

**Cultural, Legal And Societal Differences Between Germany,  
Singapore, Thailand And Indonesia That Influence The Transfer Of  
HR Policies**

Short title: **Cultural Differences Influencing German and Asian HR**

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### **ABSTRACT**

The aims of the paper are to firstly to investigate cultural and societal differences between Germany, Singapore, Thailand and Indonesia and secondly to compare the effect of perceived cultural differences between managers on the transfer of human resource policies between German Fortune Global 500 industrial companies from - electrical, mechanical and chemical- industries and local Asian plants. The analysis of twenty four in depth interviews with Human Resource directors and line managers contrasts cultural differences regarding policy or practices. Convergence is confirmed on a policy level with crossvergence taking place on a process level. The role of the subsidiary HR director as a cultural translator and regional team player is confirmed.

Key words: Cultural differences; German multinational companies; Asian HR practices;

The context of the study is German Fortune Global 500 industrial companies from electrical, mechanical and chemical- industries with country subsidiaries in Singapore, Thailand and Indonesia. Kostova and Roth (2002) note that as many elements in the institutional environment of a MNC such as culture and legal systems are specific to nations, organisational practices do differ. They acknowledge the tension for MNCs between global integration and local adaptation. If HRM policies and practices reflect managers' assumptions about managing people, then the cultural diversity of management conceptions about HRM can be explored (Laurent in Pucik, Tichy and Barnett, 1993). The first research question of this study is "*What are the key cultural, legal and societal differences between the countries Germany, Singapore, Thailand and Indonesia*" and the second research question is "*How do perceptions about cultural differences influence human resource policies and practices?*".

### **Country Information at Macro Economic Level**

In order to gain insight into the first research question on legal and societal differences between Germany, Singapore, Thailand and Indonesia, a basic macro-economic comparison is noted in Table 1. This indicates that Germany and Singapore

are well-developed economies, with GDP figures per head among the highest in the world (World Factbook 2003). Indonesia, with its vast population and low GDP per head, is a developing country trying to make use of its cheap labour force (Kamoche 2000). Thailand is more developed than Indonesia but not as developed as Singapore or Germany (Rowley & Benson 2002) – see table 1.

**Table 1: Basic facts about Germany, Singapore, Thailand and Indonesia**

Comparison	Germany	Singapore	Thailand	Indonesia
Population (millions)	82.4	4.6	64.3	234.9
GDP (billion US\$)*	2160	112.4	445.8	714.2
GDP per head (US\$)*	26200	25200	7000	3100
Workforce (millions)	41.9	2.19	33.4	99
Workforce (%)	50.8%	47.6%	51.9%	42.2%
Unemployment	9.8%	4.6%	2.9%	10.6%
Main religion	68% Christian	76% Buddhist	95% Buddhist	88% Muslim
Population composition	German, European, foreign workers	Chinese, Indian, Malay	Thai, indigenous groups	Indonesian

(Source: World Fact Book 2003) \*= based on purchasing power parity

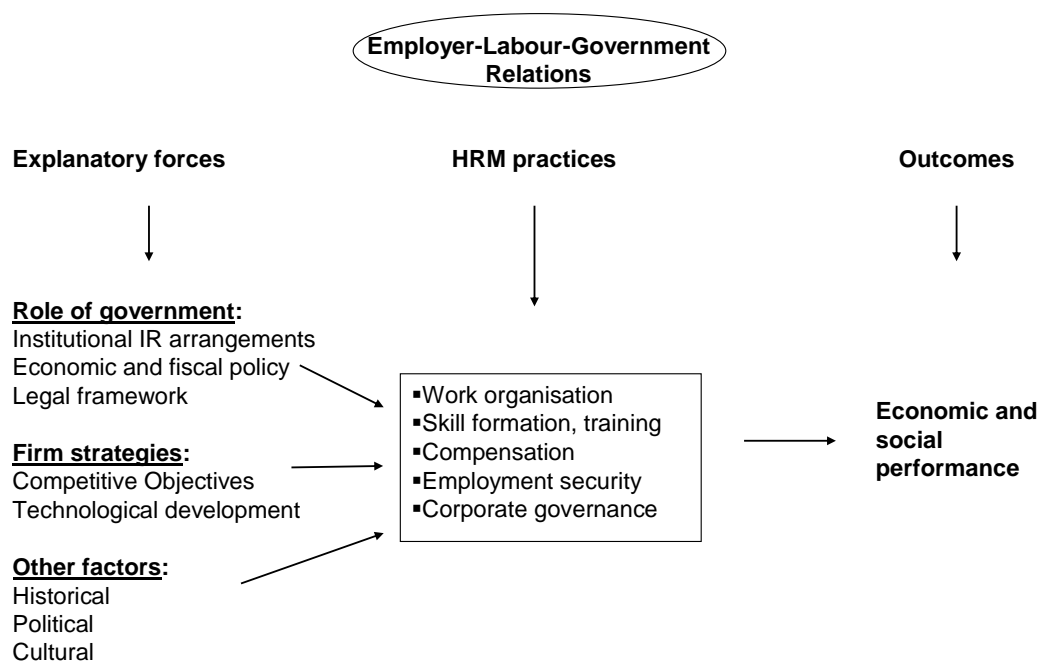
Singapore is as much a city as a nation, not comparable to the area and population of the other three countries in question. Political implications, the EU's role in the case of Germany or ASEAN's role and the stability of the South East Asian neighbours for Singapore, Thailand and Indonesia are important factors in addition to the macro economic environment (Rugman & Hodgetts 2000). The population and workforce composition indicate the cultural diversity within each country. Even such a general analysis confirms that there are very significant differences in socio-economic context among the four countries and some of these differences, especially in the field of Human Resource Management (HRM), require a comparative approach which considers more than macro-economic data.

### **Framework For Comparative Study**

There are a number of frameworks for comparing the national contexts and societal differences between Germany, Singapore, Thailand and Indonesia in managing human resources and some sources focus on HRM in the Asia Pacific (Patrickson & O'Brien 2001). As Verma, Kochan and Lansbury (1995) provide comprehensive coverage of HRM and Industrial relations practices in Singapore, Thailand and Indonesia this framework was used in this analysis to compare the four countries

under study, considering HRM issues on five dimensions. Outcome factors are economic and social performance, with the input factors being role of government, including institutional and legal frameworks, firm strategies, including competition and technology, and finally, other factors, including historical, political and cultural factors. The five dimensions of HRM practices for country comparison are work organisation, skill formation, compensation systems, employment security and staffing and finally, corporate governance (Verma et al 1995).

