in Java* (2013), 205-206.

²²² *Id.* at 208-210.

²²³ *Id.* at 216-218.

²²⁴ South Korea, *Country Studies*, Library of Congress, <http://lcweb2.loc.gov/frd/cs/krtoc.html>. See also *en.wikipedia.org/wiki/Seoul*.

are predominately homogenous, with the largest other ethnic group being a very small number of Chinese. Korea faces the problem of a rapidly aging population and, in fact, the speed of aging in Korea is unprecedented in human history, 18 years to double aging population from 7–14% (least number of years), overtaking even Japan.²²⁵ The aging population raises a number of workforce related challenges for Korea including a shrinking of the overall size of the workforce as older workers retire or are forced to retire by their firms and a lack of vibrancy and innovation in the workforce due to an imbalance in the ratio of young to old in the workforce.²²⁶

As of 2012, Korea's labor force was 25.18 million, which ranked as the 26th largest in the world, and approximately 52% of the "adult population", aged 15 or older, participated in full-time economic activities. The work force is generally well educated, with at least a high school level of education, due to the widespread availability of education in Korea. In fact, Koreans have traditionally placed great importance on education as a means for self-fulfillment as well as for social advancement and the emphasis on education is often cited as a primary source for Korea's rapid economic growth over the past four decades, as it produced needed scientists, engineers and specialists, as well as, a well-educated labor pool generally.²²⁷

Historically, labor unions played an important role in Korean civil society, participating and sometimes acting in major social and political events and demonstrations.²²⁸ It has been observed that as authoritarian regimes have given way to democratic ones, Korean workers began to actively demand due rights and rewards and this often led to violent clashes with management or law enforcement. Today, however, clashes have subsided and labor-management cooperation is rapidly spreading and labor unions are focused on practical matters relating to employment, including minimum wages and other general labor standards. The methods of participation used by labor unions have also changed as they now rely on more traditional negotiation methods to achieve their objectives.²²⁹

It has been reported that as a response to growing demands for lifelong competency development, the Korean government has gradually expanded investment in vocational training.²³⁰ In addition, as a reaction to the trend of low fertility in Korea and the aging labor force discussed above, various measures have been implemented to increase the employment rate of women including easing discrimination in employment, supporting reconciliation between work and family life and facilitating career breaks caused by pregnancy and childbirth. Finally, a variety of other measures were implemented by the

²²⁵ See T. Klassen South Korean: Ageing Tiger, Global Brief (January 12, 2010); N. Howe, R. Jackson and K. Nakashima, *The Aging of Korea: Demographics and Retirement Policy in the Land of the Morning Calm*, Center for Strategic and International Studies (2007), 7; and http://en.wikipedia.org/wiki/Demographics_of_South_Korea.

²²⁶ http://en.wikipedia.org/wiki/Demographics_of_South_Korea

²²⁷ South Korea, Country Studies, Library of Congress, <http://lcweb2.loc.gov/frd/cs/krtoc.html>

²²⁸ The discussion in this paragraph is adapted from http://www.nationsonline.org/oneworld/korea_south_profile.htm

²²⁹ South Korea Profile, http://www.nationsonline.org/oneworld/korea_south_profile.htm.

²³⁰ The discussion in this paragraph is adapted from <http://www.korea.net/AboutKorea/Korea-at-a-Glance/Society>

government to attempt to expand and stabilize employment of the elderly, such as extending the retirement age, reforming wage systems and reducing discrimination and prejudice based on age.

The main legislation in Korea regulating the employer-employee relationship is the Labor Standards Act (LSA), which applies to businesses or workplaces with five or more employees with a few exceptions. The LSA prescribes the minimum standards of working conditions for employees as well as specific requirements for employers in relation to various labor matters (e.g., requirements relating to the dismissal of employees). Any provision in the employment contract which fails to meet the minimum requirements prescribed under the LSA are void, but employers and employees are free to agree on terms that match or enhance those granted by statute. In addition to the LSA, there are numerous other statutes that apply to specific labor related matters. For example, the Minimum Wage Act prescribes the minimum wages for workers, and the Act on Gender Equality Employment and Reconciliation of Work and Family prohibits various forms of gender-based discrimination by employers during recruitment and employment. The relevant authorities have also enacted statutory instruments from time to time to support existing legislation. For example, under the Minimum Wage Act, the Minister of Labor is authorized to set a minimum wage standard each year, to which employers must adhere.

Researchers have generally observed that Korean cultural norms, like those in China, have been heavily influenced by Confucianism.²³¹ However, Jung has noted some changes in Korean cultural values in the form of new attitudes toward money and business that differ from those that are part of the traditional Confucian value system.²³² It is well recognized that Confucian societies generally assigned low social esteem to those who engaged in commercial activities and for many years Koreans, like other Confucian countries, looked down on people who conspicuously accumulated and consumed wealth. However, Jung argued that Korean industrialization has been accompanied by a slow but steady elevation of the relative social status of businesspeople and industrialists and as capitalism has taken hold in Korea more and more “ordinary people” have begun to focus on money as an important measure of personal success. Jung also observed that traditional Confucian attitudes regarding the role of the women and young people have also been changing in Korea as the economy has been transformed and modernized, educational opportunities have expanded and Western values have been transferred into the country.²³³ As for young people, the seniority-based business and social structures typically found in Confucian societies are beginning to give way new managerial practices and systems that recognize the skills that younger workers in their 20s and 30s bring to a technology-based economy and young people are at the forefront

²³¹ P. Hargittay and B. Kleiner, “Effectively Managing Korean-American Businesses”, *Management Research News*, 28(6) (2005), 55.

²³² K-H Jung, *An Upsurge of Entrepreneurship in Korea and Its Possible Reasons* (Paper Prepared for Expert Workshop on Entrepreneurship in Asia: Creating Competitive Advantage in the Global Economy, Hong Kong, July 8-11, 2002), http://www.mansfieldfdn.org/programs/program_pdfs/ent_korea.pdf

²³³ Id.

of entrepreneurial activities in the information technology sector. A related development is the increased use of merit-based pay and promotion systems among Korean companies.

One scholar has observed that “virtually all comparative studies of Korean management have indicated that Korean businesses tend to be run in a hierarchical, authoritarian, and centralized manner”²³⁴ and Morden and Bowles have commented that Korean companies prefer authoritarian management since it allows them to move quickly and decisively.²³⁵ Hargittay and Kleiner have also confirmed that Korean firms tend to be managed in a paternalistic and authoritarian fashion based on the principles of a family or clan system and that this leads to a top-down decision-making process.²³⁶ Loyalty and harmony are extremely important among Koreans and this means that employees tend to be dedicated to the interests of their employers and that firms have paternalistic concerns and attachments to their employees. It is common for new employees to undergo intense orientation programs during which they are indoctrinated regarding the company’s values, philosophies and traditions. Long-term employment has been the expectation and norm and employees are extremely reluctant to change companies.

Several researchers have studied the evolving practices in Korea regarding recruitment and hiring and the consensus seems to be that “professional managers and executives are becoming an increasingly powerful force in South Korean companies”.²³⁷ With regard to recruitment, Chen observed that many managers are recruited through open competition from elite social groups, such as graduates of elite universities like Seoul National, and that preferences are given to candidates with geographical and school/university ties when management power groups are created. Owners of Korean firms often prefer to hire managers from their own school or university or from among their extended network of hometown friends.²³⁸

Koreans have been characterized as highly motivated workers known for enduring long work days²³⁹, characteristics which are aligned with the traditional Confucian values of diligence and harmony. Korean employees recognize and accept the need to respect authority and be loyal to their employer and seniority plays a big role in decisions relating to promotion, job status and job security. In fact, Morden and Bowles have observed that the level of seniority, high wages and job security tend to be the most important motivational factors for Korean employees.²⁴⁰ However, there are signs that Korean firms are beginning to combine performance assessment with seniority when determining how employees are rewarded and promoted and, for example, companies

²³⁴ F. Fukuyama, *Trust: The Social Virtues and the Creation of Prosperity* (1995), 134.

²³⁵ T. Morden and D. Bowles, “Management in South Korea: A Review”, *Management Decisions*, 36/5 (1998), 316.

²³⁶ P. Hargittay and B. Kleiner, “Effectively Managing Korean-American Businesses”, *Management Research News*, 28(6) (2005), 55.

²³⁷ T. Morden and D. Bowles, “Management in South Korea: A Review”, *Management Decisions*, 36/5 (1998), 316, 319.

²³⁸ M. Chen, *Asian Management Systems* (1995).

²³⁹ *Id.*

²⁴⁰ T. Morden and D. Bowles, “Management in South Korea: A Review”, *Management Decisions*, 36/5 (1998), 316.

may continue to set wages and salaries in the traditional manner based on seniority while awarding bonuses based on performance.²⁴¹

While Korean managers prefer the authoritarian style of leadership, it is tempered by a humanistic and paternalistic attitude that views employees as important assets of the firm. As a result, many firms view employee training is an important business activity and this is reinforced by legal requirements for staff training imposed on companies above a certain size.²⁴²

Kim surveyed some of the changes that occurred with respect to human resources management practices in Korea during the 1990s, a period that saw the country endure a crippling financial crisis that significantly disrupted the corporate culture in Korea and the traditional understanding of managers and workers regarding the employment relationship.²⁴³ Kim described the “traditional HR system” in Korea as one that focused on “cultivating long-term loyalty and organizational attachment from employees by providing job security and various seniority-based HRM policies” and noted that while this model was useful during the period of rapid growth achieved by Korean firms since the 1960s it was becoming much less efficient in an era in which the key environmental factors included “globalization, fierce international competition, and economic distress”.²⁴⁴ After the Asian Financial Crisis in 1997, Korea realized that steps needed to be taken increase the efficiency of human resources deployment and facilitate flexible use of human resources. As a result, Kim reported that Korean employers were forced “to reconsider the practice of long-term employment, and accelerate the widespread adoption of relatively short-term, performance-based, and market-oriented methods of managing human resources”.²⁴⁵ Kim and Park found that lifetime employment assumptions were greatly weakened in the Korean private sector and that while seniority-based compensation remained popular there was definitive movement toward adoption of merit pay systems that measured individual ability and performance and took those factors into account when determining wages and bonuses.²⁴⁶

Kim also noted that Korean human resources management practices after the Asian Financial Crisis took on many aspects of US practices and procedures and specifically noted the following development among Korean firms: “a 360-degree appraisal has been introduced into an increasing number of firms; hiring decisions are made at a more decentralized level; the selection process places more importance on interviews than on traditional paper-and-pencil tests; training and education programs focus more on

²⁴¹ M. Chen, *Asian Management Systems* (1995).

²⁴² T. Morden and D. Bowles, “Management in South Korea: A Review”, *Management Decisions*, 36/5 (1998), 316.

²⁴³ D.-O. Kim, *A Two-Dimensional Typology of Human Resource Management Systems in Korea* (Asian Institute of Corporate Governance: AICG Working Paper 2003-11, December 2002), <http://www.aicg.org/data/dongwonkim4.pdf>

²⁴⁴ Id.

²⁴⁵ D.-O. Kim and S. Kim, “Globalization, Financial Crisis, and Industrial Relations: The Case of Korea”, *Industrial Relations*, 42(3) (2003), 341.

²⁴⁶ D.-O. Kim and S. Park, “Changing Patterns of Pay Systems in Japan and Korea: From Seniority to Performance”, *International Journal of Employment Studies*, 5(2) (1997), 117.

technical knowledge and skills than on loyalty and commitment to the company; and companies publicly announce that they do not provide employment security but employability”.²⁴⁷ Another dramatic byproduct of the erosion of the lifetime employment system in Korea has been the shift toward increased use of a contingent labor force of workers that replace regular employees, perform the activities and workload and yet receive wages that are just 40% to 80% of those previously paid to regular workers. Kim cited figures from the Korean National Statistic Office to the effect that the proportion of contingent workers among employed Koreans rose from 40% to 56% from the mid-1990s to 2000.²⁴⁸

§1:14 Mexico

Mexico had approximately 114,975,406 people as of July 2012, making it the most populous Spanish-speaking country in the world, the second largest country in terms of population in Latin America after Portuguese-speaking Brazil, and 11th most in the world. It is estimated that about 76% of the population of Mexico lives in the cities, with Mexico City alone having almost 20 million inhabitants and ranking as one of the most densely populated areas in the world. One also finds areas of high density of population in the commercial and industrial centers that have emerged along and near the US-Mexico border. As of 2012, Mexico’s labor force was 50.01 million, which ranked as the 12th largest in the world.

A 2005 report on “building human capital” in Mexico included some startling statistics about the current and projected demographic profile of Mexico at that time and the serious policy issues confronting the country as it “ages” over the coming decades.²⁴⁹ Specifically, as of 2005, the ratio of Mexican children under the age of 20 to Mexican aged 65 and over stood at 9:1, 5% of the population was 65 or older—as had been the case for decades—and the median age was just 25; however, based on projections developed by the United Nations it is expected that by 2050 that ratio will be 1:1, 20% of the Mexican population will be 65 or older—a percentage that is similar to what the UN projects for the US in 2050—and the median age will shoot up dramatically to 42. The report notes that while Mexico’s situation is not that different from other developing countries in Latin America and East Asia, many of which are experiencing falling fertility and rising longevity due to improvements in health and related services, it does raise the stakes for designing and executing a sweeping social and political agenda, which is explained in the report as follows: “Over the next 25 years, while its population is still young and growing, Mexico must boost the skills of its workforce, develop globally competitive industries, and raise productivity and living standards. At the same time, it must put in place a system of old-age support capable of caring for a large number of elderly without overwhelming public budgets or family support networks. If Mexico

²⁴⁷ D.-O. Kim, A Two-Dimensional Typology of Human Resource Management Systems in Korea (Asian Institute of Corporate Governance: AICG Working Paper 2003-11, December 2002), <http://www.aicg.org/data/dongwonkim4.pdf>

²⁴⁸ Id.

