

# Organizational Flexibility in Western and Asian Firms: An Examination of Control and Safeguard Rules in Five Countries

**Ignace Ng**

*University of Victoria*

**Ali Dastmalchian**

*University of Lethbridge*

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## **Abstract**

*This paper examines the influence of family and government ownerships and of labour unions on the adoption of control and safeguard rules in Asian (Hong Kong, Korea, and Malaysia) and Western (Australia and Canada) organizations. Following Ng and Dastmalchian (1998), control rules are those rules applied to employees and their behaviour at work, whereas safeguard rules are designed to address managerial discretion. Using data from 119 organizations, of which 58 are from Asia and the remaining 61 from the West, the results show that, contrary to general expectations, government organizations from both regions are no more rules-oriented than their non-government counterparts. Another unexpected finding is that unionized Asian organizations have fewer safeguard rules, not only in comparison with nonunion Asian firms but also relative to unionized Western organizations. The results also show that Asian family organizations have fewer safeguard rules in comparison with both other Asian firms and other family firms in the West.*

## **Résumé**

*Cette étude évalue l'influence que peuvent avoir les syndicats, les sociétés d'état et les grandes firmes familiales sur l'adoption de règles de conduite et de précaution dans un nombre de sociétés en Asie (Hong Kong, Corée du Sud, la Malaisie) et en Occident (au Canada et en Australie). Conformément aux précisions formulées dans Ng and Dastmalchian (1998), nous entendons par règles de conduites celles qui gouvernent le comportement des employés au travail, tandis que par règles de précaution nous désignons celles qui ont pour objet la marge de manoeuvre des gestionnaires. En basant nos données sur 119 sociétés, dont 58 en Asie et 61 au Canada et en Australie, nos résultats démontrent que, contrairement aux attentes générales, les sociétés d'état dans ces deux aires géographiques ne sont pas plus lourdement réglementées que leurs homologues non-gouvernementaux. Autre surprise: les sociétés en Asie dont la main d'oeuvre n'est pas syndiquée ont moins de règles de précaution, non seulement par rapport avec les organismes non-syndiqués en Asie, mais aussi en comparaison des sociétés syndiqués au Canada et Australie. Enfin, les résultats démontrent aussi que les grandes firmes familiales en Asie ont moins de règles de précaution que les autres sociétés d'Asie et que les firmes familiales au Canada et en Australie.*

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The term "organizational flexibility" has been the subject of considerable research over the last decade or so, with the earlier studies (Blyton, 1991; MacInnes,

1988) concentrating on defining the various components of flexibility and the later studies (Grenier, Giles, & Belanger, 1997; Shepard, Clifton, & Kruse 1996) on the impact of flexible practices. Implicit in this literature is the notion that organizational flexibility denotes fewer rules and regulations so that managers have more discretion in hiring and laying off the workforce (numerical flexibility and distancing), assigning employees to different tasks (functional flexibility), and paying employees (financial flexibility). This literature has therefore

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Address all correspondence to: Dr. Ali Dastmalchian, Faculty of Management, University of Lethbridge, 4401 University Drive, Lethbridge, AB, Canada, T1K 3M4. E-mail: dastmal@uleth.ca

The study was supported by a grant from Social Sciences and Humanities Research Council of Canada's Strategic Grant Division (#804-92-0031).

limited itself mainly to those rules restricting managerial freedom. Put differently, with the exception of studies on inter-temporal flexibility, the organizational flexibility literature has paid scant attention to those rules impinging on how employees do their work.

Rules restricting managers' discretion and those limiting employees' discretion are conceptually different. From the employees' perspective, increasing organizational flexibility (that is, reducing rules on managers) weakens job security, pay stability, and protection against arbitrary decisions by management. In contrast, reducing rules inhibiting how employees do their job provides them with greater autonomy and control over their day-to-day activities. In this sense, these rules can be viewed as *control* rules whereas those rules limiting managerial discretion can be termed as *safeguard* rules (Ng & Dastmalchian, 1998). Examples of control rules include length and timing of coffee breaks, operating procedures, and are generally linked to rules examined in the formalization literature. Safeguard rules, on the other hand, include grievance procedures, hiring policies, and other rules governing human resources management practices. As pointed out by a referee, neither the control nor the safeguard rules are developed with the expressed purpose of limiting employees' and managers' autonomy. Rather, it is more likely that these policies were developed for efficiency and fairness reasons. We, however, argue that the unintended consequences of these policies are that they end up reducing the flexibility of employees and managers in doing their jobs.