**Figure 1: Framework for comparative study of countries**



(Source: Verma, Kochan and Lansbury 1995:6)

Comparative studies on national levels face the problem of contradicting trends and data (Rowley & Benson 2002). For example, within one single country differences in tradition, present economic activity and HR management may be encountered. It may be argued that historical, political and cultural factors are the most dominant factors in enduring national differences (Adler 2001; Briscoe 1995; Herkenhoff 2000; Hofstede 2001; Nankervis, Compton & Baird 2002; Patrickson & O’Brien 2001; Pauly & Reich 1997) and they do indeed contribute largely to the formation of government roles and firm strategy, thus necessitating a more detailed discussion of cultural differences between Germany, Singapore, Thailand and Indonesia in a section. First, the HRM practices in this framework are compared among the four countries in table 2 and this

analysis also relates to the second research question about differences in human resource policies and practices.

**Table 2: Framework applied for comparative study of Germany, Singapore, Thailand and Indonesia**

	<b>Germany</b>	<b>Singapore</b>	<b>Thailand</b>	<b>Indonesia</b>
<b>work organisation</b>	Extensive use of technology to increase flexibility and productivity of workforce.	Largely influenced by presence of American MNEs' regional HQ.	Largely influenced by Buddhism and the Monarchy.	Inflexible, extensive use of labour, little effort to increase productivity.
<b>skill formation</b>	Well trained workforce with emphasis on vocational training and practical education.	Government pushes high levels of education. Very limited effort from the private sector.	Abundance of unskilled labour. Shortage of training and skilled labour.	Abundance of cheap, unskilled labour. Shortage of training and skilled labour.
<b>compensation systems</b>	Though a high wage country, real wages have been in decline for years. Relatively evenly distributed pay scales among industries and professions.	Salaries have been constantly rising in real terms with high multiples of pay scales the norm. Singapore is not a cheap labour location anymore.	Salaries have been constantly rising in real terms with high multiples of pay scales the norm. Since 1997 struggling with high wages and low skill base.	Extremely high differences in pay between skilled and unskilled labour. Wages declined in real terms since 1997.
<b>employment security</b>	High employment security and workforce loyalty with legal protection of the workforce in downturns that makes investors careful to expand in upturns.	Very dynamic labour market with no obligation on employer to provide permanent employment or job security. US system serves as role model.	Very dynamic labour market. At times of growth little loyalty of the workforce. Legal protection to prevent layoffs makes it costly for MNEs to downsize.	Very dynamic labour market. At times of growth little loyalty of the workforce.
<b>corporate governance</b>	Collective bargaining and strong positions of the unions who are also represented on the boards of directors (co-determination). Socially very stable.	Corporatist system where the state pushes labour in a role subordinate to government economic policy. Socially stable.	Very little unionisation. Firms are like families. Socially stable due to calming influence of Buddhism.	High unionisation. Frequent clashes between labour force and employers. Socially unstable

(Sources: Briscoe 1995; Kamoche 2000; Verma et al 1995; Wright University 2002)

**Work organisation.** Germany uses technology to increase flexibility and productivity of the workforce, Singapore is strongly influenced by American MNEs having their Asia HQ in Singapore. Thailand is influenced in its work organisation by

Buddhism and the strong presence of the monarchy and Indonesia, being rather inflexible, uses its abundant workforce without much effort to increase productivity.

***Skill formation.*** Thailand and Indonesia have an abundance of unskilled labour, with shortages in training and skilled labour, while in Singapore the government actively pushes for high levels of education and training. In Germany the emphasis is on practical education, deeply embedded in the system through vocational training.

***Compensation system.*** Germany and Singapore are high wage countries with Indonesia being a cheap labour country and Thailand struggling with wages too high for the low skill base. While salaries and wages are distributed relatively evenly in Germany, making it very expensive for low skilled labour, Singapore as well as Thailand and Indonesia are more used to high multiples of pay scales.

***Employment security.*** While the three Asian countries under study have dynamic labour markets and little worker loyalty, the US being the role model for Singapore, the German labour market is highly regulated and protected, thus not dynamic, with high worker loyalty. Thailand and Germany protect their workforce legally against layoffs, resulting in more careful expansions during economic upturns.

***Corporate governance.*** Germany, Singapore and Thailand are socially stable, yet for different reasons. While in Thailand social stability stems from the family values and calming influence of Buddhism, social stability in Singapore is engineered by the government corporatist system and in Germany social stability is owed to the collective bargaining and relative power of the unions, who are also represented on the boards of directors. Indonesia, on the other hand, is socially unstable with frequent clashes between workforce and employers.

There is an ongoing debate as to whether national institutional differences are better suited than national cultural differences to compare outcomes in HRM practices (Rowley & Benson 2002). Kostova (1999) for example notes the limits of cultural explanations. In the Verma et al (1995) model, the inclusion of firm strategies such as competitive objectives and technological development, links to the debate about to what extent national institutions and national culture each influence human resource management practices. Related debates in this field about multinational institutions would be on the impact of strategic context such as the pressures for global integration versus local responsiveness, the role of the subsidiary in the multinational

corporation and the ease of transfer of HRM practices (Taylor, Beechler & Napier 1996). The institutional profiles of host countries affect the adoption of practices in a subsidiary (Kostova & Roth 2002). In this study the focus is also on German multinational enterprises and the way in which they transfer their HRM policies to Asian subsidiaries.

In line with certain literature (see Bartlett & Ghoshal 1998; Briscoe 1995; Herkenhoff 2000; Hofstede 1991; 1993; 2001), the assumption in this study is that national cultural differences are a significant factor in shaping institutions as well as in shaping HRM policies. Therefore the emphasis of research in this study is on national cultural differences rather than institutional differences.

### **Differences In National Cultures**

In order to address the second research question about the influence of cultural differences on the transfer of human resource practices between Germany and the Asian countries, national cultural differences are explored. Comparative research shows that managers from different cultures hold diverse assumptions and value systems about the nature of management and organisation. HRM approaches can be viewed as “cultural artefacts reflecting the basic assumptions and values of national culture in which most organisations are embedded...” (Laurent 1993, p.180).