²⁴⁹ R. Jackson, Building Human Capital in an Aging Mexico: A Report of the U.S.-Mexico Binational Council (Washington, DC: Center for Strategic and International Studies/The CSIS Press, 2005).

fails, the demographic transformation could lead to widespread economic hardship later in the century.”²⁵⁰

Another telling conclusion in the report, which related to the suggestions in the quote above, was that “. . . the gap between the skills of Mexico’s workforce and the demands of tomorrow’s global economy remains wide. By almost any measure, from educational attainment to worker productivity, Mexico lags behind the developed countries in human capital development.”²⁵¹ In response, the report included several key policy imperatives for Mexico that relate to the development of its human capital, including “educating the rising generation; improving the skills of the current workforce; investing in science and technology; completing the economic and political reform agenda; and creating a universal old-age safety net”.²⁵² The next three paragraphs in this section focus in more detail on the first three areas given their tight relationship to management challenges for Mexican firms.²⁵³

One of the key areas of concern mentioned in the report, consistent with observations made by other commentators, was that the “educational level of Mexico’s workforce lags far behind the level in the developed countries—and indeed, that in many developing countries as well”.²⁵⁴ For example, the report noted that “just 21 percent of Mexicans aged 25 to 34 have completed high school, compared with 95 percent of South Koreans”.²⁵⁵ Not only was the level of completion of high school and university studies quite low, but there are significant gaps in educational attainment when measurements are made of differences among geographical regions and income and ethnic groups. In addition, the outlook for the future was bleak in many ways, even though some improvements had been made on access to basic education: in a comprehensive and well-regarded cross-country educational comparison completed in 2003, Mexican 15 year olds ranked last among their counterparts in OECD countries with respect to achievement in mathematics, reading literacy and science. Improving educational attainment has been a top priority of the Mexican government over the last decade and the Fox administration announced a six-year educational plan that called for increasing governmental spending on education from six to eight percent of GDP; however, it is not clear whether the government has sufficient budgetary resources to fully fund the program and there are significant political issues that need to be overcome, including the resistance of the

²⁵⁰ Id. at 1.

²⁵¹ Id. at 2-3.

²⁵² Id. at 4.

²⁵³ Each of the policy recommendations are discussed in detail in Chapter 3 of the report. Items on the economic and political reform agenda included dealing with inflexible labor markets and excessive labor market regulation, high compliance costs for start-up businesses, underdeveloped capital markets and encouraging the development and growth of a more competitive private sector. With regard to the “old-age safety net” and pension reforms, it should be noted that there are significant unfunded liabilities in the government’s civil service pension system that need to be addressed and an even bigger issue in light of demographic trends is that most of the country’s elderly do not qualify for any pension benefits and steps will need to be taken in the short- and long-term to extend coverage to all workers, a task that is made all the more difficult by the fact that many of those workers are in the informal sector that largely ignores and evades government mandates.

²⁵⁴ Id. at 16.

²⁵⁵ Id. at 17.

powerful Mexican teachers' union to curriculum reforms and introduction of merit pay scales for teachers. Another interesting initiative looks to expand exchange programs with higher educational institutions in the US.

While educational initiatives focus primarily on young people who will be entering the Mexican workforce in the near future, other programs are needed to remedy deficiencies within the current workforce, which the report noted as “dominated by relatively low-skilled cohorts of older workers”.²⁵⁶ The report documented several programs that the government has launched to provide technical education and training, but cautioned that while the initial results had been encouraging only a small percentage of the total number of workers needing training had completed the programs. The report was critical of the fact that even though Mexico realizes its deficiencies in this area, it invests less publicly as a share of GDP in “active labor market policies” than any other OECD country.²⁵⁷ Again, it should be noted that efforts to increase educational levels and workforce skills are related and the report noted that if Mexico is able to quickly achieve and maintain high school completion rates on par with the G-7 average then by 2050 84% of the working-age adults in Mexico would be high school graduates, and presumably able to take on more sophisticated job-related activities; however, if educational access and completion efforts remain at traditional levels the projection for that same percentage drops dramatically to 36%.²⁵⁸

The final piece of the puzzle, which must be executed at the same time as the aforementioned initiatives relating to general education and technical training, is creating a platform that will allow Mexico to compete in the new global marketplace, a step that will require sufficient investment in science and technology to shift the Mexican economy away from its traditional reliance on agriculture and low-value-added manufacturing in areas such as textiles and steel toward participation in high-value-added sectors such as software, consumer electronics and pharmaceuticals.²⁵⁹ The report noted that other emerging market economies that had long relied on low-cost labor as their competitive advantage (e.g., China and India) had eventually made a similar transition to high technology sectors and had done so by setting aside large amounts of capital for research and development. As of 2001, however, Mexico's annual investment in science and technology development, including education, was well below one percent of GDP, an effort that lagged far behind competitors such as the US, China and South Korea, and the percentage of workers involved in research and development activities was also quite low.²⁶⁰ Again, the government has set lofty goals for science and technology but success will depend on finding the necessary public funds and commitment from the private sector, which was contributing just one-third of total research and development funding in Mexico as of the date of the report—a low share by international standards.²⁶¹

²⁵⁶ Id. at 19-20.

²⁵⁷ Id. at 21.

²⁵⁸ Id. at 20.

²⁵⁹ Id. at 21.

²⁶⁰ Id. at 21-22.

²⁶¹ Id. at 22.

Commentators have criticized what has been called “inflexible labor markets” in Mexico as a major potential impediment to economic development and enhancement of the skills of Mexico’s human capital. For example, the 2005 report discussed in the previous paragraphs noted that “[f]rom job rules that make it difficult to fire unproductive workers to rigid seniority pay scales and limitations on short-term and part-time contracts, Mexico’s excessive labor-market regulation increases the cost of doing business and discourages employers from starting new enterprises or expanding old ones”.²⁶² The same report cited the World Bank’s “Doing Business in 2004” study that ranked Mexico 129th out of 133 countries on “flexibility of labor markets”. The 2005 report cautioned that this situation had a number of consequences for the Mexican economy, including a reluctance of Mexican firms to invest in research and development at suitable levels and the creation and maintenance of a huge “grey market” or “informal” sector that includes businesses that do not register with the government in an effort to avoid the high non-wage labor costs (i.e., social insurance) that can eat up as much as 20% to 25% of total payroll costs. In fact, it was estimated that in 2004 between one-third and one-half of Mexico’s total urban workforce was employed in the informal sector and that a high percentage of the new jobs that were being created were also with businesses that failed to register and pay taxes. The report observed that the lack of tax money obviously hindered government efforts to implement other programs that might be advantageous for improving human capital and that workers in the informal sector were also ineligible to participate in those training programs that do exist. Finally, workers in the informal sector will eventually reach retirement age without accruing any pension benefits, which means that they are at higher risk for living their last years in poverty.

Labor unions in Mexico are mostly representative of workers in urban areas. Most labor unions are affiliated with the Institutional Revolutionary Party (“PRI”), through the Confederation of Mexican Workers (Confederación de Trabajadores Mexicanos or “CTM”), which is associated with some independent unions and federations in an umbrella organization known as the Congress of Labor (Congreso del Trabajo or “CT”) that consists of more than thirty organizations encompassing 85% of the unionized workforce in Mexico.²⁶³ The CT mediates between the labor unions and the government and also provides the state with a formal mechanism for political manipulation of the labor force. In the early 1990s, Mexico had an estimated 9.5 million unionized workers; however, union membership has fallen substantially since then. Corruption, paternalism and abuse of union funds have traditionally been rampant in the labor movement. In recent years, however, the traditional oligarchic leadership of most Mexican labor unions has been challenged by the rank and file, as well as by independent unions wishing to end the use of leadership positions to amass wealth and power, and in general the impact of labor groups on Mexican politics has been steadily declining. Labor-management relations are, in theory, well defined by the country’s Labor Code, which details the rights of officially recognized unions to receive social security payments, participate in profit sharing and use meeting halls, among many other benefits, and sets out rules and limitations regarding strike activities and bargaining.

²⁶² Id. at 23.

²⁶³ The discussion in this paragraph is adapted from Organized Labor, Mexico, US Department of State Country Reports, [http://lcweb2.loc.gov/cgi-bin/query/r?frd/cstdy:@field\(DOCID+mx0094\)](http://lcweb2.loc.gov/cgi-bin/query/r?frd/cstdy:@field(DOCID+mx0094)).

Interest in Mexican HRM increased substantially in the 1990s with the completion of the North American Free Trade Agreement (“NAFTA”), which led businesspeople inside and outside of Mexico to focus on the skills of Mexican workers and the ability of their managers to train and motivate workers to compete in an increasingly globalized environment. An article written in 1994 provided several overriding observations on important aspects of HR practices in Mexico at that time including the dearth of local management talent needed to staff high-level positions in Mexico, a situation that often led recruiters to rely on networking to find qualified candidates even at the risk of engaging in the nepotism that has been traditionally common in Mexico; the often unexpected costs of employees that include not only salaries but also payments for holidays and weekends, guaranteed bonuses and benefits and perquisites; the culturally-driven preference among line employees for guaranteed payment arrangements rather than incentive compensation schemes that might cause distrust and dissension among work groups; and the need to take into account the family needs of employees in the course of the employment relationship.²⁶⁴ The author also noted that business and societal culture in Mexico at that time were not well suited to certain HRM strategies popular in the US and other Western countries such as total quality management and participative management and recommended that changes in corporate culture would need to be implemented slowly and carefully beginning with “buy in” from supervisors who could, in turn, explain changes to line workers more likely to take a policy seriously if it was sponsored by their direct superiors.

Najera set out to examine the influence of societal culture in Mexico on efforts to motivate and retain assembly-line workers in the country’s manufacturing plants (i.e. maquiladoras).²⁶⁵ Najera used the well-known framework established by Hofstede to relate societal culture to work factors in Mexico based on information collected from interviews with lower-level maquiladora workers working in Mexican plants that were owned and operated by US parent companies. Najera began by explaining that Mexico is generally considered to be a collectivist country (i.e., the group, or family, is considered far more important than individualistic roles) in which gender roles are well established and male dominance and age-based authority in decision making are widely acknowledged and accepted. Mexico is also a high power distance country and Najera observed that in the workplace this means that workers are mindful of a large gap in equality between them and their superiors. However, as long as they are treated with respect by their superiors, Mexican workers are generally accepting of status differences and typically form strong emotional relationships with their managers. In turn, managers are expected to look out for the interests of those who report to them, particularly with respect to how work impacts the ability of workers to fulfill obligations to their families. Finally, Najera reported that Mexican societal culture is high on uncertainty and risk avoidance, which means that workers are prone to preferring familiarity, security, present satisfaction and “known” results.

²⁶⁴ G. Flynn, HR in Mexico What You Should Know, Workforce, September 7, 2011, <http://www.workforce.com/article/19940801/NEWS02/308019988/hr-in-mexico-what-you-should-know#>.

²⁶⁵ M. Najera, “Managing Mexican Workers: Implications of Hofstede's Cultural Dimensions”, *Journal of International Business Research*, 7(2) (2008).

Najera stressed that understanding the societal values and norms with respect to “work” is important in identifying the types of HR practices that might be successful in motivating employees. Interestingly, Najera noted that Mexican workers do not have uniform goals and expectations regarding their work: “Some workers may work simply for the money involved. Others work for the status and respect given to them by reason of their employment. Still others may work just to bring meaning to their lives.”²⁶⁶ Najera also cited the observation of Kras that “[f]or the Mexican culture, work is considered a ‘necessary evil’” and that Mexican have traditionally seen work as “necessary to live in order to enjoy worldly pleasures with family and friends”.²⁶⁷ It is important to understand this type of attitude before attempts are made to motivate employees in Mexico based on cultural values popular in countries such as the US where employees view work as a reward based on their work production.

The main findings from the interviews conducted by Najera were the importance that the respondents attributed to the terms “Supervisor”, “Appreciation” and “Co-Workers”. Najera explained that the positive response to “Supervisor” was not surprising given that, as mentioned above, employees generally believed that their relationship to their supervisor was one of the most important in their lives and that employees expected their supervisors to take care of them as if they were members of the supervisor’s extended family. The importance of “Appreciation” was part of the supervisor-subordinate relationship and illustrated the importance that employees placed on recognition and appreciation of their efforts in the workplace. Finally, respondent interest in “Co-Workers” demonstrated the importance of relationships and friendships among workers that would be expected from a highly collectivist society such as Mexico. Najera also noted that identifiable demographic groups within the survey pool had their own specific interests and concerns. For example, women had significantly higher interest in family, health and plant policies, a finding that Najera attributed to societal norms that call for women to assume primary responsibility for children. In such a cultural environment women would naturally be interested in plant policies relating to time off to care for sick children. When respondents were categorized based on their tenure with the plants differences could be seen with respect to attitudes regarding benefits, job availability, plant policies, promotion, security, social events and transportation. Other demographic categories identified by Najera included education, marital status, number of dependents and age.²⁶⁸

While much of the research on HR practices in Mexico has focused on operations that involve low-skilled workers it should be noted that Mexico ranks among the top ten pharmaceutical markets in the world and second in Latin America and that Santiago conducted a survey among pharmaceutical firms in Mexico to gauge how training, compensation and workers’ involvement in decision making are handled in more

²⁶⁶ Id.

²⁶⁷ Id. (citing E. Kras, *Management in Two Cultures* (1995), 43).

²⁶⁸ M. Najera, “Managing Mexican Workers: Implications of Hofstede's Cultural Dimensions”, *Journal of International Business Research*, 7(2) (2008).

innovative sectors of the Mexican economy.²⁶⁹ With regard to training he noted that in Mexico, as in other Latin American countries, training was often used to improve the skills and motivation of blue-collar workers who suffered from low levels of education and limited development activities. However, Santiago pointed out that training initiatives often ran into trouble due to poor formalization of training structures, mismatches between training and promotion, incompatibility with work schedules, inappropriate conditions for new skills to be put in place and high post-training turnover. As for compensation practices Santiago found, in line with observations of other researchers, that individualized reward schemes, even something as simple as payments on hourly basis, were difficult to implement in the face of societal norms favoring collectivism, local labor laws and customary union practices. However, he noted that Mexican companies struggling to retain talented specialists and managers might need to design compensation packages based on performance-based incentives and status-enhancing perquisites. Finally, Santiago conceded that, in general, labor relations in Mexico are highly hierarchical but pointed out that highly-skilled workers have the qualifications and educational background necessary for them to assume more responsibility for decision making and that this may increase the scope of delegation to, and empowerment of, middle managers in Mexican firms.

The analysis undertaken by Santiago in the Mexican pharmaceutical industry was preceded by a more general survey of Mexican high technology organizations by Ramirez.²⁷⁰ Ramirez was interested in differences in HRM practices between high-tech firms and the traditional manufacturing enterprises commonly used as the basis for study in Mexico. One interesting finding was the greater interest that high-tech firms showed in recruiting managers and engineering/scientific specialists from an international pool of candidates rather than relying solely on prospects raised and trained in Mexico. High-tech firms also developed and maintained a wide range of relationships with state and private universities for training of engineers and managers and firms with foreign investors regularly send their engineers to the home countries of the investors for training. Ramirez found that these training strategies transformed the outlook of engineers and managers, making them more proactive, open minded and focused on creating products that could be competitive on a worldwide basis. Finally, Ramirez found that while low-tech firms continued to base their compensation on objective outputs and performance of basic duties high-tech companies were willing to incorporate the knowledge and innovation-focused skills of engineers into their compensation and promotion schemes so that engineers did not have to abandon their core competencies and interests in order to achieve the pay and status formerly reserved for managers.