Another aspect of the flexibility literature worth noting is that although flexibility issues have been examined in Canada (Grenier et al., 1997), in the United Kingdom (Blyton, 1991), and in the United States (Shepard et al., 1996), we are not aware of any study that has compared and explained inter-country variations in flexible practices. A possible exception here is the study by Lorenz (1992), in which it is argued that organizational flexibility is more prevalent in Japan and Germany than in Britain and France because of the trust that exists between management and employees. While the explanation for the variations in flexibility is quite convincing, no evidence was provided as to whether the Japanese and German firms were actually more flexible than their British and French counterparts. Further, in spite of the general consensus that the concept of organizational flexibility is a multi-faceted one (Blyton, 1991), flexibility in that study was narrowly defined to include only participatory schemes such as quality circles and the extent to which the employees are multi-skilled.

The purpose of this paper is to examine the influence of ownership (government and family) and labour unions on the adoption of control and safeguard rules,

and whether these effects vary between the West (Australia and Canada) and the East (Hong Kong, Korea, and Malaysia). This study adds to the flexibility literature in several dimensions. First, unlike previous flexibility studies which have focussed exclusively on safeguard rules, the present study also examines the control rules. Second, to the best of our knowledge, our study is the only flexibility study to date that examines whether factors leading to the adoption of organizational rules in one region have similar effects in another geographical area. Finally, we draw upon previous cross-cultural research (Adler, 1983; Hofstede, 1980) to explain how national cultures can influence inter-country variations in flexible practices. We are not aware of any such attempt in the flexibility literature.

### Determinants of Rules and Regulations

Adapting from the formalization literature (Pugh, Hickson, Hinings, & Turner 1968), organizations develop rules, which in this study are denoted as control rules, to coordinate the activities of its members for efficiency purposes and to provide supervisors with a means to exert their authority. These rules also ensure that the activities and tasks expected of subordinates are well-defined. Safeguard rules, however, are developed to ensure consistent and fair treatment of subordinates and to prevent possible abuses of management authority (Staiken, Herzberg, & Kuhn, 1986). The driving forces for these rules may be the workers and their representative and/or government legislation such as human rights legislation.

Although many factors may influence the adoption of control and safeguard rules in inter-country comparisons, cross-cultural differences are likely to play a key role in explaining variations in rules adoption. More specifically, cultural differences relating to power distance and to group orientation are of particular relevance here. These two cultural dimensions, first identified in Hofstede's 1980 pioneering study of IBM employees, have been substantiated in more recent large scale surveys and are considered to be key dimensions in explaining cultural variations around the world (Smith, 1996).

*Power distance* refers to the extent to which unequal distribution of power is accepted in society, particularly by the less powerful. Higher power distance means greater acceptance of authority figures, management prerogatives, and centralized decision making processes (Hofstede, 1996). Status symbols highlighting the distinction between superiors and subordinates are also very important in such an environment. Related to this is the need for titles to distinguish between those with dif-

ferent levels of authority, no matter how small the differences are. Accordingly, organizations in high power distance societies tend to have a steep (as opposed to flat) structure so that there are more titles to highlight even the smallest of differences in status.

Given the basic characteristics of high power distance societies, one would expect more control rules for several reasons. First, the more hierarchical nature of organizations in high power distance societies implies a greater need for coordination. To this end, control rules are developed to coordinate the activities of those at the lower level, and the more levels in an organization, the more rules are developed. Second, managers in these societies may create more rules than necessary for coordination purposes to convey symbol messages asserting their authority. On the other hand, it could be argued that in low power distance societies, there is a greater need for control rules because employees are less inclined to accept a supervisor's discretionary decision. Given this conflicting hypothesis, the relationship between high power distance and control rules is therefore indeterminate.

With regards to safeguard rules, we expect these rules to be less common in high power distance societies. Since safeguard rules, by definition, limit managerial discretion, they can be seen as a challenge to managerial prerogatives and authority. Such challenges are uncommon in high power distance societies because of the subordinates' respect and acceptance of their superiors.

