

# International Human Resource Management

Sixth edition

## Instructor's manual

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## Purpose and Topics covered in the Textbook<sup>1</sup>

The major objective of this textbook is to provide an overview of international human resource management; however, this is a complex term. The field of international HRM has been characterized by three broad approaches. The first emphasizes cross-cultural management: examining human behavior within organizations from an international perspective. The second approach has developed from comparative industrial relations and HRM literature and seeks to describe, compare, and analyze HRM systems in various countries. A third approach seeks to focus on aspects of HRM in multinational firms. In this book, we take the third approach. Our objective is to explore the implications that the process of internationalization has for HRM activities and policies. In particular, we are interested in how HRM is practiced in multinational enterprises (MNEs).

Typically, HRM refers to those activities undertaken by an organization to utilize its human resources effectively. These activities include, but are not limited to, the following:

- Human resource planning
- Staffing (recruitment, selection, placement)
- Performance management
- Training and development
- Compensation (remuneration) and benefits
- Industrial relations

This volume intends to discuss these topics in an international context by explicitly considering the context of the multinational enterprise. Therefore, we also include a chapter on the cultural context on IHRM and the organizational context, as well as cross-border mergers and acquisitions, international alliances, and SMEs. An introduction and a conclusion complete the volume. The structure of the book is indicated by the names of the ten chapters, which are as follows:

1. INTRODUCTION
2. THE CULTURAL CONTEXT OF IHRM
3. THE ORGANIZATIONAL CONTEXT
4. IHRM IN CROSSBORDER MERGERS & ACQUISITIONS, INTERNATIONAL ALLIANCES, AND SMEs
5. SOURCING HUMAN RESOURCES FOR GLOBAL MARKETS—STAFFING, RECRUITMENT, AND SELECTION
6. INTERNATIONAL PERFORMANCE MANAGEMENT
7. INTERNATIONAL TRAINING, DEVELOPMENT, AND CAREERS
8. INTERNATIONAL COMPENSATION
9. INTERNATIONAL INDUSTRIAL RELATIONS AND THE GLOBAL INSTITUTIONAL CONTEXT
10. IHRM TRENDS AND FUTURE CHALLENGES

The sixth edition of this book has been designed as a standalone text for an advanced undergraduate or graduate level overview course on international HRM. Alternately, the text

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<sup>1</sup> The authors would like to thank David St. George, whose work on an earlier version of the instructor's manual was partly adopted for the sixth edition, and Julia Spieß, who prepared most of the sixth edition's Part I in close cooperation with the authors.

can be used in support of a broader international management text to emphasize the critical nature of people issues for multinational enterprises.

The chapter objectives, chapter summaries and additional readings features provide a focused set of learning objectives and heuristic support for students and instructors alike. The in-chapter cases and the in-depth case studies at the end of the text provide students with the opportunity to apply and contextualize the definitions, theories, models and concepts in the text. The in-depth case studies at the end of the text have been specifically designed to provide instructors with a series of platforms to explore one or more of the functional areas of IHRM as well as investigate some of the cross cultural and unique issues MNEs face in the deployment of people around the world. In this sense, several of the cases have been written so they can be used to delineate the topics presented in more than one chapter of the text.

The additional readings and extensively updated endnotes provide graduate instructors and graduate students with an integrated set of references for further exploration and review. At the same time the text does not assume the reader has an advanced understanding of HRM or international management.

This instructor's manual offers notes on the book chapters in Part I and notes on the cases in Part II.

## **Part I: Chapter Notes**

## Chapter 1: INTRODUCTION

### Learning objectives:

- Being able to define key terms in international human resource management (IHRM) and consider several definitions of IHRM.
- Knowing about the historically significant issue of expatriate assignment management and reviewing the evolution of these assignments to reflect increasing diversity with regard to what constitutes international work and the type and length of international assignments.
- Getting acquainted with the differences between domestic and international human resource management and detailing a model that summarizes the variables that moderate these differences.
- Understanding the complexity of IHRM and the increasing potential for challenges to existing IHRM practices and current models, and developing an increasing awareness of the wide number of choices within IHRM practices due to increased transparency and the faster and more detailed diffusion of these practices across organizational units and firms.

