

# **National culture and the adoption of organizational practices: evidence from a global company's call centers in two market economies**

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## **ABSTRACT**

This paper examines primary data from 2 call centers of a United States multinational company, one located in the United States and the other in the Czech Republic to explore the question of whether cultural differences shape operating unit choices in adopting organizational practices. The results suggest that cultural differences across the two liberal market economies did affect their human resource management practices. For example, the use of teams was more prevalent in the Czech Republic and employees in the United States call center could expect to have an opportunity to build a career within the company, while those in the Czech Republic, saw working with the company as a stepping stone to working in other companies. We conclude that national culture differences can be important and must be understood in explaining the organizational practices adopted by the foreign subsidiary of a parent company.

Institutional Theory, Culture, Practices, Czech Republic, United States of America

## INTRODUCTION

Market competition and customer expectations are intensifying competitive pressures on firms. In response, firms are increasingly looking for cost effective ways to meet customer demand for the provision of responsive and customized services that meet their needs. Failure to effectively and efficiently meet customer needs can result in a loss of customer to a competitor. Firms are increasingly taking advantage of globalization to locate value chain activities in locations with the most strategic advantage. This includes establishing call centers in different geographic locations. However, the fact that a firm owns call centers in different geographical locations does not mean that they will adopt similar human resource management practices, even when centers are located in liberal market economies.

Like other organizations, human resource management practices matter in the effectiveness and performance of a call center (Jaarsveldt et. al, 2009). Firms in liberal market economies are freer than those in other economies to adopt from among various human resource management practices, as long as they are within the legal framework of the country involved (Hakim, 1990). However, differences in the cultural environment of liberal market economies may also influence the selection of such practices. This possibility is perhaps heightened when call centers are located in countries with national culture dimensions that are significantly different such as Eastern Europe and the United States. The importance of a firm's human resource management practices lies in their ability to influence a variety of work practices that impact employee satisfaction, commitment and organizational citizenship behavior and thus employee performance (Huselid, 1995, Delery and Doty, 1996; Arthur 1994).

Institutional theorists suggest that cultural differences may play a role in determining the practices organizations adopt (Meyer and Rowan, 1977; Greve et.al; Meyer, H, 1995). According to institutional theory cultural isomorphism, constrains the ability of an organization to successfully adopt foreign practices, even those of a parent company. Despite the vast literature on the adoption of organizational practices, we know little about how organizations respond to political changes in the face of long-existing national culture attributes. In this paper, we focus on the career planning and work organization practices of the two call centers, one in the United States, the other in the Czech Republic, owned by the same multinational company. Work organization refers to the extent to which jobs are designed to be performed by individuals or teams while career planning refers to the extent to which employees can build a career within an organization.

This paper seeks to clarify the role cultural differences plays in the adoption of organizational practices by examining the impact of cultural isomorphism on their selection. Cultural isomorphism refers to a society's shared norms, values, and beliefs about human nature and has been shown to influence the adoption of organizational practices. The study takes an interpretationist view of culture (Burrell & Morgan, 1979) in the sense that it follows the definition of culture as shared meaning held by members of a group that affects their values, attitudes, perceptions and attributions and thus their organizational behavior. It posits that employees bring elements of their culture to the workplace and that this affects the evolution of organizational practices.

This is a particularly interesting line of enquiry given differences in both countries national cultural dimensions, the political journey the Czech Republic underwent as it became a liberal market economy, and the amount of time that elapsed between becoming a liberal market

economy relative to the time the call center was established in the Czech Republic. Two, our analysis will provide information on the extent to which the different normative context of the two countries did in fact influence the decisions made by each call center and will contribute to our understanding of the extent to which national culture influence organizational practice decisions. Three analyzing the influence of cultural forces on why employers in different countries adopt organizational practices within the context of the same industry and multinational parent, enables more control over alternative explanations that is afforded in cross-industry-level studies (Cappelli and Neumark, 2004). Lastly, much of the institutional theory research has been focused on manufacturing settings and this study being focused on the service industry, will complement and add to our overall understanding (Jaarsveld et. al, 2009).