For Nankervis, Compton and McCarthy (1999, p.644) culture consists of ‘*language, religion, values and attitudes, education, social organisation, technology, politics and law*’ of a country. Most definitions seem to anchor around values and attitudes being the core of culture (Nankervis, Compton & Baird 2002) and lead to three general assumptions in the context of this study. First, the assumption that national cultural differences do exist; second, that these differences are associated with a certain number of shared values, and third, that shared value systems influence people's attitudes and behaviour in their working lives (see Herkenhoff 2000). A number of frameworks to describe cultural differences among nations. For example Kluckhohn and Strodtbeck (1961) distinguish value orientations such as beliefs about time or the importance of relationships in business. Hofstede (1983a, 1991, 1993) claims that national cultures can be categorised into five dimensions which are power distance, individualism versus collectivism, masculinity versus femininity and uncertainty

avoidance and long-term orientation (the latter based on a study of Chinese scholars). Hofstede's (1983b, 1991, 1993) work has been criticised for generalising findings from one company only, IBM (Nankervis, Compton & Baird 2002). The relevance of the Hofstede framework is based on the largest and most comprehensive data bank collected to date and its validity and rigour makes it an acceptable framework for this study (Herkenhoff 2000). Trompenaars (1993) builds on and refines Hofstede's work by highlighting cultural differences along the dimensions of particularism versus universalism, individualism versus collectivism, affective-neutral, specific-diffuse and achievement-ascription. Brake and Walker (1995) define ten cultural dimensions including beliefs about the environment, time, action, communication, space, power, individualism and competition, as well as structure and thinking pattern.

In presenting these summaries one must take into account that each country includes many cultural subgroups (see table 1 regarding population composition; see chapters in Patrickson & O'Brien 2001). Furthermore there have been methodological critiques of country comparisons and these raise issues such as the concept of culture is a group-based concept implying that cultural values held by a group should not be projected onto an individual who is a member of the group (Schneider & Barsoux 2003).

### Country Comparison based on Frameworks

While exact rankings are neither available nor stable over time, a general comparison between the four countries in question can be made with the frameworks of Hofstede and Trompenaars.

**Table 3: Hofstede's cultural differences between Germany, Singapore, Thailand and Indonesia**

Dimensions	Germany	Singapore	Thailand	Indonesia
Power distance	35 low	74 high	64 high	78 high
Individualism vs. collectivism	67 high	20 Low	20 low	14 low
Masculinity vs. femininity	66 high	48 low	34 low	46 low
Uncertainty avoidance	65 high	8 Low	64 high	48 low
Long-term orientation	31 low	n.a. high	56 high	25 low

(Source: Hofstede 1983b, numbers are normalised from 0 (lowest) to 100 (highest))



**Power distance.** The greater power distance in Singapore, Thailand and Indonesia compared to Germany implies a greater acceptance of unequal power distribution and hierarchical differences, manifested also in vast differences in pay. Subordinates in low power distance cultures like Germany appreciate being asked for their input in decision making, and they often expect to be consulted about decisions that affect them. Such participative management might be seen as inappropriate, or at worst as incompetence, by Asian employees (Wright University 2002; see Herkenhof 2000).

**Individualism versus collectivism.** Most Asian cultures are highly collectivist (Wright University 2002). The lower individualism in Singapore, Thailand and Indonesia compared to Germany, implies that measures tending to emphasise or reward the individual, such as individual appraisal systems, performance-related pay, 'employee of the month' or best practice sharing, does not find fertile ground or at least may be less successful than in Germany (Herkenhoff 2000; Kamoche 2000).

**Masculinity versus Femininity.** Also known as achievement versus relationship orientation, countries high on masculinity rate achievement and success higher than caring for others and the quality of life (Wright University 2002). The wording, masculinity versus femininity, has no gender connotation here and does not describe the role of men and women in a society. The lower masculinity in Singapore, Indonesia and specifically in Thailand compared to Germany implies that the tendency of the Germans to want to get the job done, regardless of the emotional or relationship cost that may be involved, makes the Germans appear rude and too direct, while the higher femininity approach of the Asian partners seems to the Germans like avoiding the issue (Brodbeck, Frese & Javidan 2002).

**Uncertainty avoidance.** Uncertainty avoidance is high in both Germany and Thailand (. However, one has to be careful with the interpretation. While the Germans have developed elaborate formal systems in a system of rules, laws or quality standards to control their environment objectively (Brodbeck et al 2002), the Thais have an elaborate informal system based on religion and behavioural norms to control their environment (Lawler & Siengthai 1998). The very low uncertainty avoidance of Singapore can be explained by the fact that the responsibility to worry about the future of Singaporeans has been assumed by the government, and therefore the individual feels with certainty that the government will take care of all important matters (Baker 1999). Especially during the time of Hofstede's study the latter view may have prevailed, whereas the Asian crisis of 1997 and the more recent crises of

SARS and economic decline have shattered this confidence in the Singaporean government (Economist 2004).

**Long term orientation.** Valuing tradition and past social obligations is considered a short term orientation, while saving and planning for the future and persistence is considered a long term orientation. This dimension is generally found to be strong in Asian cultures and weak in Western cultures (Wright University 2002; Patrickson & O'Brien 2001), though the data in table 3 appear not to confirm that notion. For example, long-term orientation in Singapore is certainly to be observed in terms of vision and endurance, yet it does not translate on an individual level to seeking long term, that is guaranteed, employment or offering long-term loyalty to the employer. Such behaviour is more observed in Germany, stemming however, from the desire to avoid uncertainty concerning one's future, rather than from a long-term orientation. Indonesia, with its strong traditions and fatalistic future outlook, scores low on long term orientation.

At this point the critique by Schneider and Barsoux (2003) about the weaknesses in reified and ascribed definitions of culture and the pervasiveness of multiple sub-cultural perspectives in each country need to be emphasised.

**Table 4: Trompenaars' cultural differences between Germany, Singapore, Thailand and Indonesia**

<b>Dimensions</b>	<b>Germany</b>	<b>Singapore</b>	<b>Thailand</b>	<b>Indonesia</b>
<b>Universalism vs. particularism</b>	high on universalism	high on particularism	high on particularism	high on particularism
<b>Affective vs. neutral</b>	neutral	highly neutral	neutral	neutral
<b>Specific vs. diffuse</b>	highly specific	middle	highly diffuse	highly diffuse
<b>Achievement vs. ascription</b>	highly achievement-oriented	middle	highly ascription-oriented	highly ascription-oriented

(Source: Trompenaars 1993; Wright University 2002)

Trompenaars argues that that there are national cultural differences on additional dimensions (see table4). Germans, high in universalism, believe in rules and standards applied to everyone. Singaporeans, and especially Thais and Indonesians on the other hand, want to develop a relationship with the other party before having substantive

discussions towards making an agreement. The four countries under study are categorised as neutral rather than affective, which does not imply that the four countries are equal. Rather, the neutral score of Germany is a 'spill-over effect' from the next dimension, specific versus diffuse. The professional roles in Germany are so much separated from the personal emotions that the expression of feelings has no place in German business life (Brodbeck et al 2002), while the neutral score of the Asian countries under study comes from the need to save face in business life. It can be argued that Germany has a dominant focus the specific for example on separation of professional and private roles compared to the more neutral stance of Singapore and the more diffuse approach of Thailand and Indonesia. In Germany, a highly achievement-oriented culture, social status is largely derived from a person's achievements. In highly ascription-oriented cultures such as in Thailand and Indonesia, social status is largely derived from personal attributes such as age, experience, social origin and connections, or gender (Wright University 2002).