§1:15 Russia

The population of Russia as of July 2012 was 142,517,670, which ranked the 9th largest in the world. Russia is very urbanized, with 73% of total population in 2010 living in

²⁶⁹ The discussion in this paragraph is adapted from F. Santiago, *The Influence of Human Resource Management Practices on Learning and Innovation in Developing Countries: Pharmaceutical Firms in Mexico* (2008).

²⁷⁰ J. Ramírez, *Understanding Mexican High-Tech Organizations: A Conceptualization Problem?* (2001).

urban areas. A long-term population decline of 600,000 per year is forecast, reducing the population to as little as 112 million by 2050.²⁷¹ Russia's labor force generally is considered well-educated and skilled, although its strengths increasingly are mismatched to the needs of the national economy. In 2004 the government estimated that the number of individuals of working age, 89 million in 2002, would decrease by some 10 million by 2016. In 2012 Russia's active labor force was estimated at 75.24 million individuals, which was 8th largest in the world. Because the indigenous labor force is shrinking by as much as 1 million workers per year, the government considers long-term expansion of the immigrant labor force necessary to sustain economic growth.²⁷²

Employment in Russia is primarily regulated by the Labor Code²⁷³ and more specific provisions are detailed in different federal laws including the law on trade unions, their rights and guarantees of activity, the law on obligatory pension insurance in the Russian Federation and the law on basis of obligatory social insurance. In general, employees do not have a say in the management of their companies unless they are appointed members of a management committee or a director general. In some cases pertaining to labor issues the management must take the trade union's opinion into account (e.g., in cases of employees' dismissal on the decision of the employer or if prescribed by local law).

Denisova-Schmidt relied on interviews with HR managers of Russian subsidiaries of foreign companies conducted in 2006 and 2008 and an extensive review of relevant literature and research to identify certain best practices for the recruitment, selection and retention of employees used by foreign companies in Russia.²⁷⁴ Denisova-Schmidt began by noting that foreign companies operating in Russia generally had to overcome two main challenges in the HRM area. First, it must be recognized that “[t]here are two different workforces in Russia: one with previous professional experience in the Soviet Union (or in modern large Russian corporations that retain elements of Soviet corporate culture) and one without . . . [and] [b]oth groups have different expectations from their employers and a different understanding of the work assignment, the motivation to work and retention factors.”²⁷⁵ Second, “Western HR practices could be transferred to Russian subsidiaries, but they should be adapted to suit Russian labour regulations and cultural norms . . . [and] . . . [t]he main challenge is to find out what should be adapted, and how, in order to operate successfully.”²⁷⁶ Denisova-Schmidt also cautioned that great patience would be needed to implement even the most basic HRM system in Russia and attempts to introduce new and innovative HRM techniques will often flounder, particularly in

²⁷¹ Russia, The World FactBook, US Central Intelligence Agency, <https://www.cia.gov/library/publications/the-world-factbook/geos/rs.html>.

²⁷² Russia, Country Studies, Library of Congress, <http://lcweb2.loc.gov/frd/cs/rutoc.html>.

²⁷³ Doing Business in Russian Federation, Practical Law Company, <http://us.practicallaw.com/9-517-9366?q=russian+federation#a604038>.

²⁷⁴ E. Denisova-Schmidt, “The Transfer of Western Human Resource Practices to Russian Subsidiaries”, in WU Online Papers in International Business Communication Series 1: Intercultural Communication and Language Learning, Paper 2, May 2011, <http://epub.wu-wien.ac.at/>.

²⁷⁵ Id.

²⁷⁶ Id.

companies with a large proportion of older employees used to the HR practices employed which Russia was a planned economy.²⁷⁷

In Russia, companies use various recruitment tools, including internal recruitment, recruiting agencies and head-hunters, internet job engines, newspapers ads, contacts or networking and college graduate recruitment, and the choice of which method to use depends on several factors including the type of vacancy, the internal recruitment policies and procedures of a particular company and the location of that company.²⁷⁸ Fey et al. observed that many Russian companies keep track of Russians who have elected to study abroad, since they are considered to be attractive potential recruits once they finish their studies²⁷⁹; however, Miasoedor cautioned that Russians returning home as “re-emigrants” after a long time away will like need to overcome significant obstacles in order to gain acceptance back into Russian society and may find that the business techniques they learned and used in the West may not be easily applied in Russia and may need to be adapted in order to conform to local labor regulations and customs.²⁸⁰

Denisova-Schmidt noted that Russian companies rely heavily on interviews during their recruitment and selection processes and that commented that “[while] [t]ranscripts and diplomas are also normally looked at . . . they are less important than the perception of the person as ambitious, hard-working and beneficial to the company because of his or her previous professional experience”.²⁸¹ While resumes are also requested during the recruiting process their value is questionable “since resumes have not traditionally been used in Russia, they are still poorly done and provide varying amounts of information about the candidate.”²⁸² Denisova-Schmidt provided a list of problems with Russian resumes that included misrepresentations in language proficiency, computer literacy, and previous employment dates.²⁸³ Companies generally make some attempt to investigate representations in resumes regarding the duties and responsibilities of applicants at their previous employers and references are also accepted and may be checked using reference

²⁷⁷ Id. Denisova-Schmidt explained some of the key aspects of HRM during the late Soviet era and noted that Soviet firms provided their employees with stable salaries and good social benefits and encouraged and promoted company loyalty and “team spirit”, that jobs were created to ensure full employment and that an ineffective Russian labor market undermined labor mobility. As a result, Soviet companies did not experience high employee turnover and there was no need for retention strategies. Id. at 3-5.

²⁷⁸ Id. See also S. Frank, *Erfolgreiche Personalarbeit im Land des Bären*, in *Business Guide Deutschland Russland* Berlin, Wegweiser Media & Conferences, 5th ed., 2007, 114-115; S. Frank, “Personalrekrutierung in Russland”, in S. Frank and R. Wedde (Eds.), *Investmentguide Russland, Personal, Recht, Steuern und Kommunikation in der Praxis* 143 (2007).

²⁷⁹ C. Fey, P. Engström, I. Björkman, “Doing Business in Russia: Effective Human Resource Management Practices for Foreign Firms in Russia”, *Organizational Dynamics*, 28(2) (1999), 69, 73.

²⁸⁰ E. Denisova-Schmidt, *The Transfer of Western Human Resource Practices to Russian Subsidiaries* 5-6, in *WU Online Papers in International Business Communication Series 1: Intercultural Communication and Language Learning*, Paper 2, May 2011, <http://epub.wu-wien.ac.at/> (citing S. Miasoedov, *Osnovy krosskul'turnogo menedzhmenta: kak vesti bizness spredstavitel'jami drugich stran i kul'tur* 79-81 (2003)).

²⁸¹ Id. (citing C. Fey, P. Engström and I. Björkman, “Doing Business in Russia: Effective Human Resource Management Practices for Foreign Firms in Russia”, *Organizational Dynamics*, 28(2) (1999), 69, 73.

²⁸² Id.

²⁸³ E. Denisova-Schmidt, *The Transfer of Western Human Resource Practices to Russian Subsidiaries* 6, in *WU Online Papers in International Business Communication Series 1: Intercultural Communication and Language Learning*, Paper 2, May 2011, <http://epub.wu-wien.ac.at/>.

check services.²⁸⁴ Denisova-Schmidt concluded that Russian HR managers had difficulties in promulgating and applying a formal set of recruiting criteria because they “usually rely on their gut feeling during the hiring process”.²⁸⁵

Denisova-Schmidt commented that Russian companies use different tools and strategies as part of their efforts to retain employees and that the methods vary depending on industry, vacancies, age and other factors.²⁸⁶ Denisova-Schmidt compiled an extensive list of the most important factors in retaining employees among Russian companies based on interviews and a broad survey of the literature that included good working conditions such as enough space, security, parking, access to cafeteria, etc.; professional and personal development including training and further education; Open and accessible information dissemination concerning the aims, goals, strategy and (possible) changes in an organization; internal rotation and promotion based on performance, knowledge and career growth; opportunities to take initiative, realizing that bottom-up initiative has not been traditionally welcomed or accepted in Russia; acceptance of professional mistakes and maintenance of privacy when critical feedback is given; and good salaries and competitive social benefits.²⁸⁷

Denisova-Schmidt reported that agencies are typically used to handle determination of salaries and benefits for employees at Russian companies and noted that agencies may either rely on surveys for various positions in specific industries in a particular region

²⁸⁴ Id. Denisova-Schmidt noted that verification of prior employment in Russia is often problematic since there is no mature system of providing working certificates and Russian law prohibits companies from consulting with previous employers without the written consent of the candidate. As a result, it is difficult for companies in Russia to gather extensive information with respect to applicants regarding duties and other aspects of their prior employment.

²⁸⁵ Id. (citing C. Fey, P. Engström and I. Björkman, “Doing Business in Russia: Effective Human Resource Management Practices for Foreign Firms in Russia”, *Organizational Dynamics*, 28(2) (1999), 69, 73; I. Gurkov, “Innovations and Legacies in Russian Human Resource Management Practices: Surveys of 700 Chief Executive Officers”, *Post-Communist Economies*, 14(1) (2002), 137; and E. Denisova-Schmidt, *Internationale Unternehmen in Russland: Kampf gegen hohe Fluktuation*, in *Persorama*, 2 *Das Magazin der Schweizerischen Gesellschaft für Human Resources Management* 20 (2008)).

²⁸⁶ E. Denisova-Schmidt, *The Transfer of Western Human Resource Practices to Russian Subsidiaries* 6, in *WU Online Papers in International Business Communication Series 1: Intercultural Communication and Language Learning*, Paper 2, May 2011, <http://epub.wu-wien.ac.at/>.

²⁸⁷ Id. (citing E. Denisova-Schmidt, “Internationale Unternehmen in Russland: Kampf gegen hohe Fluktuation”, in *Persorama*, 2 *Das Magazin der Schweizerischen Gesellschaft für Human Resources Management* 20 (2008).; C. Fey, P. Engström and I. Björkman, “Doing Business in Russia: Effective Human Resource Management Practices for Foreign Firms in Russia”, *Organizational Dynamics*, 28(2) (1999) 69, 73; C. Fey, “Overcoming a leader's greatest challenge: Involving employees in firms in Russia”, *Organizational Dynamics*, 37(3) (2008) 254; S. Frank, “Erfolgreiche Personalarbeit im Land des Bären”, in *Business Guide Deutschland Russland*, Berlin, Wegweiser Media & Conferences, 5th ed. (2007), 114-115; S. Frank, “Personal Management in Russland”, in S. Frank and R. Wedde, (Eds.), *Investmentguide Russland. Personal, Recht, Steuern und Kommunikation in der Praxis*, Stuttgart: Schäffer-Poeschel (2009), 215; S. Frank, “Personalrekrutierung in Russland”, in S. Frank and R. Wedde, (Eds.), *Investmentguide Russland. Personal, Recht, Steuern und Kommunikation in der Praxis*, Stuttgart: Schäffer-Poeschel (2009), 143; M. Magura, *Poisk i otbor personala*, Moscow, *Zhurnal Upravlenie personalom* (2003); S. Mordovin, *Upravlenie personalom, sovremennaja rossijskaja praktika* (2005); R. Scherl, “Abenteuer Personalsuche in Russland”, in *Business Guide Deutschland Russland*. Berlin: Wegweiser Media & Conferences, 6th ed. (2008), 152-153.

(e.g., consumer goods firms operating in Moscow) or on surveys and analyses referred to as “job grading” which focus on skills, job scope and duties.²⁸⁸ Regardless of the method that is selected problems arise due to the difficulties in obtaining up-to-date information relating to current levels of salary and benefits.²⁸⁹ Denisova-Schmidt also noted that the long-standing practice of paying both official and unofficial salaries still persists within some Russian companies and that unofficial payments are typically used to reduce social taxation and provide additional options for non-authorized work on holidays, vacations and overtime hours.²⁹⁰

§1:16 South Africa

The population of South Africa as of July 2012 was 48,810,427, which made it the 26th largest in the world. The heterogeneous ethnicity of South Africa is well known and according to the 2001 census 79% of the population was black African composed of Nguni (Zulu, Swazi, Xhosa, Ndebele), Sotho-Tswana, Venda, Tsonga-Shangaan and Khoi-San; 9.6% was white composed of Afrikaners, British and other Europeans; and 11.4% were Asians and others.²⁹¹ Just under 50% of South Africa’s population was 24 years of age or younger and the percentage of the population that was 54 years of age or younger was 87.3%.²⁹² While portions of South African society have become quite affluent a telling statistic is that life expectancy in the country was just 49.41 years, which ranked 220th in the world.²⁹³ As of 2010 approximately 62% of the population lived in urban areas.²⁹⁴

As of 2012, South Africa’s labor force was approximately 17.89 million, which ranked as the 35th largest in the world.²⁹⁵ Employment at that time was allocated among manufacturing (16.6%), agriculture (12.2%), commerce and trade (11%), domestic service (8.5%), education (7.8%), mining (6.9%). Quite importantly from an HR perspective unemployment in 2012 was running at a staggeringly high rate of 24.4% and

²⁸⁸ E. Denisova-Schmidt, *The Transfer of Western Human Resource Practices to Russian Subsidiaries* 8, in WU Online Papers in International Business Communication Series 1: Intercultural Communication and Language Learning, Paper 2, May 2011, <http://epub.wu-wien.ac.at/>.

²⁸⁹ S. Frank, “Personalrekrutierung in Russland”, in S. Frank and R. Wedde (eds.), *Investmentguide Russland, Personal, Recht, Steuern und Kommunikation in der Praxis* (2007), 143.

²⁹⁰ E. Denisova-Schmidt, *The Transfer of Western Human Resource Practices to Russian Subsidiaries* 8, in WU Online Papers in International Business Communication Series 1: Intercultural Communication and Language Learning, Paper 2, May 2011, <http://epub.wu-wien.ac.at/>. Denisova-Schmidt explained that “Russian enterprises have long traditions of keeping two sets of books: one with actual results for internal usage and one with desired results for external audits and/or reports to the old Soviet ministries.” Id. (citing V. Suutari, “Leadership Behaviour in Eastern Europe: Finnish expatriates’ experiences in Russia and Estonia”, *International Journal of Human Resource Management*, 9(2) (1998), 235).

²⁹¹ South Africa, *Country Studies*, Library of Congress, <http://lcweb2.loc.gov/frd/cs/zatoc.html>.