### **The Context of the United States and the Czech Republic**

Institutional analysis is most valid when it is contextual (Scott, 1995). This study examined organizational practices in two wholly owned call centers of the same multinational corporation, one in the United States and the other in a transitional economy, the Czech Republic. The term transitional economy refers to a transition from being a planned economy to a market economy (Allsopp and Kierzkowski, 1997). In the context of the Czech Republic, it also includes a political transition from communism to a liberal democratic system. The role of the market in organizing production, distributing products and services and mediating the exchange relationship between producers and sellers is limited to non-existent in communist, centrally planned economies, where governmental institutions seek to control these decisions. The political crisis in Central Europe in the late 1980s coupled with the economic inefficiencies of central planning has resulted in the replacement of communism as a political system and central planning as an economic system, with liberal democracy and the characteristics of and institutions of successful liberal market economies in the Czech Republic (Laslo and Hegarty, 1999).

To better understand the differences between both the United States and the Czech Republic, we compared the historical events in both countries over the last century. Table 1 presents the timeline of the historical events in the USA and the Czech Republic. From the comparison it is evident that even though the events in both countries were very different it is clear that the Czech Republic is a recent liberal political and economic democracy.

### **The impact of national culture**

In a seminal study on cross-cultural differences, Geert Hofstede (1980, 2001; Hofstede/Bond 1988) used traditional quantitative empirical research to factor analyze data collected between 1967 and 1973 from 64 IBM subsidiaries to develop a values based typology of four dimensions of national culture: 1. power distance, 2. individualism versus collectivism, 3. masculinity versus femininity, 4. uncertainty avoidance and later on a fifth, 5. Short-term versus Long-term Orientation. Hofstede (1980) argued that the dimensions are embedded in an individual based on their country of birth and socialization.

Hofstede's work has been the basis for many studies including Trompenaars and Hampden-Turner (1993) who surveyed more than 10,000 managers in nearly fifty nations, including the Czech Republic to confirm the replicability of Hofstede's dimensions. Trompenaars and Hampden-Turner (1993) derived 2 cross-cultural dimensions, hierarchy versus

equality and involvement versus autonomy. The hierarchy versus equality dimension sought to examine the extent to which a nation accepts power differences. In nations scoring high on equality, work is objectively evaluated and rewarded while paternalism in making work related decisions, is expected in nations that score low on the dimension. In nations scoring high on the involvement dimension, employees are more likely to build careers in the same organization, while in nations scoring high on autonomy, employment outcomes are based on individual employee performance (Trompenaars and Hampden-Turner, 1993).

In a seminal study Smith et al. (1996) found that Trompenaars and Hampden-Turner (1993) hierarchy versus equality dimension is to some extent similar to Hofstede's power distance dimension while the involvement versus autonomy dimension is similar to Hofstede's individualism-collectivism dimension. In a further study, Smith (1997) concluded that the former communist countries of Eastern Europe are clustered around the hierarchy and autonomy dimensions in contrast to Western European nations that are characterized by the equality and involvement dimension. In essence, Smith contended that organizations in the Czech Republic can be expected to adopt practices that accept power inequality and employment outcomes that are based on individual performance, while by extension, organizations in the United States, can be expected to adopt practices that emphasize power equality and long-term employment.

From these studies (Hofstede, 1980, 2001; Trompenaars and Hampden-Turner, 1993; and Smith et al., 1996) it can be concluded that organizations in the Czech Republic and the United States of America, will adopt different approaches to managing their human resources even when the organizations involved are subsidiaries of the same parent company. The fact that Hofstede and Trompenaars and Hampden-Turner's studies were conducted at different time periods and collected data from different samples using different instruments, further strengthens this conclusion. However, this conclusion can be challenged that both studies relied on the values concepts and values can be held to be an illusory concept that is not a predictor of actual managerial behavior.