In conclusion, the differences between Singapore, Thailand and Indonesia seem small compared to the differences between the Asian countries and Germany. Whether this seeming similarity of the three Asian countries under study is objectively true or is due to the fact that most of the research has been conducted from a Western point of view is an ongoing debate (Nankervis et al 2002; Patrickson & O'Brien, 2001). Nonetheless, it is tempting to group the three Asian countries together – despite the cautioning by Rowley and Lewis (1996, p.11): '*National cultures are uniquely configured systemic structures and this makes the isolation and comparison of specific cultural attributes a hazardous enterprise*'. Ronen and Shenkar (1985) for example, cluster countries along the lines of Anglo, Nordic, Germanic, Near Eastern, Arab and Far Eastern amongst others. While they put Singapore, Thailand and Indonesia in the Far Eastern cluster and thus offer little help for differentiation of the Asian countries under study, it is noteworthy that the Germanic cluster including Germany, Switzerland and Austria, is distinctly different from the Anglo cluster containing the US and Australia amongst others. This distinct difference further supports the motivation of this study to investigate specifically German MNEs in South East Asia.

The discussion has focused especially on the first research question “*What are the key cultural, legal and societal differences between the countries Germany, Singapore, Thailand and Indonesia*”. Issues relating to the second research question namely the effect of cultural differences on HR policies and practices are explored further.

### **Effects On Transfer Of HR Policies And Practices**

Multinational corporations tend to strive for consistency in their HRM policies, yet to be effective locally they have to adapt those policies to the cultural requirements of different societies (Laurent 1993). In the last few decades human resource management in developed countries like Germany and Singapore has become much more complex than the purely administrative role of paying salaries (Kamoche 2000; Nankervis, Compton & Baird 2002). The flexibility of choice of benefits, the responsibility of the employer to improve the skill base of the workforce, and the increased pressure for the human resources (HR) department to prove its value to management, have changed the profession and the impact the HR department has on the individual employee (Nankervis et al 2002). While most of this should be true for Thailand and Indonesia as well, the fact is that HR practice is lagging behind the economic development of these countries (Fisher & Haertel 2003; Kamoche 2000; Lawler & Siengthai 1998).

While it has been postulated that these national, cultural and societal differences between Germany, Singapore, Thailand and Indonesia have a strong influence on respective local HR practices, and that these local HR practices do indeed differ significantly, the question remains what impact these differences have on the transfer of policies and practices in the MNE. This leads to the second question “*How do perceptions about cultural differences influence human resource policies and practices?*”. This study attempts to contribute to insight about the internal processes by which MNEs transfer or translate or fail to transfer their approaches into subsidiaries (Taylor et al 1996) and the managerial assumptions underlying these processes. Kostova and Roth (2002) note that there are two factors influencing the adoption of a practice, namely the institutional profile and the relational context of within a MNC. A favourable institutional environment is firstly one that contributes to the adoption of a practice by regulations, laws and rules supporting the practice, secondly has cognitive structures that help employees understand and interpret the

practice correctly and thirdly has social norms enforcing the practice. A positive relational context is firstly influenced by the extent of perceived dependence of the subsidiary on the MNC, secondly by the level of trust between the subsidiary and MNC and the degree of identification between the subsidiary and MNC. Due to a mismatch between coercive pressures and cognitive-cultural mindsets, internalisation of such practices may not be achieved.

Closely linked to the question of transfer is the discussion of convergence versus divergence. First, if transfer without adaptation was found to be successful, HRM was to converge towards HQ policies and practices. Second, if either there was little acceptance without adaptation or a downright rejection of some elements of HQ policies and practices a case for divergence could be argued (Rowley & Benson 2002). Third, if policies were transferable without adaptation and practices needed significant adaptation, then attention needs to be put on the element that translates policies into practices. Finally, crossvergence, a form of convergence towards something new that is a blending of various ideas and practices might be expected in some cases (McGaughey & De Cieri 1999).

## **METHOD**

First, the MNEs are selected based on the criteria that MNEs participating in this study are German Fortune Global 500 industrial companies that have a substantial amount of their business outside Germany and have subsidiaries in Singapore, Thailand and Indonesia (see Table 5). All three MNEs have a history in Germany of well over 100 years with their international growth taking shape predominantly after World War II. Currently, all three MNEs have more than 50% of their employees and/or business volume outside of Germany. They have wholly foreign owned subsidiaries in more than fifty countries worldwide. The biggest market and subsidiary of all three MNEs is in the United States, while the biggest market and subsidiary in Asia of all three MNEs is in China. This leads in all cases to an implicit understanding that while Singapore, Thailand and Indonesia are important markets, they do not receive the attention and resources from Headquarters (HQ) in Germany that they would like to receive. The cases and countries were further selected due to the accessibility of the companies and countries for the researchers. Each MNEs HQ is defined as a main case and each country subsidiary of that MNE is defined as an

embedded case. Based on this definition, this study is a multiple case study, involving three main cases in Germany and nine embedded cases (three each in Singapore, Thailand and Indonesia).

**Table 5: Background of Main Cases**

Case code	Industry	Part of Fortune Global 500	Subsidiaries in Singapore, Thailand and Indonesia?	More than 50% of turnover and/or employees outside Germany?
E	Electrical	Yes	Yes	Yes
M	Mechanical	Yes	Yes	Yes
C	Chemical	Yes	Yes	Yes

(Source: Fortune 2004; Stehle 2004)

To preserve confidentiality and to maximise ease of reading, the main cases are coded as cases 'E' for electrical, 'M' for mechanical and 'C' for chemical, based on the industries in which the main case MNEs are active. The embedded cases are numbered so that each main case has four distinct numbers, for example 'E', the main case, consists of case 'E1' (Headquarters in Germany), 'E2' (Singapore), 'E3' (Thailand) and 'E4' (Indonesia). Interview partners are grouped by their function, working as a line manager, including the Chief Executive Officer (CEO) or the Chief Financial Officer (CFO) as 'L' or in HR, 'H'. Information obtained from other sources are coded as 'O'. Interviewing HR directors and line managers such as CEOs and CFOs assures that the interviewees are directly involved in and affected by the transfer of HR policies and practices from HQ to subsidiary. Two managers of each participating MNE's subsidiary in Singapore, Thailand and Indonesia, as well as two from each HQ, are selected. Interview partners from HQ and from line management in the researched countries were predominantly male (13 interviewees out of 15 respondents) and of German nationality (14 interviewees out of 15 respondents), while the HR directors in all 9 embedded cases involving Asian subsidiaries were local nationals with a majority being females (6 out of 9).

