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Competition and constraint

Economic globalization and human resource practices in 23 European countries

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Abstract

Purpose – The purpose of this paper is to investigate three distinct hypotheses about the relationship between human resource (HR) practices (discretion and skill enhancement) and the level of trade openness and foreign direct investments of countries.

Design/methodology/approach – The study applies multilevel analysis using data of 16,701 employees living in 23 European countries.

Findings – Based on the multilevel analysis mixed support is found for the hypothesis stating that economic openness is curvilinearly related (an inverted U) to the use of HR practices. While this holds for discretion, it does not for skill enhancement.

Originality/value – While economic globalization is often mentioned as an important factor in understanding organizational relations, there have only been few international comparative studies explicitly linking measures of economic openness and HR practices. This study investigate whether economic globalization is important or not.

Keywords Globalization, Human resource management

Paper type Research paper

Introduction

Several researchers argue that economic globalization has an impact on the organization of work (Gunter and Van der Hoeven, 2004; Hage, 1999; Jackson and Schuler, 1995; Stone and Deadrick, 2015), for example because it decreases the stability of organizational environments due to downsizing, mergers, acquisitions, and other types of structural changes (Ashford *et al.*, 1989; Davy *et al.*, 1997). Economic globalization is a general term referring to world market integration. Two basic forms of economic globalization are: trade openness, entailing the imports and exports of a country; and foreign direct investments (FDI), referring to the extent to which companies are owned by an entity in another country (Dreher *et al.*, 2008; De Beer and Koster, 2009).

The question addressed in this study is whether these two kinds of economic openness affect the human resource (HR) practices that organizations apply, e.g. the day-to-day policies they use to manage their workforce (Kinnie *et al.*, 2005; Kozlowski and Klein, 2000; Ulrich and Dulebohn, 2015; Wright and Boswell, 2002). In particular, we focus on two of these practices, which are labeled discretion and skill enhancement (Appelbaum *et al.*, 2000; Batt, 2002; Huselid, 1995; MacDuffie, 1995). In this paper, we propose that if economic globalization has an impact on HR practices, it would be according to the following logic: economic globalization influences organizational environments, which in turn affect organizational structures that have consequences



for the management of HRs. Furthermore, we assume that economic openness affects these two HR practices similarly, which is in line with the theoretical notion that globalization may lead to convergence of these practices (Wolfgang *et al.*, 2011).

Although it is often claimed that integration of the world market is a challenge for the management of HRs, there is little agreement about how organizations deal with this challenge (Stone and Deadrick, 2015). Some researchers state that economic openness is positively related to the use of HR practices. The literature about high-performance work organizations, arguing that HR practices contribute to organizational performance, supports this claim (e.g. Aycan, 2007; Combs *et al.*, 2006). This line of reasoning suggests that organizations need to invest in their HRs to remain competitive in a global economy (Roche, 1999; Stace and Dunphy, 1991). Nevertheless, a contrasting argument holds that globalization leads to organizational changes that increase levels of insecurity, lead to more labor flexibility, and decrease investments in human capital (Reinecke, 2006; Rodrik, 1997). While the first expectation implies that organizations need to invest in HR practices to remain competitive given economic globalization, the second is based on the assumption that economic globalization constrains the possibilities for organizations to sustain such practices (e.g. Budhwar and Sparrow, 2002; Osterman, 2000; Schuler, 2000). In this study, we examine which of these two expectations holds.

To unravel the potential positive and negative effects of trade openness on HR practices, we start from existing insights explaining why organizations adopt certain HR practices. These insights center around four distinct sets of theories, termed economic, alignment, decision making and diffusion approaches that argue that the use of HR practices involves issues concerning their costs and benefits, their fit with the overall strategy of the organization, how they are perceived by organizational decision makers, and whether their use is viewed as legitimate, respectively (Subramony, 2006). These different theoretical approaches lead to two contrasting predictions about how the economic openness of countries relates to the use of the HR practices discretion and skill enhancement. The expectation that organizations in an economically more open country invest in these HR practices is based on the idea that these practices are beneficial, play a central role in organizations, are viewed as a successful strategy to deal with economic globalization, and are therefore adopted by many organizations. The alternative view focusses on the costs of the practices, the inability to align them strategically and develop practices that contribute to organizational performance, and lack of diffusion of the practices across organizations. As we will argue in this study, the mechanisms underlying the hypotheses are not mutually exclusive. Theoretically, at lower levels of economic openness, competition may play a major role, but as trade openness increases, constraints may become more important.