In this study, we sought to confirm our suspicion by first collecting primary data based on interviews of key managerial staff of the two subsidiaries and on-the-ground observations and secondly, by comparing the results of the primary study with expectations from insights from the literature. This action oriented approach that examines management behavior across cultures and controls for basic values and situational factors (Szabo, 2001; Jago et al. 1995) is particularly suited for this study and has been widely used in the literature. Using the Vroom/Yetton model, Jago et al. (1995), found support for the high power distance prediction for the Czech Republic. In another study based on the cultural standards method Novy and Schroll-Machl (2005) found organizational structures in the Czech Republic tend to be flexible, person rather than rules centered and to involve high context communication.

### **The company**

The company is a subsidiary of global pharmaceuticals company that employed 1300 employee's at the time of the study, worldwide. The company manufactures equipment used to diagnose and screen for different diseases such as slide-machines, slides, and testing materials that are sold to large privately and publicly owned hospitals and laboratories. The primary function of the call centers are to manage order placement by the company's internal and external customers and processing via phone, fax, and e-commerce with its internal customers being its field sales and marketing employees. The company's client base has created an

interesting financial situation that has an impact on its operations. Specifically, most of the hospitals and laboratories it services in Europe are state owned while those in the U.S. are privately owned. As such most European hospitals operate on fixed budgets with little room for deviance creating a need to streamline the order process that has also affected operations focused on U.S. customers. In addition, most of the products are refrigerated which means that once they are sent out they cannot be returned. As such the call centers and their employees are strategic to the company's mission and business-model especially its operational objectives of excellent service and on time delivery.

The Rochester customer center is one of several located in different parts of the U.S. However, the Prague customer center was created in 2007 as a result of consolidation of several other customer centers located in Italy, France and Germany. The main goals of the consolidation were to reduce the development cost, to improve productivity, efficiency, and flexibility, to change the business model to standardize processes across Europe, to reduce CSR staff headcount and cost, and to offset potential tax exposure. Operationally an average of 17 customer services representatives (15 full-time and 2 part-time) work in the Rochester call center daily and 26 in Prague. The volume of work is 200 faxes and 500 calls per day for Rochester, and 300 faxes and 200 calls per day for Prague. One significant difference between both centers stems from the organization of the operations process. In particular, at Rochester the responsibilities of the CSRs are much more comprehensive. This includes the ability to enter/change/update orders directly in the system while talking on the phone with a customer in addition to manipulating data, handling inquiries, and complaint issues. As such CSRs in Prague essentially perform the tasks Master Data Administrators (MDAs) perform in Prague. Each CSR at Rochester has two monitors on the desk and are constantly shifting between four or five different screens and applications. The effect is reported higher levels of stress and a much higher employee utilization rate.

In Prague, the employees are separated into three groups. The first group is called the Front Line CSRs that are native language speakers for the corresponding country. They work directly with the customers on the phone. The second group is called Customer Service Support and includes representatives that speak the language but are not native speakers. They generally answer fax and e-mail inquiries and process orders. The third group is the Master Data Administrators (MDAs), who work primarily with inputting data in the system (JD Edwards). The Front Line CSR responsibilities are not comprehensive. Most transactions are conducted via fax, which are submitted electronically to the CSR who then disseminates the order to the appropriate counterpart at the MDA facility in Strasbourg who is actually responsible for entering the order, thus getting the pick-and-pack process started. The Front Line CSR acts as a liaison between internal-internal or external-internal inquiries, handles order follow-up, issue resolution (to a certain extent, excluding credits, pricing issues, etc. which have to be handled by the MDAs), identifies and makes efficiency recommendations (assuring that the issues reported to hotline for quality department are resolved), and acts as a customer advocate (which is especially important after the implementation of OSCAR). Each of these three groups of workers is specialized into performing a specific task. This allows the center in Prague to customize the front line operations and to standardize the back-office operations. At the same time it reduces the flexibility to change/update/modify orders at the front end. The stress level is lower as each type of worker performs only specific tasks in the process and is trained into using specific technology.