The principal source of data comes from the 24 in-depth interviews with selected managers of three German MNEs at HQ and subsidiaries in Singapore, Thailand and Indonesia as well as field observations in every country by the first researcher. The analysis of relevant documents, handed to this researcher by the interview partners, further augments triangulation (see Miles & Huberman 1994; Stake 1995; Yin 2003).

A case study protocol is developed in this study to control the contextual environment of the case study (Chew 2001; Yin 2003). The next operational step is to follow up with the interviewees through e-mail and fax to explain the research, assure them about confidentiality and make arrangements for the interviews.

The **interview protocol**: The exploratory interviews, as well as discussions with and feedback from two additional academics in the field of international HR and one business practitioner not otherwise involved in the study, lead to an interview protocol with relevant questions, subsequently tested in two pilot interviews. There are two interview protocols with questions on the same content, one for HQ, one for the subsidiaries. The differences between these two protocols are minor and mostly address the different perspectives of HQ and subsidiaries.

Each interview begins with a general introduction to acquaint the respondent with the interview purpose and agenda. Part A of the interview protocol introduces the research project and outlines the ethical considerations. Part B contains the opening questions to build rapport and allows the interviewees to tell their experiences in their own words without any prompting or input from the researcher (Patton 1990; Stake 1995). The other sections deal with specific research questions and two of these research questions are addressed in this paper. The semi-structured interviews start with open, general questions and then focus more and more on the specifics of the identified research issues (Perry 1998, Zikmund 2000).

This study presents two forms of case analysis. First, **within-case** analysis compares data and patterns within one main case, drawing on the embedded cases (Scholz & Tietje 2002). This reveals the pattern in, or approach to, transfer of HR policies and practices inside one MNE to the different subsidiaries. The common factor is the organisational culture. Second, **cross-case** analysis, employed here mostly on the level of the embedded cases, compares data and patterns within one country across different MNEs (Scholz & Tietje 2002; Yin 2003). This reveals specific approaches in one country and the common factor is the national culture. These could be common traits of interview partners, for example educational background, position or gender. In this study the most valuable analysis comes from within-case analysis and cross-case analysis. In other words, the twelve embedded cases are first analysed

individually, using triangulation of data methods, and then two forms of case analysis are used to highlight patterns and themes emerging from the data.

## RESULTS

In this section results of interview items relating to the first research question “*What are the key cultural, legal and societal differences between the countries Germany, Singapore, Thailand and Indonesia*” are presented.

### Perceived Differences Between Germany And The Asian Countries

**Culture and society** The HQ respondents of the MNEs are well aware that ‘*Asia is different*’ (M1), even though the specific local knowledge of Singapore, Thailand and Indonesia is rather limited: ‘*German people are very direct*’ (E3H) versus ‘*The Asian people are quiet and never say what they mean*’ (M1H) only describes some issues on a relatively generic level and reduces the differences to a communication issue (Table 6).

**Table 6: Statements about cultural differences between Germany and Singapore/Thailand/Indonesia**

	Case E	Case M	Case C
<b>HQ Germany</b>	<ul style="list-style-type: none"> <li>• Asia is different from Germany</li> <li>• Germans are more structured, more result oriented</li> <li>• Asians are not proactive, need to be pushed</li> <li>• Asians are quiet and do not say what they mean</li> </ul>		
<b>Singapore Thailand Indonesia</b>	<ul style="list-style-type: none"> <li>• Asians are more polite</li> <li>• Germans are direct and rude, have little understanding of the Asian way of avoiding conflict</li> <li>• Germany is part of the West</li> </ul>		

(Stehle 2004)

Thailand views itself as the ‘*most different from Germany*’ (E3H, M3L). The differences in culture mentioned by all interviewed Thai and Indonesian nationals are different styles of communication, with Germans being seen as direct and rude and Thais and Indonesians as indirect and polite. The concept of face saving and of never saying no to a superior is seen to cause many difficulties between Germans and Thais and Indonesians, whereas Singaporeans do not have a big problem with face saving. Conflict resolution, dealt with in Germany by addressing the conflict openly and



'*fighting it out*' is considered the biggest difference and the biggest problem between German managers and local managers of the subsidiaries.

In the same way that HQ respondents assume Singapore, Thailand and Indonesia to be part of Asia without the need to approach individual countries differently, the subsidiaries regard Germany by and large as '*part of the West*', rather than an individual country distinct from the US, for example. Only the subsidiaries in Singapore differentiate between the German directness and the British way of avoiding direct statements.

**Cross-case analysis** shows that while respondents in cases E and M are quite content with their generic acceptance of differences between Asia and Germany, one MNE, case C, is systematically mapping cultural differences in the MNE, using Hofstede's framework of cultural dimensions. This systematic approach is facilitated by the fact that the HR manager in HQ of case C responsible for Asia, as well as the HR directors in the two subsidiaries in Singapore and Thailand are academically qualified in the field of international HR and have experience as lecturers in universities. While having no conclusive result at the time of this study, case C is the only case under study that is attempting to map cultural differences and plans to adapt its approach in a country specific way.

**Differences in the legal system** between Germany and Singapore, Thailand and Indonesia are not considered an issue in international HR in any interview. The common understanding of subsidiaries and HQ is that the subsidiaries must ensure legal compliance in the relevant country and that HQ in Germany accepts this as given, if the respective legal practice is explained. All respondents are well aware of sizeable differences in legal systems, being relevant to HR overall. These would include payroll administration or compulsory compensation for a 13<sup>th</sup> month; the role of the unions in collective bargaining of work time and salary reviews, and recruitment, separation and retrenchment regulations amongst others. However, those HR issues that are directly affected by the legal environment are regarded by all interviewed parties unanimously as *local issues*, not being part of the discussion of internationalisation of HR. In brief, cultural differences between Germany and South East Asia are viewed as relevant for HR mainly in terms of communication style.

Legal differences between the countries are acknowledged and the subsidiaries must ensure local legal compliance.

