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Can Human Resource Management Be People Friendly?

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Today, now that the human resource has become the most significant resource in providing economic growth for an enterprise, those lines in the balance sheet that were seen as costs outlaid for personnel in the last century, are now starting to be seen as investments in personnel. Neither is the distinction between good and bad managers entirely down to the management's own managerial skills.

The environment surrounding enterprises is changing so rapidly, that in order to remain competitive, the management's (board's) ideas and initiatives are no longer sufficient; the whole organisation has to become a learning organisation and all employees have to make their contribution to innovation.

This anticipates changes in personnel management. On 6th of November 2003, Estonian Business School (EBS), the Estonian Association for Personnel Development (PARE) and the Estonian Conference Centre (ECC) organises the first International Human Resource Management Research Conference "People Friendly Management" in Tallinn, Estonia.

The central question is, could personnel management also be people friendly? The key presenters include members of Cranet Network. Besides members of the Cranet network, well-known researchers in organisational learning such as Mike Geppert and Paul Iles, and several other scientists from Estonia and other European countries make their presentations.

The conference provide HRM practitioners and others interested in the field invaluable information and expertise on the latest trends and scientific research in the field of HRM from around the world. In addition, practitioners gain an excellent opportunity to analyse personnel management practice in the light of recent research.

At first some words about the network.

The Cranfield Network consists of HRM research centres mainly associated with universities. The network coordinates organisational surveys on International Strategic Human Resource Management. The network has 24 European member countries, (4 within Eastern Europe) and another 10 outside Europe producing comparative sets of data. The last HRM survey, in 1999/2000 was completed in 30 countries with over 9,000 organisations participating. Since its inception more than 33,000 employing organisations worldwide have contributed to the data.

The best European HRM experts are involved in analysing and publishing the research findings. These findings have been published in professional journals and academic publications. On the basis of the last study, books analysing distinctive features of personnel management in different countries have been published. In November a special European human resource management textbook is going to be published and among other countries it will also contain a chapter about the current state of personnel management in Estonia.

Other worldwide organisations also use the Cranet Network for research. For example members of the Cranet network will carry out the worldwide ILO research project, "Employers Organisations and Challenges for Enterprises" in 2003.

This special issue of EBS Review is dedicated to the topic of human resource management and the articles and research papers introduce the work of those specialists who made their presentations at the conference.

The first article presents the work of the key-speaker, **Chris Brewster**, from Henley Management College, UK, who has conducted extensive research in the field of international and comparative HRM, written some dozen books and over a hundred articles. In this article Chris Brewster uses the evidence of the Cranet survey to identify some general trends in Human Resource Management policies and practices across Europe. He examines the main differences in American and European personnel management, and he assesses what lies ahead for HR specialists in the

Access countries such as Estonia as they come into the scope of the European Union.

Nancy Papalexandris and **Leda Panayotopoulou**, from Athens University of Economics and Business, argue that in last 10 years the attitudes towards questions of human resource management have significantly changed. Following current debate concerning personnel issues, it seems that there are two main questions at the moment. To what extent should line (middle) managers deal with such issues as selection, payment, training, work relations, etc – and the importance of partnership with the personnel department. In the article, using evidence from research findings, they analyse different levels of participation among line managers in the work of personnel management and provide advice on how to increase the synergy between HR specialists and line managers.

Miroljub Ignjatović and I**van Svetlik** argue that as countries differ in their historical-cultural, political and other backgrounds, they also demonstrate certain differences in terms of HRM. The article covers the results of research where 24 European countries were divided into 4 groups, and highlights the differences in personnel management originating from geographical location starting from strategic decisions to sub-operations. What characterises management in Nordic, Southern-European, Western-European and other peripheral countries and are these differences influenced by socio-political or cultural dimensions? In their article the authors present their answers to these questions.

Ramona Alt's main research interests in personnel management include organisational culture, work-relations and change. Together with authors from several countries (**Ruth Alas, Doina Catana, Rainhart Lang, Johannes Steyrer** and **Krista Tuulik**), she highlights those aspects that characterise management culture in Eastern Europe during the transition process compared to management in Western or Northern European countries. There has been a tendency to look for reasons for these differences from the communist heritage while failing to consider the influence of the transformation process itself as a fundamental process of change, which may have supported stricter leadership types and also certain differences in the countries' cultural backgrounds. Together they present a comparison of the management styles among managers from Estonia, Romania and East Germany, as countries with a 'common

heritage'. They go on to explore the results through cultural differences and their respective stages in the transformation process, but also via issues of age, distinctive features and the use different managerial methods. For comparison the example of Austria as a nation with a more mature Western-European management culture is brought out. Using the results of the GLOBE/CEO leadership study, answers are sought to such questions as – what are the leadership styles in these countries and what are their similarities and differences.

Multinational Corporations (MNCs) may be viewed as key drivers in the increased internationalisation of business. Ireland's economy is more dependent on MNC activity than any other EU nation. In the case of the latter, the MNC might be seen to display a marked preference for the jettisoning of established local practices in favour of a headquarters imposed model. **Michael Morley, Patrick Gunnigle** and **David G. Collings** paper addresses this polemic through an examination of industrial relations and human resource management practices in two large American subsidiaries in Ireland with a view to further illuminating the debate about whether such MNCs are innovators in or disruptors of established workplace human resource management and industrial relations.

Sinikka Vanhala and **Kaija Tuomi** from Finland discuss employee well-being. The restructuring and downsizing of companies has caused increasing job insecurity among employees, which is the main factor negatively influencing well-being. It is obvious that training, development and fair remuneration influence well-being positively. At the same time evaluation- and performance-related pay may foster burnout. The authors of the article emphasise the special importance that must be given to employee well-being by supervisors and especially the importance of the *buffer effect* provided by emotional support. The link between organisational success and employee well-being is diverse. Any successful organisation that has the resources can invest in employee well-being. But has the organisation achieved this success through the burnout, exhaustion or dismissal of their employees? Or should we first invest in employee well-being and through that achieve company success?

Similar to other fields of knowledge movement, the transfer of HRM models have proceeded according to a traditional linear 'knowledge transfer'

approach—from Western-European to Eastern-European organisations. In the context of these knowledge transfer models an article by Prof. **Paul Iles** and **Maurice Yolles** raises questions about the learning organisation, presenting a postulate and arguing that knowledge diffusion is much more akin to 'translation' and co-creation than linear 'transfer' of completed models. By relying on evidence from case studies, the authors demonstrate how to develop a model of knowledge migration, in order to meet the different interests of stakeholders and implement change in organisations.

Recent ethical scandals involving such global corporations as Arthur Anderson, Enron, and WorldCom have prompted considerable alarm about the state of ethics in the business world, and about what these scandals signify about the societies and cultures that have engendered them. Perhaps the most important new development is the emergence of a more comprehensive view of organisational performance that considers the role of values, ethics and corporate social responsibility in managerial decisions about risk, organisational functioning, market positioning, and civic positioning.

The paper by **J. Thad Barnowe** and **Gundar J. King**, Pacific Lutheran University and **Madara Krûmina**, University of Latvia, explores the foundations of ethics and corporate social responsibility in the Baltic states in terms of a broader context grounded in individuals' personal value systems, and therefore as part of a larger social capital infrastructure within each country. Ethics is important not just because it has to do with conforming to laws and norms, or because of a desire to avoid bad publicity, but because it is part of the nexus of human relationships that underlies the prosperity of business organisations and the societies in which they operate.

Ewa Gorczycka and **Agata Przewoźna-Krzemińska** argue that organisational culture is seen as a coherent element, but also as an awkwardly defined set of beliefs, customs, aspects of language, etc., which are characteristic to the members of each specific organisation and which distinguish it from other organisations.
In their article they explore solutions to problems stemming from the following issues: understanding organisational culture, factors influencing organisational culture, defining people and groups shaping corporate organisational culture, changing organisational culture.

Normally, when speaking about business relations in distant trading partners, such as Europe and Japan, it is obvious that both partners consider the local customs and traditions of the other. However, with neighbouring countries such as Slovenia and Austria we tend to presume, when the cultural background is similar, that there is similar business behaviour. But is this really so? The need for cultural sensitivity appears much less necessary. Prof. **Josef Langer** shows how questions of cultural distinction are dealt with in an emerging society in the European Union. In this article answers are sought to such questions as – what are the differences between the business cultures of the countries involved in the EU and their close neighbours.

Dr. **Jie Shen** highlights two management approaches, making a distinction between the different nationalities and different management styles used in Chinese multinational enterprises compared with UK counterparts. By analysis Dr. Shen seeks answers to the following questions. How different or similar are international policies and practices that define reward and compensation at different management levels in multinational enterprises? What are the most significant factors that influence international reward and compensation policies and practices in multinational enterprises? While reward policies and practices in international enterprises are areas that have not attracted much attention, his article provides a broader conception for integrating international reward and compensation systems into a local culture and vice-versa.

The explosion of computer-focused communication over the past 17 years has brought about numerous changes in the labour market: a real revolution, not yet finished, that is changing the way organisations work. The consequences of this phenomenon have permeated every type of activity and they have given rise to the "connected society." The Internet has altered the nature of competition, accelerating the flow of information, of new products and of services around the world. This has encouraged managers of a lot of firms to re-examine the way business should be managed and to identify lasting sources (e-recruitment) of competitive advantage. The paper by **Ginevra Gravili** examines the development of e-recruitment as a source of competitive advantage, and analyses the potential trends in the recruitment sector in the Italian market.

Kulno Türk's aim is to give an overview of the problems of performance appraisal and compensation in the Faculty of Economics and Business Administration at the University of Tartu and to offer a solution to these problems. A fair and acceptable wage system presumes the effective formation and employment of staff, which guarantees the successful functioning of organisations and their ability for develop-ment as a whole. In his presentation Kulno Türk shows how efficient motivation of the faculty of Economics and Business Administration at University of Tartu has helped implement changes in economic education structures and has guaranteed that it can stay in-step with demand. How has the efficient implementation of a performance appraisal system impacted on the work efficiency of the faculty members? What is the necessity of such a performance appraisal system in managing teaching and research? Kulno Türk addresses these issues.

When an employee joins an organisation he or she usually creates an understanding of what the organisation expects from him or her in terms of both responsibilities and outputs. This kind of understanding of mutual (obligations) responsibilities is called a psychological contract. The more these obligations are perceived as mutual and balanced the greater the contribution made by the employee and the higher the individual well-being. **Liina Randmann** from Tallinn Technical University gives an overview of the psychological contracts theory elaborated by D. M. Rousseau, the applicability of a Psychological Contract Inventory and assess perceived psychological contracts according to four different dimensions—relational, balanced, transactional and transitional. She addresses the following questions. What are the leading forms of psychological contracts and how do these contracts combine? What do the contracts mean in the context of everyday working life? What kind of requirements and challenges do psychological contracts present to the organisations and their employees?

Maaja Vadi gives an overview of how social demographic characteristics of an organisation's members are related to personnel management, the decisions of which are influenced by very different stakeholders (interest groups). She analyses the definition of organisational culture from the aspect of socio-demographic principles and highlights the different attitudes that appeared as a result of research. During her interpretation of the research findings, she will point out three concepts for the implementa-tion of *People Friendly Management.* Issues such as the prevention of cultural stereo-types, managerial responsibility in designing common values and careful attention to minorities. She seeks to explore how it is possible to formulate personal differences into organisational strength.

Karen Williams, Mike Geppert and **Dirk Matten**, present a research about employee participation in German subsidiaries of large multinational machine building corporations. They deal with negotiated and universally imposed approaches to change management, of which one is characteristically German in origin and the other, Finnish in origin, and raise the following questions. Whether the traditional German business system will be able to adapt to the demands of increasing internationalisation or whether it will be forced to adopt a more Anglo-Saxon orientation? What are the opportunities and obstacles for implementing change management strategies in large corporations in Germany?

Wolfgang Mayrhofer's main research areas are international leadership and HRM. For his remarkable achievements in research he has received a commendation and recognition from the Senator Wilhelm Wilfling foundation. In his article he explores the possibilities of serving two masters – is it possible to find a mean between strict economic logic and being person friendly. He talks about stakeholders who expect favourable / acceptable results from human resource management. Stakeholders represent contradictory views that present a compatibility problem. Can HRM be the bridge that makes different viewpoints more compatible? What is the leading force shaping the character of HRM in Europe today? Is there space left for valuing people and for being person friendly? Wolfgang Mayrhofer seeks answers to these questions.

EBS Review would like, once again to thank all those involved in this extraordinary project. Without the dedication and generosity of our contributing authors, editors and numerous partners, this special edition of our journal would never have seen the light of day. We trust the material held within will intrigue, stimulate and inspire future HRM practice,

Editorial Team

Going Our Own Way: Human Resource Management in the New Europe

Chris Brewster, *Henley Management College, UK*

Introduction

Estonia is joining the European Union at a crucial stage in its own development and in the development of the world economy. This paper examines the place of human resource management (HRM) within the developments that are taking place. Are we converging towards a common model, or does each country have its own approach to HRM? The paper explores this issue and concludes that HRM in Estonia – as everywhere else in the world – will need to change; but that change must be toward a European, not a US model.

The world has become a smaller place: telecommunications allow us to connect to any part of the globe within seconds. Physical means of transportation are being constantly improved, becoming speedier, more secure and more comfortable. The likelihood of international encounters has multiplied exponentially. Though there has been some debate about the new internationalisation (Brewster, Sparrow and Harris 2001; Farnham 1994; Hu 1992; Moore and Lewis 1999; Williamson 1996), its effects are being felt all around us.

But is the consequence that the handling of human resource management in different countries is becoming more similar; or are these countries as far apart as ever? Is it convergence or divergence that is the stronger force? This paper reviews the debate; and, from an outsider's perspective, briefly considers the effects for Estonia.

First, we examine briefly the convergence and divergence arguments. As part of this process we consider two distinct versions of the convergence thesis, the free market US model and the institutional European model. And then we consider the divergence argument. Following this we argue that the evidence shows a clear distinction between HRM in its birthplace, the USA, and Europe. We explore some of the key features that make Europe distinct. Finally, we explore the implications for HR managers in Estonia.

Convergence and Divergence

Given that there are differences in HRM in different countries, a key question is: are these differences increasing or decreasing? As business becomes more global, is HRM becoming more uniform? Or might different regions even be becoming more distinct?