²⁹² South Africa, *The World FactBook*, US Central Intelligence Agency, <https://www.cia.gov/library/publications/the-world-factbook/geos/sf.html>.

²⁹³ Id.

²⁹⁴ Id.

²⁹⁵ South Africa, *Background Notes*, US Department of State, <http://www.state.gov/outofdate/bgn/southafrica/194939.htm>.

persistent wage disparities among racial groups could be observed, especially in the manufacturing sector.²⁹⁶

As South Africa turned to industrialization as a means for economic development the prospect for employment for many South Africans dimmed as it became apparent that they had only minimal educational credentials, or none at all, and the government realized that steps needed to be taken to remedy a situation in which job openings for highly skilled workers and managers far outpaced the number of qualified applicants. Unfortunately, the legacies of apartheid, which included decades of insufficient education for the majority of the South African population, and a backlog of deficiencies in the school system has made it difficult for South Africa to improve the quality and competitiveness of its human capital. South Africa spends a considerable share of its resources on education, which received 21% of the country's national budget in 2011; however, the results to date have been disappointing. Enrollment rates have gone up but graduation rates remain low, there is widespread skepticism regarding the quality of education provided by many public schools due to an ongoing shortage of qualified teachers and the general conclusion seems to be that the education system in South Africa is underperforming.²⁹⁷

Since the beginning of the post-apartheid period the government has taken a series of steps to reform South African labor legislation in a manner that recognizes and promotes employment security, reasonable wages and decent working conditions and creates and supports worker rights and collective bargaining.²⁹⁸ In addition, attempts have been made to recognize and reconcile the differences between Eurocentric and Afrocentric approaches to HRM.²⁹⁹ One interesting step was the formation of the National Economic, Development and Labor Council ("Nedlac") in 1995 as a forum for social dialogue between the representatives of the major stakeholders and role players, namely labor, business, government and the socially excluded (such as unemployed) on all socio-economic and labor matters.³⁰⁰ The discussions within Nedlac were intended to reach a consensus on proposals regarding labor market policy and labor legislation before any of these were introduced in Parliament and provide a more influence to the Afrocentric approach to HRM in South Africa.

The main laws governing the employment relationship in South Africa are the Labour Relations Act 66 of 1995, which governs protections for employees against unfair dismissal and unfair labor practices in employment, and regulates the resolution of disputes between employers and employees, as well as strikes, lockouts and the relationship between employers and trade unions; and the Basic Conditions of Employment Act 75 of 1997 ("BCEA"), which sets out certain minimum conditions of employment for employees with respect to matters such as working hours, overtime pay,

²⁹⁶ South Africa, Country Studies, Library of Congress, <http://lcweb2.loc.gov/frd/cs/zatoc.html>.

²⁹⁷ Id.

²⁹⁸ South Africa, Country Commercial Guides, US Commercial Service, http://export.gov/southafrica/build/groups/public/@bg_za/documents/webcontent/bg_za_034197.pdf.

²⁹⁹ B. Erasmus and H. Schenk, *South African Human Resources Management: Theory and Practice* (2008), 45-48.

³⁰⁰ Act 35 of 1994.

annual leaves and notice of termination and includes requirements imposed on employers with respect to information they must supply to employees when they start work. In addition, under the Occupational Health and Safety Act 85 of 1993 employers are obligated to provide and maintain a safe working environment and eliminate or mitigate hazards or potential hazards to employees' health and safety and are subjected to inspection by the Department of Labour.³⁰¹ Notice should also be taken of provisions in the South African Constitution and the Employment Equity Act 55 of 1998 which provide employees (and applicants for employment) with protections against unfair discrimination in the employment relationship and requires large- and medium-sized companies to prepare affirmative action plans to ensure that black South Africans, women and disabled persons are adequately represented in the workforce. The Skills Development Act of 1998 imposes levy on employers equal to one percent of the payroll that is to be used for training programs devised by industry-specific training authorities.³⁰²

Ndletyana observed that in the early 2000s South Africa was “in the midst of a transformation process after three centuries of British colonialism and about five decades of White Afrikaans-minority apartheid rule . . . [that] [o]rganizations [were] marked by huge disparities among the races . . . [and] . . . Apartheid policies, legally enforced and perpetuated by mainly Afrikaans-speaking White South Africans, [had] denied black South Africans access to skilled, managerial, and leadership positions in the workplace”.³⁰³ At that time the majority of management and leadership positions in South Africa were held by white males; however, since more and more South African blacks were entering the workforce it was clear that steps needed to be taken to cope with growing diversity in the workplace. Ndletyana pointed out that the earlier studies of societal culture in South Africa, a topic certainly relevant to HRM in that country, were limited to samples of mostly English-speaking white males during periods in which apartheid practices were quite strong. As a result, the values of the black population in South Africa were not taken into account and commentators claiming that “individualism” was high in South Africa, a finding that was certainly true of white males, failed to take into account the significant influence of the collectivist, group-oriented culture that was familiar and comfortable to black South Africans. Ndletyana emphasized the need to recognize that the cultural values of black South Africans are very different from those of whites in that country. Ndletyana also cautioned that among black South Africans themselves there is noticeable diversity among numerous ethnic groups; however, one constant that must be factored in when establishing HR policies among black South Africans is the concept of African humanism referred to as *Ubuntu*, which celebrates and honors the significance of group solidarity.³⁰⁴

³⁰¹ Additional health and safety rules may apply to specific industries such as Mine, Health and Safety Act, which authorizes the Inspector of Mines to provide regulatory oversight for the mining industry.

³⁰² South Africa, Country Commercial Guides, US Commercial Service, http://export.gov/southafrica/build/groups/public/@bg_za/documents/webcontent/bg_za_034197.pdf. See also Edward Nathan Sonnenbergs, General Corporate Information for Foreign Clients: Establishing a Business in South Africa (June 2013).

³⁰³ D. Ndletyana, “The Impact of Culture on Team Learning in a South African Context”, *Advances in Developing Human Resources*, 5(1) (February 2003), 84, 85.

³⁰⁴ *Id.* at 90.

Abbott conducted a comprehensive survey and analysis of the relationship between the work of HR practitioners in South Africa and the socio-economic context in which their organizations operated and concluded that the work of those practitioners was significantly impacted by a variety of social and economic factors that were external to the workplace and that their responses were probably not as appropriate as they could or should be.³⁰⁵ As part of her presentation Abbott provided a useful summary of the development of HRM in South Africa since the 1980s, noting in particular that the path of development was strongly influenced by economic and political factors³⁰⁶:

- The influence and strategic role of HR in South Africa expanded substantially during the 1980s, particularly in the larger domestic companies and in multinational enterprises operating in South Africa, due to labor relations and other socio-political development associated with the transition to democracy. The 1980s saw high political unrest and trade unions assumed a strong political role in opposing apartheid, a situation which turned the workplace into one of the main battlegrounds for power and forced employers, through their HR departments, to develop sophisticated conflict resolution mechanisms in order to create and maintain peace in the workplace and the surrounding communities.
- During the 1990s the primary role of the HR department in South Africa shifted from strategic to compliance as the new government implemented comprehensive legislative reforms that impacted the employment relationship. HR activities focused on affirmative action rather than on transforming all of the “people practices” within the organization and top management of South African firms were fully occupied with competitive and technology issues that emerged as global competition entered South Africa once international sanctions had been lifted.
- The 2000s and 2010s brought a heightened recognition that “people engagement” was essential to competitiveness and that HR functions needed to become more strategic; however, at the same time compliance requirements continued unabated and organizations experienced difficulties in finding experienced HR executives and managers. Developments in the area of corporate governance in the 2010s created additional pressures on HR practices.

As noted above, Abbott concluded that the contextual influences on HRM practices in South Africa were significant.³⁰⁷ Legislation was one of the two most commonly mentioned contextual influences among HR executives, professionals and managers and it was noted that the legislative environment drove the allocation of time and resources within the HR function and that companies often struggled with excessive and complex laws and regulations. The second most commonly mentioned contextual influence was

³⁰⁵ P. Abbott, *Human Resources Management in the South African Socio-Economic Context* (2011).

³⁰⁶ The following summary of development of HRM in South Africa is adapted from P. Abbott, *Human Resources Management in the South African Socio-Economic Context* (2011), 173-175. For further discussion on the historical development of HRM in South Africa, see also B. Swanepoel, B. Erasmus and M. Van Wyk, *South African Human Resource Management: Theory and Practice* (2013).

³⁰⁷ The summary of contextual influences in this paragraph is adapted from P. Abbott, *Human Resources Management in the South African Socio-Economic Context* (2011), 129-133. For further discussion of human resources management in Africa generally, see the section on Africa elsewhere in this chapter.

broadly described as “skills development and education” and respondents suggested a variety of issues and challenges including criticism of the country’s education system; inadequate literacy standards; difficulties in finding workers with necessary skills and talents, particularly in technical areas; and the failure of students to be exposed to practical requirements of the business world. HR professionals also commonly expressed concerns regarding employment equity and diversity issues and noted that many industries and sectors have a long history of dominance by white males and that this complicated efforts to make changes to address racial and gender imbalances. Social/family problems and personal debt/financial issues were also mentioned and notice was taken of high absenteeism, the challenges of dealing with a very young workforce and problems caused by employees having trouble with their personal finances that often leads to theft and other misconduct in the workplace. Other contextual influences mentioned included politics and the impact of strikes, general economic conditions, crime and challenges in recruiting qualified foreigners to work in South Africa.

Having identified important contextual influences on HRM in South African and some of the problems they created for HR professionals Abbott then asked respondents for their ideas regarding HR practices that would be most appropriate for coping with the context in which they were working. Some of the main suggestions included³⁰⁸:

- Clarifying company priorities and agreeing on a developmental agenda including reviewing staffing models to bring temporary workers on to permanent staff, ensure benefits and work patterns are aligned;
- Cooperation and leadership within the HR community including setting codes of conduct for suppliers and ensuring ethical conduct, sharing information with other companies regarding worthwhile government programs and cooperating on a local basis with other companies to invest in local communities;
- Leadership within organizations including establishing high targets for equity recruiting and internal promotions, establishing and maintaining high profile ethics education campaigns and assuming accountability for ensuring female-friendly work environments.
- Involvement with the country’s education system including hands-on partnerships with schools to improve facilities, mentoring programs and specific focus on improving education in rural areas; and
- Engagement with the skills development system including active participation in training programs and initiatives to increase the pool of artisans, technicians and engineers, support for upgrading faculty skills and participation in efforts to boost financial support for students to pursue their training programs.

Respondents had a number of suggestions with regard to ways in which the HR profession could engage with the South African labor market in a “socially impactful

³⁰⁸ The following list of suggestions for appropriate HR practices in South Africa is adapted from P. Abbott, *Human Resources Management in the South African Socio-Economic Context* (2011), 143-145.

way”.³⁰⁹ Respondents noted a need for very stringent selection procedures with a focus on job readiness and trainability as opposed to existing qualifications of candidates. In order for this approach to be effective HR professionals needed to use different assessment tools to identify raw potential and review existing minimum education requirements for positions to assess whether they were really necessary or simply served as barriers to hiring people who could do the jobs with the appropriate support. Respondents also indicated that companies needed to be mindful that many of their recruits may have been unemployed for a long time or had never worked and that patience was in order during the early stages of the employment relationship. They recommended extension of induction periods and a strong focus on initial training that was linked to on-the-job observation by the trainer, feedback, support and encouragement.

Finally, the respondents in the Abbott survey emphasized the need for increasing the use of career development strategies with employees. For example, respondents urged that organizations develop five year career plans for all of their employees, including those toiling on the shop floor, that would be broken down into one or two year increments and accompanied by support and encouragement. In addition to career development planning organizations were challenged to find opportunities to engage employees in corporate social responsibility initiatives (e.g., volunteering). Respondents also emphasized the importance of offering services to ensure the health and wellness of their employees and their families including access to health professionals, financial and debt counseling on site at the employer’s facilities and access to “life skills education programs” that would incorporate training in financial management.³¹⁰

The importance of HR to development in South Africa has been evidenced by the continuing efforts to formalize standards for the HR profession in the country, a process that began in earnest in 1982 with the establishment of the South African Board for Personnel Practice, now referred to as South African Board for People Practices (“SABPP”).³¹¹ The SABPP has emerged as the leading South African HR quality assurance and professional body and during the 2010s began working with HR directors from leading South African companies to develop and popularize formal HR standards for South Africa. It is anticipated that the standards will address 13 key areas and topics including strategic HRM, talent management, HR risk management, workforce planning, learning and development, performance management, rewards, wellness, employment relations management, organizational development, HR service delivery, HR technology and HR measurement.³¹² The SABPP has indicated that it hopes that the process of developing HR standards, which are intended to cover all essential HR functions, will facilitate and support the design of professional development systems and support tools to

³⁰⁹ The summary of suggestions for socially impactful engagement in the South African labor market in this paragraph is adapted from P. Abbott, *Human Resources Management in the South African Socio-Economic Context* (2011), 144.

³¹⁰ P. Abbott, *Human Resources Management in the South African Socio-Economic Context* (2011), 144-145.

³¹¹ For detailed discussion of the evolution of HRM as a profession in South Africa, see A.H. Janse van Rensburg, *Human Resource Management as a Profession in South Africa* (March 2009).

³¹² South African Board for People Practices, *National HR Standards Roll Out*.

build the capacities of South African HR professionals and the creation of metrics to measure the key HR-related performance areas that impact business goals.³¹³

Endeavor South Africa emphasized the importance of South African entrepreneurs understanding the country's labor legislation and the rights that they have as employers with respect to managing their workforce and disciplining and dismissing underperforming employees.³¹⁴ Endeavor South Africa also recommended that labor legislation be reviewed and, as necessary, amended to be more accommodating to small businesses and relieve them from some of the onerous and costly rules and regulations that are more appropriate for larger companies. As for specific human resources practices that would be useful to South African entrepreneurs, Endeavor South Africa urged them to focus on creating a work environment in which ideas could be freely exchanged and individual achievements are recognized and celebrated; allowing greater worker participation and rotation of employees among different roles and responsibilities; developing an entrepreneurial skills base—creativity, innovation, risk taking and opportunity finding; exercising flexibility in designing and administering salary and benefits programs; establishing and maintaining a professional recruiting process based on transparency, fairness and improving the overall reputation of the company; and making sure that middle managers received adequate mentoring and coaching in important areas that are not adequately addressed in the formal education system such as independent problem solving and developing an action orientation.³¹⁵

§1:17 Turkey

As of July 2012, Turkey had a population of approximately 79.7 million, which ranked as the 17th largest in the world, and its population growth rate of 1.2% was the 98th fastest in the world.³¹⁶ Projections call for the population of the country to increase to almost 100 million by 2050, making it the most populated country among members of the European Union if admission is secured by that time.³¹⁷ Turkey is a strikingly young country: as of 2001, 57% of the Turkish population was under the age of 30³¹⁸ and as 2012 approximately 43% of the population was 24 or under, almost 86% of the population was 54 or under and the percentage of the population in, or about to enter, their prime employment years—15 to 54 years old—was just under 60%.³¹⁹ While Turkey has accommodated a wide range of Western values and practices, as well as implementing a secular democracy that is unique among Muslim cultures, it cannot be forgotten that

³¹³ L. Marus, *The Process of Putting HR Standards Together is Forging Ahead* (June 19, 2013), <http://www.hrpulse.co.za/news/229768-the-process-of-putting-hr-standards-together-is-forging-ahead>

³¹⁴ *The Entrepreneurial Dialogues: State of Entrepreneurship in South Africa*, Endeavor South Africa (2010), 27.