### **Perceived Differences Among The Asian Countries**

In this section results of interview items relating to the second research question “*How do perceptions about cultural differences influence human resource policies and practices?*” with a focus on perceptions about cultural differences are presented.

In the HQ of the MNEs of cases E, M and C the underlying belief is that there are differences between Singapore, Thailand and Indonesia in culture, society and legal systems, yet they are unknown in HQ and not regarded as relevant when designing or transferring HR policies and practices. While it is seen that ‘*it is somehow easier to talk to the guys in Singapore*’ (C1H), this fact is attributed to individuals rather than a difference in national culture between Singapore and Thailand or Indonesia, which might lead to a strategically different approach from one country to another. The one exception, as discussed in the previous section, is the attempt of case C to map cultural differences along Hofstede’s model and to formulate a different approach towards each country in the future.

The subsidiaries are aligned in their views along national lines. Thailand is the only country of the three Asian countries under study that has never lost its independence to a colonial power, a fact stated in 5 out of 6 interviews in Thailand, and used to explain why there is less alignment with the West than in Singapore and Indonesia, less English spoken and generally, a greater cultural distance between Thailand and Germany, than between Singapore and Germany. Also, the geography of having not many significant sea ports is a reason given when explaining why Thais often ‘*struggle with the English language and the Western ways of doing things*’ (M3H). While Thai and Indonesian interview partners make a point that their respective cultures are similar with the exception of religion, the perception of Singapore is that of being ‘*efficient, rude and more like Westerners*’ (C4H). The Singaporean interview partners note the similarity between Thailand and Indonesia; their self image is that of being business minded and at ease with both worlds, the East and the West.

All interview partners make a point of saying that professionally they are not concerned with the differences between the countries under study, and that their answers represent a general perception based on experiences from travel and reading. It must be stressed again that cultural, societal and legal differences between the countries under study are considered so significant by the German HQ that a local HR department is a necessity in every subsidiary. Given this fact, the interview partners are not concerned professionally with the differences from other countries. Other, smaller firms, who attempt to have one HR department running the HR in different country subsidiaries report nearly insurmountable difficulties. In brief, there is a perception that Singapore, Thailand and Indonesia are different, yet there is little specific real knowledge and the underlying belief is that the study or knowledge of differences between the countries is professionally unimportant for international HR in a German MNE.

### **Cultural Awareness Of HQ And Subsidiary Staff**

A further interview item relating to the second research question regarding perceptions of cultural differences, related to the level of cultural awareness of staff. There is a low level of cultural awareness among HQ staff. A culturally insensitive example is found in one MNE's internal promotional material which states: '*We want a culture of open dialogue and commitment!*' (EO). Lack of international experience among the HQ staff is cited in all HQ interviews as the main reason for the lack of cultural awareness, as outlined in table 7.

**Table 7 Levels of cultural awareness of HQ staff and strategies employed by the MNE to improve**

	<b>Case E</b>	<b>Case M</b>	<b>Case C</b>
<b>Level of cultural awareness of HQ staff</b>	Limited cultural awareness of HQ staff.		
<b>Strategies to improve</b>	Increase international experience and exposure of HQ staff.		
<b>Practices employed</b>	Create international positions and promote to senior level only people with international experience.	Hire outside people with international experience.	
<b>Challenges</b>	Costly, takes time.	Lack of company experience.	

(Stehle 2004)

HQ in cases M and C employs outside HR specialists with international experience, though still German nationals, to overcome the lack of cultural awareness in their HQ staff (MO, CO). Case E takes the approach of providing international positions for HQ HR staff and when promoting from within, international experience plays a significant role: *'We only appoint staff to senior management positions in central HR who have international experience, which is defined as having lived and worked outside Germany for at least 18 months.'* (E1H). This approach takes time and the commitment and money to provide international positions. Whereas recruiting new staff with relevant international experience is fast, the new staff may lack the necessary company experience.

While HQ and the subsidiaries agree that the cultural awareness and intercultural competence of HQ staff needs to improve, and the way to do this is through gaining international experience, only case M is also concerned with increasing the intercultural competence of its local staff: *'We train our people specifically in workshops to work with foreigners and learn how to deal with their more direct style and culture of dialogue and commitment'* (M3H).

In brief, cultural awareness of HQ staff is perceived as limited. Gaining international experience is the preferred way to address this limitation. Increasing cultural awareness of subsidiary staff is systematically handled in one case and not addressed in the two other cases.

In the following sections results of interview items relating to the second research question with a focus on uniqueness of subsidiaries and perceptions about standardisation of HR policies are presented.

### **Perceived Uniqueness Of Subsidiary**

Another interview item relating to the second research question regarding the impact of cultural differences, related to the perceived uniqueness of the subsidiary and the impact on policies. The subsidiaries of the MNEs in cases E, M and C regard themselves as being part of a larger group of country subsidiaries in Asia. The uniqueness of the subsidiary is not argued based on the nature of the business, the

local market, the organisation of the subsidiary or legal differences. Rather, the different national situations leading to different *national cultures* are used to explain why the subsidiary is unique in the respective MNE. HQ respondents, on the other hand, view the countries as comparable countries in South East Asia and differentiate the subsidiaries in Singapore, Thailand and Indonesia based on their respective size and product range (see table 8).

**Table 8: Perceived uniqueness of subsidiaries**

	<b>Singapore</b>	<b>Thailand</b>	<b>Indonesia</b>
<b>HQ Germany</b>	HQ differentiates its respective subsidiaries based on subsidiary size and product portfolio.		
<b>Subsidiaries general</b>	Subsidiaries see themselves as part of a group in Asia and differentiate themselves along national boundaries.		
<b>Subsidiaries individual</b>	Unique because Singapore is an efficient and business minded city state that bridges East and West.	Unique because Thailand has no colonial past, no significant sea ports and is therefore more secluded from the West.	Unique because Indonesia is the only Muslim country under study and the fragmented island structure makes it hard to govern.

(Stehle 2004; Stehle & Erwee 2005)

The Singapore respondents argue their uniqueness based on Singapore being an efficient city state that bridges the East and the West. The respondents are of the opinion that Singapore is more developed and more business minded than Thailand and Indonesia. The respondents from Thailand set their country apart, because of its lack of colonial past. Respondents from Indonesia cite religion, Indonesia is the only Muslim country in the study, and geography, Indonesia comprises hundreds of islands and is difficult to govern centrally, as the main reasons why Indonesia is different. In short, while the question asks for the uniqueness of the subsidiary of the MNE in the respective country, the answers from the subsidiary respondents address national cultural differences.