Group orientation refers to one's relationship and responsibility towards one's group, where membership can be limited to the immediate family, extended family, colleagues at work, classmates, club members, or friends. Societies in which there is a strong bond between group members are defined as collectivist societies. In this environment, the interest of the group overrides the interest of the individual member, and the preservation of group survival and harmony is paramount in one's action. Conversely, in individualistic societies, attachment to one's group is loose and the pursuit of self-interest is acceptable even if it meant breaking up the group.

Because of the importance of the group in collectivist societies, group members will go to great lengths to avoid "rocking the boat". Thus, subordinate members in the group are unlikely to challenge the decisions of their leaders. By the same token, leaders of the group will take into account the interests of the subordinates when deciding on a course of action because any challenge to their leadership, even if unsuccessful, would mean "losing face" for the leaders. Extending this concept to organizations, this means that managers are likely to act as benevolent dictators and subordinates are unlikely to

seek curbs to their power. Organizations in collectivist societies are therefore less prone to develop safeguard rules than organizations in individualistic societies.

A common source of friction in group activity is the free rider problem which usually stems from the lack of well-defined roles. Group cohesion is also adversely affected when the coordination of group activities is poor. To minimize these problems, groups will therefore develop rules, whether formal or informal, that better define the roles and responsibilities of the membership. While such action is expected by groups from both collectivist and individualistic societies, the former is likely to pay closer attention to developing these rules because of their importance to the preservation of group harmony. At the organizational level, this means a more comprehensive set of control rules in collectivist societies.

In sum, while both power distance and group cohesion tend to reduce the adoption of safeguard rules in organizations, their impact on control rules is indeterminate because of competing hypotheses. We now examine how these cultural dimensions affect the influence of government and family ownerships and of labour unions on the adoption of organizational rules. However, because these two cultural dimensions seem to move in the same direction (Hofstede, 1996), there is no point in analyzing cases where power distance is high and group cohesion low, or vice versa. We therefore restrict our discussion to comparing high power distance and high group cohesion societies against those with low power distance and low group cohesion values.

### *Government Ownership and Rules*

Managers of public organizations generally have to deal with more stakeholder groups than privately owned organizations. In addition to the civil servants and clients, public managers are faced with the demands of their political masters and their constituents. The demands of the additional stakeholder groups together with the lack of equivalent private sector performance indicators such as sales and profitability imply that public managers face a more complex and uncertain environment. Research in both the formalization (Meyer, Scott, & Strang, 1987) and public administration areas (Warwick, 1975) posits that, under these conditions, managers will develop more control rules as a way to insulate and protect themselves against the sometimes conflicting demands of the various stakeholders.

It has also been argued that because of the difficulty of assessing the output of government employees, they are instead evaluated on the basis of their ability to follow rules (Rainey, Pandey, & Bozeman, 1995). Put differently, this means that control rules are developed not just for coordination purposes but also for evaluative

purposes. The added importance and function of control rules in the public sector should therefore lead to the development of more elaborate control rules in these organizations. While the public managers are unlikely to push for more (safeguard) rules that will restrict their discretionary powers, their political masters are more inclined to do so. Such political intervention is usually a popular move because it protects the less powerful against those in power and puts the politicians on a high moral ground.

On the basis of the above arguments, one would expect more safeguard and control rules in the public sector. Values prevalent in high power distance and collectivist societies will, however, influence the strengths of the relationships between the rules and public ownership. Because of the hypothesized benevolent practices of managers in collectivist societies, fewer political points are scored in forcing public managers to develop safeguard rules. On the other hand, the more hierarchical nature of organizations in collectivist societies would reinforce the need for even more control rules. This is, however, offset by the fact that employees in high power distance societies are more likely to abide by a supervisor's discretionary decision, and this in turn negates the need for control rules. Thus, we put forward the following hypothesis:

H1: Public organizations will have more control and safeguard rules but the relationship is weaker for safeguard rules and uncertain for control rules in high power distance and collectivist societies.

The *exit-voice* model of labour unions (Freeman, 1976) argues that the latter provide dissatisfied employees with an opportunity to voice their concerns instead of exiting the organization. With the presence of labour unions, the superior-subordinate relationship therefore moves from a unilateral one where the superior has all the decision-making authority to a bilateral one in which managerial authority is more limited. A case in point is the seniority-based compensation and promotion system generally favoured by labour unions. With the adoption of such practices, who gets promoted and rewarded is no longer at the discretion of the manager. In other words, the presence of labour unions reduces managerial flexibility and hence increases safeguard rules.