One possibility is that as policies of market deregulation and reduced state control are spreading from the US to Europe, European firms are moving towards a North American HRM approach to managing their personnel. Another is that, because of the increasing economic and political integration of European Union countries, a convergence towards a distinctly European practice is under way. There is, of course, a third possibility: that European firms are so locked into their respective national institutional settings that no common model is likely to emerge for the foreseeable future.

The Cranet network of researchers is uniquely equipped to explore these issues in that we have access to comparative data for most European countries collected at regular intervals. We are thus in a position to analyse developments in a range of precisely defined HRM practices across these countries and over a significant period of time.

The convergence versus divergence debate has been a strand of the literature on management in general for decades, and this has more recently been reflected in HRM theorising.

Convergence theory suggests that antecedents specific to the organisation explain the existence of HR policies, while-country specific differences are less significant (Weber *et al* 2000; Sparrow *et al* 1994). Thus, while differences in management systems have arisen as a result of the geographical isolation of businesses, the consequent development of differing beliefs and value orientations in national cultures are being superseded by the logic of technology and markets, which requires the adoption of specific and, therefore, universally applicable policies, approaches and management techniques (Kidger 1991).

Proponents of the divergence thesis argue, in direct contrast, that personnel management systems, far from being economically or technologically derived, reflect national institutional contexts and cultures, which do not respond readily to the imperatives of technology or the market (DiMaggio and Powell 1983; Oliver 1991). Managers in each country share a set of cultural assumptions. It follows that managers within one country behave in a way, which is noticeably different from managers in other countries (Hofstede 1980; 1989; 1991). Furthermore, organisations operate within the framework of national institutions and legal systems, which will of necessity influence the activity of management.

National, and in some cases regional, institutional contexts are slow to change, partly because they derive from deep-seated beliefs and value systems and partly because significant re-distributions of power are involved. More importantly, change is path-dependent. In other words, even when change does occur it can be understood only in relation to the specific social context in which it occurs (Maurice *et al* 1986; Poole 1986). Performance criteria or goals are thus, at any point in time, socially rather than economically or technologically selected so that they first and foremost reflect principles of local rationality. Convergence of management systems can therefore only take place if supranational institutions, such as the European Union, are able to impose their influence across national contexts. In such a case, there is an argument for the existence of an institutionally driven convergence of HRM practices within Europe.

Attempts by the Cranet network to explore this issue over the last decade show that in Europe, whilst some aspects of HRM are converging in terms of the general direction of developments, in others there is no convergence and the way HRM is managed in each country remains stubbornly distinct (Brewster, Mayrhofer and Morley 2004).

The Influence of America

In its modern conception, our understanding of management in general, and human resource management in particular, has been heavily influenced by thinking in the United States of America. The US pioneered the teaching of management and business as education subjects. The first business school was created in Wharton, in Pennsylvania in the USA, in 1881. Comparatively, the first Business Schools in Europe, Cranfield School of Management and London Business School, both in the culturally close UK, were only created in 1965 - 84 years later (Locke 1989).

The US has led the way in terms of management education. Many business subjects were invented there: Marketing, Corporate Strategy – and Human Resource Management. The majority of the world's books on management and business have been written by Americans. The leading world journals on management tend to be based in the USA. It has been argued that Americans display a particular awareness of the activity of management which is not matched by any other country (Lawrence 1996a). Not surprisingly, America has therefore excelled at teaching management as a subject - the US-born Master of Business Administration (MBA) qualification is a world flagship in terms of managerial education.

The influence of the USA has been facilitated by the use of English in international business. Many countries frequently employ literature in the English language. The spread of the English/American language was first established through British colonialism and later reinforced by such factors as the US military presence in the world, the US economic supremacy and fashionable pop culture. Managerial thinking framed by this international American/English language has tended to be seen as an expression of universal rationality rather than as explicitly Anglo-American.

Furthermore, the American economy has been the largest in the world for several decades. Consequently, many American multinationals, building

on the strength of their home market, have carried the presumption that their management is the best.

These factors have contributed significantly to the spread of a uniform Anglo-based approach to management. However, more recently this contribution has been disputed, with a rising awareness of the variety of approaches to management which exist across the world (e.g. Hickson and Pugh 1995).

Human Resource Management

As already indicated, HRM too was originally conceptualised and developed in the United States of America. The issues crystallised around questions about how managers could establish links between the strategic aims of the organisation and the kinds of employees they had and the attitudes and activities of those employees. The outcome of this dialogue was to propel personnel administration away from its position on the outer fringes of management. Traditionally it had been "partly a file clerk's job, partly a housekeeping job, partly a social worker's job and partly fire-fighting to head off union trouble…" (Drucker 1989, 269). Now it was to begin to occupy a very much more central position: personnel administration was reinvented as human resource management.

In 1984, Fombrun *et al* launched a model, the "Michigan" model of HRM, which emphasised that organisational effectiveness depends on achieving a tight fit between human resource strategy and the business strategy of the firm. In short, this school was advocating increased strategic consideration of HRM on the basis that only when this has been achieved can appropriate HRM systems be developed. Their core recommendation was that the business strategy should be employed to define and determine the types of employee performance required. Sparrow and Hiltrop (1994) have characterised the rationale of the Michigan model as managing people like any other resource: "They are to be obtained cheaply, used sparingly and developed and exploited as fully as possible". However, beyond the strategic element, the important difference lies in the much greater devolution of responsibility and initiative to the individual employee. Rather than the detailed and precise rules of scientific management, the HRM systems of the Michigan model aim at creating a dominant, strategically based value system within which the employee performs.

An alternative, the "Harvard" model developed by Beer *et al* (1984), argues that systems designed to encourage and develop commitment are crucial to successful HRM. They describe HRM as "involving all management decisions and actions that affect the nature of the relationship between the organisation and its employees—its human resources". Beer regards employee commitment as vitally important regardless of the type of strategy being pursued. This is because employees are not just another resource, they are a critical resource, the one that can create value from the other resources, so that personnel activities must be guided by a management philosophy which seeks to involve them. Furthermore, they are a resource with views and expertise of their own. For Beer *et al*, business strategy should never be considered in isolation but always in relation to the employees.

Mayrhofer *et al* (2000) note, though, that none of these collaborative techniques were rooted in governance systems that involved any increasing role for the employees' trade unions. On the contrary, as HRM established itself in the US, unions became even more marginalised in an institutional environment characterised by increasing management and shareholder power.

Over the years, these models of HRM and many derivatives of them were refined and developed by many US scholars and attempts were made to apply them in many US companies. As always, practice and theory were interlinked: the academics reported on what they saw happening in practice; the practitioners became more aware of what they were doing and felt justified in their actions. Over the years, too, the US HRM model, at least in rhetoric, was spread first to other English speaking countries and then—as it still is—increasingly around the world.

HRM in the European Context

Is the US-derived vision of HRM, outlined above, a universal one, one that will apply anywhere in the world, or is it a US-bounded one? This is an important question since organisations are socially embedded in their external environment and affected by external forces that require them to adapt their structures and behaviours to deal with these forces (Berger and Luckmann 1967). Firms are located in settings not only of legislation, but also of cultural and social norms to which they

have to react. Given that HRM is a product of the North American institutional and cultural setting, determining whether it is readily transferable to the European setting remains a conceptual and empirical challenge.

There are a number of critical differences between the North American institutional context and the European. Of course, such a comparison involves substantial generalisation. We must remain aware of the substantial differences within North America, even within individual states in the USA; and the differences between the European countries. Brewster (1995) has used the analogy of a telescope: with each turn of the screw things that seemed similar are brought into sharper focus so that we can distinguish between, say, the forest and the fields, then with another turn between one tree and another, and then between one leaf and another. Each view is accurate; each blurs some objects and clarifies others; each helps us to see some similarities and some differences. Here we concentrate on the substantial differences between the North American and European personnel management regimes, because the US approach has been so dominant in our understanding of HRM.

Core Assumptions

Brewster (1994) has pointed out that a core assumption of North American HRM is that the employing organisation has a considerable degree of latitude in regard to the management of personnel, including inter alia: freedom to operate contingent pay policies; an absence of, or at least a minimal influence from, trade unions; and an assumption that the organisation has sole responsibility for training and development.

In other words, central to the notion of North American HRM is an assumption of considerable organisational independence. This assumption is reasonable, given the weakness of the trade union movement in the USA (where membership is currently probably less than one tenth of the working population, and its activities are predominantly site-based), coupled with the comparatively low levels of state subsidy, support and control. It also fits comfortably with the notion that the state should interfere in business as little as possible and that it is the right of every individual to do the best for themselves that they can without external inter-

ference (Guest 1990). The question is: how valid are such assumptions in the context of Europe?

Closely related to the assumption of a firm's autonomy is a second core assumption, that the close involvement of HRM with business strategy represents a radically new departure for the management of personnel. What theorists of North American HRM overlook is that the connectedness of HRM and corporate strategy does not have to be a product of "bottom line" calculations. It might equally be a consequence of laws, regulations or custom, in which case it may be an established feature of other contexts, such as the European one.

We note below some of the challenges to these core assumptions in the European context.

A Culture of Individualism

At the most general level, while the empirical data on national cultural differences is limited (Hofstede 1980; 1991; Laurent 1983; Tayeb 1988; Adler 1991; Trompenaars 1993), it does point to the unusual nature of the United States. "The US…", writes one of the leading researchers in this field, "…is quite untypical of the world as a whole" (Trompenaars 1985). US culture is significantly more individualistic and achievement-oriented than most other countries (Hofstede 1980). Indeed, it has been argued (Guest 1990) that the North American assumption of business freedom and autonomy is peculiarly American and is related to the American view of their country as a land of opportunity which rewards success. It is an American's birthright, if not duty, to stand on his or her own two feet and to start up some kind of enterprise.

Certainly when we examine the proportion of adults who are active in business start-ups there is a significant gulf dividing the US from Europe. While 8.4% of American adults were involved in business start-ups in the winter of 1999, the average figure for European countries, despite generally higher levels of unemployment, was much lower. In Germany and France, for example, the average was about 2%, while for the UK and Italy it was only slightly higher (Financial Times 1999).

This culture of individualism, or entrepreneurialism, extends to the legal situation when individuals have not been successful. In the USA they are free to start up another business to replace their

failed business with far fewer constraints than is the case in Europe. It is clearly discernible, also, in the thinking that underpins North American notions of reward systems with their emphasis on individual performance-based rewards. That is, just as a free market differentiates between successful and unsuccessful individual enterprises, so should firms have the freedom to reward those employees who have made critical contributions to their success. Given the relative lack of a culture of entrepreneurialism in Europe, we should not assume, without evidence, any ready acceptance of individual performance-related rewards.

Legislation: The Firm and the Individual Employee

One German authority, Pieper, pointed out that "the major difference between HRM in the US and in Western Europe is the degree to which [HRM] is influenced and determined by state regulations. Companies have a narrower scope of choice in regard to personnel management than in the US" (Pieper 1990, 82). We can distinguish three aspects to this concept of management scope: the degree of employment protection, the legislative requirements on pay and hours of work, and legislation on forms of employment contract.

In regard to the first of these, Blanchard (1999) has attempted to quantify differences in employment protection, within both Europe and the USA. He argues that employment protection has three main dimensions: the length of the notice period to be given to workers; the amount of severance pay to be paid according to the nature of the separation; and the nature and complexity of the legal process involved in laying off workers. Blanchard finds that the US is significantly different from Europe in general and Italy, Spain and Portugal in particular. There is less protection in the USA.

In relation to the legislative requirements on pay and work there are also marked differences. For example, the International Labour Organisation reports that whereas in Europe legislative developments have ensured that average hours worked have fallen over the last two decades, in the USA they have risen. Thus, in the United States, almost 80% of male workers and 65% of working women now work more than forty hours in a typical week.[1] By contrast, in France the working week is by law limited to thirty-five hours with overtime limited

to 130 hours a year. This policy even extends to making unpaid overtime by senior employees a penal offence. Indeed, in June 1999 a director of a defence company, Thompson Radars and Countermeasures, was fined after the government's jobs inspectorate had monitored executives, researchers and engineers and uncovered substantial unrecorded overtime. In the USA such a case would be inconceivable.

Finally, with respect to legislation on employment contracts, although this varies within Europe, it exists everywhere and is now the subject of European-level legislation. Legislation in Europe goes beyond anything found in the USA, limiting the ways people can be recruited, the documentation necessary when they start work, how much they can be paid, how management must consult with them and a host of other matters.

The legislation that determines the firm-employee relationship is a product of wider, normative, concepts of what role the state should play in the economic arena. In his book, *Capitalisme contre Capitalisme*, Albert (1991), a former director of the French planning agency, distinguished on the one hand between an Anglo-Saxon capitalism (principally the USA, but also the UK) and a continental, West European type of capitalism, which he labelled the "Rhineland" model. The former is a "shareholder economy" under which private enterprise is concerned with maximising short-term profits for investors rather than any broader harmony of interests. In contrast "the Rhineland model may be seen as a regulated market economy with a comprehensive system of social security.

Government, employers' organisations and labour unions consult each other about economic goals [in order to] try to achieve a harmony of interests" (Bolkestein 1999). In short the Rhineland model is a "stakeholder economy" in which competition and confrontation are avoided in the belief that they undermine sustainable economic growth. Patrolling this economy is the state, which acts variously as referee, guarantor, employer and owner.

Table 1.2 provides one indication of the role of the state in the Rhineland model. Whereas public spending as a percentage of GDP averages nearly 50% in the EU, it is only 32% in the USA.

Table 1.2. Public spending as a percentage of nominal GDP (1997)

Country	Percentage of GDP
Sweden	62
Finland	54
France	54
Italy	51
Netherlands	49
EU total	48
Germany	48
Spain	42
UK	40
US	32

Source: OECD Economic Outlook, 1998.

These differences in attitude towards public spending as between the US and European economies are replicated in respect of the labour market.

As well as being substantial employers in their own right, governments in Europe tend to see themselves as "model employers", in advance of private sector organisations in terms of such social welfare issues as non-discrimination, parental leave, etc.