Following up on recent urges to combine information from multiple levels of analysis in organizational research (Clark *et al.*, 2000; Tsui *et al.*, 2007; Wright and Boswell, 2002; Wright and Nishii, 2007), our study involves a cross-national comparison of HR practices based on individual level data about the work situation of over 16,701 employees and national level data on economic openness in 23 European countries. Our study aims at making several theoretical and empirical contributions to the literature on international comparisons of HR management. As an addition to previous studies, this paper aims at understanding how economic globalization affects HR practices by examining contrasting theoretical mechanisms to offer a balanced view of the impact of economic globalization. Furthermore, many studies in the field of international comparative HR management investigate the effects of cross-cultural

differences rather than the impact of economic globalization (Clark *et al.*, 1999; Tsui *et al.*, 2007; Vaiman and Brewster, 2015). The present study aims at providing theoretical and empirical insights into the effects of economic integration.

In addition to that, this study aims at offering two distinct empirical contributions. First, our study uses individual level data, whereas previous research of HR practices mainly relies on organizational level data (Koster, 2011). This helps to overcome two issues of previous research into HR practices, namely, first, that formal policies often differ from actual practices (Gardner and Wright, 2009; Wright and Boswell, 2002) and second, that HR practices vary within organizations since different policies are applied to different categories of employees (Lepak and Snell, 2002). The second empirical contribution of this study concerns its scope. Research on international HR management (Brewster *et al.*, 2007) and the globalization of HR management (Kim, 1999) tends to focus on multinational corporations, i.e. the most globalized organizations. In contrast, our study is not restricted to multinationals but to a wider range of organizations within European countries.

In what follows, we will first sketch the theoretical background of this study and formulate hypotheses. Second section presents the research design and the data. The results are presented in third section. In fourth section we draw conclusions from these theoretical considerations and the empirical results.

Theoretical background

HR practices

The HR practices of organizations concern the way in which organizations manage the participation, skills, and motivation of employees (Appelbaum *et al.*, 2000; MacDuffie, 1995; Wright and Boswell, 2002). Empirical research finds that HR practices vary considerably between organizations (Becker and Gerhart, 1996; Beugelsdijk, 2008) and explanations for these differences spans a number of different research traditions. For example, management scholars show interest in the design of high-performance or high-commitment HR practices and how they enhance individual and organizational performance (e.g. Arthur, 1994; Huselid, 1995; Noe, 1996; Youndt *et al.*, 1996). Quality-of-working life studies offer a different perspective by asking how HR practices affect employee wellbeing (Bonnet *et al.*, 2003; Reinecke, 2006). And, in the field of the comparative study of work organizations, HR practices are studied as an integral part of the overall structure and strategy of organizations (Appelbaum and Batt, 1994; Kalleberg *et al.*, 1996; Osterman, 1994).

In the present study the emphasis is on explaining variation in the use of two HR practices – discretion and skill enhancement – and is as such not restricted to one of these approaches and the outcomes can have implications for each of them. Despite their differences, these approaches share at least three assumptions. First, they acknowledge that organizations applying high-performance HR practices may outperform those without these practices (Bonnet *et al.*, 2003; Drobnič *et al.*, 2010; Osterman, 1994; Reinecke, 2006). Second, high-performance HR practices only work if they are implemented as bundles, i.e. if they are properly aligned among themselves (Huselid, 1995; MacDuffie, 1995; Wright and Boswell, 2002). Consequently, much research aims at HR practices as bundles or indexes that can differ with regard to the level of internal consistency. Finally, in order to be effective, it is assumed that HR practices need to be aligned with the external environment of organizations (Baron and Kreps, 1999). The external environment of organizations spans a diverse set of factors such as markets for goods and services and demands from customers, labor markets

and the prevailing norms and decisions regarding labor supply, and governments and rules and regulations and has been extensively studied in the field of comparative organizations (Duncan, 1972).

Trade openness and FDI may, directly or indirectly, affect the economic, social, political, and legal environments in which organizations operate. For example, research shows that economic openness affects the level of competitiveness and income inequality within countries (Alderson and Nielsen, 2002), influences existing norms of reciprocity and trust in societies (Koster, 2007), induces the spread of a neoliberal ideology (Swank, 2006), and has an impact on levels of social protection (Brady *et al.*, 2005). These changes in the environment of organizations can affect the adoption of HR practices through the costs of the practices, their internal fit, decision-making processes, and legitimacy (e.g. their external fit) (Subramony, 2006).

The effects of economic globalization

The economic openness of a country affects different segments of societies, ranging from government policies at the macro level to the positive and negative impact it may have through changes in the employment relationship because of an increased substitutability of employees and a decreasing level of security (Rodrik, 1997). Economic openness affects several competitive aspects of the environments relevant to organizations (Kiessling and Harvey, 2014). For example, labor markets widen due to globalization as the pool from which potential employees can be hired increases. As a result, due to increased economic openness, organizations compete with a larger number of organizations than before in order to attract the best employees as these employees may be situated at different locations around the world. Furthermore, a higher level of economic openness can imply increase competition on the market for goods and services. Instead of competing with companies within the same national boundary, organizations may be more involved in a competition on a global scale. To remain competitive and to be able to adjust to changing circumstances, organizations may need to adjust their structures and strategies and hence the way they manage their HRs.