### Chapter Summary:<sup>2</sup>

The purpose of this chapter is to provide an overview of the emerging field of international HRM. This is achieved by:

- Defining key terms in IHRM and considering several definitions.
- Introducing the historically significant issue of expatriate assignment management and reviewing the evolution of these assignments to reflect increasing diversity with regard to what constitutes international work and the type and length of international assignments.
- Outlining the differences between domestic and international human resource management by looking at six factors (more HR activities; the need for a broader perspective; more involvement in employees' personal lives; changes in emphasis based on variances in the workforce mix of expatriates and locals; risk exposure; and more external influences) and detailing a model which summarizes the variables that moderate these differences.
- Presenting the complexity of IHRM, the increasing potential for challenges to existing IHRM practices and current models, and developing an increasing awareness of the wide number of choices within IHRM practices due to increased transparency and the faster and more detailed diffusion of these practices across organizational units and firms.

We conclude that the complexity involved in operating in different countries and employing different national categories of employees is a key variable in differentiating between domestic and international HRM, rather than any major differences between the HR activities performed. We also discuss four other variables that moderate differences between domestic and international HRM: the cultural environment; the industry (or industries) with which the multinational is primarily involved; the extent to which a multinational relies on its home country's domestic market; and the attitudes of senior management. These five variables are shown in Figure 1.3. Finally, we discuss a strategic HRM model applied in multinational

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<sup>2</sup> Bullet points in the chapter summaries include important parts taken from the lecture, which are covered by the PowerPoint materials provided to instructors.

enterprises (Figure 1.4), which draws together a number of external and organizational factors that impact on IHRM strategy and practice and in turn on MNE goals.

### Links to other chapters:

This introductory chapter provides the basis for all the other chapters. The definitions and understanding of the differences between HRM and international HRM described herein are key to understanding the other chapters of the book.

### Discussion Questions:

#### 1. What are the main similarities and differences between domestic and international HRM?

This question is addressed in 'Defining international HRM' (pp. 2-3) and 'Differences between domestic and international HRM' (pp. 4-5):

- HRM = '[...] those activities undertaken by an organization to utilize its human resources effectively' (p. 2), including at least: human resource planning, staffing (recruitment, selection, placement), performance management, training and development, compensation (remuneration) and benefits, and industrial relations (→ similarities between domestic and international HRM).

Differences:

- Domestic HRM involves employees working within only one national boundary.
- IHRM also includes aspects pertaining to the national or country categories involved in international HRM activities (the host country where a subsidiary may be located, the parent country where the firm is headquartered, and 'other' countries that may be the source of labor, finance, and other inputs), as well as the three categories of employees of an international firm (host country nationals, parent country nationals, and third country nationals).
- In IHRM, staff are moved across national boundaries into various roles within the international firm's foreign operations (expatriates/international assignees).
- In IHRM, the complexity of operating in different countries and employing different national categories of workers is a key variable that distinguishes domestic and international firms. This complexity is due to six factors: more HR activities, the need for a broader perspective, more involvement in employees' personal lives, changes in emphasis as a result of variances in the workforce mix of expatriates and locals, risk exposure, and broader external influences.

#### 2. Define these terms: "International HRM", "PCN", "HCN", and "TCN".

This question is addressed in 'Defining international HRM' (pp. 2-4).

International HRM=

- '[...] interplay between the three dimensions of human resource activities, types of employees, and countries of operation' (Morgan).
- 'We define the field of IHRM broadly to cover all issues related to the management of people in an international context. Hence, our definition of IHRM covers a wide range of human resource issues facing MNCs in different parts of

their organizations. Additionally, we include comparative analyses of HRM in different countries' (Stahl and Björkman, 2010); → *definition used in this book* (p.4).

Three categories of employees in an international firm:

- PCN – parent country national
- HCN – host country national
- TCN – third country national

For example, the US multinational IBM employs British citizens in its British operations (HCNs), often sends US citizens (PCNs) to Asia-Pacific countries on assignment, and may send some of its Singaporean employees on assignments to its Chinese operations (as TCNs). The nationality of the employee is a major factor in determining the person's "category", which in turn is frequently a major driver of the employee's compensation and employment contract.

### 3. Discuss two HR activities in which a multinational firm must engage, which would not be required in a domestic environment.