### **HR issues to be standardised globally**

A final interview item relates to the uniqueness of the subsidiary on the transfer of HR policies. The three MNEs under study each have a central Human Resources (HR) department in Headquarters (HQ) and it is there that global policies are made and

decided upon. Case E has a process and more detailed policies, case M defines policies on a general and strategic level and case C is starting the process of HQ policy formulation.

There is a strong belief in the HQ of all three MNEs that some globally valid principles apply to all subsidiaries, that *'there is something to being an employee of M which is stronger than national culture'* (M1H). These are principles rather than processes, for example principles of compensation, and it is left to the subsidiary to interpret these principles and apply them locally. While calling these principles mandatory, HQ of M acknowledges freely that *'there is very little control if and how these principles are applied'* (M1H). On the other hand all HQ respondents unanimously state that the respective companies' leadership principles and talent identification processes are to be applied globally, something that the subsidiaries in Thailand for example see differently: *'Our leadership principles and style have to be modified here to fit the country'* (M3L). *'The leadership principles from Germany are no good in Thailand and cannot be applied'* (E3H).

In brief, the common approach in the three main cases is that HQ sets principles on a strategic policy level and the subsidiary develops its own practice and process. Where HQ insists on standardisation to the letter, the subsidiaries resist it (Stehle & Erwee, 2005).

**Within-case analysis** indicates that in case E policies are made in HQ and communicated to the subsidiaries. There is a formal platform to deal with the input of the subsidiaries to policy formulation, yet this platform is not yet used by the subsidiaries. HQ and the subsidiaries in Singapore and Indonesia perceive the policies set by HQ as binding, while the subsidiary in Thailand perceives them as suggestions that can be modified and decided upon by the subsidiary.

In case M policies are made in HQ and communicated to the subsidiaries. Case M HQ welcomes input in principle, but has no platform for, and no example of input from the subsidiaries. HQ and the subsidiaries in Thailand and Indonesia agree that policies should be made on a strategic level and have to be made operational by the subsidiaries, while the subsidiary in Singapore perceives the policies as unreasonable

and struggles to make them operational. The interviews with the CEO and the HR director of the subsidiary of case M in Singapore are different from all the other interviews. The high level of aggression towards, and disillusion with, HQ, displayed mostly by the CEO, is both challenging for the interviewer and provides significantly more negative answers than any other interview in this study.

Finally, case C has no history of global policy formulation and is beginning this process at the time of research. The subsidiaries in Singapore, Thailand and Indonesia welcome this more active role of HQ. The subsidiary in Thailand regards itself as a trendsetter for case C in HR policies and practices in Asia.

**Cross-case analysis** shows that HR policies are made in HQ of all three MNEs under study. Case E has a process and more detailed policies, case M defines policies on a general and strategic level and case C is starting the process of HQ policy formulation. The subsidiaries in Thailand are the most self-confident, seeing themselves as trendsetters (C3) and in a position to decide whether or not to accept a policy (E3). The subsidiaries in Singapore and Indonesia are closely in line with HQ thinking, with the exception of the subsidiary of case M in Singapore, who feels that the policies from HQ are both unreasonable and not fitting for Singapore.

## DISCUSSION

The methodological critiques of country comparisons and multiple cultures perspectives such as those of Hofstede are acknowledged (Schneider and Barsoux 2003). There is widespread agreement among the respondents that cultural, societal and legal differences between Germany, Singapore, Thailand and Indonesia do exist. What they are specifically, and how they influence HR, is not very much at the forefront of thinking in either HQ or subsidiary respondents. While the existence of differences such as different styles of communication is acknowledged, they are not being closely examined and are seen as a responsibility of the local HR staff to manage. Only one company is mapping cultural differences systematically and plans to formulate a different approach towards each country in the future. This finding has a major impact on the level of sophistication of the HR strategy, policies and practices

of each of the MNEs, because the local HR directors lack the international experience and intercultural ability to manage these differences well.

A local HR manager as HR director is preferred over an expatriate by all respondents; in Indonesia this is actually a legal requirement. To be culturally more aware is desirable both in HQ and subsidiaries and the most common solution applied to overcome the lack of cultural awareness is to exchange expatriate managers within the MNE, or employ people who have previously gathered international experience.

### **Impact Of Cultural Differences**

In the discussion about cultural differences the literature is almost unanimous in stating that organisations accept the existence of cultural differences and the need to take them into account in international business (Adler 2001; Bartlett & Ghoshal 1998; Briscoe 1995; Hofstede 1997). When researching the transfer of HR policies and practices, cultural differences between the countries have a two-fold impact. The first impact is well documented in the IHRM literature (Briscoe 1995; Dowling, Schuler, Welch 1999; Nankervis, Compton & Baird 2002) and deals with the differences of culture, values, attitudes and behaviour of the employees to whom the respective policies are meant to apply. The second impact comes from the cultural differences of managers involved in the transfer of knowledge, policies and procedures, and this impact is addressed in the literature of knowledge management and organisational behaviour (Adler 2001; Kostova 1999; Poedenphant 2002). It is the combination of these two impacts that constitutes the discussion of research issue 2 on cultural differences.

The findings seem to confirm the literature which states that most societies, managers and employees are parochial or **ethnocentric** and that acknowledged differences between national cultures focus predominantly on communication styles, whereas value differences have to be observed or deducted (Adler 2001). Furthermore, the findings contrast with the literature (Dowling, Schuler & Welch 1999; Nankervis, Compton & Baird 2002) which states that cultural differences and sensibility are at the forefront of IHRM. Rather, the managers in the HQ and in subsidiaries of the German MNEs of this study have little awareness or in-depth knowledge of cultural differences between the four countries in the study. They assume that their local HR



departments, fulfilling all HR functions, absolve them from the need for a more in-depth investigation and knowledge gathering or sharing about cultural differences. Transfer of HR policies and practices is routed via these local HR departments and it is the responsibility of the local HR director to adapt the proposed policies to obtain a locally legal and applicable practice solution. It is this reliance on the intercultural sensitivity of the local HR director that for a number of reasons influences the outcomes, that is the quality, of IHRM at the studied MNEs in a negative way. First, a continuation with the traditional German ways might bring substandard solutions to the subsidiaries (Adler 2001; Dickmann 2004), resulting in substandard performance. Second, with the German workforce being a minority in the MNEs, more integrative ways have to be sought (Chew & Horwitz 2004; Rugman & Hodgetts 2000). Third, in times of economic upswings the workforce will choose more culturally attuned employers, thus leaving the MNEs under study at an economic disadvantage (Briscoe 1995). Finally and most significantly, German HQs only assume that the local HR director adapts the global policies in a culturally sensitive way; this assumption is neither followed up by the HQs, nor do the findings of this study justify this assumption.