The Role of Trade Unions and Consultation

Another core feature of European states is the legislative status and influence accorded to trade unions. Europe is the most heavily unionised area of the world. Table 1.3 compares membership and bargaining coverage between European states and the USA. Union influence cannot be accurately gauged by studying union density rates. A more important issue is trade union recognition, that is, whether the employer deals with a trade union in a collective bargaining relationship which sets terms and conditions for all or most of the employees (Morley *et al* 1996). In this respect Europe differs to a considerable degree from the USA.

In most European countries, there is legislation requiring employers over a certain size to recognise unions for consultative purposes. Morley *et al* note that "Europe has a tradition of collectivism and consensus building and trade unions have a social legitimacy in Europe on a much grander scale than in the US" (p. 646).

Table 1.3. Union density and bargaining coverage, 2001

Country	2001 Union density (%)	2001 Bargaining coverage
Denmark	87.5	83%
Finland	79.0	90%
Sweden	79.0	90%
Belgium	69.2	90%
Austria	39.8	98%
Italy	35.4	90%
Portugal	30.0	87%
Germany	29.7	67%
UK	29.0	36%
Netherlands	27.0	88%
Spain	15.0	81%
USA	13.5	15%
France	9.1	90-95%

Source: EIRO

Closely related to the issue of trade union recognition is the European practice of employee involvement. Typically the law requires the establishment of workers' councils with which managements must consult. Legislation in countries such as the Netherlands, Denmark and, most famously, Germany, requires organisations to have two-tier management boards, with employees having the right to be represented on the more senior Supervisory Board. These arrangements give considerable (legally backed) power to the employee representatives and, unlike consultation in the USA, for example, they tend to supplement rather than supplant the union position. In relatively highly unionised countries it is unsurprising that many of the representatives of the workforce are, in practice, trade union officials. In Germany, for instance, four-fifths of them are union representatives.

A central theme of HRM is the requirement to generate significant workforce commitment through developing channels of communication. However, in Rhineland countries it is noticeable that the provision of information to the workforce involves the use of the formal employee representation or trade union channels. And when upward communication is examined, the two most common means in Europe, by a considerable margin, are through immediate line management and through the trade union or works council channel (Morley *et al* 2000; Mayrhofer *et al* 2000).

Patterns of Ownership

Patterns of ownership also vary from one side of the Atlantic to the other. Public ownership has decreased to some extent in many European countries in recent years; but it is still far more widespread in European countries than it is in the United States. And private sector ownership may not mean the same thing. In many of the southern European countries particularly, ownership of even large companies remains in the hands of single families rather than of shareholders. On the other hand, in Germany, a tight network of a small number of substantial banks own a disproportionate number of companies. Their interlocking shareholdings and close involvement in the management of these corporations mean less pressure to produce short-term profits and a positive disincentive to drive competitors out of the market place (Randlesome 1994).

In summary, it is clear that the practice of HRM cannot be divorced from its institutional context. The North American model is a viable alternative or possibility for American firms because of the context within which they operate. Whether it can, or even should, be replicated in the European context is a matter of empirical evidence and opinion.

Implications for HRM in Estonia

The discussion above has some relevant implications for HR Managers in Europe and particularly in the "newer" countries of Europe, like Estonia. There is always a danger that "good practice" will be seen as that emanating from the world's most successful economy, the USA. However, not only may such practices be misunderstood in themselves, but they may not be appropriate for other countries and may, in some cases, even be dysfunctional. We are beginning to understand developments in HRM in Estonia (see Alas and Svetlik, 2004) and they form their own distinctive pattern. Like much of the rest of management practice in Estonia, HRM has changed significantly in the last decade, and is still changing. There is much to be learnt from other countries, particularly those which are also in the European Union; countries that will share some circumstances and some legislation with Estonia. But Estonia also needs the confidence to develop its own style of HRM and not to follow slavishly any other models.

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Creating Synergies in HRM: The Role of Line Managers

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Introduction

The way firms handle employee matters has changed drastically over the years. Until recently, focusing on its administrative role, Human Resource Management (HRM) tended to be reactive, occurring mostly in response to a business problem or need. HRM problems were usually referred to a specialist and were not part of the strategic business plan of the company. It is only in the last decade that companies have viewed HRM practices as a means to enhance the operations of the other functions of the business.

Today CEOs and line managers recognize the key role of HR in helping their companies gain a competitive advantage over both domestic and foreign competitors. This competitive advantage can only result from HRM practices which are jointly developed and implemented by HR specialists and line managers.

The responsibility for effectively managing human resources does not rest with those in the human resources department. All managers are responsible for leading people. External experts who serve as consultants for the organization or external providers to whom companies outsource some of their HR functions, share this responsibility. Therefore, close collaboration between HR and line management can create synergies which add value to the company. Extra synergies may result from HR managers collaborating with supplier firms, with customers, or with members of community organizations. Yet the most important partnership is that between HR and line management.

Research in Europe and in Greece has shown that varying levels of partnership and synergies exist depending on the different HR activities and the overall culture of the firm (Papalexandris, Chalikias and Panayotopoulou 2001).

This paper will present the existing situation in major Greek firms with regard to the role of line managers and propose ways for enhancing the synergistic relationship between HR and line managers, as getting every manager involved in people's issues is the key to organizational success, regardless of how the roles of HR professionals change.

Line Managers and People's Issues

HR activities have always been a part of the line manager's job. In small businesses the owner-manager must have HR expertise as he depends heavily on his/her people. As the company grows, the owner may contract out some of the administrative aspects of managing people (payroll), or hire a specialist. As the company continues to grow, it may establish an HR department, which provides special expertise, or invite external providers to complete specialized HR activities such as employee selection or training.

At this point the key to success lies in involving and inviting line management to actively participate in designing and implementing HR activities. Brewster and Larsen (2000) indicate various reasons why line involvement in HRM is receiving increasing attention. These reasons center around the need for a comprehensive approach to people management in cost-centered units where decisions have to be made fast and on the spot. Ulrich (1998) believes that since line managers are responsible for creating value, they should integrate HR into their work, working in partnership with HR and holding HR more accountable in delivering organizational excellence. The same is mentioned by Legge (1995) who believes that there is an enhanced role

for line managers in those organizations which hold them responsible for bottom-line results.

Jackson and Schuler (2003) refer throughout their book to the partnership approach between HR, line and employees, which they call the "HR triad" and stress everyone's responsibility in managing HR issues.

Research evidence on the devolvement of HR to the line is rather mixed.
Cunningham and Hyman (1995) stress the inherent difficulty in attempting to transfer an HR vision to employee relations.

Poole and Jenkins (1997) found that there is a greater role for personnel/HRM departments in the public sector and in larger organizations. Brewster and Larsen (2000) point to the fact that despite the ongoing debate the degree of line involvement is not so extensive.

On the other hand Thornhill and Saunders (1998) found that in an organization where the specialist HR function was completely devolved to line managers, this led to a failure to achieve effective HR management.

From the on-going debate and literature findings two major themes for discussion seem to arise:

a. What are the major changes occurring in HR and how are these affecting line management.
b. To what extent are line managers involved in decisions about HR practices such as selection, pay and benefits, training, employee relations and what are the implications of this partnership.

We will briefly examine each of these themes with special emphasis on the second one, for which we will present research findings from the Cranet Study conducted among Greek firms three times over the past decade (Papalexandris and Chalikias 2001).

Changes in HRM Affecting Line Management

The most important changes affecting HRM which have recently emerged include:
(a)   new technology;

(b)   the increase in change driven HR activities and
(c)   changing job content.

New Technology

The development of new technologies and communications systems can simplify HR and deliver HR advice and services to the line. According to Renwick and McNeil (2002), the use of organizational intranets, the Internet and HR call centres, make it possible for line managers to handle some HR work without the help of the HR department.

Furthermore, sophisticated Human Resource Information Systems (HRIS) can provide excellent service in the area of recruitment, selection, distance learning, employee benefits etc. Consequently firms tend to replace HR administrative personnel with new technologies, taking advantage of cost benefits from reduction in personnel.

Brewster and Larsen (2000) have noted that in the software industry, line managers may do all the HR work on their own. By developing a highly sophisticated HR intranet, Cisco Systems reduced the workload of the HR staff by 15-20%. Several global companies have developed very sophisticated HRIS, which provide information about all their employees around the world. Whenever openings occur, potential internal candidates can be accessed so as to fill the position. According to Jackson and Schuler (2000), the percentage of workload reduction is higher for low-level administrative tasks. However even more demanding activities such as training, staffing and career issues are increasingly using new technologies.

At the same time, new technologies lead to an increased tendency to outsource personnel matters since sophisticated technological know-how is not necessarily owned by the company, but can be operated by external providers. This means more need for coordination and involvement by line managers.

Change-Driven HR Activities

Change-driven activities such as culture change, quality enhancement, performance management and empowerment are very common especially among firms undergoing major organizational changes such as mergers and acquisitions, and the

implementation of restructuring and turnaround. These activities demand HR expertise in sophisticated services, which cannot be offered electronically, thus upgrading the role of HR specialists. In response to these changes line managers are invited to learn about HR work and take more responsibility something, which often creates tension.

Line managers facing time constraints due to other job demands are often reluctant to participate in change-oriented activities which demand work usually assigned to HR. A typical example is the friction arising when HR specialists try to introduce performance management tools, which line managers often consider time consuming and bureaucratic and HR specialists try to monitor in order to minimize biased results. Another common phenomenon is the reluctance of line managers to allow their subordinates to participate in learning events due to a lack of staff and the conflict with HR whose activities include the career development of employees.

Changing Job-Content

The amount of HR skills included in line managers' jobs can be easily detected if we look at the way the job-content of many traditional posts has changed. Modern organizations recruit for specific competencies which will help employees respond to the changing needs of the company as task and job flexibility are necessary for organizational success. Thus, among the competencies needed to perform currently available jobs, increased importance is given to HR skills such as managing relationships, leadership and communication.

These major changes create misunderstandings and gaps in the way both parties view things. In their research on the changing role of line management in the U.K., Cunningham and Hyman (1995) found that line managers tended to regard themselves as very competent in dealing both with the harder aspects of HR such as recruitment and employee relations issues as well as the softer aspects of HR such as counseling, communication, training subordinates, conducting appraisals and dealing with employee suggestions. In contrast, respondents from personnel departments felt that line managers were much less competent in dealing with such HR issues.

This difference in perception of normal activities clearly shows that the two parties view things differently due to their different professional background and points to the need for increased collaboration in order to form the most desired partnership.

The changes mentioned above point to the need to examine and redefine the role of HR and the nature of the relationship between the two parties involved in order to achieve better results and increased organizational effectiveness.

The Role of Line Managers in Greek Firms

Among Greek firms, due to their smaller size, the HR function has received attention mainly in the last decade (Papalexandris). Until recently the role of line managers in human resource management matters had not been an issue since line managers in departments such as finance, marketing, sales, and production, were also in charge of personnel and only large firms had HR departments or employed HR specialists. The fact that the HR function was not yet sufficiently developed meant that there was no question of devolving HR responsibilities to the line.

Gradually as larger Greek companies established HR departments, the responsibility for HR matters began to be, and is, shared between the HR department and the line, with the aim of achieving better coordination and integration of the HR function with other business functions.

In order to have a clearer picture of the main responsibility for various HR activities in Greece, in research conducted within the Cranet Network on Comparative HR throughout various countries, respondents from 150 firms employing more than 200 employees were asked about changes which had occurred over the previous three years.

The survey was conducted three times (in 1993, 1996 and 1999) and the specific question offered four alternative answers:

a. main responsibility to line managers;
b. main responsibility to line managers with HR department;
c. main responsibility to HR department with line managers;
d. main responsibility to HR Department.

As the results from Greek companies show, decisions on pay, training, selection and downsizing are taken in collaboration between the HR department and line managers. The only function where either HR or line plays a major role separately is that of labour relations, which is found only in the larger firms of our sample.

In more detail:

Regarding **Pay and Benefits** (Table 1), the role of the HR department has increased over the last three years. This is attributed to the need for controlling remuneration expenses as a means of securing the competitiveness of the company. Participation in salary surveys and the monitoring of salaries and benefits paid by competitors is usually introduced and implemented by the HR department, which has a better knowledge of the labour market.

TABLE 1

Major Responsibility for Pay & Benefits
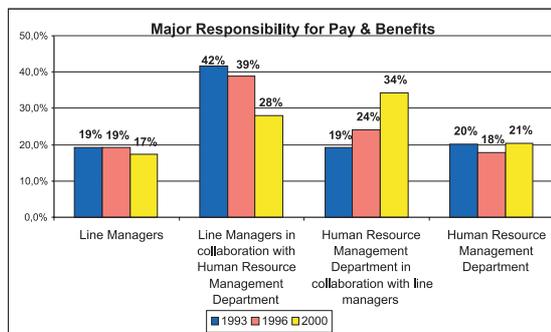
In any case, the HR department takes into consideration the opinion of the line managers, in order to suggest pay rises, especially in the IT sector, where the demand for specialized staff rapidly diversifies the rewards.

In **recruitment and selection issues**, decisions are taken in co-operation and responsibility is equally divided between HR and line managers (Table 2). There is a relative increase in the responsibility of the HR department, which could be attributed to the higher expertise that is currently needed to recruit among many good applicants. In most cases, the HR department recommends 2 or 3 persons, from whom line managers are asked to make the final selection. As reported by respondents, some problems occasionally occur especially when line managers express a preference for either under-qualified or over-qualified applicants against HR manager's suggestion.

TABLE 2

Major Responsibility for Recruitment & Selection

In **training and development** the HR department and line managers share responsibility, with HR leading the way (Table 3). This is quite normal, since the HR department possesses general information about state-funded training opportunities, the training budget and also available training resources.

TABLE 3

Major Responsibility for Training & Development
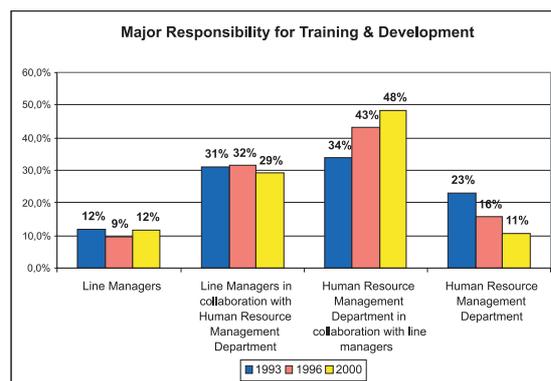
A good example of cooperation was reported by a senior executive in a large Bank undergoing restructuring. A training program was designed for all the employees who were to enter the new corporate structure. The HR department had information on the background and competencies of each employee and recommended the most suitable training according to his/her needs.