The question refers to material found on p. 5 under 'More HR activities.'

To operate in an international environment, a human resources department must engage in a number of activities that would not be necessary in a domestic environment. Examples of required international activities are: international taxation, international relocation and orientation, administrative services for expatriates, host-government relations, and language translation services.

- Expatriates are subject to international taxation, and often they have both domestic (i.e. home country) and host country tax liabilities. Therefore, tax equalization policies must be designed to ensure that there is no tax incentive or disincentive associated with any particular international assignment. The administration of tax equalization policies is complicated by the wide variations in tax laws across host countries and by the possible time lag between the completion of an expatriate assignment and the settlement of domestic and international tax liabilities. In recognition of these difficulties, many MNEs retain the services of a major accounting firm for international taxation advice.
- Host government relations represent an important activity for the HR department in an MNE, particularly in developing countries where work permits and other important certificates are often more easily obtained when a personal relationship exists between the relevant government officials and multinational managers. Maintaining such relationships helps resolve potential problems that can be caused by ambiguous eligibility and/or compliance criteria for documentation such as work permits. US-based multinationals, however, must be careful in how they deal with relevant government officials, as payment or payment-in-kind, such as dinners and gifts, may violate the US Foreign Corrupt Practices Act (FCPA).

Further discussion on other activities can be found on pp. 5-6.

4. Why is a greater degree of involvement in employees' personal lives inevitable in many international HRM activities?

Material to this question can be found in 'More involvement in employees' personal lives' (p. 6).

- A greater degree of involvement in employees' personal lives is necessary for the selection, training, and effective management of both PCN and TCN employees. The HR department or HR professional needs to ensure that the expatriate employee understands housing arrangements, health care, and all aspects of the compensation package provided for the assignment (cost-of-living allowances, premiums, taxes, and so on).
- In the international setting the HR department must be much more involved in order to provide the level of support required, and as a consequence it will need to know more about the employee's personal life. For example, some national governments require the presentation of a marriage certificate before granting a visa for an accompanying spouse. Thus, marital status could become an aspect of the selection process, regardless of the best intentions of the MNE to avoid using a potentially discriminatory selection criterion.

5. Discuss at least two of the variables that moderate differences between domestic and international HR practices.

This question addresses material found in 'Variables that moderate differences between domestic and international HRM' (pp. 8-9) (see Figure 1.3).

The text names five variables that act as "moderators" (diminishing or accentuating the differences between domestic and international HRM): complexity, the cultural environment, industry type, extent of reliance of the multinational on its home country domestic market, and the attitudes of senior management to international operations.

**Complexity:**

- Many firms from advanced economies, with limited experience in international business, underestimate the complexities involved in successful international operations—particularly in emerging economies. There is considerable evidence to suggest that business failures in the international arena are often linked to the poor management of human resources.

**Cultural environment:**

- Possibility of employee culture shock.
- Recognition and appreciation of cultural differences is essential, because international business involves the interaction and movement of people across national boundaries.
- In research, issues are: little agreement on either an exact definition of culture or on the operationalization of this concept, as well as the emic-etic distinction (emic refers to culture-specific aspects of concepts or behavior, and etic refers to culture-common aspects, i.e. universality → divergence-convergence debate).
- Cultural awareness is essential for the HR manager at corporate headquarters as

well as in the host location. Coping with cultural differences, and recognizing how and when these differences are relevant, is a constant challenge for international firms.

Industry type:

- This is of considerable importance because patterns of international competition vary widely from one industry to another: multi-domestic versus global industry.
- Multi-domestic industry (competition in each country is essentially independent of competition in other countries, e.g. retail, distribution, and insurance).  
The HR department's role will most likely be more domestic in structure and orientation. At times there may be considerable demand for international services from the HRM function.
- Global industry (a firm's competitive position in one country is significantly influenced by its position in other countries, e.g. commercial aircraft, semiconductors, and copiers).