The notion of economic globalization (Brady *et al.*, 2007) has a central place in discussions about the impact of international developments on organizations and employees (Tsui *et al.*, 2007; Wilkinson *et al.*, 2014). That economic processes and HR management may be related seems quite obvious since integration into the world market goes along with increased market volatility (Rodrik, 1998) and stronger competition between organizations operating at a global scale (Kogut, 1985). As a consequence, organizations need to adjust their strategies to stay in business, in turn affecting the ways in which they manage their HRs. We propose three ways in which increased competition due to trade openness is related to the HR practices of organizations.

First, as stated earlier, there is research evidence showing that HR practices can contribute to organizational performance and therefore can be a source of competitive advantage (Bowen and Ostroff, 2004; Huselid, 1995). This general finding can also be understood by focussing on the specific HR practices investigated here. Discretion and skill enhancement assure that employees both have the ability and the motivation to be productive (Koster, 2011). The uncertainty and variability assumed to be associated with economic openness could further increase the importance of having a workforce that is able to deal with changes in the organizational environment. Part of such a strategy involves granting autonomy to employees to give them enough leeway to

adjust their work and it can also involve investments in the skills of employees to support their decision-making capabilities.

From the perspective of the adoption of HR practices (Subramony, 2006), this means that economic openness increases the likelihood of the use of HR practices since organizations remain competitive, hence implying that the benefits outweigh the costs, creating a strong fit between the HR practices and the organizational strategy. Furthermore, if organizations adopting the practices turn out to be successful, there is a good chance that other organizations will adopt these practices as well. These theoretical arguments are summarized in the following hypothesis:

- H1.* There is a positive relationship between trade openness and FDI at the national level and the use of the HR practices discretion and skill enhancement at the individual level.

Nevertheless, there are also arguments countering *H1*. To begin with, as Osterman (2000) states, the success of high-performance work organizations ultimately depends on employee commitment and the willingness of employees to improve the functioning of the organization. However, an important condition for these systems to work is that both the employer and the benefit from them, which in turn requires a stable employment relationship (e.g. Sun *et al.*, 2007). The question is whether economic openness undermines the stability of the exchange relationship between employers and employees and hence threatens the possibility to sustain HR practices typically associated with high-performance work organizations. There are reasons to assume that economic openness affects the employment relationship as studies show that international trade goes along with market volatility and increased job insecurity, while at the same time organizations are increasingly concerned about cost reductions which put pressure on the wages and benefits that organizations offer (e.g. Bandelj *et al.*, 2011).

Clearly, these developments undermine the “mutual gains” (Osterman, 2000) required for high-performance work organizations and employee commitment can be expected to decrease as job insecurity increases and benefits and wages decrease. What is more, given the stronger emphasis on cost reduction due to economic openness, organizations may find it more difficult to sustain costly HR practices that need to be applied in coherent bundles to be effective (Baron and Kreps, 1999; Becker *et al.*, 1997; Ichniowski and Shaw, 2003). In relation to the different approaches regarding the adoption of HR practices, this implies that the benefits do not outweigh the costs, that an organizational strategy based on cost reduction affects the use of HR practices, and that these decisions concerning HR practices find broad support as they align with globalization-related ideologies such as neo-liberalization (Swank, 2006). Therefore, the possibilities to invest may decline. This is summarized in the following hypothesis:

- H2.* There is a negative relationship between trade openness and FDI at the national level and the use of the HR practices discretion and skill enhancement at the individual level.

The two previous hypotheses lead to two contrasting predictions about the effects of economic openness. However, they are not mutually exclusive as it is possible that they hold under specific conditions. Empirically, these effect may cancel each other out, but it is also possible is that they depend on the level of economic openness. The first hypothesis emphasizes the necessity of applying HR practices to remain competitive and the second hypothesis focusses on the inability of organizations to use HR

practices due to economic openness. These two hypotheses can be combined. At lower levels of economic openness, the need to be competitive increases with increasing economic openness and organizations invest more in their HRs, but that economic openness becomes a constraining force as it increases. As a result, the relationship between economic openness and HR practices is curvilinear rather than linear, as is similarly found in studies investigating economic openness and the welfare state (e.g. Brady *et al.*, 2005). As such, there can be an optimal level of economic openness and the use of HR practices. To a certain extent, these predictions fit Osterman's (2000) suggestion that the initial spread of high-performance work organizations may come to a hold or even reverse if stability decreases. This leads to the third hypothesis:

- H3.* There is a curvilinear relationship (an inverted U-curve) between trade openness and FDI at the national level and the use of the HR practices discretion and skill enhancement at the individual level.