Another example of safeguarding training was reported by a respondent in a large multinational high technology company. In order to avoid the last minute cancellation of an employee's participation in a seminar due to workload, cancellation must be made at least 20 days before the seminar; otherwise the employee's direct supervisor has to bear the cost of the training program. Thus, better planning of training has to take place by everyone involved.

Labour relations appear to be the only HR function exclusively taken up either by the line, or the HR department. This could be attributable to the fact that in companies with organized trade unions, there is usually one person who is responsible for dealing with labour relations and communicating with employee representatives. This person is either a member of the HR department or a general manager with long experience in negotiations (Table 4).

TABLE 4

Major Responsibility for Industrial Relations
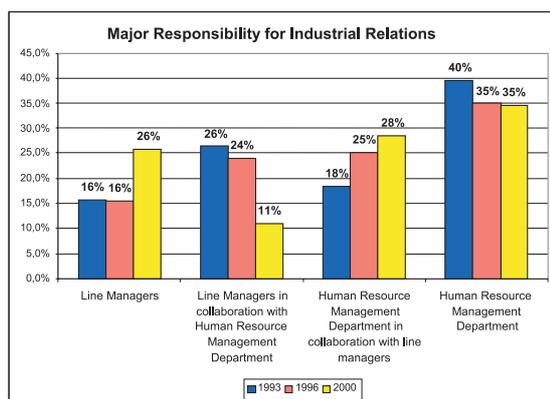
Downsizing or staff increases come as a result of collaboration by the line with the HR managers, due to the strategic importance of such initiatives. In this function there is increased collaboration, with the HR department leading the way and having the last word especially in issues of downsizing, where legal and social responsibility issues have to be taken into consideration (Table 5).

TABLE 5

Major Responsibility for Workforce Increase/ Reduction
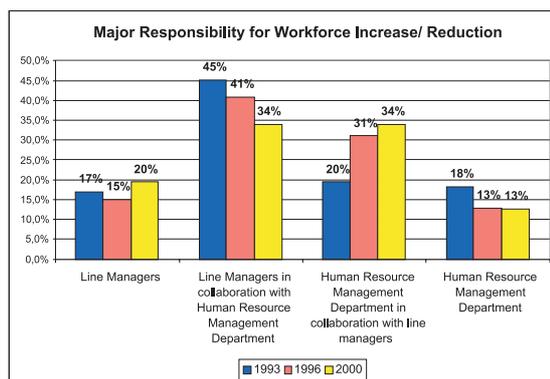
To conclude, it appears that over the last decade there have been changes in the roles of line and HR managers in Greek companies though these are not spectacular. The most important finding is that in all activities there is evidence of partnership with the following characteristics:

- HR shows an increased role in issues of rewards, training and development and the downsizing or increase of personnel.
- Line shows a small decrease in having the leading role in the partnership in all functions, except that of recruitment and selection.
- Labour relations are exclusively taken up either by the line or HR.

Given the fact that the sharing of responsibility is necessary, it is worth discussing what the obstacles to partnership are, and how these obstacles can be overcome.

Obstacles to HR-Line Partnership

Despite the emphasis given by many authors to the idea of a partnership between HR and the line and the ways this can be achieved (Ulrich 1997, 1998, 2001, Jackson and Schuler 2000), the literature, as well as every day reality shows that HR managers have not offered the necessary support and advice to line managers nor have the latter willingly accepted involvement in HR issues.

After examining the existing situation in Greece regarding this universally accepted need for partnership between HR and line management, we tried to look at the issues arising and the obstacles which have to be overcome in order to arrive at what we call a synergistic mutually beneficial relationship.

Research findings were further discussed with a small group of line managers and a small group of HR specialists from various firms. Everybody agreed that close collaboration is necessary despite obstacles which may arise from both sides.

On the part of HR managers, obstacles mentioned included:

- Fear of reduced influence or even redundancy if HR work is done by line.
- Fear of being replaced by HRIS due to cost-reduction exercises and improvements in technology.
- Difficulty in training line managers to participate in and adopt appropriate ways of handling employee matters and constant auditing.

- Lack of competence or willingness of line managers to assist in HR designed activities such as career development, training, performance appraisal etc.

On the part of line managers, obstacles mentioned included:

- Pressure to introduce new HR practices which are time consuming, or difficult to apply
- Responsibility for HR applications and fear of being criticized for poor performance.
- Fear of neglecting the demands of the main job due to the extra burden from HR issues.
- Fear of disputes with subordinates especially in decisions relating to performance related pay and career development.
- Poor advice from HR specialists, which may lead to lower employee performance.

All respondents recognized that these issues have to be addressed and that these obstacles have to be overcome since close partnership is so important in order to achieve synergies. There was general agreement on the need for more training for all managers in HR issues and more professionalism among HR managers. To this end, the need to further develop academic or professional education programs in HRM was stressed.

Conclusions

Line managers have traditionally been involved in people's issues as part of their job while administrative employee matters were the responsibility of Personnel. As sophisticated HR tools are introduced and the strategic importance of HR is realized, HRM activities are assigned to specialists and personnel departments change in their role and scope. With changes in job-content and the increase in change-driven HR initiatives, line managers are today required to conduct a series of people-centered tasks in their jobs; not in the traditional common-sense way but on the basis of strategic HR planning and in close collaboration with internal or external HR specialists. In order for both parties to realize the need for partnership, the mutual benefits of such a partnership, not only for the company but also for HR and line managers should be stressed.

For HR managers it is important to devolve HR work to the line in order to be able to take up a strategic HR role (Kelly and Gennard 2001), or at a later stage an international HR management role, as the firm's scope and operations become increasingly international (Brewster *et al* 2001).

In order to do that they need to design and adopt practices on a joint basis taking into consideration all the peculiarities of the company's organizational culture and provide close expertise and advice to the line for their implementation. Only then will HR practices be successful and the HR function increase its credibility and be upgraded to the most desired position of a strategic partner.

For line managers it is of even greater importance to successfully implement HR principles and practices since they can add value to their employees by increasing their motivation, improving their morale and enhancing their performance, thus showing better results for their unit. Furthermore, line managers' careers are enhanced as they develop more HR competencies and as more HR work is incorporated in their daily routine, thus improving their career prospects and providing them with a more holistic view of management.

Research findings from Cranet in Greece but also from other E.U. countries show a high percentage of sharing in most HR activities. This being so, it is a major responsibility for all partners to offer training opportunities to improve collaboration, such as joint training, common projects and team assignments. These initiatives will help both parties improve communication, remove possible barriers to collaboration and achieve the necessary synergies which add value not only to the company but also to the careers of everyone involved.

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European HRM Clusters

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Abstract

Based on a contextual paradigm, this article identifies clusters of European countries in which HRM can be seen to take distinctive forms. Unlike some studies that have clustered European countries according to their cultures and socio-political regimes and thereby drawn inferences on the behaviour of organisations, in our analysis the institutional and behavioural variables are dealt with directly. Using the Cranet-E database, we have created 52 indexes to which Ward's clustering method was applied. Twenty-four European countries were grouped into four distinctive clusters, with each having different HRM models. There is the Central Southern cluster with the HRM model of low intensity, the Nordic cluster with the employee-oriented HRM model of medium intensity, the Western cluster with the professional HRM model of high intensity, and the Peripheral cluster with the management-focused model of medium intensity. To some extent, these clusters and models can be compared to and explained by the North-West versus South-East cultural division, and less well by the distinctive socio-political regimes involved.

Theoretical Background

The starting point for our analysis is the situational or contextual paradigm of HRM as described by Larsen and Brewster (2000, 11-16) and by Mayrhofer, Brewster and Morley (2000, 5-22). They oppose the universalistic paradigm of HRM that is common in the USA, saying they '…believe that HRM is understood differently, researched differently and is, in practice, conducted in quite distinct ways in different countries and circumstances' (Larsen and Brewster, 2000, 12). It seems that comparative analysis is fully justified only within the contextual paradigm. The units of observation (e.g. countries, industrial branches and organisations) are not compared to and evaluated against the one and only and best model, but can form distinctive clusters, each of which can have a consistent structure and serve well in its own specific environment.

Brewster and Larsen (2000, 24-26) argue that HRM in Europe differs to that found in the rest of the world. Within Europe various clusters can also be found such as, for example, the Northern European one. For these authors, what creates these differences between European HRM and those outside Europe, and perhaps also between different European HRM clusters, is primarily the result of contextual factors: the culture that shapes the system of formal institutions, such as ownership structure, legislation and patterns of participation. Other authors like Bratton and Gold (1999, 75-94) point to other contexts (e.g. economic, technological, political and social) noting it is very likely the last two of these vary between countries and regions.

In management literature, political and cultural contexts seem to be the most studied alongside the economic and technological ones, which in the process of globalisation are increasingly considered to be universal. The best known study of European political contexts was made by Esping-Andersen (1990), who analysed different welfare regimes and clustered (mainly European) countries accordingly. He examined the roles of different social actors: individuals, families, non-governmental voluntary organisations, commercial organisations, the state and quasi-state institutions in the provision of social security and social services. In particular, he studied the structure and functioning of labour markets. His study identified three distinctive welfare regimes.

A 'Liberal' regime dominates in countries such as the USA, UK, Canada and Australia. It assumes

that individuals are responsible for their well being through their active participation in the labour market. They can only count on modest public assistance in extreme cases of failure. A 'Conservative corporatist' regime prevails in Central European countries such as Germany, Austria, France and Italy. Here, the well being of individuals is a shared responsibility of public insurance systems, occupational welfare provision and the family.

A 'Social democratic' regime exists mainly in the Nordic countries. Its main characteristic is universal public insurance programmes aimed at achieving high standards of well being, the entitlement to which is based on full employment and citizenship. Hollinshead and Leat (1995) cluster countries according to their ideological perspective. They distinguish liberal individualism, corporatism and liberal collectivism, which correspond to Esping-Andersen's regimes, respectively.

Among the cultural context studies, Leat (1998, 4-16) presents those of Hall and Hall (1990), Trompenars (1993) and Hofstede (1994). The best known and most influential are Hofstede's (1994) four cultural dimensions: power distance, uncertainty avoidance, individualism versus collectivism, and masculinity versus femininity. Hofstede's approach was used in a global study on 'National culture and leadership profiles in Europe' (Koopman, Den Hartog and Konrad 1999). The results do not match those obtained by Hofstede due to differences in sampling, operational definitions and the countries involved. They sorted European countries into two groups with respect to their cultures. Here, there is the North Western group composed of England, Ireland, the Netherlands, Sweden, Denmark, Finland, Germany, Austria and Switzerland, and the South Eastern group comprising France, Italy, Spain, Portugal, Greece, Turkey, Hungary, Czech Republic, Slovenia, Poland, Russia, Albania and Georgia. The outstanding characteristics of the first group are their collectivist orientation and high uncertainty avoidance, while the second group reveals high power distance.

In the cultural context studies, further steps have been taken when clustering countries on the basis of cultural dimensions only. Using the power distance and uncertainty avoidance dimensions, Hofstede (1991) suggested four ideal organisational models that would be characteristic of different European countries. These are: the family, the pyramid of people, the well-oiled machine and the village market. While the first has no representative in Europe; the second is found in Belgium, France, Greece, Italy, Portugal and Spain; the third in Germany, Austria and Finland and the fourth in Denmark, Ireland, the Netherlands, Sweden and the UK. Similar frameworks were proposed by Trompenars (1993) using centralisation versus decentralisation and formal versus informal dimensions. In addition, other authors dealing with this issue should not be overlooked (see e.g., Brewster and Larsen 2000, 29).

In spite of some similarities seen in the results of various clusterings of European countries according to their cultural and political contexts, there are in fact several differences. These can be justified by differences in conceptualisation, operational definitions, the methods used and countries involved. However, one feels relatively uncertain when trying to estimate what kind of individual or organisational behaviour can be expected in different cultural and political surroundings. Hofstede's and Trompenar's models of organisational behaviour have still not been fully proven.

The explicit assumption of a contextual approach is that country-specific factors influence the behaviour of individuals and organisations thereby causing differences in HRM institutional settings, strategies and practices. For instance, culture 'has some point of contact with values and attitudes and, in turn, with the behaviour that they generate' (Leat 1998, 4). Similarly, social policy regimes shape labour markets and employment relations to which organisations then adjust accordingly. They model HRM in line with the different social, cultural, political and institutional settings and HRM simultaneously makes its contribution in the adjustment of organisations.

Our aim in this article is to use the comprehensive Cranet-E data (1999-2001) to analyse the HRM behaviour of organisations in the majority of European countries. The main hypothesis is that, while European medium-sized and larger organisations (over 200 employees) put a different emphasis on HRM strategies and apply different HRM practices, which can be highly country-specific, there are significant similarities within groups of countries. We will show that in the European region there are different clusters of countries characterised by similar HRM strategies and practices. On

the basis of the analysis of country clusters, we will examine eventual HRM models.

There are certain limitations on this, necessarily exploratory, exercise. The units of analysis are specific countries in terms of the average values of indicators that describe the HRM situation and practices of the representative samples of their medium-sized and larger organisations. The results are not controlled for size and other organisational characteristics, nor for economic sectors, which could lead to different results. For instance, it is likely that observing HRM in public administration would create common clusters comprising different countries to when observing HRM in the private, commercial sector. The average values for each country conceal the differences between regions within a country, which may be important when the clusters are observed and analysed. However, these specifics can be studied later.

Methodology

The Data and Variables

Data from the Cranet-E[1] database is used in this analysis (Brewster, Mayrhofer and Morley 2004). The Cranfield network on European HRM was established in 1989 and is the only major survey focused on the organisational level (covering issues such as: the human resource function, human resource management strategy, recruitment and selection, training and development, pay and benefits, employee relations and communication, flexibility and equal opportunities, etc.) rather than the workplace or overall economy level. The most recent data (from the 1999-2000 survey)

for 24 European countries[2] is used. The data is transformed into 52 indicators. Some indicators have been synthesised into composite indexes. We assume that both well represent the HRM strategies and practices in the wider European area. The Cronbach Alpha internal consistency test for all 52 indicators has a value of 0.76. A detailed description of the indicators can be found in Appendix 1.