## Methods

This study was based on a comparative research design because the United States and the Czech Republic are both classified as liberal democracies and are perceived as having similar market oriented economic policies (Tihanyi and Hegarty, 1999). Data collection was based primarily on interviews and site visits to both call centers. Interviews were conducted with the leadership and employees of both call centers. By visiting the call centers, we were able to directly talk to and observe the Customer Service Representatives at work. Being an inductive research, followed the steps recommended by Miles & Huberman (1984) to construct a picture of each call centers organizational practices after which we identified areas of commonality and differences. No a priori hypothesis was tested, rather the practices used by each call center was identified strictly by analyzing results from the interviews and direct observation. This method allowed us to go beyond similarity in political systems and economic ideology, to considering the role of norms in the evolution and selection of each call center's human resource management organizational practices.

## HRM Organizational Practices

Training is crucial for the performance of both centers. Employees at Rochester are provided two full weeks initial training on-site and four hours off-site training, whereas at Prague they are provided with three full weeks of initial training and six hours off-site training. At Rochester most of the training provided is on-line and covers variety of topics. Training content in both locations is the same including: safety training, security training, HIPAA training, health-care compliance training, computer training, standard operating procedures (SOP), call scenarios, and the use of technology. Eighty percent of the employees in Prague are female in comparison to fifty percent in Rochester. In addition work in Prague is significantly more organized around teams than in Rochester and incentives geared towards motivating performance are focused on team performance as opposed to individual performance in Rochester. Specifically, in Prague CSRs are organized in teams on a country basis and every month each team organizes different activities that are meant to incentivize employees. However in Prague as opposed to Rochester, there is no opportunity for internal growth and employees use the call center as a stepping stone to advance their career at another company resulting in a high turnover rate that declined from forty percent in 2007 to twenty five percent in 2008, in response to efforts by management to create a nicer work environment and spur greater organizational citizenship behavior and collegiality among the CSRs. In Rochester, on the other hand, after one year with the company, CSRs can apply for a management position. Though the turnover rate is fifty percent, eighty percent of the people who "leave" are internally promoted resulting in an effective rate of 10%. All performance rewards are merit based and the experience during the first 12 months is considered by the employees as a "stepping stone" to advance their career internally within the company.

Perhaps the biggest differences lie in the benefits offered to employees. In accordance to European Union labor laws, all employees at Prague have five weeks paid vacation (four weeks by law plus one week from the company). They also receive comparable days off for the country they served, as each country has different national holidays. They are provided daily discount lunch vouchers and three days paid sick leave per year. The mothers have three years paid (declining salary) maternity leave by law. At Rochester, all employees start with two weeks paid

vacation time after one year of employment, three weeks after three years, and four weeks after ten years. All employees have the official holidays off floating plus ten company holidays. All employees receive time and a half pay for holiday work. The maternity leave is three to six months. Each center is non-unionized, English is the official language and in both, managers have a strong and close relationship with their employees.

## Discussion

The literature suggests that national culture is an important factor for the conception and adoption of human resource management practices (Jackson and Schuler, 1995; Budhar and Sparrow, 2002). The call centers provided an appropriate field to study complex cultural forces and their effect on organizational practices as the interaction between culture and employees helps to understand the adoption of organizational practices. It was interesting to note the differences in the compensation systems adopted by the two call centers – team based in Prague and individual based in Rochester as well as the different internal career paths available to employees and their similarity to the dominant cultural characteristics of both countries. The interaction between the cultural dimensions and the organizational practices helps to understand the role culture plays. It suggests that the adoption of organizational practices is not a unilateral top down process devoid of the impact of national culture.

This study suggests that national culture plays an important role in understanding the diffusion and adoption of organizational practices that organizations need to pay attention to. We found that the process of successfully diffusing organizational practices should include recognition that employees bring their cultural values and norms with them to the workplace even in the face of profound political and economic changes. In essence institutional reform does not by itself make it easier for a parent company to transfer its practices to a foreign subsidiary.