³¹⁵ *Id.* at 28-29.

³¹⁶ Turkey, *The World FactBook*, US Central Intelligence Agency, <https://www.cia.gov/library/publications/the-world-factbook/geos/tu.html>.

³¹⁷ *Anchor's Aweigh*, *The Economist*, October 21, 2010.

³¹⁸ Z. Aycan, "Human resource management in Turkey: Current issues and future challenges," *International Journal of Manpower*, 22(3) (2001), 252.

³¹⁹ Turkey, *The World FactBook*, US Central Intelligence Agency, <https://www.cia.gov/library/publications/the-world-factbook/geos/tu.html>.

99.8% of the population is Muslim and that religion is still a fundamental influence on all facets of life in Turkey including the way that business is conducted.³²⁰ As with many other developing and emerging markets, urbanization has increased in Turkey and as of 2010 70% of the total population was urban and this trend was expected to continue.³²¹

As of 2012, Turkey's labor force was approximately 27.11 million, which ranked as the 23rd largest in the world.³²² In addition, another 1.2 million Turks worked abroad in 2012. Since the early days of the Turkish Republic in the 1920s, the country has experienced a dramatic shift from a large agricultural-based economy—43% of GNP during the 1920s—to a service-based economy in which 57% of the GNP as of 2000 was contributed by the services sector and just 14% came from agricultural activities.³²³ Turkey has recently enjoyed growth in its manufacturing sector due in large part by comparatively low labor costs in Turkey in relation to the European countries that have traditionally been the largest markets for Turkish exports—56% of the country's exports in 2002, but falling slightly to just below 50% by 2010; however, leaders within the Turkish government as well as businesspeople around the country realize that Turkey will not be able to compete effectively on cost much longer and most believe that a shift toward knowledge-based entrepreneurship with a focus on developing and exporting medium- and high-technology products and services will be necessary in order for the economy to continue to grow.³²⁴

The human resources profile for the Turkish workforce points to one of the interesting potential competitive advantages for the country: the availability of a relatively young and educated group. Another interesting human resource characteristic of Turkey is the active and increasingly important role of woman. In the late 1990s, for example, reports indicated that Turkish women ranked favorably in relation to global competitors with respect to their numbers in scientific, technical and professional-related jobs and their ascendancy to high-level management positions.³²⁵ While participation of women in the workforce is generally seen as a positive development, there are long-standing cultural values and expectations regarding the role of women in Turkish families—for example, women are expected to take primary responsibility for child rearing and maintaining

³²⁰ See also M. Arslan, "A Cross-Cultural Comparison of British and Turkish Managers in Terms of Protestant Work Ethic Characteristics", *Business Ethics: A European Review*, 9(1) (2000), 13.

³²¹ Turkey, *The World FactBook*, US Central Intelligence Agency, <https://www.cia.gov/library/publications/the-world-factbook/geos/tu.html>.

³²² Turkey, *Background Notes*, US Department of State, <http://www.state.gov/outofdate/bgn/turkey/197882.htm>.

³²³ Z. Aycan, "Human resource management in Turkey: Current issues and future challenges, *International Journal of Manpower*, 22(3) (2001), 252, 253.

³²⁴ Anchors aweigh, *The Economist*, October 21, 2010.

³²⁵ Z. Aycan, "Human resource management in Turkey: Current issues and future challenges, *International Journal of Manpower*, 22(3) (2001), 252, 254-255. Specifically, the United Nations Development Programme, in its 1996 Human Development Report, ranked Turkey 73rd out of 210 countries with respect to the proportion of women in scientific, technical and professional related jobs and a 1997 report published by the International Labour Organization found that 4% of Turkish women were employed in top management positions, a ratio higher than what was found in the US (2.4%), the United Kingdom (2%), Germany (3%) and Japan (1%).

family integrity and harmony—that may impede development of their full potential as contributors to the economy.³²⁶

One of the most serious economic problems confronting Turkey as it attempts to continue its impressive progress is finding strategic to cope with and reduce what has become a “chronic” unemployment issue. Across the country the unemployment rate has hovered around 10% for several years and there are particular concerns about higher rates among specific important groups including young people, unskilled candidates, women and inhabitants of the eastern regions of the country. The Economist reported the results of a public opinion survey in October 2009 that found that 63% of Turks believed that unemployment was the most important issue facing the country and while the government has responded by announcing plans for creation of a substantial number of new jobs The Economist warned that “the labour market is too rigid: minimum wages are too high and do not allow enough regional variation, and temporary labour contracts are discouraged”.³²⁷

In general, the number of Turkish universities is insufficient to meet the increasing demand for higher education and this has led to significant number of Turkish students leaving the country to study abroad and, in many cases, stay abroad after they have finished their coursework rather than returning to Turkey. Education and training in business management is still lagging in Turkey. While the country has a relatively well developed system of universities and other institutions of higher learning, access is still relatively limited and reports indicate that the participation rate of persons between the age of 18 and 21 in higher education was just 33% as of 2007.³²⁸ Almost half of the university students (45%) were enrolled in one of the many majors falling under the general category of “applied social sciences”. Since business management is just one of a large number of potential social sciences majors, and access to university training is limited, it has been suggested that perhaps Turkey’s network of two-year schools should assume responsibility for offering a wider array of accounting and business courses, particularly since Turkish entrepreneur admit that their businesses suffer due an inability to create and maintain accurate and accounting records and keep up with regulatory reporting requirements in tax and other areas.³²⁹

Employment relationships in Turkey are regulated by the Labor Law Code³³⁰ and its relevant regulations. The Labor Code applies to both Turkish and foreign employers and employees working for a Turkish entity in Turkey. Employment contracts are governed by the law chosen by the parties; however, mandatory provisions of the law of the

³²⁶ Z. Aycan, “Human resource management in Turkey: Current issues and future challenges, *International Journal of Manpower*, 22(3) (2001), 252, 255 (citing Z. Aycan, Key Success Factors for Women’s Career Advancement in Turkey, 6th European Congress of Psychology, Rome, July 4-9, 1999).

³²⁷ The economy has had a bigger boost from much sounder management, *The Economist*, October 21, 2010.

³²⁸ C. Benzing, H. Chu and O. Kara, “Entrepreneurs in Turkey: a factor analysis of motivations, success factors, and problems”, *Journal of Small Business Management*, January 2009.

³²⁹ C. Benzing, H. Chu and O. Kara, “Entrepreneurs in Turkey: a factor analysis of motivations, success factors, and problems”, *Journal of Small Business Management*, January 2009.

³³⁰ Labour Law Code, Law No. 4857, 2003.

employee's habitual workplace will override any choice of law clause.³³¹ One of the biggest difficulties for managers and entrepreneurs in Turkey is the expense and burden related to hiring and firing employees. Reports compiled by the Organisation for Economic Co-operation and Development (“OECD”) and The World Bank indicated that labor laws in Turkey are among the most restrictive in the OECD and that Turkish firms may be disadvantaged by having to deal with relatively high minimum wage requirements and severance pay obligations that have been characterized as exorbitant. Taken together, all this means that entry costs of bringing on a new employee, when measured based on the ratio of minimum wage to the average value added per worker, are much higher in Turkey than in other OECD countries and that the risks associated with hiring incompetent or unqualified employees are significantly greater since it is so expensive to let those employees go once it becomes clear that a mistake has been made.³³² In addition, restrictions including in applicable laws and regulations which respect to when, and how much, employees can work means that Turkish companies must be extremely careful during the recruiting process to be sure that the workers they select are efficient and productive and are able to quickly assimilate and apply the knowledge necessary in order for them to carry out their assigned duties.

Trade unions play a relatively minor role in the Turkish economy and estimates generally peg union membership at less than 10% of the workforce. In general, labor-management relations in Turkey have been good in recent years and employers adhere to laws that requirement them to negotiate in good faith with unions that have been properly certified as bargaining agents.³³³ When strikes have occurred they have typically been of short duration and conducted peacefully. Union membership cannot, as a matter of law, be used as the basis for discrimination in the employment relationship; however, as a practical matter there have been situations where discrimination has occurred against workers who have become union members. The right of association and right to strike has been limited with respect to civil servants (i.e., employees of central government ministries, including teachers) and key public employees such as members of the military and police.

In order to understand HRM in Turkey it is useful to recall that Hofstede’s study of the cultural profiles of a number of countries around the world found Turkey to be relatively

³³¹ Article 27, Act on International Private Law and Procedural Law, Law No. 5718.

³³² According to a 2007 report by The World Bank, the ratio of minimum wage to the average value added per worker in Turkey was 0.57 while the same ratio in France and Romania was just 0.14 and 0.27, respectively. The same report noted that Turkish firms are liable for 95 weeks of wages when firing an employee whereas the average in OECD countries was just 25.7 weeks. The World Bank, *Explore Topics – Doing Business in Turkey 2008 (2008)* (as described and cited in C. Benzing, H. Chu and O. Kara, “Entrepreneurs in Turkey: a factor analysis of motivations, success factors, and problems”, *Journal of Small Business Management* (January 2009)). See also OECD, 2006 OECD Economic Survey of Turkey, OECD Policy Brief, OECD Observer (October 2006).

³³³ The discussion in this paragraph is adapted from US Commercial Service: US Department of Commerce, *Doing Business in Turkey: 2011 Country Commercial Guide for U.S. Companies*, <http://www.wtri.org/CCGTurkey2011.pdf> In order to be a bargaining agent, a union must have a membership of more than half of the workers employed in a work place and include at least 10% of the workers employed in that specific work branch. Id.

collectivistic, hierarchical and uncertainty avoiding³³⁴; however, subsequent studies indicated that the socio-cultural environment in Turkey was changing such that the country was becoming less extreme with respect to each of the aforementioned cultural dimensions.³³⁵ The GLOBE researchers found that Turkey fell below the average scores of other surveyed countries with respect to performance and future orientation. Aycan and Kanungo found relations between superiors and subordinates in Turkey to be paternalistic³³⁶, which Aycan later explained as meaning that “people in authority assume the role of a parent and consider it an obligation to provide support and protection to those under their care . . . [and] [s]ubordinates, in turn, reciprocate such care, support and protection of the paternal authority by showing loyalty, deference and compliance to him/her”.³³⁷ Graafland et al. commented that Turkish entrepreneurs must incorporate several Islamic principles into their business practices, including the right to own property, freedom, justice, honesty, sincerity, truthfulness, exactness in weight and measurement, leniency, and servitude.³³⁸ Another important tenant of Islamic law is the requirement that equal payments be made for equal work, which presumably can be cited as support for the proposition that discrimination based on gender or other personal characteristics should be frowned upon in Turkish society.³³⁹

In 2001 Aycan prepared a review of then-current issues and trends with respect to HRM in Turkey.³⁴⁰ As part of that review a summary of the results of a survey conducted by Arthur Andersen was presented in order to shed light on how certain key HR issues—organizational structure and function, recruiting and hiring, performance evaluation and training and development—were handled among 307 private sector organizations in the finance, automotive, textile, health, information technology, fast-moving consumer goods, metal, mass-media, durable goods, and construction industries in Turkey.³⁴¹ Some

³³⁴ G. Hofstede, *Culture's Consequences: International differences in Work-related Values* (1980). For further discussion of Hofstede's studies of societal cultures see “Globalization: A Library of Resources for Sustainable Entrepreneurs” prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

³³⁵ M. Goregenli, “Individualist-collectivist tendencies in a Turkish sample”, *Journal of Cross-Cultural Psychology*, 28(6) (1997) 787 (less collectivistic); Z. Aycan, R. Nanungo, M. Mendonca, K. Yu, J. Deller, G. Stahl and A. Khursid, “Impact of culture on human resource management practices: a ten country-comparison”, *Applied Psychology: An International Review*, 49(1) (2000) 192 (less collectivistic and hierarchical); and H. Kabasakal and M. Bodur, *Leadership values and institutions: the case of Turkey*, Paper presented at Western Academy of Management Conference, Istanbul, June 1998 (less uncertainty avoiding).

³³⁶ Z. Aycan and R. Kanungo, *Paternalism: towards conceptual refinement and operationalization*, Paper presented at the 14th International Congress of Cross-Cultural Psychology, USA, August 1998.

³³⁷ Z. Aycan, “Human resource management in Turkey: Current issues and future challenges”, *International Journal of Manpower*, 22(3) (2001), 252.

³³⁸ J. Graafland, C. Mazereeuw and A. Yahia, “Islam and Socially Responsible Business Conduct: An Empirical Study of Dutch Entrepreneurs”, *Business Ethics: A European Review*, 15 (2006), 390.

³³⁹ Id.

³⁴⁰ Z. Aycan, “Human resource management in Turkey: Current issues and future challenges”, *International Journal of Manpower*, 22(3) (2001), 252.

³⁴¹ Arthur Andersen, *Human Resource Management Research towards 2001* (2001) (as cited and summarized in Z. Aycan, “Human resource management in Turkey: Current issues and future challenges”, *International Journal of Manpower*, 22(3) (2001), 252. The discussion of the results of the survey included in the text is adapted from the Aycan article at 256-259.

of the most interesting and relevant findings are summarized in the following paragraphs; however, Aycan's basic conclusion was that Turkish organizations are still struggling to achieve the proper balance between "global" and "local" and that Western HRM techniques would be difficult to apply in Turkey without substantial and appropriate adaptation to local social, economic, political and cultural conditions.³⁴² In particular, Aycan noted that there was a relative dearth of serious research and formal academic training with respect to HRM in Turkey³⁴³ and this had led to a proliferation of "consultancies" that were often ill-equipped to provide meaningful advice and seemed to generate ideas that were based on something other than tested and verified scientific knowledge. Aycan suggested that Turkey should follow the lead of the US and other industrialized societies and create and enforce specialization and certification requirements for HR professionals.