The Method - Cluster Analysis

Cluster analysis[3] is one of the complex methods used in systematic research and it is especially

useful for multidimensional analysis[4] in which we search for cases with significant similarity. The result is maximum possible homogeneity (minimum variation) within each cluster. Cluster analysis starts with the maximum number of groups (e.g. each case represents its own group) then, on the basis of the (dis)similarity matrix, it consecutively combines the two most similar cases until all cases are combined. The most similar cases are joined in the earlier steps while, on the other hand, the least similar cases are joined together at the end of the clustering, in the last steps.

Using the squared Euclidean distance as a measure of dissimilarity between the cases and Ward's hierarchical method for clustering (usually most suitable for an unknown pattern of arrangement between cases) of the (dis)similarity between the cases, we obtain certain results that are usually visually presented in the form called a dendrogram. Once again, cases joined together nearer to the left end of the dendrogram are more similar than the cases joined together nearer to the right end of the dendrogram. To complete the analysis one must arbitrarily, at the end, on the basis of the distances between cases in the matrix, select the cut-off point that would put the cases into the most suitable number of groups.

It should be pointed out that the connections presented between countries (within groups and between them) are more relative than absolute. This means that countries appearing within a particular group are more similar than others according to the variables used in the clustering, but the

differences between them may still be important[5]. The appearance of a new country in the analysis or the inserting of new variables can (but not necessarily) slightly alternate the current positions and links between countries.

In analysing each country cluster, we checked with the discriminant analysis for the average values of variables in the cluster compared to the overall averages. In addition, principal component (factor) analysis was used to single out those variables

which can explain most of the characteristics (the biggest share of variance) of each cluster. We also sorted out into 13 distinct groups all 52 indicators, the obtained values for which are presented in Appendix 2. The grouping of indicators is presented in the interpretative Table 1. The ranking of values of indicators/indexes within each group is made and a high, medium or low value for the whole group is ascribed on that basis.

Analyses

Ward's method of clustering, which we applied, allows for some flexibility in interpreting the results. As shown in Dendrogram 1, the 24 European countries observed can be divided into two big clusters at the most general level when using all 52 indicators. Roughly speaking, we get South-East and North-West clusters. The result is not far from that obtained by the 'National culture and leadership profiles in Europe' study (Koopman, Den Hartog and Konrad 1999). Of 19 countries included in both studies only four are placed in different groups. In our analysis, Ireland, Germany and Austria go into the South-East group and France into the North-West, whereas in the cited study the opposite is the case. With the exception of Ireland, this repositioning seems consistent from the geographical perspective. In the case of Germany, it should be emphasised that both Eastern and Western parts are placed in the same cluster in our analysis. If this explanation is accepted, it may be hypothesised that HRM is significantly culturally determined.

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* * * * * * H I E R A R C H I C A L   C L U S T E R   A N A L Y S I S * * * * * *

 Dendrogram using Ward Method

                                    Rescaled Distance Cluster Combine

            C A S E           0         5        10        15        20        25
        Label            Num   +---------+---------+---------+---------+---------+