Of course these findings are not universal and each situation must be examined on its own set of facts. For instance it can be posited that what is critical is cultural distance between 2 countries and that the closer the distance, the easier it may be to transfer a parent firms organizational practices (Gerhart and Fang, 2005). Though this suggests using cultural indexes to capture the magnitude of these effects in future research (Kogut and Singh, 1980) we can still infer that culture may have a more profound effect on organizational practices than political events, economic systems, governmental institutions and organizational field.

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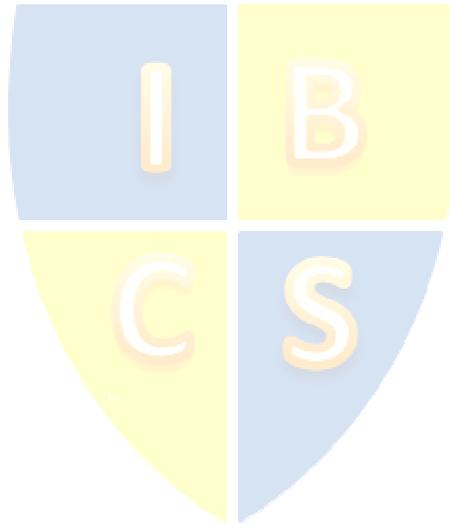


Table 1: Timeline of the Historical Events in USA and Czech Republic for the Last Century

| Time Period                  | The United States   | The Czech Republic  |
|------------------------------|---|---|
| 1900 – 1918<br>WWI           | <p><b>1903</b> Wright brothers' first flight at Kitty Hawk North Carolina</p> <p><b>1908</b> Ford builds the Model T, assembly line production introduced</p> <p><b>1917</b> U.S. enters WWI</p> <p><b>1918</b> WWI ends</p>  | <p><b>1918</b> WWI ends</p> <p><b>1918</b> The Austro-Hungarian Empire disintegrates, the Czechs and Slovaks establish an independent Czechoslovakia</p>  |
| 1919-1938<br>Post WWI        | <p><b>1919</b> 19<sup>th</sup> Amendment allows women to vote</p> <p><b>1929</b> Stock Market crash begins the Great Depression</p> <p><b>1932</b> Depression's worst year - 24% unemployment, GDP falls 13.4%</p> <p><b>1933</b> 21<sup>st</sup> Amendment repeals prohibition</p>   | <p><b>1938</b> Germany, Britain, France and Italy sign the Munich Agreement, giving Hitler the right to annex Czechoslovakia's Sudetenland</p> <p><b>1938</b> Slovakia declares autonomy from Czechoslovakia</p>  |
| 1939 – 1945<br>WWII          | <p><b>1939</b> WWII breaks out</p> <p><b>1941</b> Japan attacks Pearl Harbor, the US enter WWII</p> <p><b>1945</b> The end of the war in Europe</p> <p><b>1945</b> WWII ends as the US uses a nuclear bomb in Japan</p>   | <p><b>1939</b> Hitler occupies Czechoslovakia</p> <p><b>1941-1942</b> 80,000 Czech Jews sent to Auschwitz , only 10% survive</p> <p><b>1945</b> The end of the war in Europe</p> <p><b>1945</b> Czechoslovakia liberated</p> <p><b>1945</b> Slovakia rejoins Czechoslovakia</p>   |
| 1946 – 1968<br>Social Change | <p><b>1947</b> Start of Cold War</p> <p><b>1948</b> The Berlin Airlift</p> <p><b>1949</b> The US joins NATO</p> <p><b>1950</b> Korean War begins</p> <p><b>1950's</b> Rock n' Roll era begins</p> <p><b>1953</b> Armistice signed in Korea, the war is still going on</p> <p><b>1954</b> Brown vs. Board of Education, blacks begin to attend white schools</p> <p><b>1955</b> The US initiates economic aid to South Vietnam</p> <p><b>1957</b> The Civil Rights Act</p> <p><b>1959</b> Military action begins in Vietnam</p> <p><b>1960's</b> Protest songs are becoming increasingly popular- Bob Dylan</p> <p><b>1962</b> The Cuban Missile Crisis</p> <p><b>1963</b> President Kennedy assassinated</p> <p><b>1969</b> The US lands on the Moon</p> <p><b>1969</b> Woodstock</p> | <p><b>1948</b> Communists seize power</p> <p><b>1949</b> Czechoslovakia announces a plan to become economically independent from the West</p> <p><b>1949</b> The Vatican excommunicates all active supporters of Communism</p> <p><b>1950</b> Communists seize church property and arrest some 13,000 religious followers</p> <p><b>1962</b> Giant Stalin monument torn down in Prague</p> <p><b>1968</b> Soviets invade and occupy Czechoslovakia in response to "Prague Spring", an attempt to decentralize and promote democratic rights. Nothing is funny</p> <p><b>1968</b> The Plastic People of Universe begin writing songs protesting communism</p> <p><b>1968-1970</b> Dissident movement heats up: Vaclav Havel becomes active</p> |