Aycan observed that the content and effectiveness of the HRM policies and procedures depended, to a large extent, on the "tone at the top"—the level of support provided by the senior management of the firm with respect to allocation of resources to HR activities and the attitude of senior managers regarding the role that employees play in the overall success of the business model. A minority of the private sector respondents in the Arthur Andersen survey claimed that their top managers were "full partners" with the HR department, meaning that they provided a high level of support to HR, included HR managers in the decision making processes regarding firm strategy and invited HR specialists to high management positions at the vice president level.³⁴⁴ The majority of the private sector respondents reported that while senior management provided support, HR departments were generally seen as "showcases" that generally focused on routine personnel matters regardless of the name given to the functional unit. Among the public sector organizations surveyed the general finding was that support for HR activities, typically carried out by "personnel departments", was limited.³⁴⁵

With regard to the structure and function of the department vested with responsibility for HR matters, 65% of the respondents, generally including the larger firms in the finance, information technology and service industries, referred to the department that fulfilled the HR function as the "Human Resource Management Department". In 12.2% of the respondents, the senior manager of the HR department was also one of the vice presidents of the organization. Half of the respondents had taken the time to prepare written HRM

³⁴² S. Wasti, "Cultural barriers in the transferability of Japanese and American human resources practices to developing countries: the Turkish case", *International Journal of Human Resources Management*, 9 (1998), 609 (questioning appropriateness of Western style management practices in Turkish cultural context).

³⁴³ In 2001, when the Aycan article was published, only five of the 75 universities in Turkey offered graduate programs in human resources management and related fields and organizations did not want to invest time and money in human resources research and simply turned to standardized "global" (generally Western) solutions for a "quick fix" that did not fit the local circumstances and which were poorly deployed due to lack of experience and knowledge within the Turkish organizations.

³⁴⁴ Z. Aycan, "Human resource management in Turkey: Current issues and future challenges, *International Journal of Manpower*, 22(3) (2001), 252, 255. Aycan further explained: "There are organizations which consider every employee as a strategic partner and design [the] most effective HRM systems. These organizations tend to be highly successful and attribute their success to their partnership with employees."

Id.

³⁴⁵ Id.

strategies that were integrated with the overall business strategies adopted by the organization. It was reported that the main functions of the HR department, listed in descending order of importance as indicated by the respondents, were staffing, wage determination and compensation, training and development, health-related issues, performance evaluation, pay-roll design and maintenance, transfers and promotions, catering services, transportation services, job security and career planning.

Various factors appeared to impact the structure and function of the HR department among the survey respondents. For example, larger private organizations, as well as organizations that have greater exposure to strategic arrangements with foreign partners from the US, Europe or Japan (i.e., joint ventures or acting as local representative offices of foreign multinationals), tended to have more developed HR practices. In contrast, family-owned businesses generally took a more paternalistic approach and their HR departments were typically limited to routine functions. There were also variations among industries with respect to the structure and function of HR departments and the survey noted that organizations in the finance and information technology industries tended to have the most effective HR systems in Turkey.³⁴⁶

With respect to recruiting and hiring practices, less than half of the responding firms engaged in formal planning with respect to the HR requirements of the organization. Prospective new employees were generally identified through suggestions from current employees and other contacts, a finding that Aycan attributed to the collectivist nature of Turkish societal culture alluded to above. Another interesting finding, also perhaps driven by collectivism, was the overwhelming preference for one-on-one interviews, generally unstructured, as the means for evaluating and selecting new employees. Employment decisions were typically made based on what Aycan referred to as the “subjective evaluation and intuition” of the interviewer and very few respondents included “objective and standardized” tests as part of the vetting of employment candidates. In fact, when objective tests were used they were often simply translated from English into Turkish without any effort to adapt the contents to local conditions and/or present the questions in a standardized format.

Aycan reported that while almost three-quarters of the respondents claimed to have some form of performance evaluation system for assessing the work of their employees, including a “standardized” evaluation form, there were several problematic issues that undermined the effectiveness and utility of these systems. First of all, while one-third of the respondents reported that they relied on competencies and behavioral criteria to evaluate performance, Aycan noted that there was “no evidence of any scientific validity of the measures developed to assess these criteria” and that no formal training was given to the evaluators before they attempted to complete the assessment. Second, in 80% of the responding organizations the evaluation process was “one-way”, with the only input coming from the superiors of the employees being evaluated. Aycan explained that this was to be expected given that Turkey is a high power distance society. In those instances where some form of “self-assessment” was incorporated into the evaluation process, the employees acted as might be expected in a collectivist cultural environment and rated

³⁴⁶ Id.

themselves lower than the ratings provided by superiors and peers. Finally, Aycan referred to potential problems with relaying negative feedback to employees in Turkey due to the tendency of people in that society to become “emotional” upon hearing “bad news” and it was noted that 11% of the organizations did not even bother to show the results of their performance evaluations to employees.

While two-thirds of the respondents claimed to have some form of system for rewarding employees based on “performance”, Aycan commented that “the efficiency of this system is doubtful”. Some 60% of the respondents reported using performance-based rewards, typically bonuses and/or salary increases, for white-collar employees while only 27% of the respondents offered such rewards to their blue-collar employees. Aycan noted that “intrinsic rewards” for exceptional performers, such as plaques or designation as “employee of the month”, were generally discouraged out of concern that they might undermine group harmony.

White-collar managerial employees often received supplement benefits and allowances such as cafeteria benefits, health insurance, company automobiles or fuel allowance for managers commuting and mobile phones. The benefits provided to white-collar non-managerial employee and blue-collar employees included cafeteria benefits, health insurance, “pocket money” for religious holidays, fuel or firewood for heating and contributions to the educational expenses of employees’ children—a menu of benefits that Aycan argued was reflective of the paternalism in Turkish cultural society.

Job evaluation was not a widely used practice among the respondents—less than half had a form system—and only one-third of the respondents factored job evaluation into the decisions that were made regarding initial salary and subsequent modifications. It was interesting to note that the initial entry level salary was generally determined by “negotiations”. With respect to salary increases, the most important factor was the inflation rate and additional weight was given to the individual performance of the employee and the length of his or her tenure with the organization. At a small number of the respondents, 10%, “networking” also came into play as an important determinant of who got a salary increase and how much.

When asked about training and development, the respondents generally agreed that they were among the most important functions of the HR department; however, Aycan noted that Turkish firms appeared to be having difficulties in evaluating the effectiveness of their training and development initiatives. The most common strategy among the respondents, followed by 82% of the organizations, was to rely on the trainer’s own evaluation of the effectiveness of his or her program and only 44% of the respondents bothered to try and use a more objective assessment based on tests given to participants before and after the program. Aycan reported that when participants are asked to evaluate programs that they attended they usually complete a “happy sheet” which seeks feedback on whether or not they were “happy” with the training and that the answer is, not surprisingly, more positive when the participant needs to complete the program for a promotion and less positive when the program is required in order to remedy some observed deficiency in performance. While many organizations observed that some form

of “return-on-investment” analysis would be useful for their training and development programs, Aycan noted that such an analysis would be difficult for what was referred to as “soft training” topics such as leadership, communication and teamwork.

Aycan noted that, in general, career management and planning was a significant issue in Turkey. One problem was that the education system was not organized and operated in a way that easily channeled students toward areas that were consistent with their interests and talents. When students applied for universities in Turkey they were required to sit for and complete a general entrance exam and could then provide information on a limited number of preferences regarding the schools they would like to attend and the course of study that they would like to pursue if they are admitted. Since only a small percentage of the applicants were able to attend their chosen university and pursue their preferred discipline, many graduates emerged with a formal education portfolio that did not necessarily match their true interests and, in effect, career management began anew once they began their employment with a business organization and it was incumbent on the HR professionals within the firms to provide consultation and guidance on career paths and the type of additional training that would be required in order to be successful. Career management or planning systems were in place at 58% of the respondents and 71% of the respondents claimed that their systems were adequate for identifying candidate to fill vacant positions within the organization. On the issue of whether career planning systems were aligned with organizational practices regarding promotions, respondents indicated that the following factors were important when deciding which employees to move forward to increased responsibilities: performance (72%), completion of required training (70%), tenure in a prior position (44%) and “competencies” (31%). Unfortunately, a relatively large percentage of the respondents (14%) still did not inform employees about the terms and conditions of promotion with their organizations.

Finally, while Aycan noted that Turkey had adopted a formal set of laws and regulations pertaining to the workplace and employees were allowed to form and join unions and enjoy certain basic rights as a result of their union affiliations, he was critical of the enforcement role of the government in this area and the widespread failure of organizations to effectively audit and monitor compliance. Among the areas of concern that Aycan mentioned were failure to provide employment opportunities for the disabled, reliance on “networks” rather than objective and non-discriminatory standards during recruitment and promotion activities and meager accommodations for women wishing to work while raising a family (e.g., short maternity leaves and reluctance to allow for flexible work schedules)³⁴⁷. Aycan recommended that Turkish organizations be subjected to public or private audits of their HR practices as a means for ensuring equal employment opportunities.

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³⁴⁷ While it is generally true that participation by women in the workplace is viewed positively in Turkey and a significant percentage of women have achieved high management positions, strong cultural norms persist that often make lead to viewing a woman’s pursuit of a career as “conflicting” with her proper and traditional role as a mother and anchor of the family and household.

Vietnam's population was 91,519,289 as of July 2012, making it the 13th most populous country in the world, a fact that sometimes comes as surprise to those who have historically thought of Vietnam as a small country in terms of population and territorial size. In contrast to many of the other developing and emerging countries discussed in this chapter, close to 70% of the population of Vietnam remains in rural areas; however, like many of those countries the population of Vietnam is relatively young with over 60% under 25 years of age. Another demographic issue is the projected persistence of gender imbalance, with females more numerous than males, for at least the first quarter of the 21st century. It can be expected that the high demand for males to enter the armed forces will continue during that period and that employment patterns will remain unchanged in sectors and occupations that have traditionally been male-dominated such as agriculture, fishing, mining, metallurgy, machine building, construction and transportation. The government will need to equalize education, training programs and wage structures to reduce favoritism of males and tap into the skills of female workers.

The Vietnamese labor force in 2012 was estimated at 49.18 million, ranked as the 13th largest in the world, and having increased at the rate of 3.5 to 4% annually between 1981 and 2012.³⁴⁸ As noted above the relative youth of the Vietnamese population means that the labor pool is growing rapidly each year, a situation that has led to alarming unemployment rates among younger workers living in urban areas. Another issue that has impacted the labor market has been the high levels of inflation in recent years that have forced many people, especially state workers, to take a second job in order to meet their own needs and the needs of their families.³⁴⁹

Initially, in the early years following the beginning of the economic reforms, cheap, albeit unskilled, labor was one of the main competitive advantages that Vietnam had in its attempts to lure inbound foreign investment. As time has gone by, however, the realization has set in that labor productivity would become much more important and concerns began to arise about a serious shortage of skilled labor in Vietnam that would ultimately impede efforts of local businesses to achieve global competitiveness as well as the drive of the national economy to continue development and growth.³⁵⁰ As recently as 2012 it was estimated that only 15% of the population could be considered to be trained or skilled workers with elementary qualifications or higher. While this percentage is expected to increase as Vietnam focuses on updating training and education programs, critics still voice concerns about insufficient training and problems in the education system that have contributed to imbalances in the labor market.³⁵¹ Even among those who have achieved high-level positions in small- and medium sized enterprises (SMEs), such as owners and directors, the percentage that have completed some form of

³⁴⁸ Vietnam, The World FactBook, US Central Intelligence Agency, <https://www.cia.gov/library/publications/the-world-factbook/geos/vm.html>.

³⁴⁹ Vietnam, Country Studies, Library of Congress, <http://lcweb2.loc.gov/frd/cs/vntoc.html>.

³⁵⁰ L. Thang and T. Quang, "Human Resource Management Practices in a Transitional Economy: A Comparative Study of Enterprise Ownership Forms in Vietnam", *Asia Pacific Business Review*, 11(1) (March 2005), 25, 32 and 38-39.

³⁵¹ T. Nguyen, Q. Alam, D. Prajogo and A. Duong, "The Importance of the State's Entrepreneurial Role, Business Support Services and Technological Assistancess to the Development of Vietnamese SMEs", *International Business Research*, 1(4) (October 2008), 3.

management training programs is relatively low.³⁵² The lack of skills and training among the Vietnamese labor force is particularly problematic for those firms, such as SMEs, fighting to achieve competitiveness since they are unable to upgrade their equipment and technology and thus have fallen far behind their counterparts operating in other countries in the region.

As with much of Asia, Vietnam places great emphasis on the importance of education. As a percent of GDP, Vietnam spends 5.3%, which places it 48th among all countries.³⁵³ Vietnamese see education as an investment in human capital development, with the launch and ongoing support of an “education evolution” being seen as a priority for the government as well as its people. Since Vietnam’s education network has been expanded nationwide to the communal level, almost no commune is without pre-school education. Vietnam has also been able to benefit from opportunities to send students abroad on generous scholarship terms through government-to-government arrangements, or on private initiatives. Meanwhile, a large number of foreign universities have introduced master-level education in association with Vietnamese universities. While Vietnam, like many other developing countries, has seen a steady expansion of formal business education, including masters and undergraduate business programs, critics have argued that the quality of such education is actually worsening and there has been a dearth of indigenous research on management issues of specific concern to Vietnamese businesses — many of the textbooks used in Vietnamese business schools are translations of English texts. Hoang and Dung are critical of Vietnamese Masters of Business Administration (MBA) students, claiming they often pursue their MBA simply to attain a higher rank in the local educational hierarchy and not because of an overriding personal determination to enhance their entrepreneurial skills.³⁵⁴

The main Vietnamese law in the employment area is the Labor Code,³⁵⁵ which created a legal framework setting out the rights and obligations of employers and employees with respect to working hours, labor agreements, social insurance payments, overtime, strikes and termination of employment contracts. In addition, several specific implementing decrees and circulars guide the application of the Labor Code. Not surprisingly, the government in Vietnam has long exerted strict control over associations, which have effectively served as agencies of government ministries or the Vietnamese Communist Party. Among other things, Vietnamese workers have been forbidden from organizing unions independent of the government-controlled labor confederation and laws and regulations ban public gatherings in front of places where government, party or

³⁵² See, e.g., T. Pham, *Creating good jobs by the support policies to develop SMEs (2002)* (only about 37.8% of interviewed SME directors had attended some form of business administration training program); and X. Ho, M. Do and M. Chu, *Financial supports for the development of SMEs (2002)* (5.13% of private SMEs owners had no formal or informal qualifications, 10-15% of private SMEs owners had short-term managerial training of less than six months; and 48.4% of private SMEs owners had no formal qualifications).