        Germany            3   ┐
        Austria           18   ┤
        GDR               15   ┤
        Spain              5   ┤
        Czech             17   ┤
        Slovenia          24   ┤
        Italy              8   ┤
        Portugal          13   ┤
        Bulgaria          20   ┤
        Estonia           23   ┤
        Greece            16   ┤
        Cyprus            21   ┤
        Ireland           12   ┤
        Northern Ireland  22   ┤
        Turkey            11   ┤
        Denmark            6   ┐
        Finland           14   ┤
        Norway             9   ┤
        Sweden             4   ┤
        UK                 1   ┤
        Switzerland       10   ┤
        Belgium           19   ┤
        The Netherlands    7   ┤
        France             2   ┘
```

Dendrogram 1. European HRM Country Clusters

Looking at Dendrogram 1, we suggest, however, that we distinguish four country clusters in order to take into account more subtle differences between various HRM situations and practices. Using geographical terms, one could draw a distinction between the:

Central Southern cluster with Germany, Austria, Spain, Czech Republic, Slovenia, Italy and Portugal;
Peripheral cluster with Bulgaria, Estonia, Greece, Cyprus, Ireland, Northern Ireland and Turkey;
Nordic cluster with Denmark, Finland, Norway and Sweden; and
Western cluster with the UK, Switzerland, Belgium, the Netherlands and France.
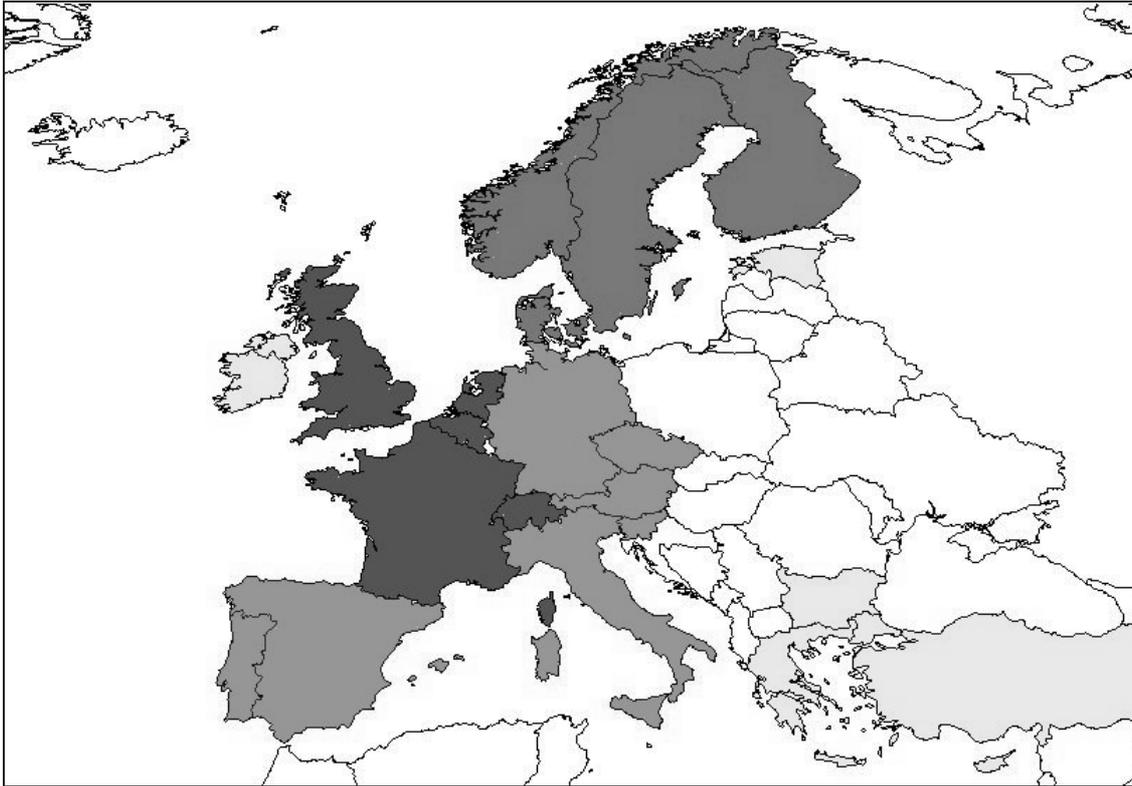
Figure 1. European HRM Country Clusters.

From the geographical perspective, the clusters then obtained seem consistent with the exception of the second one which is also, when observing the dendrogram and standard deviation for variables in the cluster, the least homogeneous. Ireland and Estonia are in this peripheral group.

The placement of Estonia can perhaps be explained by its eastern geographical position and shared past with Bulgaria within the Eastern bloc and communist regime. In the dendrogram these two countries are put together. Bulgaria is, in addition, not far away from the two other countries in the group with an Orthodox tradition, namely Greece and Cyprus. The position of the two Irelands, which in various variations of the analysis come together with Turkey, is more puzzling. What all

these countries share in geographical terms is their peripheral position on the outskirts of Europe.

The Central Southern cluster is most homogenous, where the greatest similarity can be observed between (West) Germany and Austria. The Nordic cluster is the second most homogenous one. The Western cluster is not far behind, where the UK and Switzerland show the greatest similarities and France demonstrates the most specific nature. We explain the characteristics of the identified clusters by pointing out their idiosyncrasies.

The Central Southern cluster reveals the greatest similarity to the average values. For 20 out of the 52 indicators it deviates by less than 5% from the average. In no case do the values deviate by more

than 50%, and in only four cases is the difference more than 25%. The values of 28 indicators differ by between 5% and 25% from the average.

The principal component analysis singled out four factors explaining all the variance. The first factor explains 39.3% of variance. If we focus just on the variables with a value of 0.75 or more, this factor shows that organisations in the Central Southern cluster operate in a relatively stable and inflexible environment being inflexible and focused on in-company labour markets. Managers responsible for HRM are often members of management boards and involved in the preparation of a business strategy from the outset. However, formalisation of the mission statement and company strategies is below average. HRM departments are very poorly staffed in terms of numbers of experts per 100 employees, they use more straightforward HRM methods and seldom directly involve employees in their HRM practices.

The second factor explains 27.2% of variance. It confirms the importance of the in-company labour market with some more variables, such as the very limited utilisation of external services and recruitment of a personnel manager from within the organisation, and confirms the low variety of HRM methods used in selection and evaluation procedures. Its added value is the accent on employees' representative bodies stressing the importance of indirect democracy.

The third factor explains 17.7% of variance. It points to the great number of organisations that have HRM departments, which are frequently evaluated. However, it confirms that only a small variety of HRM methods are used, in this case for training needs analysis, as well as the decreasing temporal flexibility of employment.

The fourth factor explains 15.7% of variance. It focuses on low internal flexibility in terms of weak training and retention policies. It also points to centralised HR policy-making and the relatively low level of involvement of management in HRM.

The overall image of the Central Southern cluster is that HRM is situated in a relatively stable organisational environment characterised by low employment dynamics, low employment flexibility and internal labour market orientation. It seems that HRM does not contribute much to the dynamism of organisations. The utilisation of professional HR

methods, systems and evaluation is quite limited in comparison to the average. HRM is integrated into general management by the membership of the person responsible for it. However, it remains professionally weak and neglects the development and training of employees, as well as their active role in HRM systems and procedures. HRM is also not the priority of managers.

The Peripheral cluster shows less similarity to the average values of indicators than the Central Southern one. Eleven indicators do not differ by more than 5%, one differs by more than 50%, six by between 25% and 50% and 34 by between 5% and 25%.

Due to their greater heterogeneity, factor analysis singled out seven factors in which the variables have somewhat lower values. We will comment on the first four factors that together explain 75% of variance, and focus on those variables having values of 0.66 and more.

The first factor explains 22.9% of variance. It accentuates well-staffed (in terms of numbers) HRM departments and functional flexibility (Atkinson, 1986) in terms of spending a significant share of money on training selected groups of employees, particularly managers, and giving special attention to retraining and remuneration policies. It also shows that the mission statement and strategies tend to be less often formalised than the European average.

The second factor explains 21.1% of variance. It speaks about the dynamic environment of organisations in terms of employees coming and leaving, and about the emphasis on evaluations of the personnel department and the effects of training. Otherwise, it confirms the importance of training in terms of long training courses.

The third factor explains 16.7% of variance. It suggests that employees are not briefed as to decision-making on strategies, financial matters and the organisation of work and that they do not participate in performance appraisal. It also shows that a great variety of selection methods are used.

The fourth factor explains an additional 14.3% of variance. It reveals that the responsibility for HRM lies with the line management and that few organisations have workers' representative bodies. Salaries for managers are relatively centrally determined.

A general picture of the Peripheral cluster is that organisations operate in a dynamic employment environment, to which they respond selectively with an emphasis on training (functional flexibility), while the temporal and spatial flexibility of employment remain very low. HRM is predominantly in the hands of general and line managers, who make decisions centrally, are helped by relatively numerous, presumably administrative HR specialists and do not pay attention to either the direct or indirect involvement of employees in HR policy and practices. HR experts have quite a low status in the organisations, although they are making efforts to implement a variety of new professional methods.

The Nordic cluster shows differences with respect to the average values, which are of the same order as the Peripheral one. There are 13 indicators with insignificantly different values. However, in eleven cases the differences are greater than 25% and in one greater than 50%. The values of 27 variables differ by between 5% and 25%.

Factor analysis singled out only three factors explaining all the variance, which indicates the high homogeneity of the countries' HRM. Only variables with values greater than 0.80 will be examined.

The first factor explains 44.3% of variance. It reveals that organisations have written rather than unwritten HR policies; for which the line management is made responsible. The involvement of a top HR manager on the management board is common. The second message is the low emphasis on performance appraisal. Policy-making on HR and wages is decentralised. There is a high emphasis on the spatial flexibility of employment and on spending on employee training. This perhaps goes hand in hand with low labour turnover.

The second factor explains 29.4% of variance. It stresses workers' representation and the briefing of employees during decision-making on strategy, finance, the organisation of work and appraisal of HRM. It also reveals the importance of internal flexibility through complex career and development measures and the training of many employees. Training is assumed to be valuable and less often evaluated.

The third factor explains 26.3% of variance. It gives additional information on Nordic HRM,

where HRM departments are less than proportionally staffed, the responsible people are involved in developing strategies from the outset and, interestingly, that the organisations are less focused on specific (marginal) groups of employees in their recruitment than elsewhere. It is again confirmed that organisations stress retraining and remuneration policies and that they prefer shorter training.

The main message coming out of the Nordic cluster is perhaps the outstanding involvement of employees in HRM and other organisational issues. This orientation goes hand in hand with the high formalisation of policies and strategies, and decentralised decision-making. The second specific feature of the Nordic cluster focuses on organisations' HRM on employee training and development and the increase of spatial flexibility along with relatively modest labour turnover. Line management and the head of the HRM department take significant responsibility for HRM. Both are helped by quite small, but professionally well-equipped HRM departments. It seems that small HR departments and a highly participative approach increase trust and reduce the need for appraisal and evaluation.

The Western cluster deviates the most from the average. Only in 7 indicators are the values insignificantly (less than 5%) different. In 10 cases, they differ by between 25% and 50%, and in 3 by more than 50%. The values of 32 variables differ by between 5% and 25%.

The factor analysis gave six factors, three of which we will interpret as they explain 73.8% of variance. Variables with the values 0.75 and more will be taken into account.

The first factor explains 30.1% of variance. It reveals that organisations in this cluster have highly formalised mission statements, strategies and policies. The HR manager is frequently on the main management board. Organisations use external HRM services extensively. The views of employees are taken into account in appraisal of the HRM department. Performance appraisal is used particularly for management. They systematically analyse training needs, send increasing numbers of employees for training and strengthen the importance of internal training. A variety of selection methods is used.

The second factor explains 23.9% of variance. It shows that HR managers, who are frequently recruited outside the organisations, take a consultative role in strategic management apart from their initial involvement. Employees are appraised by their superiors but their own views are also taken into account. Employees are briefed about the strategy, finances and organisation of work. These organisations often use complex career schemes.

The third factor explains 19.7% of variance. It reveals that organisations in the Western cluster often have representative bodies of workers. They recruit internally less often, and therefore, recruit externally more than average. Their turnover is low and they are raising the spatial flexibility of employment.

Organisations in the Western cluster operate in a stable environment to which they are highly open. This includes their recruitment and training practices, as well as the use of external HRM services. Training of employees is stressed. Unlike other clusters, in the Western cluster great attention is paid to marginal groups. Practically all organisations have their own HRM departments, which are well represented on the management boards. They are not overgenerous in their staffing. However, in combination with the external services, which seem to be well supplied in the market, they apply the greatest variety of HRM techniques, methods, analyses and evaluation, and formalise strategies and policies. The direct and indirect involvement of all groups, including employees and managers, in HRM and beyond is emphasised. Of all those involved, professionals seem to play the crucial role.

General Observations

When looking at the grouped indicators and their summarised values presented in Table 1, some general observations can be made.

The indicators showing whether organisations have special departments and/or managers for HRM, the number of HRM specialists per 100 employees, the representation of persons responsible for HRM on the management board and their involvement in the business strategy as well as respect for the HR department's views in its performance evaluation were used to describe the status of HRM within organisations. On this basis one can conclude that the highest status of HRM is found in the Western

and the Northern clusters, where in the first case the emphasis is on professional expertise and in the second on the role of managers. The lowest status is found in the Peripheral cluster, while the Central Southern cluster falls somewhere in between.

Organisations report on the widely utilised practice of HRM policy-making and about their having a mission statement, and business and HRM strategies. However, significant differences do exist with respect to the formalisation of either policies or strategies. Formalisation tends to be highest in the Nordic and Western clusters, but much lower in the Central Southern and Peripheral ones. One can ascribe these differences to cultural traditions, which tend to accentuate formalisation in the North-West of Europe and remains more informal in the South-East.

The involvement of managers in HR and organisational issues seems quite significant with not much difference seen between the clusters. A special case is the Nordic cluster where management takes the greatest amount of responsibility for HR policy, but is least involved in evaluation of the HR department and performance appraisal. This is because formal evaluation and appraisal in organisations in Nordic countries is practised relatively rarely.

The indexes measuring the involvement of employees in HR and organisational issues give quite a clear picture. Taken together, one can speak about highly participative HR models in the cases of the Nordic and Western clusters, and relatively weak participative ones in the cases of the Central Southern and Peripheral clusters.

Table 1. HRM Characteristics of Country Clusters

COUNTRY CLUSTERS INDICATORS	CENTRAL-SOUTHERN	PERIPHERAL	NORDIC	WESTERN
Position and status of HRM (1.1, 1.2a, 1.3.1, 1.8a, 1.8b, 1.10c)	Medium	Low	High	High
Accent on formal HR policies and strategies (1.6a, 1.6b, 1.7a, 1.7b)	Medium	Medium	High	High
Managers' involvement in HRM (1.10a, 1.13, 3.12a, 5.5a)	Medium	High	Medium	High
Employees' involvement in HRM (1.10b, 3.12b, 5.3, 5.5b)	Low	Low	High	High
Centralisation of HR policy-making (1.12, 4.1a, 4.1b)	High	High	Low	Medium
LM orientation (1.2b, 1.5a, 1.5b, 2.3a, 2.3b, 2.5a, 2.5b)	Internal	Internal	Balanced	External
Training market orientation (3.9a, 3.9b)	External	External	Balanced	External
Focus on marginal groups (2.7, 2.8)	Low	Low	Low	High
Focus on managers (3.2a, 3.11a, 4.3a)	High	High	Medium	High
Focus on employees (3.2b, 3.11b, 4.3b)	Medium	Medium	Low	Medium
Employment flexibility policies (2.1a, 2.9a, 2.9b, 2.10a)	Weak	Weak	Strong	Strong
Training policies (3.1a, 3.1b)	Weak	Medium	Strong	Strong
Analyses, appraisal, evaluation (1.9, 2.6, 3.3, 3.4, 3.6, 3.7, 3.8, 3.13)	Poor	Medium	Poor	Medium

Decision-making on HR policy and practice appears to be quite centralised in the Central Southern and Peripheral clusters, relatively decentralised in the Nordic cluster and at a medium level in the Western one.

As far as the use of recruitment and HR services is concerned, organisations in the Western cluster are the most oriented to the external market, while organisations from the Central Southern and Peripheral clusters are the most oriented to internal markets. Organisations from the Nordic cluster are in the middle. In terms of training markets, an orientation to the external segment is most accentuated in the Central Southern cluster and least in the Nordic one.

There are three specific groups that can be examined with respect to the attention they are paid by HRM: managers, other employees and marginal groups. The concentration on marginal groups makes a clear distinction between the Western

cluster, where it is high, and the other three clusters with much lower values for the respective indexes. In all the clusters, HRM pays more attention to managers than to the other groups of workers, which seems understandable from the perspective of the status of their core employees. However, we can observe an 'egalitarian approach' in the Nordic cluster where HRM tends to single out any specific group less than elsewhere.

It seems that organisations choose either high turnover or the high spatial, temporal and functional flexibility of labour. One may notice a split between flexibility-oriented employment practices in the Western and the Nordic clusters and the low-flexibility orientation in the Central Southern and Peripheral ones. Extremes are represented by organisations of the Western and Central Southern clusters.

There is a somewhat higher emphasis given to analyses, appraisal and evaluation in the Western

and Peripheral clusters than elsewhere. These are least widespread in the Central Southern cluster. However, variation in the use of methods is not high anywhere, especially not outside of the training area.

It is interesting to observe that the high involvement of managers in HR and organisational issues in the Western cluster does not prevent the involvement of employees, as seems to be the case in the Peripheral cluster. The Western cluster demonstrates the most emphasised and balanced sharing of roles and responsibilities between professionals, managers and employees. Equally interesting is that the modest involvement of managers in the Central Southern cluster does not provide room for the participation of employees, as is the case in the Nordic. This perhaps also explains why there is no specific focus on employees in the Nordic cluster. The high involvement of managers in HRM is no guarantee for its high status in the organisation as the Peripheral cluster demonstrates. The status of HRM seems to increase along with its orientation to the external labour and training markets because managers and professionals are in charge of shrinking insecurity coming from outside the organisation.

One could expect the close interdependence between employment flexibility, including training, and an orientation to the external labour market. The data supports this expectation. High flexibility and a strong emphasis on training in the Western and Nordic clusters correspond with their external labour and training market orientation. Further, in the Nordic cluster even the balanced external-internal labour and training market orientation allows for flexibility. Higher flexibility also correlates with the greater formalisation of HR policies and strategies. These relationships are to be studied further.

When comparing clusters to each other, one can observe the greatest similarity between the Central Southern and Peripheral ones while, on the other hand, the Nordic and Peripheral clusters differ the most.

Conclusions

We identified four distinct clusters of European countries in which medium-sized and larger organisations apply cluster-specific HRM strategies and practices. Applying Ward's method produces sensible groups of countries from the geographical

perspective. The exception is the Peripheral cluster, which could figure as an Eastern cluster if Ireland were not included. However, the method itself is based on the similarities between the analysed cases measured by selected indicators. There is no doubt that Ireland is most similar to the countries in this group and not to others. The underlying reasons for this should be the focus of later research.

We have noted the relatively high match between our statistically derived clusters and those obtained in the 'National culture and leadership profiles in Europe' study (Koopman, Den Hartog and Konrad 1999) where, in both analyses, North-West and South-East clusters emerged. One can observe that high power distance in the South-East group of countries is compatible with centralised HR policy-making and low employee involvement in HRM practices obtained in our analysis for the Central Southern and Peripheral clusters. The relatively lower formalisation of HR policy and strategy is also in line with the emphasis on informal regulation in the South-East.