Given the greater voice of subordinates in a union environment, they are more likely to challenge the control rules. Other things being equal, we would expect fewer such rules in unionized organizations. This is, however, tampered with by two opposing factors. First, labour unions as additional stakeholders to the organization increase the environmental complexity of the organization. The formalization literature argues that managers react to this more complex environment by passing

more control rules. Second, labour unions themselves may favour these rules. In the absence of control rules, organizations have to develop functional equivalents (Behling, 1980) such as peer pressure or internal pressure usually associated with employee commitment and loyalty. These functional equivalents are usually not amenable to contract stipulation and are often viewed as a form of union suppression strategy (Fantasia, Clawson, & Graham, 1988). Thus, labour unions are more likely to opt for control rules when having to choose between these rules or their functional equivalents. Because of these conflicting arguments, the impact of labour unions on control rules is therefore indeterminate.

In sum, the preceding paragraphs suggest that labour unions increase safeguard rules, but their impact on control rules can go in either direction. However, because of the reluctance to challenge managerial authority and the tendency for managers to act benevolently in collectivist societies, the positive impact of labour unions on safeguard rules is likely to be weak. Thus, we predict the following:

H2: Labour unions have a positive impact on safeguard rules but the effect is likely to be weaker in high power distance/collectivist societies. Their impact on control rules is however likely to be indeterminate in both societies.

Family-owned organizations are generally smaller in size and because of this characteristic, control and coordination can be achieved through organizational surveillance, which includes close inspection and walking around (Rushings, 1996). This option is, however, impractical for larger organizations where it is more cost effective to develop control rules as a means to coordinate the activities of organizational members. The corollary then is that because of the availability of the organizational surveillance option, family-owned firms have less need for control rules.

Another characteristic of these organizations is that management has fewer stakeholders to answer to compared to managers in government or publicly listed organizations. As discussed earlier, with fewer stakeholders, the environment of the family-owned firms is less complex and this in turn means fewer control rules in these organizations. The all-encompassing power of the family also means that subordinates are more reluctant to call for restricting discretionary managerial powers. This therefore implies fewer safeguard rules in family-owned organizations.

The above arguments posit that fewer safeguard and control rules are expected in family-owned organizations. In a collectivist society, then, one would expect even fewer safeguard rules because of the even greater reluctance of subordinates to challenge their superiors.

**Table 1**  
*Result of Factor Analysis (Dummy variables)*

	Factors	
	1	2
Existence of grievance procedures	0.81	
Existence of appeal procedures against dismissals	0.70	
Existence of rule books	0.64	
Existence of promotion policies	0.60	
Existence of work schedules	0.44	
Existence of job description		0.84
Existence of written organizational policies		0.74
% of variance explained	30.1	20.0
Cronbach's Alpha	0.65	0.50

The conflicting cultural factors affecting control rules in collectivist societies, however, leave the anticipated relationship between family ownership and control rules indeterminate. Thus,

H3: Family-owned organizations have fewer control and safeguard rules but the relationship is stronger for safeguard rules and indeterminate for control rules in high power distance and collectivist societies.

It is well known from the formalization literature that the adoption of organizational rules is influenced by other factors such as routineness of organizational tasks (Hage & Aiken, 1969) and environmental complexities (Langton, 1984). To account for these factors, several dummy variables are included in our model. They are used as control variables in our analysis and no hypothesis is put forward for these variables.

### Methodology

The data for this study are based on data collected from a five-country study of organizational flexibility, consisting of 249 organizations of which 50 are from Australia, 91 from Canada, 23 from Hong Kong, 45 from Korea, and 40 from Malaysia (for more details on participation rates and sample source, please refer to Dastmalchian & Blyton, 1998). Because of missing data and consistency concerns, however, the present study is based upon 119 organizations, divided between 58 from

**Table 2**  
*Results of Factor Analysis (Likert-type variables)*

	Factors	
	1	2
Existence of standardized interview process	0.75	
Existence of written recruitment policy	0.73	
Existence of written records of employees' work	0.51	
Employees expected to specifically follow rules	0.78	
Organization more concerned with results	0.75	
Rarely penalized when rules violated	0.31	0.48
% of variance explained	24.1	23.7
Cronbach's alpha	0.43	0.44

**Table 3**  
*Descriptive Statistics*

	East	West
Control rules	13.00	13.34
Safeguard rules	12.33	11.90
% of union employees	37.39	36.1
Family business	1.95	1.56
Government org.	0.09	0.16
Professional org.	0.07	0.23
Financial org.	0.22	0.15
Hospitality related org.	0.16	0.13

the 3 Asian countries and 61 from Australia and Canada. Information from the organizations was obtained through personal interviews, based on a structured questionnaire, with a senior manager in each of the organizations. The survey questionnaire included information on the organization's background, types of rules adopted, general human resources management practices, and business strategies.