³⁵³ Vietnam, Country Studies, Library of Congress, <http://lcweb2.loc.gov/frd/cs/vntoc.html>.

³⁵⁴ V. Hoang and T. Dung, “The Cultural Dimensions of the Vietnamese Private Entrepreneurship”, *The IUP Journal of Entrepreneurship and Development*, VI (3&4) (2009) 54 (2009).

³⁵⁵ Labor Code (July 1994; amended 2002 and 2006).

international conferences are held, and require that organizers of public gatherings must apply for and obtain advance government permission.

Many surveys have been conducted to assess differences among the various types of business enterprises operating in Vietnam with respect to their human resources practices. For example, in a small survey of SOEs and multinational companies operating in Hanoi, Kamoche found that the SOEs tended to follow fairly conservative human resource policies, clinging to traditional welfare paternalism while largely ignoring any need to adopt formal human resources practices, while the multinational companies were making an effort to change traditional management systems to introduce and accommodate Western style practices.³⁵⁶

Zhu examined a number of different enterprises in Ho Chi Minh City, generally thought to offer a more “market-oriented” environment than Hanoi, and found significant variations among them with regard to adoption of modern human resource management techniques that could be tied to an array of factors including ownership, sector (high-tech versus labor-intensive), size and market orientation (export versus focus on domestic market).³⁵⁷ When focusing on ownership characteristics, the researchers found that advanced technology and international standards of human resources management were more likely to be found and used in joint ventures and multinational companies than in local enterprises; however, they also found that multinational companies understood the need to localize the imported human resources techniques to fit the circumstances unique to Vietnam. Also, not surprisingly, former SOEs that had been restructured and converted into joint stock companies were more likely than the remaining SOEs to have replaced traditional socialist human resource philosophies with modern human resources practices. Finally, upon review of non-ownership factors the researchers concluded that large, export-oriented enterprises engaged in high-tech activities were especially attracted to adoption and use of more of the techniques associated with modern human resources management practice.

Zhu also analyzed labor flexibility strategies in Vietnam through the creation of concepts of “numerical flexibility” and “functional flexibility” and measuring the intensity of their adoption among the enterprises included in a survey of different enterprises in Ho Chi Minh City.³⁵⁸ The conclusion was that labor flexibility strategies had not been fully adopted among the surveyed enterprises, a finding that Zhu attributed to an array of

³⁵⁶ K. Kamoche, “Human resource in Vietnam: The global challenge”, *Thunderbird International Business Review*, 43 (2001), 625-650 (cited in Y. Zhu, N. Collins, M. Webber and J. Benson, “New Forms of Ownership and Human Resource Practices in Vietnam”, *Human Resource Management*, 47(1) (Spring 2008), 157-175, 162).

³⁵⁷ Y. Zhu, “Economic reform and human resource management in Vietnam”, *Asia Pacific Business Review*, 8 (2002), 115-134 (cited in Y. Zhu, N. Collins, M. Webber and J. Benson, “New Forms of Ownership and Human Resource Practices in Vietnam”, *Human Resource Management*, 47(1) (Spring 2008), 157-175, 162).

³⁵⁸ Y. Zhu, “The Asian crisis and the implications for human resource management in Vietnam”, *International Journal of Human Resource Management*, 16 (2005), 1261-1276 (cited in Y. Zhu, N. Collins, M. Webber and J. Benson, “New Forms of Ownership and Human Resource Practices in Vietnam”, *Human Resource Management*, 47(1) (Spring 2008), 157-175, 162).

political, cultural, legal and economic hurdles in Vietnam. For example, Vietnamese laws and regulations make it extremely difficult for firms to adjust their headcount of permanent employees, such as downsizing to reduce costs during periods in which demand for outputs is declining. Zhu also commented that full use of functional flexibility strategies in Vietnamese enterprises is hampered by the need to honor and observe local cultural values that emphasize enterprise, personal commitment and maintenance of a harmonious working environment.

Zhu et al. conducted detailed studies of human resources practices among 32 manufacturing enterprises in Vietnam selected based on type of ownership, location, product market, labor intensity and size.³⁵⁹ In order to specifically measure the potential impact of location and ownership, the researchers selected 16 enterprises each from Hanoi and its surrounding areas in the North and from Ho Chi Minh City and its surrounding areas in the South and each of these groups included an equal number of the following types of ownership forms: SOEs; multinational companies, which were wholly-owned foreign invested companies (“MNCs”); joint ventures, which were companies formed and managed jointly by foreign investors and local SOEs (“JVs”); and privately owned enterprises (“POEs”).³⁶⁰ The stated goal of the researchers was to identify and analyze variations among the surveyed enterprises with respect to their strategies on eight different dimensions of human resources practices³⁶¹ and, specifically, where the chosen strategies fell on a continuum of the following three stages of people-management transformation defined and described by the researchers³⁶²:

- The “socialist traditional” model, which includes an extensive amount of external control over enterprises, lifetime employment and uniformity between industries within a system of SOEs;
- The “personnel management” model, which allows for more internal organizational control and determination of many employment conditions at the local level through the use of collective bargaining and features extended job security for workers; and
- The “human resources management” model, which places line managers in control of people management issues, makes employment contingent and features rewards systems that are “performance based”.

The researchers found that ownership and location strongly predicted the intensity of adoption of human resources practices. For example, the researchers reported: “. . . SOEs

³⁵⁹ Y. Zhu, N. Collins, M. Webber and J. Benson, “New Forms of Ownership and Human Resource Practices in Vietnam”, *Human Resource Management*, 47(1) (Spring 2008), 157-175.

³⁶⁰ *Id.* at 163-164. An effort was also made to have representative samples of large and small enterprises, high and low labor-intensive enterprises and export and domestic product market oriented enterprises.

³⁶¹ The eight dimensions included employment status, job allocation, wage determination, wage relations, training and development, recruitment and staffing, union presence and activities and labor-management relationship. *Id.* at 159. The dimensions were first developed and defined in J. Storey, *Developments in the management of human resources: An analytical review* (London: Blackwell, 1992).

³⁶² *Id.* at 159. The “socialist traditional” model was developed by Zhu et al. while the “personnel management” and “human resources management” models Storey’s work and further explained in J. Storey, *Developments in the management of human resources: An analytical review* (London: Blackwell, 1992).

have the highest frequency of adopting socialist traditional practices and MNCs the lowest; POEs and, to a lesser extent, JVs are the most likely to adopt dimensions of the PM model; and MNCs and, to a lesser extent, JVs, are the most likely to adopt dimensions of the HRM model. In terms of location, enterprises from Hanoi are more likely to adopt dimensions of the PM model and less likely to adopt dimensions of the HR model than firms from HCM City.³⁶³ However, there was no statistically significant evidence that the scores of the organizations with respect to the various variables measured was affected by other characteristics such as nature of the market, intensity of labor use or enterprise size.³⁶⁴

The researchers also explained that ownership could be used as a predictor of which dimensions of the three models were chosen by firms for inclusion in their specific menu of human resources practices. The results were summarized as follows³⁶⁵:

- Traditional Model: Lifetime employment (used by all of the SOEs and only by SOEs); government wage scale for wage determination (used by all of the SOEs and some of the POEs); unions as government agents (used by all of the SOEs and some of the POEs and JVs); and harmonious labor-management relations (used by all of the SOEs, most of the POEs and some of the JVs and MNCs). Interestingly, several of the dimensions of the traditional model had essentially disappeared from all of the enterprise forms: governmental planning of job allocation, externally controlled recruitment and staffing and use of external institutions for training and development.
- Personnel Management Model: Team performance wage relations (used by all of the POEs, most of the JVs and some of the SOEs and MNCs); internally controlled access to training (used by most of the POEs and a few of the other enterprises); unions for conflict resolution (used by some of the JVs and a few of the POEs); and institutionalized labor-management relations (used by some of the MNDs and a few of the JVs).
- Human Resources Model: Fixed-term contracts (used by most of the MNDs and POEs); individual performance wage relations (used by most of the SOEs, JVs and MNCs); internally planned training (used by most of the SOEs, JVs and MNCs); de-emphasis on unions (used by MNCs and some of the POEs and JVs); and cooperative culture of labor-management relations (used by some of the JVs and MNCs).

The results of the survey illustrated that there is no particular model of human resources practices that has become the dominant form in Vietnam although it did appear that there was slightly more orientation toward the personnel management model and, to a lesser extent, the human resources management model.³⁶⁶ While it was true that those enterprise forms relying more heavily on foreign capital—MNCs and JVs—tended to adopt more of the practices associated with human resources management, the data also showed that these types of enterprises (as well as the newly formed POEs) had

³⁶³ Y. Zhu, N. Collins, M. Webber and J. Benson, “New Forms of Ownership and Human Resource Practices in Vietnam”, *Human Resource Management*, 47(1) (Spring 2008), 157-175, 168.

³⁶⁴ *Id.*

³⁶⁵ *Id.*

³⁶⁶ *Id.* at 170.

incorporated elements of the socialist traditional model into their human resources practices, a finding that the researchers attributed to the influence that local practices, rules and norms can have on even the strongest foreign partners.³⁶⁷ The researchers posited several explanations for the preference for the personnel management model, and slowness to adopt elements of the human resources management model, even as widespread reforms of the economic system continued: the slow progress in the transition from a centralized planning system to a market-based system, even though it has been over twenty years since the formal abandonment of central planning; poor and uneven enforcement of laws and regulations, which has contributed to a continuously unstable and unpredictable business environment; the remaining internal controls and centralization and lack of networks of external personal relationships; and, finally, the fit between the personnel management model and the traditional Vietnamese national and organization cultural preferences for organizational hierarchy and collectivism.³⁶⁸

Thang and Quang compared human resource management practices among a sample of Vietnamese companies in four different categories: foreign-invested companies (FICs), state-owned enterprises (SOEs), equitized (partial privatization) companies (EQCs) and local private companies (LPCs). In general, they concluded, not surprisingly, that FICs were somewhat more developed in their human resources management practices than SOEs and that the transition of some SOEs into EQCs had yet to bring significant changes in human resources practices to the converted entities. As for the LPCs, the researchers found that while they were more entrepreneurial they also appeared to be less receptive than the SOEs to the adoption of more sophisticated and progressive human resources management policies.³⁶⁹ Thang and Quang's work was particularly interesting in that it included an analysis and assessment of specific aspects of human resources management, including the functions of human resources and personnel departments, recruitment and selection procedures, training and development strategies, performance assessment and management, compensation and benefits and the role of management's perception of the value of HRM. Each of these topics is discussed in more detail in the following paragraphs.

When considering the functions of the human resources department among Vietnamese firms, notice must be taken of the conflicting influences based upon different types of ownership forms. FICs, which are more heavily influenced by Western management

³⁶⁷ *Id.* at 171. Elements of the socialist traditional model commonly adopted by JVs and MNCs include wage determination by management decision and labor-management relationships emphasizing harmony and low power distance. It was also common to find JVs and MNCs using several of the elements of the personnel management model such as unlimited and fixed-term employment contracts and internal centralization of job allocation and recruitment and staffing. Research in another emerging market with a socialist tradition—China—has found that MNCs and JVs had a positive impact on human resources practices including introduction of updated management systems and practices and influencing local enterprises to make changes from their traditional management practices with regard to human resources. See, e.g., D. Ding, K. Goodall and M. Warner, “The end of the ‘iron rice-bowl’: Whither Chinese human resource management?”, *International Journal of Human Resource Management*, 11 (2000), 217-236.

³⁶⁸ *Id.*

³⁶⁹ L. Thang and T. Quang, “Human Resource Management Practices in a Transitional Economy: A Comparative Study of Enterprise Ownership Forms in Vietnam”, *Asia Pacific Business Review*, 11(1) (March 2005), 25, 28 and 34.

practices, might be expected to implement more modern human resources management policies while traditional Vietnamese SOEs cling to historical methods that do not include formal human resources policies but rely more heavily on paternalism and measures that put social needs above economic needs. Thang and Quang found that the human resource management departments among FICs were more actively involved in recruitment and benefits administration than their counterparts among SOEs and, consistent with their paternalistic emphasis, SOEs spent comparatively more time and effort on facility security and health and safety in the workplace. As for EQCs, their managers have more autonomy and are under much more pressure than those of the SOEs to achieve “better performance”³⁷⁰, which means they could be expected to be more open to human resources practices that are specifically focused on improving performance. Moreover, EQCs that have allowed employees to participate in ownership could reasonably expect that those employees would be incentivized to work harder to achieve corporate goals and accept and support result-oriented improvement programs. As it turned, however, Thang and Quang found that EQCs made no greater use of their human resources departments than SOEs. Finally, while the owners and managers of LPCs have a higher tolerance for risk and enthusiasm for new ideas, they often lack the management skills and knowledge necessary to understand and implement sophisticated human resource management strategies and may also be reluctant to do so due to the costs involved given that LPCs are typically capital deprived. It was, therefore, not surprising that Thang and Quang found that the level of human resources department involvement among LPCs was much lower than all of the other types of enterprises.³⁷¹

With respect to recruitment and selection, Thang and Quang hypothesized that FICs, given their focus on achieving the best return on investment with respect to all of their assets — tangible, intangible and human — would adopt careful and comprehensive policies to identify and hire the most qualified job candidates. Their survey confirmed that FICs extensively deployed a variety of relatively sophisticated recruitment methods: placement agencies, professional search firms, advertisements in print publications and Internet advertising. At the same time, Thang and Quang correctly predicted that SOEs would be less likely than FICs to actively engage in recruiting and selecting new personnel, and using the recruitment methods mentioned above, for several reasons, including an excessive number of current workers due to overstaffing and low productivity attributable, in large part, to the lifetime employment practices among the SOEs. In contrast, EQCs that are growing rapidly and learning to cope with market conditions might be expected to have more appetite than the SOEs for tackling staffing issues, including defining the scope of responsibilities for new positions as the firm grows and, of course, finding the right people to fill those positions. The survey results confirmed that EQCs were more like FICs than SOEs on these issues and relied on professional search firms, Internet advertising and job postings. As for LPCs, Thang and Quang correctly expected that their lack of working capital would lead them to rely more heavily on “convenient, low-cost channels” to fill positions, including the natural

³⁷⁰ M. Cohen, “From Cadre to Manager”, *Far Eastern Economic Review*, 3 (2002), 125.