A socio-political explanation of the clusters we obtained could have some relevance, although Esping-Andersen (1990) and Hollinshead and Leat (1995) are not exhaustive in listing the countries that would fall within singled out clusters. In their classification, the 'liberal' regime remains pretty empty as far as European countries are concerned. Organisations in our Western cluster could be influenced by the liberal regime in terms of their strong orientation to external labour markets and high employment flexibility. The involvement of all groups of employees in dealing with HRM issues could tell us about 'everybody having a chance' and the role in the organisation. Their focusing on marginal groups can perhaps be explained by the fact that, unlike other socio-political regimes where welfare systems take this role, in the liberal context the responsibility for marginal groups is shifted to the organisations.

The corporatist regime or Roman-German model is quite well matched with our Central Southern cluster. This regime, stressing social partnership, may influence organisations to focus on internal labour markets and maintain low employment flexibility. The best matching is seen in the Nordic cluster with its social-democratic dimension. This characteristic of the organisations' environment can account for the high involvement of employ-

ees in HRM, decentralised decision-making and employment flexibility. These characteristics point to a different nature of corporatism in the social democratic regime as opposed to the conservative corporatist one. No clustering deals with the Peripheral group.

Comparisons with the clustering of European countries according to cultural and socio-political variables lead us to the tentative conclusion that, at the general level, the behaviour of organisations in the field of HRM is culturally influenced while, at the more concrete level, differences in socio-political environments also matter. Further analysis, such as that made by Wood and Brewster (forthcoming) on national business systems, is needed to confirm this thesis.

Towards HRM Models

The analysis of the principal components within each cluster gives a finite number of factors with high eigenvalues, which indicates their internal consistency. This especially applies to the Nordic and Central Southern clusters and less so for the Western and Peripheral. On this basis, one may conclude that not only does regional proximity, cultural and socio-political backgrounds characterise the clusters, but they also demonstrate certain characteristics in terms of HRM models.

HRM has a medium status in the Central Southern cluster. The involvement of managers and employees in HRM activities is medium to low. The utilisation of analyses, appraisal and evaluation is low. Policies regarding flexibility, including training, is weak. HRM is primarily oriented to the internal labour market. HRM's high focus on managers and the high centralisation of decision-making in this field indicate that general management dominates, although it does not give human resources high priority. HRM is integrated into general management through its senior manager. However, it remains professionally weak. In the Central Southern cluster, HRM can be described as **HRM of low intensity**. It mainly serves to give administrative support to the (top) management.

In the Peripheral cluster HRM has a low status in spite of the well-staffed HR departments, high involvement of and focus on managers and relatively strong emphasis on the use of analyses, appraisal and evaluation. HRM is oriented to the

internal labour market, is centralised and, apart from training, gives little emphasis on flexibility. Employees, in particular, are excluded from HRM practice. In the Peripheral cluster, HRM can be described as **management-focused HRM of medium intensity**. It shows similarities to the leadership model described by Driver, Coffey and Bowen (1988).

In the Nordic cluster HRM has a high status. Although HRM is well represented on the management board and managers take responsibility for HR decisions, their involvement in several HRM activities and the concentration of HRM on managers is not high. Instead, the participation of employees is accentuated. HRM keeps a balance between the internal and external labour and training markets and seeks high employment flexibility as well as the training and development of employees. Employee involvement in HRM and flexibility policy is enabled by the decentralised decision-making. Appraisal and evaluation do not seem popular. In the Nordic cluster, **employee-focused HRM of medium intensity** can be identified. It may also be described as 'humanistic' (Driver, Coffey, Bowen 1988), which assists in the initiation and carrying out of change in the organisations (Ulrich 1997).

In the Western cluster HRM enjoys a high status. The involvement of managers and employees in HRM practices as well as HRM's concentration on these groups is high. HRM is oriented to the external labour market including the use of external services, seeks high employment flexibility and invests a lot in training. Professionals are given an important role. Special attention is paid to marginal groups. The description of HRM in the Western cluster gives a kind of balanced 'HRM textbook picture'. One can speak about **HRM of high intensity** and about a professional HRM model having the role of a 'strategic partner' to senior management (Ulrich 1997).

It seems that our analysis confirms the plausibility of the contextual paradigm. Different HRM models exist in different country clusters, each of which is justified within its own context. This does not mean that some models do not have stronger appeal than others. From our normative perspective as Slovenians, and given the increasing emphasis on human resources, one would hope that HRM in the Central Southern cluster will be paid more

attention by management in order to become more professionalised and participative. Further developments in terms of the involvement of employees and professionalisation are also desirable in the Peripheral cluster.

A picturesque scene of managerial models has already been identified in Europe (Brewster, Larsen 2000, 29). In our analysis, we were interested in going beyond the normative models often dealt with in HRM literature (see e.g., Legge 1992). We checked for the empirical models that have evolved in the practice of organisations facing HRM issues internally and in their environments and responded to them. We tried to take advantage of the Cranet-E data referring to a large number of countries, organisations and variables. Further examination of HRM models should perhaps eliminate countries and focus directly on the organisations involved.

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Notes

[1] The Cranfield Network on European HRM.

[2] The selected countries are: Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, GDR, Germany, Greece, Ireland, Italy, Northern Ireland, Norway, Portugal, Slovenia, Spain, Sweden, Switzerland, The Netherlands, Turkey, and the UK.

[3] 'The scope of the cluster analysis is to find stable and objective classifications. Stable in the sense that the clusters acquired would be only marginally changed if: (a) new cases were added in to the matrix; (b) new variables were added in to the group of variables used in clustering; or (c) intrusive mistakes were applied on some of the values of the variables used. In our case, objectivity could be defined as the repetition of the result.' (Ferligoj, 1989, 29)

[4] Cluster analysis shows the cross-section of the situation in a particular area of interest at a particular point of time. However, if it is used regularly it can also be a tool for the longitudinal analysis of

trends showing the transitions of units of clustering from one group to another over time.

[5] Differences can be confirmed or denied by checking the standard deviations for each variable for a particular group or by moving the cut-off point more to the left, which would reduce the differences (standard deviation) between the remaining cases but, at the same time, would increase the number of clusters/groups.

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Appendix 1 - Variables Description:

Position and status of HRM

1_1 – percentage of organisations with a personnel or human resource department/manager

1_2a – average number of people employed in the personnel/human resources function per 100 employees in an organisation

1_3.1 – percentage of organisations in which the head of the personnel/human resources function has a place on the main Board of Directors or the equivalent

1_8a – percentage of organisations in which the person responsible for personnel/human resources is involved in developing the corporate strategy from the outset

1_8b – percentage of organisations in which the person responsible for personnel/human resources is involved in developing the corporate strategy through consultation

1_10c – percentage of organisations in which the views of the HR department are considered when evaluating the performance of HRM

Emphasis on formal HR policies and strategies

1_6a – index – cumulative average of organisations having a written policy for 8 management areas per organisation (A+B+C+D+E+F+G+H)

1_6b – index – cumulative average of organisations having an unwritten policy for 8 management areas per organisation (A+B+C+D+E+F+G+H)

1_7a – index – cumulative percentage of organisations having a written mission statement, corporate strategy and personnel/HR management strategy (A+B+C)

1_7b – index – cumulative percentage of organisations having an unwritten mission statement, corporate strategy and personnel/HR management strategy (A+B+C)

Managers' involvement in HRM

1_10a – index – cumulative average of organisations considering the views of top management and the line management in evaluating the performance (A+B) of the HRM department

1_13 – scale – the cumulative average of the primary responsibility for major policy decisions on 5 issues per organisation (A+B+C+D+E) (1- line management, 5 – HR department)

3_12a – index - cumulative average for organisations having an appraisal system in which the immediate superior and next-level superior contribute (0 – none, 2 – both)

5_5a – index – cumulative average of issues (strategy, financial performance and organisation of work) that organisations formally brief management about (0 – none, 3 – all)

Employees' involvement in HRM

1_10b – percentage of organisations considering the views of employees (C) when evaluating the performance of the HRM department

3_12b – index - cumulative average for organisations having an appraisal system in which an employee, subordinate or peer contributes (C+D+E) (0 – none, 3 – all)

5_3 – percentage of organisations with a joint consultative committee or works council

5_5b – index – cumulative average of issues (strategy, financial performance and organisation of work) that organisations formally brief employees other than management about (0 – none, 9 – all)

Centralisation of HR policy-making

1_12 – scale - location of policy determination for 6 issues (A+B+C+D+E+F) (1 – international, 4 – local)

4_1a - index – cumulative average of the level of basic pay determination for management (A+B+C+D+E)

4_1b – index – cumulative average of the level of basic pay determination for employees other than management (A+B+C+D+E)

Labour market orientation

1_2b – index - the cumulative average of organisations that use external providers for 4 areas (A+B+C+D)

1_5a – index – cumulative average of organisations recruiting senior personnel or human resource manager from within the organisation (A+B)

1_5b – index – cumulative average of organisations recruiting senior personnel or human resource manager from outside of the organisation (C+D)

2_3a – index – percentage of organisations with internal retention measures (B+C)

2_3b – index - percentage of organisations with external recruitment measures (A+D+E)

2_5a   – percentage of organisations substituting managers (all 3 levels) internally (A)

2_5b   – index – percentage of organisations substituting managers (all 3 levels) from outside (B+C+D)

Training market orientation

3_9a   – percentage of organisations that increased their internal training (A+B+D+E)

3_9b   – percentage of organisations that increased their external training (C)

Focus on marginal groups

2_7   – index – percentage of organisations that monitor the proportion of marginal groups for training and promotion (A+B+C)

2_8   – index – cumulative average of targeted groups per organisation (A+B+C+D)

Focus on managers

3_2a   – average number of days of training per year for management per organisation

3_11a   – percentage of organisations with an appraisal system in operation for management

4_3a   – index - cumulative average of incentive schemes offered by organisations for management (A+B+C+D)

Focus on employees

3_2b   – average number of days of training per year for employees other than management per organisation

3_11b   – cumulative average of organisations with an appraisal system in operation for employees other than management (B+C+D)

4_3b   – index - cumulative average of incentive schemes offered by organisations for employees other than management (A+B+C+D)

Employment flexibility policies

2_1a   – index – percentage of organisations that increased or reduced the number of their employees by more than 5%

2_9a   – index – percentage of organisations that increased temporal flexible working practices in the last 3 years (A+B+C+D+E+F+G+I)

2_9b   – index – percentage of organisations that increased spatial flexible working practices in the last 3 years (J+K+L)

2_10a   – index – percentage of organisations that increased the proportion of their workforce with temporary working arrangements by more than 6% ((A+B+C+F+G)

Training policies

3_1a   – average proportion of the annual salaries and wages bill spent on training

3_1b   – average proportion of employees in internal or external training per organisation

Analyses, appraisal and evaluation

1_9   – percentage of organisations where the personnel/human resources function/department is systematically evaluated

2_6   – index – percentage of organisations regularly using (for all and for most appointments) selection methods (A+B+C+D+E+F+G)

3_3   – percentage of organisations that systematically analyse employees' training needs

3_4   – index – percentage of organisations that always or often use different methods (A+B+C+D+E) of training needs analysis

3_6   – scale – frequency of the use of formal evaluation (A+B)

3_7   – index – percentage of organisations that systematically evaluate training on a different basis (A+B+C+D)

3_8   – index – percentage of organisations regularly using career schemes (A+B+C+D+E+F)

3_13   – index – average number of needs and characteristics determined by the appraisal system (A+B+C+D+E+F)

Leadership in Transformation – Between Local Embeddedness and Global Challenges

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Introduction

Leadership in the East European Transformation Process has been the subject of a number of country based studies (e.g. von Rosenstiel 1994; Alt and Lang 1998; Breu 2000, Catana and Catana 1999; 2000; Catana, Catana and Finlay 1999; Alas 2002; Tuulik and Alas 2003) as well as cross-cultural comparisons, some times East-West (e.g. Lang *et al* 1998; Edwards and Lawrence 2000; Brodbeck and Frese *et al* 2000) some times within East European countries (e.g. Lindert 1996; Lungwitz and Preusche 2001; Bakacsi *et al* 2002). In general, the studies suggest a more or less different pattern of leadership behaviour in Eastern Europe, from that in Western or Northern Europe. Leadership in the East has been seen as more autocratic and less participative, less human and more status oriented and, at least partly, more formal.

The early explanations have often seen this as a result of the so-called communist heritage, while neglecting considerations, on the one hand, of the influence of the transformation process as a fundamental process of change, which may have supported stricter types of leadership. Not to mention the influence arising from different stages of the transformation process. And on the other hand, neglecting the different cultural backgrounds of East European countries in comparison with the West (for a critical assessment see Lang 1998, 6-17, or Clark, Lang and Balaton 2001). In respect to leadership, some studies have shown that Eastern Europe is more different (e.g. Lindert 1996) to countries in Western or even Southern Europe, while other studies (e.g. Brodbeck and Frese *et al* 2000) have shown greater similarities than one would expect.

Taking into account the development in the last 12 years of transformation, and the increasing international orientation and global challenges facing East European countries, for example through increasing integration into an international division of labour, massive foreign direct investments, joint ventures and last but not least, massive transfers of management knowledge into East European countries, one would also expect changes in leadership behaviour and a process of internationalisation in the convergence of leadership styles. In spite of this the experience of managers and also empirical studies still suggest a difference between East and West and a kind of inertia (Catana, Catana and Finlay 1999; Catana and Catana 2000), which could again be seen as a result of the ongoing transformation process or the national culture, but in many countries after ten years of transformation no longer as a result of the "old" system.

In our paper, we try to discuss the issue as a problem of local and cultural embeddedness on the one hand and global challenges on the other hand. With respect to institutional theory, change in the more culturally embedded elements of management behaviour seems to be more difficult (Lang and Steger 2002).

We will therefore firstly summarise the evidence found in the literature on changes in leadership behaviour in Eastern Europe, and especially Estonia, East Germany and Romania. Secondly, will look for empirical evidence regarding the similarities and differences of leadership styles in Estonia, East Germany and Romania and compare this with the global universal expectations as presented by the GLOBE leadership study (den Hartog *et al* 1999; House *et al* 1999; House 2002; Brodbeck and Frese *et al* 2000), as well as with results from a study of Austria, a central European country not currently experiencing any transformational influence.

We will use our own material from the CEO-Study (part of the GLOBE project) including interview and questionnaire data from more than 40 enterprises in Austria, Estonia, East Germany and Romania highlighting differences caused by cultural and transformational influences.

Leadership Behaviour in East Germany, Romania and Estonia – a Meta Analysis of Existing Empirical Findings

Leadership in **East Germany** has been the subject of many empirical studies in the last 13 years (for summaries see f. e. Lang 1998; Weik 2001 or Schreiber *et al* 2002). The empirical data has focused mainly on management values, cognition, attitudes and styles, but also on managerial abilities. In the early phase of leadership research in East Germany up until 1994, the abilities of East German managers and their leadership styles, often in comparison with West German managers, were central to the studies. These early studies have often been criticised for their superficial and methodologically weak approaches, which only seemed to be aiming to legitimise Government decisions, Treuhand activities or Western assumptions about the pre-modernity of Eastern leadership and management.

Quantitative studies using small numbers of questionnaires and a limited sample structure, often attempting far reaching generalisations and having a significant impact on further research and public opinion are the main characteristics of this early phase of leadership research in East Germany. The results point to an autocratic or at least patriarchal leadership style, which has been interpreted as having resulted from the "communist heritage"

(see among others, contributions by von Rosenstiel 1994).

After 1994, deeper research can be found including qualitative studies. The theoretical basis as well as the methodological approaches are more sound and appropriate to the situation and the transformational settings. The concept of "habitus", social and cultural capital, elite theories, implicit leadership theories, concepts of value and cultural change, transformation theories, the concept of myth and "bricolage", or micro politics are used to explain the stability and changes in leadership behaviour. Case studies and narrative interviews have been included in order to arrive at more in-depth insights into the transformational changes. In these approaches, leadership in transformation is mainly seen and explained not only as a prolonging of the past, but as a result of several factors. The influence of the transformation process and the situation of the firm is especially highlighted.

With respect to leadership behaviour, a tendency towards patriarchal and directive styles is supported, but the data in a lot of studies has shown different types and styles of leadership. Based on stability from traditional value orientations and a high score for performance, tasks, and loyalty to the firm, individual values gain importance within the course of transformation (Lang 2002). Here, striking similarities to "made in (West) Germany" leadership styles can be found (Brodbeck *et al* 2002). The informal contracts between managers and workers became less important in the last years while a re-centralisation of decision-making processes took place (Lang 2002, 146). The leadership styles are not transformational, based on individual considerations, but on the need to role model the technical expert (Lang 1997). To sum up, leadership behaviour in East Germany over the last 13 years has been varied showing cultural as well as transformational-based developments, but on the whole has remained stable.

The development of leadership in **Romania** has also been discussed via many empirical studies (f. e. Gehmann 1996; Catana and Catana 1996; Kelemen and Hristov 1998; Olaru 1998; Catana and Catana 1999; Catana, Catana and Finlay 1999; Kelemen 1999a; Edwards and Lawrence 2000; Catana and Catana 2000), but all in all, a limited range and number of methods and approaches have