|   |  |  |
|---|--|--|
| <p><b>1970 – 1989</b></p> <p>The Cold War</p>                   | <p><b>1970</b> Southern rock is becoming increasingly popular<br/> <b>1973</b> US forces withdraw from Vietnam<br/> <b>1973</b> Arab Oil Embargo<br/> <b>1974</b> Severe Recession<br/> <b>1974</b> President Nixon resigns<br/> <b>1979</b> Record inflation<br/> <b>1979</b> China opens up to economic reform<br/> <b>1979</b> Three Mile Island nuclear power plant incident<br/> <b>1980's</b> Heavy Metal's Golden Age<br/> <b>1980</b> The Pittsburgh Steelers become the first football team to win 4 Super bowls<br/> <b>1981</b> Very Severe Recession<br/> <b>1987</b> President Regan in a speech at the Brandenburg gate remarks, "Mr. Gorbachev, tear down this wall!"</p> | <p><b>1989</b> "Velvet Revolution" a peaceful overthrow of Communism<br/> <b>1989</b> Communism begins to fall in Eastern Europe. It will ultimately fall with the ousting of Gorbachev in 1991<br/> <b>1989</b> Famed child actor Shirley Temple appointed as US ambassador to Czechoslovakia<br/> <b>1989</b> Vaclav Havel elected president by unanimous vote in Parliament</p>   |
| <p><b>1990 – Present</b></p> <p>The Global War on Terrorism</p> | <p><b>1990</b> Persian Gulf War<br/> <b>1994</b> North American Free Trade Agreement<br/> <b>1995</b> Oklahoma City Bombing<br/> <b>1998</b> US embassy bombing in Kenya<br/> <b>2001</b> World Trade Center Attack<br/> <b>2001</b> Establishment of the Department of Homeland Security<br/> <b>2001</b> Severe Recession<br/> <b>2001</b> War in Afghanistan<br/> <b>2003</b> War in Iraq<br/> <b>2005</b> Most expensive hurricane season in recorded history<br/> <b>2008</b> Very Severe Recession</p>   | <p><b>1990</b> Soviets withdraw their forces from Czechoslovakia<br/> <b>1990</b> President Bush in a speech in Czechoslovakia says, "America will stand with you."<br/> <b>1990</b> Jaromir Jagr is drafted 5<sup>th</sup> by Pittsburgh becoming the first Czech to enter the NHL without having to defect.<br/> <b>1993</b> The Czech Republic and Slovakia become two separate independent states<br/> <b>1999</b> The Czech Republic joins NATO<br/> <b>2004</b> The Czech Republic joins the European Union<br/> <b>2004</b> The Czech Republic establishes a professional military (from one of conscription)<br/> <b>2008</b> Acceptance of the Schengen Agreement which allows free travel between other ratified countries</p> |