Role of the HR department:

- an explicit recognition by the parent organization that its own peculiar ways of managing human resources reflect some assumptions and values of its home culture;
- an explicit recognition by the parent organization that its peculiar ways are neither universally better nor worse than others, but are different and likely to exhibit strengths and weaknesses, particularly abroad;
- an explicit recognition by the parent organization that its foreign subsidiaries may have other preferred ways of managing people that are neither intrinsically better nor worse, but could possibly be more effective locally;
- a willingness from headquarters to not only acknowledge cultural differences, but also to take active steps in order to make them discussable and therefore usable;
- and building a genuine belief by all parties involved that more creative and effective ways of managing people could be developed as a result of cross-cultural learning.

→ Changes that are required to internationalize the HR function have more to do with mindsets than with behaviors.

Pages 9-15 consider these five aspects in detail.

## References:

Recent overviews on research in International Human Resource Management can be found in:

Stahl, G., Björkman, I., and Morris, S. (Eds.) (2012). Handbook of Research in International Human Resource Management. 2<sup>nd</sup> Ed. Cheltenham, UK: Edward Elgar Publishing.

Brewster, C. & Mayrhofer, W. (Eds.) (2012). Handbook of Research in Comparative Human Resource Management. Cheltenham, UK: Edward Elgar Publishing.

On convergence and divergence see:

Festing, M. (2012). Strategic Human Resource Management in Germany: Evidence of Convergence to the U.S. Model, the European Model, or a Distinctive National Model? In: Academy of Management Perspectives, Vol 26, (2), 37-54.

## Chapter 2: THE CULTURAL CONTEXT OF IHRM

### Learning objectives

Chapter 1 observed that international HRM differs from nationally-oriented HRM predominantly in the complexities that result from employees of various national origins working in different countries. People who work in internationally operating companies, as well as customers, suppliers, or representatives of government institutions in the host country, often face very different cultural and institutional environments due to differing socialization experiences. In this chapter we systematically review the environment of international HRM decisions so that the complexity of these decisions can be better understood and adequate solutions developed. This chapter has been designed in order to enable students to learn about the key findings of intercultural comparative research on:

- Definitions of culture
- Cultural concepts
- Results of intercultural management studies such as Hofstede's research, the GLOBE study and others
- Reflections on cross-cultural management research
- Discussion of the development of cultures

These concepts are highly relevant to developing a more comprehensive understanding and explanation of the complexity of international HRM.

### Chapter Summary

In this chapter, we outline how the cultural environment may influence HRM. In summary it can be concluded that an adequate understanding of the cultural context, as it impacts on the behavior of an organization's employees, is of critical importance. Thus, the results of cross-cultural comparative research may provide valuable hints to managers about how to cope with employees from foreign cultures. Furthermore, these research results can form the basis for the development of intercultural training measures. These results could also be of great use to HRM in an international firm, because they could assist in undertaking a structured analysis of the transferability of specific elements of a parent firm's existing HR policy to foreign subsidiaries. In this context, it would be conceivable to decide whether incentive systems for groups or for individuals would be effective in a specific culture.

Table 2.1 in the text summarizes these ideas about the cultural context and gives examples of environmental differences which could lead to problems when MNEs attempt to introduce worldwide standardized HRM practices. Within this context, it is important to recall the discussion on the convergence and divergence of HRM and work practices, as mentioned in the first chapter.

### Links to other chapters and cases:

This chapter provides important information on one of the key contextual issues for international human resource management. The importance of the cultural environment has already been introduced in Chapter 1 and will be addressed in many chapters again or linked to topics such as the cultural adaptation process (Chapter 5), international performance management (Chapter 6), and intercultural training (Chapter 7).

Cases that provide the basis for a cultural discussion include Case 3 on transnational compensation, where, for example, risk aversion (which could be linked to uncertainty

avoidance) plays an important role. A more general discussion on cultural values could be included in Case 7, which examines balancing values between Scandinavia and India.

## Discussion Questions

### 1. Define culture. How can culture be conceptualized?

This question addresses material found in 'Definition of culture' (p. 24) and 'Schein's concept of culture' (pp. 24-25).

To date, there is no predominant consensus on the exact meaning of culture:

- 'Culture consists of patterned ways of thinking, feeling, and reacting, acquired and transmitted mainly by symbols, constituting the distinctive achievements of human groups including their embodiments in artifacts; the essential core of culture consists of traditional [...] ideas and especially their attached values...' (Kluckhohn and Kroeber, 1950s).
- '[Culture is] mental programming' or 'software of the mind' (Hofstede, 1991).
- Culture includes the customs of a community that are practiced by a majority and are based on four basic elements: standardization of communication, thought, feeling, and behavior (Hansen).