Methods

Data from three sources are combined to test the hypotheses. The European social survey (ESS) contains individual level data. The ESS is a large-scale survey investigating the attitudes, beliefs, and behavior patterns of people in Europe and has been held every two years since 2002. The questionnaire consists of a core module – repeated each round covering topics like education, occupation, and financial circumstances – and rotating modules containing questions that change each round. Round 5 of the ESS, which was held in 2010 and 2011, includes the module “Family, work and wellbeing” with questions about people's work.

With regard to studying HR practices, the ESS has a number of advantages compared to other data. First, surveys at the organizational level do inform us about formal policies, but they do not allow for intra-organizational variation and thus need to assume that the HR practices are applied similarly to all employees. This is, however, a strong claim as it is likely that HR practices vary depending on the characteristics of employees and their jobs. To a certain extent, this issue can be dealt with by focussing on the core workers of the organization, but this implies leaving out other groups of workers. Having access to a random sample of individuals overcomes this issue, as there is no need to concentrate on one group of employees. Furthermore, organizational level surveys have limited possibilities for controlling for employee level factors that may affect the use of HR practices. In principle, such controls consist of aggregated values, which may result in an ecological fallacy. Employee level data does not have this problem and allow including control variables at the individual level. The downside of this is that the analyses focus on the perception of individual employees, which may deviate from the actual policies that organizations apply to some extent. In that respect, these individual level data should be viewed as a supplement to the formal HR practices measured in organizational level surveys rather than an alternative. Finally, using the ESS has the advantage that it provides cross-national data for a large number of countries using the same question, while many organizational surveys are conducted within a single country or industry.

Three data sources containing national level data are added to the data from the ESS survey. The *International Trade Statistics* data set of the World Trade Organization includes nationally comparative measures of trade openness (World Trade Organization, 2011). The Eurostat data set includes comparative data about FDI and the economic situation of the countries (Eurostat, 2011). The database on *Institutional Characteristics of*

Trade Unions, Wage Setting, State Intervention and Social Pacts (Visser, 2011) provides information about institutional differences between countries. National level data for 2010 are used. For some of the countries covered by the ESS national level data are missing and therefore they could not be included in the final data set. Furthermore, employees working in the private sector are selected because they are employed in organizations that are affected most directly by integration of the world market. The total data set provides information about 16,701 employees living in 23 European countries. On average, data are available for 669 employees per country. Table I provides an overview of the characteristics of the respondents.

Measures

HR practices. The ESS includes several questions indicating aspects of the HR practices of the organization for which the respondents work. Respondents are asked to indicate on a scale from 0 “no influence” to 10 “complete control” how much influence they have regarding the organization of their daily work, the pace of work, and the policy decisions about activities of the organization and on a scale from 1 “not at all true” to 4 “very true” whether their job requires learning new things, their work is varied and whether they have possibilities for advancement within the organization.

Principal component factor analysis with varimax rotation is used to investigate the dimensionality of the six items. Table II shows that the items measure two distinct HR practices. These practices are labeled: first, discretion (which refers to ways in which employees have a say about their work and the organization) and second, skill enhancement (the extent to which employees can utilize and improve their skill level).

Trade openness. Trade openness is measured as the ratio of exports plus imports to GDP. The squared term of this variable indicates whether or not this kind of economic integration has a curvilinear effect on the HR practices; the relationship follows a reverse U pattern if the squared term has a negative sign (Brady *et al.*, 2005; Beckfield, 2006).

FDI are defined as “the category of international investment made by an entity resident in one economy (direct investor) to acquire a lasting interest in an enterprise operating in another economy (direct investment enterprise). The lasting interest is deemed to exist if the direct investor acquires at least 10 percent of the voting power of the direct investment enterprise” (Eurostat, 2015). This measure is the summary of inward FDI (investment by foreigners in enterprises resident in the reporting economy) and outward FDI (FDI abroad).