The safeguard and control rules used in this study were developed on the basis of the factor analyses presented in Tables 1 and 2. A total of 10 dummy (0-1) type items relating to organizational rules were identified in the survey. These items were factor analyzed and after

**Table 4**  
*Regression Results*  
*(Standardized Coefficients)*

Variables	Safeguard		Control	
	West	East	West	East
Professional firms	0.15*	-0.22*	-0.15	-0.12
Financial firms	0.27	0.63	-0.01	0.05
Hospitality firms	0.17	0.16	0.18	-0.24
Labour Unions	-0.11	-0.38***	0.09	0.14
Government	0.05	0.13	0.07	0.01
Family	-0.09	-0.34**	0.09	-0.11
R <sup>2</sup>	0.12	0.25	0.11	0.12

\*\*\* denotes  $P < 0.01$ ; \*\* denotes  $P < 0.05$ ; \* denotes  $P < 0.1$

dropping three items for double loadings exceeding 0.4 or single factor loading of less than 0.3, the results for the remaining items are presented in Table 1, with Factor 1 representing the safeguard rules, and Factor 2 the control rules. The same procedure was repeated for those organizational rules that were measured using the Likert-type scale (1 to 7). Of the seven original rules identified, one was dropped for double loadings, and the results for the remaining six items are presented in Table 2. Factor 1 depicts the safeguard rules and Factor 2 the control rules. Factor 1 from Tables 1 and 2 are then combined to provide a measure of safeguard rules, with a range of 3 to 26. This is repeated for Factor 2 which gives the control rules a range of 3 to 23. For both sets of rules, a higher number means a greater prevalence of rules in the organization.

Table 3 compares the basic characteristics of the Asian firms (Hong Kong, Korea, and Malaysia) and the Western organizations (Australia and Canada). Both groups of organizations are similar in terms of unionization and the adoption of safeguard and control rules. The western sample, however, contains more government and professional type organizations while the Asian sample contains more family-type enterprises, financial organizations, and hospitality-related firms. The two subsamples are therefore not quite comparable in terms of industry mix. This issue is discussed later in the paper.

To test the hypotheses discussed in the preceding section, we propose a regression equation with safeguard or control rules as the dependent variable and six independent variables consisting of three industry dummy variables (hospitality-related firms, financial organizations, and professional organizations) and the three vari-

ables of interest (family ownership, unionization, and government ownership). Each specification is run for the Western sample and is then repeated for the Asian sample. Following Hofstede's (1980) study, the Western sample of Australia and Canada represents societies with high levels of individualism and low levels of power distance. In contrast, the Asian sample of Hong Kong, Korea, and Malaysia represents the high group orientation and high power distance societies. A comparison of the signs, significance, and magnitudes of the regression coefficients across the two sub-samples will then allow us to identify whether the relationships between the dependent and independent variables are influenced by the cultural dimensions of group orientation and power distance.

### Empirical Results

Table 4 presents the regression results for safeguard and control rules, with the first two columns comparing the estimated results for safeguard rules and the last two comparing the control rules results. Judging from the statistical significance of the variables, it can be argued that our specification performs better for safeguard rules than for control rules, and for the Asian sample than for the Western sample. The industry control dummies do not play any role in explaining variations in organizational rules across the two sub-samples except for the professional firms. For the latter, the results suggest that firms from Asia have fewer safeguard rules while their counterparts in the West have more safeguard rules.

Hypothesis 1, which states that government organizations have more organizational rules with those in the

West having relatively more safeguard rules than their counterparts in Asia, is not supported by the results. Although the estimated coefficients for the government variable are all positive (as hypothesized), they are not statistically significant. The signs and magnitudes of the coefficients across the two regions are also contrary to what is predicted in Hypothesis 1.