Culture can be conceptualized on various levels (Schein, 2004):

1. Artifacts or creations (conscious): visible organizational structures and processes; easily measurable, but hard to interpret variables such as, for example, the economic growth of a country or its political system.
2. Values (partly conscious and partly unconscious): values of a company or culture, found in the intermediate level of consciousness; based on underlying assumptions, for example they are the basis for national legislation or attitudes towards abortion. Hofstede's study can be positioned on this level.
3. Underlying assumptions (invisible and unconscious): includes convictions, perceptions, thoughts, and feelings concerning, for example, the nature of reality and the nature of truth, time dimensions, the effect of spatial proximity and distance, the nature of being human, types of human activity, the nature of human relationships through religions, the basic understanding of democracy, and capitalist market organizations.

Influences from artifacts, through values to underlying assumptions, are much weaker than those leading in the opposite direction, because the influence of underlying assumptions on values and artifacts is stronger than vice versa.

### 2. Outline Hofstede's cross-cultural management study and discuss it accordingly.

This question is addressed under 'Hofstede's cross-cultural management study' (pp. 26-33).

- It was the first major study in cross-cultural comparative research.
- It can be positioned on the values level (according to Schein).

Original study at IBM (1967-1973):

- N=116,000 questionnaires which were completed by IBM employees at all hierarchical levels and with various qualifications.

- Four dimensions of country cultures were identified: power distance, uncertainty avoidance, femininity vs. masculinity, and individualism vs. collectivism.
- These dimensions imply consequences for the structures of organizations.

#### Chinese Value Survey

- N=100 people from 23 countries.
- The results reflected three dimensions similar to power distance, individualism vs. collectivism, and masculinity vs. femininity and one new dimension: Confucianism dynamics, which could not be related to the results of the original IBM study.

Dimension	Definition	Examples of Country Characteristics		Major Difference lies in...
<b>Power Distance</b>	The acceptance of members of a culture that power is not distributed equally in institutions expresses the emotional distance between employees and superiors	<i>High</i> : acceptance of a hierarchical organization structure, in which every individual can occupy their place without any need for justification <i>Many South Asian countries, South America</i>	<i>Low</i> : aspiration to equal power distribution, demand for explanations for any instance of formalized power inequality <i>US, Anglo Saxon countries</i>	... how power inequality is dealt with
<b>Uncertainty Avoidance</b>	Extent to which the members of a culture feel threatened by uncertain, ambiguous and/or unstructured situations and try to avoid them	<i>Strong</i> : strict beliefs and behavioral codes, no tolerance for people and ideas that deviate from these <i>Some Asian Cultures, e.g. Singapore, Hong Kong, German-speaking countries</i>	<i>Weak</i> : significance of practice exceeds the significance of principles; high tolerance of deviations <i>Scandinavia</i>	... the reaction of individuals to time pressure or uncertainties in the future
<b>Femininity vs. Masculinity</b>	Based on the assumption that values can be distinguished as more masculine or more feminine	<i>Masculine orientation</i> : comprises the pursuit of financial success, heroism and a strong performance approach; role flexibility is less clear-cut <i>German-speaking countries</i>	<i>Feminine orientation</i> : preferences for life quality, modesty and interpersonal relationships; role flexibility is more clear-cut <i>Scandinavia</i>	... the form of social roles attributed to gender by the relevant society
<b>Individualism vs. Collectivism</b>	Extent to which individual initiative and caring for oneself and one's nearest relatives are preferred by a society as opposed to, for example, public assistance or the concept of extended family	In more <i>individualist cultures</i> , there is merely a casual network of relationships between people. Each person is primarily responsible for himself <i>US, Anglo Saxon countries</i>	More <i>collective cultures</i> have closer, more clearly defined systems of relationships. This applies both to extended families as well as companies <i>Many South Asian countries, South America</i>	... the predominant self-sufficiency among individuals in a society (private & professional)
<b>Confucianism or Long-term Orientation</b>	Basic orientation in the life of people, which can be either more long-term or short-term in nature	<i>Long-term</i> : great endurance and/or persistence in pursuing goals, position of ranking based on status, adaptation of traditions to modern conditions, respect for social and status obligations within certain limits, high savings rates and high investment	<i>Short-term</i> : personal candor and stability, avoiding loss of face, respect for social and status obligations without the consideration of costs, low savings rates and low investment activity, expectations of quick profit, respect for traditions, and	<i>x...the attitude towards time (short-long; past-present-future)</i>