³⁷¹ L. Thang and T. Quang, “Human Resource Management Practices in a Transitional Economy: A Comparative Study of Enterprise Ownership Forms in Vietnam”, *Asia Pacific Business Review*, 11(1) (March 2005), 25, 28 and 34.

tendency of Vietnamese business owners to turn to persons with whom they are already in a close and trusted relationship (i.e., family members) to staff their firms.³⁷² Thang and Quang found that while there were some small differences among the different types of enterprises with regard to their preferred candidate assessment and selection methods, in general there was “a fair amount of harmony in the types of selection methods used most frequently” across the four types of ownership.³⁷³

Not surprisingly, training and development activities are much more prevalent among FICs than in the SOEs. One explanation for this had been that foreign investors quickly realized after the doors to Vietnam were opened by the economic reforms they would need to provide training to local managers and workers in order to seek and achieve the performance standards desired by the investors.³⁷⁴ A related observation was that foreign trained managers assigned to FICs were more attuned to the need for training and perceived it to be motivational as well as educational. In contrast, SOEs disliked the expenses associated with training programs and SOE managers were in the habit of assigning responsibility for training and development to the government rather than taking it on in-house. In addition, SOEs feared that after training, their best employees would leave to join FICs, which offered better compensation and benefits packages.³⁷⁵ Training goals also differed between FICs and SOEs — while FICs focused on content that was directly related to workplace performance, SOEs were “more concerned with diplomas” and thus more likely to outsource their training activities. Reliance on outsourcing by SOEs was consistent with their own lack of competencies and facilities needed to launch in-house training. FICs relied on off-site training much less than SOEs, apparently believing that their specific performance goals could best be achieved through controlled on-site methods of training such as video presentations and lectures. As for EQCs, their focus on performance supported the prediction that they invest in training to improve managerial competence and overall productivity, including training to enhance the skills of workers retained from the days that the firms were SOEs. Finally, formal training is a challenging expense for LDCs and when given is typically only provided to a small group of employees; in fact, the survey indicated that LPCs were less likely than SOEs to send their people to off-site training activities such as conferences, short-course training and overseas training. LPCs generally rely on informal training and recruiting new employees that already have the skills desired through experience and training gained with other firms.³⁷⁶

³⁷² Id. at 28-29 and 34-35.

³⁷³ Id. at 35. The researchers found that FICs and EQCs were more likely than SOEs to use written tests and FICs also were more likely to use role playing during the selection process. LPCs were less likely to use medical examination and logical multiple-choice tests during their selection processes.

³⁷⁴ C. Schultz, M. Speece and A. Pecotich, “The evolving investment climate in Vietnam and subsequent challenges to foreign investors”, *Thunderbird International Business Review*, 42(6) (2000), 735.

³⁷⁵ T. Quang and J. Dung, “Human resources development in state-owned enterprises in Vietnam”, *Research and Practice in Human Resource Management*, 6(1) (1998), 85.

³⁷⁶ L. Thang and T. Quang, “Human Resource Management Practices in a Transitional Economy: A Comparative Study of Enterprise Ownership Forms in Vietnam”, *Asia Pacific Business Review*, 11(1) (March 2005), 25, 29-30 and 36.

Researchers have observed substantial differences in the way that FICs and SOEs approach the process of performance assessment and management among employees. FICs have been found to be much more likely to borrow from the practices of their parent companies and implement regularly scheduled performance evaluations based on predetermined objective criteria, particularly the achieved of previously established performance targets.³⁷⁷ On the other hand, while SOEs generally claimed to have some form of performance appraisal, researchers have found that it usually takes the form of a dialogue between supervisors and subordinates coupled with some form of self-evaluation.³⁷⁸ Thang and Quang commented that this approach is consistent with the socialist principle of egalitarianism and cultural desire to maintain harmony in the supervisor/subordinate relationship. EQCs generally tended to adopt an approach closer to the FICs; however, the process is slower given their background operating as an SOE. Performance assessment and management was found to be relatively simple among the LPCs and Vo and Dihn found that smaller firms tended to use informal performance appraisals for convenience sake and to save time and effort.³⁷⁹ The approach taken by LPCs has also explained by their lack of expertise in the methodology necessary to conduct more formal assessments.³⁸⁰

With respect to compensation and benefits, all Vietnamese companies must adhere to certain minimum legal requirements with respect to minimum wage, social insurance and other employee benefits. Beyond those requirements, however, companies are free to establish their own reward systems and presumably compensation would be an important and valued motivational tool in a country where the general standard of living still remains relatively low. Kamoche³⁸¹ found that FICs typically have more sophisticated reward systems, including compensation arrangements that often induce managers and workers from local companies to transfer to FICs, and are more likely to link compensation to individual performance. FICs also were more likely to use pay-for-performance schemes and establish incremental pay levels based on merit. In addition, FICs offered more extensive benefits packages, including free transportation or transport allowances, accident insurance and childbirth days off for male employees. In contrast, SOEs, while having some flexibility to determine pay levels according to their ability to pay as opposed to having to follow mandatory guidelines issued by the government, still tended to rely heavily on egalitarian principals that limit their ability to establish

³⁷⁷ K. Kamoche, "Human resource in Vietnam: the global challenge", *Thunderbird International Business Review*, 43(5) (2001), 625-650.

³⁷⁸ T. Quang and J. Dung, "Human resources development in state-owned enterprises in Vietnam", *Research & Practice in Human Resource Management*, 6(1) (1998), 85-103.

³⁷⁹ N. Vo and H. Dinh, "Use of performance appraisal in private enterprises in Ho Chi Minh City", Working Paper, Hanoi, National Economics University, 1997. Thang and Quang found that LPCs tended not to use written self-evaluation and peer evaluation as part of their performance assessment process. L. Thang and T. Quang, "Human Resource Management Practices in a Transitional Economy: A Comparative Study of Enterprise Ownership Forms in Vietnam", *Asia Pacific Business Review*, 11(1) (March 2005), 25-47, 37.

³⁸⁰ L. Thang and T. Quang, "Human Resource Management Practices in a Transitional Economy: A Comparative Study of Enterprise Ownership Forms in Vietnam", *Asia Pacific Business Review*, 11(1) (March 2005), 25-47, 30 and 37.

³⁸¹ K. Kamoche, "Human resource in Vietnam: the global challenge", *Thunderbird International Business Review*, 43(5) (2001), 625.

significant pay differentials tied to performance.³⁸² EQCs were in a similar situation to SOEs even though they were, in theory, less burdened by the issues surrounding SOEs because they generally had to “register” their compensation schemes with the government. LPCs were found to be most interested in saving money when it came to compensating employees and even avoided signing labor contracts with employees in many instances in an effort to escape the financial burdens of making contributions to social insurance programs.³⁸³

Finally, when it comes to management’s perception of the value of HRM, companies in Vietnam have gradually come to understand the importance of human resources to their success. Thang and Quang found evidence that provided reasonable support for their hypothesis that the likelihood of adoption of human resources management practices increases along with the value that management places on human resources. For example, when management placed a high value on human resources, their companies invested more in training and development and increased the scope and sophistication of their recruitment and selection strategies. Management-by-objective and written self-evaluations were found more frequently among firms where management appreciation of human resources was higher. In addition, a positive managerial perception of human resources generally led to the implementation of more inclusive and innovative compensation arrangements, including a wider array of benefits.³⁸⁴

Thang et al. examined the possibility of transferring four human resource management practices generally associated with market-oriented economies—“pay for performance”; multi-source feedback, involvement and empowerment and self-managed work teams—into Vietnam, an economic environment that is rapidly developing yet remains “transitional” as it continues to move away from many years of operating as a closed, centrally planned economy based on public property.³⁸⁵ Unable to rely on standard measures of cultural dimensions with respect to Vietnam, the researchers began by laying out what they believed to be the assumptions and conditions that provide the foundation for the effective use of each of the aforementioned practices and then evaluating the “match” between those assumptions and conditions and their view of the “observable and inferred Vietnamese values, beliefs, social norms and customs”.³⁸⁶ Their findings included the following:

³⁸² Y. Zhu and S. Fahey, “The impact of economic reform on industrial Labor relations in China and Vietnam”, *Post-Communist Economies*, 11(2) (1999), 173.

³⁸³ L. Thang and T. Quang, “Human Resource Management Practices in a Transitional Economy: A Comparative Study of Enterprise Ownership Forms in Vietnam”, *Asia Pacific Business Review*, 11(1) (March 2005), 25, 31 and 37.

³⁸⁴ *Id.*

³⁸⁵ L. Thang, C. Rowley, T. Quang and M. Warner, “To what extent can management practices be transferred between countries? The case of human resource management in Vietnam”, *Journal of World Business*, 42 (2007), 113-127.

³⁸⁶ *Id.* at 117. The researchers noted that their analysis was based on relevant literature reviews, the reflection of researchers’ observations and inferences of values carried within popular proverbs. A summary of the relevant factors appears at pages 123-124 in the article.

- The researchers identified some characteristics that would support the eventual adoption of “pay for performance” compensation arrangements among Vietnamese firms, including an education system that “prepares people fairly well to accept and value individual achievement” and cultural values that would support the willingness of workers to accept distinctions based on ability and effort. However, any emerging individualism in Vietnam would still need to overcome a long tradition of collectivism and aspiration for harmony.³⁸⁷ As a result, support for “pay for performance” is likely to be seen most strongly among younger generations.
- The use of multi-source feedback is expected to increase slowly given that Vietnamese cultural values still retain a strong preference for “face saving” and an aversion among people to speaking frankly when they are asked to evaluate the performance of others.³⁸⁸ The researchers cautioned that while Vietnamese are not averse to feedback and “accept it as a good source for the better”, frankness and openness in the assessment process will only come “after a period of getting to know each other or in ‘same side’ relationships.
- The researchers did not hold out much hope for near-term acceptance of employee involvement and empowerment in Vietnam, citing a long historical and cultural tradition of top-down management and aversion to delegation of power even when subordinates are willing to take more responsibility and authority.³⁸⁹ Another hurdle which would need to be overcome in order for employee involvement to flourish would be the reserved nature of the Vietnamese people and their reluctance to express their own ideas unless and until the relationship context is comfortable and trust has been formed.
- The researchers found that Vietnamese cultural values could support the use of self-managed work teams, especially among younger generations of workers; however, efforts would need to be made to overcome the reluctance to delegate power, high power distance and the aversion to share ideas until trust has been developed among the members of the group within which communications must be made. The researchers did note that the collectivist elements of Vietnamese culture would be useful for work teams and that Vietnamese also enjoy the self-control and self-dependence that an effective self-managed work team can provide. However, they cautioned that “managerial competency” is probably the key for making teamwork function effectively in Vietnam.

While Vietnam has a growing workforce, and a number of younger people set to begin their careers, the development of the country’s technology sector has been hindered by a lack of high technology skills among potential workers and outside organizations such as the World Bank have made it clear that Vietnam needs to make reforms in its educational

³⁸⁷ See, e.g., D. Ralston, N. Thank and N. Napier, “A comparative study of the work values of north and south Vietnamese managers”, *Journal of International Business Studies*, 30(4) (1999), 655-672.

³⁸⁸ See, e.g., L. Borton, “Working in a Vietnamese voice”, *Academy of Management Executive*, 14(4) (2000), 20-29.

³⁸⁹ L. Thang, C. Rowley, T. Quang and M. Warner, “To what extent can management practices be transferred between countries? The case of human resource management in Vietnam”, *Journal of World Business*, 42 (2007), 113-127, 121. The researchers commented that while Vietnam, as well as China, did have workers’ assemblies and committees in different guises over the years, these practices only partially mitigated the strong institutionalized influence of the top-down management model.

policies and practices to increase the productivity of its workers and alleviate skills deficiencies that have become barriers to labor mobility. The Vietnamese government has taken some steps to create skills training programs; however, there have been concerns that the bureaucrats in charge of those program may not be able to get funding to where it is needed most and international technology companies, such as Intel and Siemens, that already have a presence in Vietnam have announced their own plans to fund training programs dedicated to developing a high-tech workforce in Vietnam. The push to improve the high technology skills among Vietnamese is important and urgent as a number of other global technology players including Samsung, Foxconn, LG Electronics, Nokia and Canon have signaled an intent and desire to increase their investments in the country by building and operating large manufacturing operations.³⁹⁰

A report in *Vietnam Briefing* in early 2014 noted that workers in Vietnam, compared to other countries in the region, were generally seen as being smarter, abler and more energetic and these attributes, coupled with the reasonable costs of labor in the country compared to China and other Asian countries that are shifting from manufacturing to services, have made Vietnam a magnet for global companies selecting locations for their new foreign investments in production facilities.³⁹¹ Experts agree, however, that while affordability, strong work ethic and dedication to high workmanship are certain important competitive advantages for Vietnam at this stage in its development, further progress depends on the ability of country to create and grow a pool of high-trained IT workers. Projected needs far exceed the current rate of production from the country's secondary schools and universities and the World Bank has estimated it may take a generation to create a highly skilled workforce.

Researchers from the McKinsey Global Institute stressed that Vietnam needed to broaden education and training among its workforce as part of a broader effort to transition the country's economy to more productive, higher-value-added activities.³⁹² The researchers reported that based on their interviews of executives from local companies and multinational companies operating in Vietnam economic progress in the country was being challenged by a lack of basic work-readiness among new recruits in both the manufacturing and service sectors and a shortage of qualified engineers and middle managers. While some Vietnamese companies have launched their own in-house training programs, the problems are large enough to warrant intervention by the government and McKinsey recommended that efforts continue to enhance the quantity and quality of public postsecondary education and that the government collaborate closely with private companies and external educational institutions to address particular skill challenges. McKinsey also suggested that the government take steps to facilitate transparency and quality control within the country's relatively new private education industry including

³⁹⁰ E. Barbour-Lacey, *Jumpstarting Tech Development and Startups in Vietnam*, *Vietnam Briefing* (March 19, 2014), <http://www.vietnam-briefing.com/news/jumpstarting-tech-and-startups-in-vietnam.html/> (accessed July 11, 2014); and P. Jeong, *Vietnam's High-Tech Boom*, *Vietnam Briefing* (February 24, 2014), <http://www.vietnam-briefing.com/news/vietnams-high-tech-boom.html/> (accessed July 12, 2014).

³⁹¹ P. Jeong, *Vietnam's High-Tech Boom*, *Vietnam Briefing* (February 24, 2014), <http://www.vietnam-briefing.com/news/vietnams-high-tech-boom.html/> (accessed July 12, 2014).

³⁹² M. Breu, R. Dobbs, J. Remes, D. Skilling and J. Kim, *Sustaining Vietnam's growth: The productivity challenge* (McKinsey Global Institute: February 2012), 32-33.

developing a system for issuance of certificates for qualified training programs that can serve as objective evidence to employers that workers who have completed such program will indeed have achieved mastery of certain skills.