Hypothesis 2, which states that while the effect of unionization on control rules is indeterminate, unionized firms in the West have more safeguard rules than their counterparts in Asia, is partially supported. The results show that labour unions have no impact on the adoption of control rules and this applies to both sub-samples. More importantly, the results show that labour unions in Asian countries not only have less impact on safeguard rules but that they have a negative impact on safeguard rules. Put differently, this means that managers of unionized firms in Asia have more discretionary authority than their colleagues in both unionized Western firms and nonunion Asian firms.

Hypothesis 3, which relates to the influence of the family on the adoption of organizational rules, is also partially supported. While the results show that, contrary to the hypothesized relationships, family ownership has no impact on the adoption of control rules, the results for the safeguard rules are as predicted. They indicate family organizations in Asia have fewer safeguard rules, not only when compared to other Asian firms but also when compared to family firms in the West.

#### Discussions and Concluding Remarks

The purpose of this study has been to examine whether the factors influencing the adoption of safeguard and control rules vary across culturally different societies. The different results obtained for the safeguard rules and the control rules support our notion that these two sets of rules are conceptually different, affected by different factors. Similarly, the differing results for the Asian and the Western samples suggest that the underlying reasons for developing organizational rules vary across cultures. This is particularly true for safeguard rules.

The conventional wisdom in the industrial relations literature is that by negotiating for safeguard rules, labour unions in effect reduce managerial flexibility. Support for this line of reasoning is found in U.S. (Clark, 1980) and Canadian (Ng & Maki, 1994) studies which found that the presence of labour unions is associated with organizational rules that limit managerial decision-making authority. This particular finding is, however, not supported in our Asian sample. In fact, our result suggests that the presence of labour unions in Asian organi-

zations reduces safeguard rules. Thus, contrary to the influence of their western counterparts, Asian unions increase managerial flexibility. We explain this apparent contradiction by arguing that labour unions serve a different role in Asia.

While the typical North American labour union has an adversarial (us against them) mentality with primary emphasis on bread and butter issues, Asian labour unions are more political in orientation (Ngo & Ng, 1996), uniting the workers primarily for political reasons. They do not see themselves as adversaries of management and are less inclined to interfere with what managers do. Moreover, because of differences in labour legislations, Asian unions may not operate as independently from management as typical North American unions would. In other words, unlike their North American counterparts, Asian unions may take and follow instructions from management. Furthermore, the very nature of collectivism in Asian societies makes labour unions more open to joint consultations. Such activities are perceived to build and enhance superior-subordinate trust, a necessary condition for increased organizational flexibility (Lorenz, 1992). Without this trust, employees will be unwilling to forego restrictions to managerial authority. Thus, because of prevailing social norms, Asian labour unions, through their participation in joint consultation with management, increase superior-subordinate trust which in turn leads to increased organizational flexibility. For these reasons, it is not surprising that our results show Asian labour unions to be associated with increased managerial flexibility.

Our results also show that family organizations have fewer safeguard rules and, hence, greater organizational flexibility. Thus, for nonfamily firms wishing to achieve greater flexibility, one way is to emulate some of the basic characteristics of family-owned firms. This may mean providing senior management with some form of ownership or share of profits. More importantly, there is also a need to unite the management team, perhaps through their buy-in of a superordinate goal.

The present paper, with its focus on the impact of labour unions and ownership types (government and family), was not intended to be a comprehensive analysis of safeguard and control rules and, as such, the proposed regression result is underspecified with missing variables. For future research, it would be worthwhile to take into account these missing variables. Another shortcoming of this study is that the Western and Asian samples are not comparable in terms of representations by industry. To the extent that industry effects matter in explaining variations in organizational rules, our results may be misleading because of the lack of comparable data. Future studies should attempt to use a more comparable set of data.

Proponents of local isomorphism (Zaheer, 1995) will also take exception to the merging of Hong Kong, Korean, and Malaysian firms into the Asian firms classification. They will also dispute our western classification. Their position is that prevailing social, political, and legal conditions within a country may outweigh the influence of culture so that a collectivist society such as Hong Kong may in fact be closer to Canada in terms of business practices than to other collectivist societies like Malaysia. Ideally, we would have preferred a five-country study instead of an East-West comparative study, but this is not currently possible because of limited sample size. However, we intend to reexamine the variables we have used so that we can make use of the entire sample of 249 organizations. With this larger sample, it would be possible to take into account the influence of local conditions over cultural factors. A reexamination of the variables will also provide us with an opportunity to improve upon the reliability of our measures of safeguard and control rules.

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