	%	Mean	SD
Gender			
Man	48		
Woman	52		
Age		41	13
Education		13	3
Type of contract			
Unlimited	72		
Limited	17		
No contract	11		

Table I.
Characteristics of
the respondents

Note: Employee $n = 16,701$
Source: ESS

Table II.
Factor structure of
human resource
practices^a

Item	1	2
Discretion		
Allowed to decide how daily work is organized	<i>0.89</i>	0.18
Allowed to choose/change pace of work	<i>0.86</i>	0.15
Allowed to influence policy decisions about the activities of the organization	<i>0.78</i>	0.22
Skill enhancement		
Job requires learning new things	0.14	<i>0.85</i>
Variety in work	0.22	<i>0.78</i>
Advancement	0.12	<i>0.58</i>
Eigen value	2.21	1.77
Variance accounted for	39.86	29.55

Notes: Employee $n = 16,701$; country $n = 23$. ^aItalics type indicates that the question loads at 0.50 or greater on a single factor

Source: ESS

Control variables. To account for this influence of country characteristics such as the level of economic prosperity and income security, the following national level control variables are included: GDP per capita measures the economic wealth of the citizens, and to investigate the effects of labor market institutions we include the variables union density (net union membership as a proportion of wage and salary earners in employment) and wage coordination, which ranges from 1 (fragmented bargaining, mostly at company level) to 5 (economy-wide bargaining, based on first, enforceable agreements between the central organizations of unions and employers affecting the entire economy or entire private sector, or on second, government imposition of a wage schedule, freeze, or ceiling).

At the individual level we control for organizational characteristics, namely, organization size measured with the number of people employed at the place of work, ranging between (1) under ten and (5) 500 or more, and sector. The variable “sector” is a categorical variable based on the NACE classification system. In total, 12 sectors are distinguished. In the analyses, manufacturing is selected as the reference category (hence, the use of discretion and skill enhancement in other sectors are compared to this sector). Other individual level control variables included in the analyses are age (in years), gender (0 = male; 1 = female), and educational level (measured with the years of fulltime education completed), and type of contract (unlimited, limited or no contract).

Multilevel analysis

The data set includes information at two different levels of analysis – the individual (level 1) and the national (level 2) – and therefore ordinary least square regression analysis cannot be used (e.g. DiPrete and Forristal, 1994). We apply multilevel modeling to investigate these nested data. The basic multilevel model consists of a fixed part – the linear function of the independent variables – and a random part (Snijders, 2003). The random part consists of the unexplained variation at the individual level and the unexplained variation between the countries. The two HR practices are investigated with the same explanatory variables. The analyses are performed in several steps, starting with an empty model (Model 0) that serves as a baseline. In the second step (Model 1), the control variables are added to the model. Model 2 investigates the linear relationship between economic openness (a separate

model for trade openness and for FDI are presented) and the HR practices and Model 3 tests whether the two indicators of economic openness have a curvilinear relation with discretion and skill enhancement.

The parameters in these models are estimated by the maximum likelihood method (Goldstein, 2003) and the regression coefficients are tested by Wald tests (Snijders, 2003). The deviance (the difference in log likelihood of two models) between the models evaluates the fit of the different models (Snijders and Bosker, 1999). All continuous variables are grand mean centered.

Results

Descriptive results

Table II shows the means of the two HR practices per country together with the economic openness of the 23 countries. The highest level of discretion is found in Denmark and Norway ($m = 6.61$ and $m = 6.65$) and employees in Czech Republic and Croatia report the lowest level of discretion ($m = 3.82$ and $m = 3.55$). The HR practice skill enhancement is used most often in Switzerland and Estonia ($m = 3.13$ and $m = 3.16$) and least often in Hungary and Bulgaria ($m = 2.48$ and $m = 2.50$). Table II also shows that the level of trade openness varies strongly across the countries included in the data set. Belgium and Ireland have the highest level of trade openness (with a trade openness of 199 and 183, respectively), while the trade openness of Spain and France (trade openness = 53) are low compared to the other countries. Switzerland and Ireland have the highest level of FDI flows ($m = 301$ and $m = 297$). Levels of FDI are low in Greece ($m = 28$) and Slovenia ($m = 48$) (Table III).

Multilevel analysis results

Tables IV and V presents the results of the multilevel regression analyses of discretion and skill enhancement.

The following outcomes are found with regard to the control variables. There is considerable overlap between the results for the two practices at the individual level. Levels of discretion and skill enhancement are higher among men, higher educated employees, and those with a contract of unlimited duration. Besides that, the two practices are similarly related to the national level control variables. In all models, GDP has a positive relation with the HR practices and the effects of union density and wage coordination are not statistically significant, showing that labor market institutions do not play a major role in explaining the use of HR practices.

There are also notable differences. While the use of discretion is negatively related to organizational size, it is positively related to skill enhancement. There are also contrasting effects of age: compared to younger workers, older employees have more discretion, but their skill enhancement is lower. Furthermore, the use of discretion and skill enhancement differs across economic sectors. Finally, another difference concerns the type of contract that employees have. While employees with a temporary contract report less discretion than those who do not have an employment contract, their level of skill enhancement is similar.