		activity, readiness to subordinate oneself to a purpose, and the feeling of shame → future-oriented, dynamic <i>Asian Countries</i>	greetings, presents and courtesies based on reciprocity → present-oriented or past-oriented, relatively static <i>US</i>	
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**Discussion** (see pp. 33-34 'A reflection on the Hofstede study'):

Pro:

- Historical prominence—an important contribution to cross-cultural management research.
- Could be repeated at different points in time.
- Results could serve as guidelines for explaining behavior, at least in initial orientation.

Contra:

- Deterministic and universalistic concept of culture (see discussion question 6).
- Reductionist approach.
- Lacking theory—limited validity
  - Dimensions were mainly derived a posteriori
  - As Hofstede's study is placed on the value level—the intermediate level of the Schein concept—it is questionable how far standardized questionnaires can capture the unconscious and therefore the underlying motives of actions
  - No line between practices per se and perceived practices
  - Lack of separation between values and behavior
  - Potential distortion of the Western perspective (the 2nd (Chinese Value) study took place because the risk that the cultural identity of researchers from Western industrial countries might influence the form of the questionnaire could not be ruled out.
- Countries rather than cultures are delimited
  - E.g. Yugoslavia in the 1990s and multicultural societies like Belgium show that national borders do not necessarily contain homogeneous groups → It should be assumed that national cultures are not the only influencing factors of behavior.
- Data is not representative—limited validity
  - Data from only one company (IBM) —although this helps to keep many factors constant—with a strong corporate culture and corresponding selected employees (no typical national citizens)
  - Mainly limited to middle-class males in marketing and service positions
  - Future research should imply cross-level studies, intra-cultural differences, moderator variables, and the effects of interactions between culture variables.
- Static and outdated
  - Although it is assumed that cultures do not change fundamentally over 40-50 years, changes can be seen, for instance, through strong economic growth and significant system changes.

### 3. Outline the methodical procedure and the results of the GLOBE study.

Methodical procedure (material covered on pp. 35-36 in the text):

- Phase I (1993/1994): the development of underlying research dimensions (new social and organizational cultural dimensions and six leadership dimensions).

- Phase II: gather data on these dimensions.
- Phase III: analyze the effects of leadership behavior on the performance and attitudes of employees.
- Sample: 62 countries, 17, 370 people from middle management, 951 organizations, and three industries.

Goal:

- The GLOBE research tries to study the complex relationships between culture, leadership behavior, organizational effectiveness, social co-habitation conditions, and the economic success of societies.

Dimensions:

- Institutional collectivism, in-group collectivism, uncertainty avoidance, power distance, gender egalitarianism, assertiveness, performance orientation, and humane orientation.
- Partly based on Hofstede's dimensions.
- Distinction in the questions between practices (as is) and values (should be).

Results (p. 36)

- Separation of countries based on a literature analysis carried out in ten clusters: South Asia, Latin America, North America, the Anglo cluster, Germanic and Latin Europe, Sub-Saharan Africa, Eastern Europe, the Middle East, and Confucian Asia.
- These cultural regions have different characteristics within the respective cultural dimensions. Unique profiles emerge when combining cultural dimension characteristics with different cultures.

#### 4. Compare cross-cultural management studies and list their advantages and disadvantages.

This question addresses mainly covered material in 'A reflection of the Hofstede study' (p. 33), 'A reflection on the Globe study' (p. 36), 'The Trompenaars and Hampden-Turner study' (pp. 36-37), and 'Cultural dimensions by Hall and Hall' (p. 38).

Studies (start)	Data Basis	Advantages	Disadvantages
Hofstede (1960s)	Quantitative N= 116,000 62 countries 1 industry	Historical prominence; Could be repeated at different points in time; Results could serve as guidelines for explaining behavior	Western research team; Limited industry focus (only 1); Equivalence of culture to nation; Level of analysis