To conclude, referring to the two impacts from cultural differences addressed above, it is the second, that is, the cultural differences of the managers involved in international transfer of HR policies and practices, rather than the cultural differences of the workforces at large, that sometimes pose a challenge for the MNEs. Cultural challenges in the transfer of HR policies are rarely attributable to content and more often to the cultural values of the people involved in the transfer itself.

### **Convergence Or Divergence**

Relating to the concepts of convergence or divergence, the findings confirm the literature that macro-level variables, policies, global strategies and principles seem to converge (Adler, Doktor & Redding 1986), the 'five principles of HR of case M' being one example, while practices continue to be shaped by the local, national circumstances and as such may even diverge between countries (Chew & Horwitz 2004; Pauly & Reich 1997; Rowley & Benson 2002). The interface between converging policies and diverging practices is the local HR director whose role consequently grows in importance. By establishing regional platforms and exchange

of practices between the local subsidiaries, a blend towards crossvergence (McGaughey & DeCieri 1999) can take place on a process level, such as in the case of compensation across Asia (Herkenhoff 2000). The regional platforms, exchange of practices and the helping of new subsidiaries by others that are a few years old, create an 'Asia HR' community and spirit in all three MNEs, which fosters the development of an Asian way of processing reports, or integrating line management in HR reporting, for example. Rather than seeing a development towards a truly global company, where resources and practices are shared globally, an intermediate step towards the Asian company, where resources and practices are shared in the region, takes place. At this point it is too early to tell if that development will prove a positive first step or an obstacle on the road towards the global or transnational company (Adler 2001; Bartlett & Ghoshal 1998).

### **Difference Between Germany And Subsidiary, Or Host, Countries**

Even though there are recognised differences between Singapore, Thailand and Indonesia, the findings confirm that compared to Germany, the three countries can be clustered as the Asian cluster (Ronen & Shenkar 1985), with Singapore being somewhat distanced from Thailand and Indonesia and closer to the German, that is, Western culture. The results of this study can be subjected to further analysis using the frameworks about national cultures in the literature. Specifically, applying the criteria of the models of Hofstede (1997) and Trompenaars (1993) can help to understand the observed behaviour better. For example, a low power distance and extensive use of technology in Germany lead to a regional communication platform designed by HQ and the expectation from HQ that regional HR directors, regardless of rank and seniority, will contribute knowledge. German respondents, high on individualism, call for contribution from the subsidiaries in the form of best practice, assuming that participants would like to show their individual achievements. Asian respondents on the other hand, high on power distance and low on individualism, need a more social network and prefer collective practice discussions, rather than individual best practice listings. One can generalise from that example on two levels and on the first level two conclusions can be drawn. These are first, it is positive that HQ takes the initiative and creates platforms for the individual country HR directors to create a network, because eventually it will help the MNE to have less isolated subsidiary HR systems (Bartlett & Ghoshal 1998; Poedenphant 2002). Second,

however, the impact could be much more significant and faster if HQ paid more attention to analysing cultural differences, and were to design systems and processes accordingly (Adler 2001; Dowling, Schuler & Welch 1999; Evans, Pucik & Barsoux 2002). Such adapted systems need neither be more complex nor more expensive. For example, changing the approach or concepts from *best practice* to *good practice* or encouraging group input over individual input are no-cost adaptations that would make a system more readily accepted. On the second level of generalisation from the example, the MNEs under study could map cultural distances and differences between HQ and subsidiaries, when designing policies or platforms in HQ to be applied in the subsidiaries. A further implementation strategy would be to have such designs developed and tested by international teams (Adler 2001).

The findings are somewhat inconclusive with respect to the question whether Germany is part of a Western cultural cluster, or whether it is distinctly different from the US, that is, the Anglo-Saxon culture (Ronen & Shenkar 1985). While the previous discussion of research issue 1, 'IHRM approach', finds significant differences in the ways of US versus German MNEs operating in Singapore, Thailand and Indonesia, the questions aiming at cultural differences directly, mostly understood and answered on a level referring to individuals, find little differentiation among the respondents between German and 'other western' cultures. Germans are found to be as Western as Americans, yet operate their respective companies differently. One possible explanation can be the inverse of why it is possible to cluster the Asian countries together when comparing to Germany; the cultural distance between the Asian countries on the one hand and Germany and the US on the other hand is so large from the Asian perspective, that differences between Germany and the US seem small in comparison (Nankervis, Compton & Baird 2002).

**Difference between subsidiary countries.** While it is possible to cluster the three countries under study in comparison to Germany, there are still significant differences among the three countries' cultural and legal norms. These differences are based on history, religion and geography, confirming the literature (Hofstede 1997; Rowley & Lewis 1996) that national differences outweigh industry or organisational issues. The researcher is a founding member of the HR chapter of the German Business Association in Singapore. All represented German MNEs in that association share the

view that, because of the legal and cultural differences between countries, a local HR manager is essential in each country, which in turn means that for the issue of internationalisation over and above the local issues, legal differences do not play a significant role, again confirming the point that the local HR director is the key in translating HQ policies into subsidiary practices.

### **Limitations Of The Study**

**Generalisability.** By researching only German MNEs it is difficult to generalise the findings to MNEs with headquarters in different countries. It is partially this lack of generalisability of other research studying international transfer of HR policies and practices from an Anglo-Saxon perspective that led to this study (Adler 2001; Briscoe 1995). Kostova and Roth (2002) note that in contrast to the tendency to research country effects through general cultural attributes, issue-specific approaches to country effects could be designed by developing specific country institutional profiles. However they do recommend that research should include both issue-specific institutional and cultural characteristics of the parent and host country and the cultural distance between them.

**Deductibility.** The complexity of the issues and the absence of clearly defined independent and dependent variables and measures do not allow theory building from deduction. This study uses an inductive approach to describe and to establish theory (Perry 1998), and does not seek or claim deductibility.

**Controllability.** The HR function is embedded in the business environment and as such, is subject to influences from the market or political situation that cannot be controlled for. Care is taken in the selection of the MNEs under study that they have a stable presence in the respective countries. To minimise the influence of macroeconomic differences between the MNEs, all the interviews in one country are conducted in the same timeframe. This coincides with logistical ease as well.

**Repeatability.** Internationalisation of HR is an ongoing process. It is not possible to turn the clock back and 'repeat' the transfer of HR policies and practices under the same circumstances as would occur in a controlled experiment. Among other things it is this lack of repeatability that justifies and necessitates a case study over an experiment.

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