The hypotheses are tested in Models 2 and 3 reported in Table IV (for discretion) and Table V (for skill enhancement). The results presented in Table IV, lead to the following conclusions. Both trade openness (Model 2a) and FDI (Model 3a) are not linearly related to discretion. Adding these variables to the regression model does not improve the fit of the models (deviance, ns). In Models 2b and 3b, the squared terms of trade openness

	Number of respondents	Discretion	Skill enhancement	Trade openness	FDI	Competition and constraint
Belgium	715	5.48	2.98	199	174	
Bulgaria	768	3.90	2.50	116	101	
Switzerland	699	5.66	3.13	90	301	
Cyprus	394	4.71	2.92	109	127	
Czech Republic	926	3.82	2.53	146	72	
Germany	1,310	5.68	2.83	84	62	
Denmark	717	6.61	2.88	92	115	
Estonia	750	4.88	3.13	159	117	
Spain	690	5.54	2.65	53	92	
Finland	728	6.60	2.94	75	94	
France	768	5.64	2.74	53	97	
UK	979	5.35	3.02	59	119	
Greece	678	4.97	2.76	46	28	
Croatia	460	3.55	2.76	73	66	
Hungary	575	3.96	2.48	164	87	
Ireland	740	4.25	2.83	183	297	
The Netherlands	778	6.09	3.04	158	197	
Norway	844	6.65	3.16	69	86	
Poland	669	4.75	2.80	80	55	
Portugal	645	4.86	2.37	68	77	
Sweden	702	6.59	3.11	89	154	
Slovenia	535	4.62	3.00	143	48	
Slovakia	631	3.84	2.74	159	61	
Total	16,701	5.02	2.82	102	112	

Notes: Employee $n = 16,701$; country $n = 23$

Sources: ESS, WTO and Eurostat

Table III.
Country level means

and FDI are added to the model. Adding these squared terms improves the fit of the model (deviance = 6.12; $p < 0.05$ for trade openness and deviance = 7.41; $p < 0.01$ for FDI). Hence, there is a curvilinear relation between trade openness and discretion as well as between FDI and discretion.

The results are markedly different for skill enhancement. As Table V shows, none of the additional models adds to explaining the variance in this HR practices. Both the linear and the curvilinear terms of trade openness and FDI are not significant and do not improve the fit of the multilevel regression model.

These outcomes yield mixed evidence for the three hypotheses. Based on the regression analyses, it can be concluded that $H1$ and $H2$ are clearly refuted for discretion and skill enhancement: trade openness and FDI are not linearly related to these two HR practices. The outcomes differ for discretion and skill enhancement with regard to $H3$: while there is a curvilinear relationship between the two indicators of economic openness and the HR practice discretion, these results were not found for skill enhancement. The inverse U-shape was found for discretion but not for skill enhancement.

Discussion and conclusion

Implications

This study analyzed whether economic globalization has an impact on the HR practices of organizations based on survey data from employees in 23 European countries. Hypotheses were developed based on three different theoretical arguments to explain the relationship between economic openness and HR practices: economic globalization

Table IV.
Multilevel analyses
of discretion

	(1)		(2a)		(2b)		(3a)		(3a)	
	<i>b</i>	SE	<i>b</i>	SE	<i>b</i>	SE	<i>b</i>	SE	<i>b</i>	SE
National level										
Trade openness (log)			-0.43	0.39	-0.14	0.37				
Trade openness (log) squared					-2.07*	0.95	0.05	0.36	0.17	0.30
FDI (log)									-1.02**	0.33
FDI (log) squared										
Controls										
National level										
GDP per capita (log)	1.88*	0.80	1.68	0.82	1.82*	0.74	1.82	0.96	2.27*	0.79
Wage coordination	0.06	0.19	0.05	0.19	0.13	0.18	0.07	0.21	0.15	0.17
Union density	0.01	0.01	0.01	0.01	0.00	0.01	0.01	0.01	0.00	0.01
Individual level										
Organization size	-0.21**	0.01	-0.21**	0.01	-0.21**	0.01	-0.21**	0.01	-0.21**	0.01
Sector										
Mining	0.28**	0.07	0.28**	0.07	0.28**	0.07	0.28**	0.07	0.28**	0.07
Electricity	0.41**	0.15	0.41**	0.15	0.41**	0.15	0.41**	0.15	0.41**	0.15
Water	-0.01	0.17	-0.01	0.17	-0.01	0.17	-0.01	0.17	-0.01	0.17
Construction	0.26**	0.07	0.26**	0.07	0.26**	0.07	0.26**	0.07	0.26**	0.07
Transportation	-0.04	0.07	-0.04	0.07	-0.04	0.07	-0.04	0.07	-0.04	0.07
Accommodation	0.08	0.08	0.08	0.08	0.08	0.08	0.08	0.08	0.08	0.08
Information	0.82**	0.07	0.82**	0.07	0.82**	0.07	0.82**	0.07	0.82**	0.07
Professional	0.84**	0.09	0.84**	0.09	0.84**	0.09	0.84**	0.09	0.85**	0.09
Administration	0.58**	0.04	0.58**	0.04	0.58**	0.04	0.58**	0.04	0.58**	0.04
Repair	0.80**	0.30	0.80**	0.30	0.80**	0.30	0.80**	0.30	0.80**	0.30
Real estate	1.13**	0.23	1.13**	0.23	1.13**	0.23	1.13**	0.23	1.13**	0.23
Manufacturing (reference)	-	-	-	-	-	-	-	-	-	-
Gender (1 = woman)	-0.41**	0.03	-0.41**	0.03	-0.41**	0.03	-0.41**	0.03	-0.41**	0.03
Age	0.01**	0.00	0.01**	0.00	0.01**	0.00	0.01**	0.00	0.01**	0.00
Educational Level	0.20**	0.00	0.20**	0.00	0.20**	0.00	0.20**	0.00	0.20**	0.00
Contract										
Unlimited	0.29**	0.06	0.29**	0.06	0.29**	0.06	0.29**	0.06	0.29**	0.06
Limited	-0.54**	0.07	-0.54**	0.07	-0.54**	0.07	-0.54**	0.07	-0.54**	0.07
No contract	-	-	-	-	-	-	-	-	-	-
Intercept	6.53**	0.76	6.61**	0.76	6.78**	0.73	6.51**	0.80	6.60**	0.73
Deviance	3,657.84**		1.17		6.12**		-0.19		7.41**	
ICC	0.08		0.07		0.06		0.08		0.05	

Notes: Employee $n = 16,701$; country $n = 23$. SE, standard error; ICC, intraclass correlation coefficient. Empty model: -2 Log Likelihood = 15,634.84; Intraclass correlation coefficient = 0.13.

Unstandardized regression coefficients are reported. * $p < 0.05$, ** $p < 0.01$

Sources: ESS, WTO, Eurostat and ICTWSS

	(1)		(2a)		(2b)		(3a)		(3a)	
	<i>b</i>	SE	<i>b</i>	SE	<i>b</i>	SE	<i>b</i>	SE	<i>b</i>	SE
National level										
Trade openness (log)			0.07	0.09	0.10	0.10				
Trade openness (log) squared					-0.18	0.25			0.03	0.08
FDI (log)										
FDI (log) squared										
Controls										
National level										
GDP per capita (log)	0.50*	0.18	0.53*	0.19	0.54*	0.19	0.46	0.22	0.42	0.22
Wage coordination	-0.06	0.04	-0.06	0.04	-0.05	0.05	-0.05	0.05	-0.06	0.05
Union density	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Individual level										
Organization size	0.02**	0.00	0.02**	0.00	0.02**	0.00	0.02**	0.00	0.02**	0.00
Sector										
Mining	-0.01	0.04	-0.01	0.04	-0.01	0.04	-0.01	0.04	-0.01	0.04
Electricity	0.14**	0.06	0.14**	0.06	0.14*	0.06	0.14*	0.06	0.14*	0.06
Water	-0.06	0.06	-0.06	0.06	-0.06	0.06	-0.06	0.06	-0.06	0.06
Construction	0.15**	0.03	0.15**	0.03	0.15**	0.03	0.15**	0.03	0.15**	0.03
Transportation	0.00	0.02	0.00	0.02	0.00	0.02	0.00	0.02	0.00	0.02
Accommodation	-0.06*	0.03	-0.06*	0.03	-0.06*	0.03	-0.06*	0.03	-0.06*	0.03
Information	0.24**	0.02	0.24**	0.02	0.24**	0.02	0.24**	0.02	0.24**	0.02
Professional	0.19**	0.03	0.19**	0.03	0.19**	0.03	0.19**	0.03	0.19**	0.03
Administration	0.16**	0.01	0.16**	0.01	0.16**	0.01	0.16**	0.01	0.16**	0.01
Repair	-0.25*	0.12	-0.25*	0.12	-0.25*	0.12	-0.25*	0.12	-0.25*	0.12
Real estate	0.09	0.07	0.09	0.07	0.09	0.07	0.09	0.07	0.09	0.07
Manufacturing (reference)										
Gender (1 = woman)	-0.10**	0.01	-0.10**	0.01	-0.10**	0.01	-0.10**	0.01	-0.10**	0.01
Age	-0.01**	0.00	-0.01**	0.00	-0.01**	0.00	-0.01**	0.00	-0.01**	0.00
Educational Level										
Contract	0.04**	0.00	0.04**	0.00	0.04**	0.00	0.04**	0.00	0.04**	0.00
Unlimited	0.17**	0.03	0.17**	0.03	0.17**	0.03	0.17**	0.03	0.17**	0.03
Limited	0.06	0.03	0.06	0.03	0.06	0.03	0.06	0.03	0.06	0.03
No contract										
Intercept	2.92**	0.24	2.90**	0.24	2.92**	0.24	2.90**	0.25	2.89**	0.25
Deviance	1,340.65**				-0.43		-3.03		-5.19	
ICC	0.90		0.60		0.60		0.60		0.60	

Notes: Employee $n = 16,701$; country $n = 23$. SE, standard error; ICC, intraclass correlation coefficient. Empty model: -2 Log Likelihood = 35,125.57; Intraclass correlation coefficient = 0.09.

Unstandardized regression coefficients are reported. * $p < 0.05$; ** $p < 0.01$.

Sources: ESS, WTO, Eurostat and ICTWSS

increases the need to be competitive, it can constrain the use of HR practices, or these two mechanisms depend on the level of economic openness. The empirical analyses refute the first two mechanisms and find some evidence that the third mechanism is at work. However, while this effect holds for the HR practice discretion, it does not hold for skill enhancement. Instead of an overall positive or negative impact of economic globalization on HR practices, we find that these effects depend on the level of trade openness and FDI. The interpretation of this outcome is that at lower levels of trade openness, giving discretion to employees contributes to organizational performance, but that at higher levels of trade openness it becomes difficult to sustain these practices. In these countries, trade openness seems to constrain the use of the HR practices.

This study suggests that there are different explanations for the use of the HR practices discretion and skill enhancement by organizations. These different explanations not just hold for the level of economic openness, but also for the characteristics of individuals, organizations and sectors. While theories of HR bundles contend that organizations should combine resources to be effective (e.g. Huselid, 1995), these results show that differentiation between HR practices may take place. Furthermore, the cross-national variation in discretion is larger than the variety in skill development, which may mean that there are more national level characteristics, such as institutional and cultural differences, explaining the application of this HR practice. Besides that, the use of the HR practice skill enhancement varies less across countries and is explained mainly by characteristics at lower levels of aggregation (such as sectors, organizations and individuals). These findings are relevant for studies regarding the convergence of HR practices (e.g. Wolfgang *et al.*, 2011). Given that there is little cross-national variation one possible interpretation is that these practices are quite similar and thus already converged, but it may also be that other factors are far better predictors of skill enhancement.

These results imply that the results regarding the question: does economic globalization affect the HR practices of organizations? are mixed. While there is a curvilinear relationship between economic globalization and discretion, skill enhancement is not related to the two indicators of economic globalization investigated here. Furthermore, it should also be noted that the effects of economic globalization are not linear but curvilinear, meaning that these effects are not straightforward and depend on the level of economic globalization of a country. Overall, the conclusion is that the impact of economic globalization on HR practices may be less strong than sometimes suggested in the literature.

Limitations

This study has a number of strengths and limitations. First, it offers a cross-national comparison of HR practices, enabling us to study the effects of economic globalization across a large number of countries. Such investigations are quite rare in the literature due to a lack of comparative data. Second, because the analyses are based on data about individuals, we were able to investigate the application of HR practices while controlling for individual characteristics. To a certain extent, this also solves a problem identified in the study of HR practices, namely, that formal policies can deviate from the actual practices that organizations use. Nevertheless, this is also one of the limitations of this study since we were not able to include organizational level indicators such as performance. A second limitation of the study is the focus on economic characteristics of countries, such as wealth and economic openness, which are likely to explain a part

use of HR practices. Investigating to what extent this is the case requires additional research. Finally, it may be that there is a distance between economic openness measured at the country level and HR practices measured at the individual level, as some economic sectors are more economically open than others. Future research can be aimed at investigating the effects of economic globalization in more detail using more fine-grained data about the economic openness of different sectors.

Future research

Based on the outcomes and the limitations discussed above, there are several suggestions for future research. First, adding cross-level interactions between economic globalization and economic sector may be worthwhile to investigate whether some sectors are more strongly affected by economic globalization and how this relates to the management of HRs. Second, the analyses reported in this study rely on responses from individuals. It would be worthwhile to replicate this study with a data set containing information at the organizational level. Finally, other national level factors could be taken into consideration in future studies to explain cross-national differences in the use of HR practices. Based on the analyses reported in this paper, the focus should be on discretion instead of skill enhancement, since there is more international variation in the use of this HR practice. Hence, international differences seem to matter more for discretion than for skill enhancement.

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