been used so far. Some quantitative studies and a few case studies dominate centre stage.

Similarly to East Germany, the early attempts pointed to the "old system" as responsible for the management style, which is described as tending "to be autocratic" (Edwards/Lawrence 2000, 83), but patriarchal patterns are also put forward because of the social dimension of the managerial role in socialist Romanian enterprises (see Gehmann 1996; Olaru 1998; Kelemen and Gardiner 1999). The professional composition of the management body (mainly engineers) may also be taken into account, and the influence of trade unions in the early appointments of managerial staff (Olaru 1998, 314-315). Kelemen (1999a) especially describes the persistence of the top-down-style of decision making, which is in turn supported by a tendency for delegating responsibility upwards, to the general mangers (Gehmann (1996, 219). Catana and Catana (1999) have extended the view, while including the influence of the national culture in Romania as shown in such elements as short-term orientation, high uncertainty avoidance, stability orientation instead of risk taking, informal dealing, the importance of family relations and the influence of religious values.

In her comment, Kelemen (1999b) takes a critical stance towards the influence of religious values, but also underlines the masculine orientation of Romanian management and business. Underlining the changes, and not only the stability in values, she claims a tendency towards material values as a result of the introduction of a market economy. They are seen now as a part of the communicative behaviour of managers (1999, 260).
In addition, the influence of the transition process, including the restructuring of the firm and its culture, is also seen as an important factor for stability and change in leadership behaviour in Romania (see Kelement and Hristov 1998; Gehmann 1996; Catana and Catana 1996; Catana and Catana 2000).

A recent interview-based study by KRW International and the Romanian-American Centre for Business Excellence (http://www.leadership.ro) on a representative sample of large, medium and small companies, found that the status of leadership in the present Romanian business environment reveals that the Western-based leadership concept is known and understood in only a few foreign companies where it has imposed good internal

communication. The vast majority of Romanian managers believe: "I am the boss, I am the manager, so, automatically, I am the leader!" So the Romanian managers practising leadership are not aware of it—being leaders due only to their personalities. Communication between CEOs and followers is not efficient, managers do not trust the subordinates' abilities and so they are more involved in solving the subordinates' tasks than in coordinating the groups. In another recent study, Finlay *et al.* (2003) statistically reveal the Romanian tendency towards a rational-legal type of leadership.

To summarise the results, a persistence in directive, autocratic or even patriarchal styles have been supported by studies, as well as change towards legal, materialistic and performance orientations. Culture as well as the transformational settings of enterprises play an important role explaining both stability and the changes.

In **Estonia**, there have not been as many studies focused upon leadership as in East-Germany and Romania, but it has come under some analysis in several studies, or described in various articles (e.g. Hentze and Lindert 1992; Nurmi and Üksvärav 1994 & 1996; Lindert 1996; Ennulo and Türnpuu 2001; Stout 2003; Tuulik and Alas 2003; Alas and Vadi 2003; Vadi 2003).
In comparison with Finish management, Nurmi and Üksvärav (1994, 1996) have underlined the technical background and the production orientation of Estonian managers. They have also confirmed a tendency for group decision making at the top and individual decision making at lower levels, but all within an overall inclination towards top-down and authoritarian decisions combined with a traditional orientation towards social responsibility. The authors have also mentioned a disgust for bureaucracy, and at least a partial tendency for avoiding responsibilities (1996, 248).

In addition, Nurmi and Üksvärav have pointed out that managers in the older age group "feel more responsible for their personnel, for the community, and the Estonian society at large, than Western managers…" (1996, 253). According to Vadi (2003), collectivism still plays an important role in Estonian society and this relates to organisational culture and the behaviour of employees as well as managers. This close connection between the values of managers and employees with respect to collectivist attitudes has been proven by Tuulik and

Alas (2003). They show a joint orientation towards the well-being of the employee, professional growth and development, as well as the well-being of the community and the state.

A survey of values conducted in the second half of the nineties indicated that Estonian business students ranked social values lower when compared with Finnish students (Ennulo and Türnpuu 2001). Research done in 38 Estonian organisations indicates that managers' attitudes toward the usefulness of change and leadership were only related to task orientation and not relationship orientation of organisational culture. At the same time the managers' commitment to the organisation, their satisfaction with their job and their satisfaction with the information provided were predicted by both orientations of organisational culture, although the impact of task orientation was greater (Alas and Vadi 2003).

In his comparative analysis, Lindert (1996, 97-99) has shown that Estonian managers, especially the group at the top, could be characterised by a relatively high power distance. Around 50% of managers have supported the theory X assumption of leadership ("people have to be frequently controlled and led in order to get good results"), which can also be seen as an indicator of a more directive type of leadership.

Stout (2003) has pointed to more 'risk avoiding' and 'face saving' behaviour among Baltic managers because of the social stigmatising effect of failure (52).

To sum up, Estonian managers seemed to show more patriarchal leadership behaviours, which may be rooted in the collectivist value orientations shared by managers and subordinates.

Cultural roots support the perceived stability, while changes are expected through a younger group of managers and training efforts.

All in all, in these three transforming countries there is some empirical evidence to suggest a stable pattern of leadership behaviour, instead of massive change towards Western patterns of leadership behaviour.

This, obviously, cannot be explained simply by pointing to the "old system". Cultural factors and the transformation process itself must be taken into consideration. There are certain factors and constellations that may support change; especially if

they provide managers, and especially the younger managers, with learning opportunities. But first of all, we have to look at the current state of and differences between the leadership types and attributes in Romania, East Germany and Estonia and then also Austria as a Western counterpart.

In the next section of the paper, we will therefore, discuss the influence of a universal pattern of "good" leadership as a benchmark for global influences, as well as for national attributes while comparing the three countries.

Leadership Behaviour in East Germany and Romania – Results from the GLOBE/CEO-Study

Theoretical Background to the Study

The CEO study is part of the GLOBE project (den Hartog *et al* 1999; House *et al* 1999).

While the second phase of the GLOBE project has been focussing on culturally endorsed leadership perceptions, the CEO project looks at leadership behaviours as seen from the follower's perspective. In addition, manager's self-assessments are also included.

The CEO study shares the main theoretical assumptions of the GLOBE project as a whole. Leadership is seen as socially constructed by managers and followers as well as by the culturally based assumptions of the society. Socialisation theory supports the idea of learned behaviour, which is supported by role models from the past and the present in politics and economy.

Successful leadership requires therefore, that followers accept the leadership style and in turn the result of the leader's success.

According to contingency theory, the organisational context also plays an important role, but mainly as a mediator of societal influences.

In addition to the underlying assumptions of the above mentioned approaches, the GLOBE concept gives rise to the influence of universal factors, for example, as a result of the globalisation process, as well as the influence of national and organisational cultures.

Methodology and Data

The CEO study is based on case descriptions of leadership behaviour. In around 40 firms, both owner- and manager-led, a two-hour interview

with the CEO has been carried out. This included questions concerning the leader's career, experience and philosophy, as well as the management of change. It includes a short CEO questionnaire on management preferences and strategies. In addition, a number of up to nine followers were asked to describe the leadership style and behaviour of their CEO using a questionnaire from the GLOBE project, which had been translated (and re-translated) into the Romanian, German and Estonian languages beforehand. The questionnaire asks about leadership behaviour, trust and the confidence of the followers, and their perception of the objectives and strategies of the firm.

The Romanian sample consists of 44 CEO interviews and questionnaires and 277 follower questionnaires. In the East German sample 48 CEO interviews and questionnaires and 205 follower questionnaires were included, while in the Estonian sample 45 CEOs were interviewed and 305 follower questionnaires collected. Forty Austrian CEOs were also interviewed, and 259 questionnaires submitted by followers could be used for the analysis from three different types of questionnaires.

Leadership description is based on singles items with a 7-point-scale having been used, ranging from "strongly agree" (7) to "strongly disagree" (1).
Typical single items were:
Visionary: "Has a clear understanding of where we are going"
Diplomatic: "Is able to maintain good relationships with others"
Administratively effective: "Is organised and methodical in work"
Malevolent: "Is punitive, has no pity or compassion"
Autocratic: "Acts like a tyrant or despot"
Humane: "Has empathy for others, is inclined to be helpful or show mercy"
Autonomous: "Acts independently, does not rely on others"

According the GLOBE methodology, the data on the leadership items have been summarised into leadership sub-scales (leadership attributes) and six main factors (leadership style patterns). They will be compared with global leadership expectations as reported by the GLOBE project (House *et al* 1999) as well as with leadership expectations in CEE countries (Bakacsi *et al* 2002) and Germanic European countries (Szabo *et al* 2002). In addition,

we will look at special patterns of leadership style in the country-specific data, and differences in age to identify any evidence of a generational change in leadership behaviour.

The comparison enables interesting conclusions because of the countries involved. East Germany, Romania, and Estonia represent different cultures, but share a similar heritage. Such strong similarities could be therefore interpreted as being due to the long lasting influence of the previous system, but also as an impact of the transformational setting. Differences may be seen to have arisen from the cultures and special developments within transformational change. Austria being part of a Germanic culture, may share some characteristics with East Germany, but may also differ according to certain missing radical societal changes.

Principal Results with Respect to Leadership

The current styles of leadership in Romania, Estonia, East Germany[1], and Austria are shown in Table 1.

The results show some significant differences between the countries under investigation. The leadership style of the Romanian CEOs described is seen as being more self-protective, and humane compared with German leadership, while the German leadership style is described by their followers as being more participative. The Estonian style differs from that of Romania and East Germany especially in regard to the significantly lower scores for value based and humane leadership. And last but not least, the Austrian styles seem to be more individualistic when compared with the three other countries, and at least with respect to Estonian and Romanian leadership behaviours, less self protective and more participative. The other differences are not significant, but each country shows their own special leadership pattern.

The Romanian style is more authoritarian with a strong tendency toward being self-protective, but also showing humane behaviour. The Estonian style is characterised by a strong team orientation, and relatively weak value based behaviour. The (East) German pattern by contrast, is less humane, but much more participative than the others. And finally, the Austrian style shows a striking preference for autonomous leadership behaviours.

Table 1. Leadership styles in Romania and East Germany in Comparison with German, East European and Global Expectations

	Romania	Estonia	East Germany	Austria	Germanic* expecta-tions	East European** expecta-tions	Globe Mean expectation
Value based	5,72	5,18	5,48	5,58	5,93	5,73	5,83
Team oriented	5,61	5,34	5,44	5,40	5,62	5,50	5,76
Self-protective	4,44	4,09	3,89	3,78	3,03	3,67	3,45
Participative	3,83	4,33	4,98	4,76	5,85	5,09	5,35
Humane	5,43	4,74	5,07	4,74	4,71	4,75	4,87
Autonomous	4,45	4,57	4,53	5,00	4,16	4,18	3,86

Sources: Szabo *et al* (2002), Bakacsi *et al* (2002), den Hartog *et al* (1999), House *et al* (1999).
* West Germany, East Germany, Switzerland, Austria, Netherlands
** Russia, Poland, Hungary, Slovenia, Albania, Greece, Kazakhstan, Georgia

Compared with the expectations of middle managers in the relevant region, and with global expectations, it can be clearly seen that all the countries involved are more autonomous and self-protective, but less participative than expected by their relevant group of followers according to the GLOBE project. In addition, leadership in East Germany and Romania can be described as being more humane, and Estonian and German leadership as less value based than the followers expected it to be. With respect to team orientated leadership, all the countries seem to be more or less in line with the local/regional expectations, but contrary to the leadership style expected worldwide.

Table 2 shows the leadership attributes (subscales or first order factors), which have formed the styles above.

The results give a differentiated picture of the more complex factors presented in Table 1.
It could be said in regard to value based leadership that the Estonian leadership style is less visionary, less inspirational, less decisive and less performance oriented than the other countries, but with respect to integrity, no significant difference was found. The visionary style is more developed in Austria and Romania, but by comparison, less developed in East Germany and Estonia. In addition, the risk avoiding style, especially for the Romanian managers has to be mentioned.
In comparison with the other styles, smaller differences in the attributes of value based leadership were found.

Despite similar results in regard to team oriented management styles, the second order factors show

a lot of differences. In general, Romanian management styles can also be described as being more team oriented in many ways, but according to a significantly higher degree of malevolent behaviour among Romanian managers, the team oriented style of the Romanians in general is not fundamentally different from that of managers in the other countries. Administratively effective behaviour seems to be more important in the transforming countries than in Austria.

Romanian managers also show significantly higher scores in all aspects of self-protective behaviour. In turn, Austrian managers have got the lowest assessments in regard to self-protective behaviour without self-centred styles, where they rank in second position after the Romanians. This again fits with the more individualistic leadership style of the Austrians. In regard to other items, the differences between all the transforming countries and Austria when looking at face saving and procedural (bureaucratic) behaviour are especially significant.

Participative styles are more common in the Germanic countries, East Germany and Austria, than in Estonia or Romania. Huge differences are especially noticeable in non-directive behaviour. Authoritarian styles seem to more common in Romania than in Estonia; and participative, and non-autocratic behaviour is more common in East Germany than in Austria, but these latter differences are not significant.

Regarding humane behavioural styles, Romanian and German scores were similarly high, while Estonians and Austrians show a significantly

Table 2. Selected Leadership attributes in Romania, Estonia, East Germany and Austria

Leadership attributes	Romania	Estonia	East Germany	Austria	Differences between countries
Visionary	5,84	5,39	5,64	5,89	0,05.
Inspirational	5,68	5,22	5,59	5,46	0,05
Integrity	5,86	5,47	5,57	5,80	0.05.
Decisive	6,10	5,52	5,51	5,71	0.01
Performance orientation	6,09	5,21	6,01	5,97	0.01
Team integrator	5,74	5,22	5,39	5,28	0.01
Diplomatic	5,81	5,44	5,60	5,63	0.01
Administratively effective	6,05	5,34	5,32	5,14	0.01
Self-centred	3,32	2,56	2,51	2,89	0.01
Status conscious	5,20	4,75	4,77	4,62	0,01
Face saver	4,72	4,16	4,10	3,87	0.01
Procedural	5,07	4,59	4,48	3,81	0.01
(Non-)Autocratic*	4,28	4,91	5,35	5,09	0.01
(Non-) Directive/participative*	3,38	3,75	4,61	4,42	0.01
Humane	5,68	4,81	5,14	4,85	0.01
Modest/Calm	5,18	4,67	5,00	4,86	0.01.

*   Items for autocratic and directive behaviour - reversely scored

lower score in regard to humane, modest or calm behaviour.

With respect to general and local/cultural expectations, all the factors except those that constitute value based styles and team-oriented styles were seen to vary in the different cultures. This was especially true for self-protective, participative, humane, or autonomous behaviour, and these expectations were also confirmed by our study. In addition to the cultural variance the results also point to some factors coming from special organisational cultures of the past. Here we should mention the differences in leadership attributes between the transforming countries, regardless of their particular culture, and Austrian leadership behaviour, especially in procedural and face saving behaviour, but also in more group centred, collectivist (non autonomous, individualistic), and partly more administratively effective, status consciousness, and humane behaviour.

Based on the leadership attributes and their correlations, a factor analysis has been carried out in order to find empirically based factors of leadership types or patterns of leadership behaviour. In the analysis, other attributes have also been included, for example, leadership that is *power sharing, intellectually stimulating, follower confident,* or *displaying communicative behaviour.* The results for Romania and East Germany are presented as examples in Table 3.

It can be seen that similar types of leadership behaviour have been described in both samples as transformational leadership behaviour on the one hand, or individualistic and autocratic behaviour on the other hand. In addition, types of participative leadership could also be found, despite there being a general deficit in this field. But there are also interesting differences in the data. The composition of the factors, mentioned above, as well as the other factors point to the influence of each particular situation including cultural factors.

So, transformational leadership in Romania includes leadership attributes that show humane behaviour (humane, diplomatic), but also involve strict decisions. In keeping with other factors, a picture of patriarchal leadership emerges for Romania.

In the German pattern of transformational leadership, humane styles are missing; instead a strong performance orientation is included. Another difference can be seen in the construction of the

bureaucratic or tayloristic types, or the absence of *laissez-faire* styles in Romania.

As for the other countries, similar types have been found, and will be explored and presented at the conference.

To sum up, this part of our analysis also supports the assumption that different, but culturally embedded types of leadership exist in the different countries.

In order to get a picture of the possible changes in leadership behaviour in the future, especially with respect to global tendencies, we analysed the data, sub-dividing the sample into CEOs up to 50 years of age and those older than 50. This resulted in groupings of between 50% (Austria) and 75% (Estonia) of CEOs being in the younger, and 25 to 50% of CEOs being in the older age group.

This comparison led to some surprising results. With respect to leadership styles, no striking differences between the two groups were found. Only the more humane oriented younger German group and the more self-protective older Estonian group came close to presenting a significant dif-

ference. In spite of that, a few interesting observations should be reported. While in Romania, the older group tends to be more charismatic and team oriented, in Estonia and East Germany the same groups are only more self-protective. But at the same time, the younger group of managers in all the transforming countries have a tendency to show more individualistic behaviour, contrary to the Austrian CEOs, where the older group seems to be more autonomous and humane.

If we then look at the leadership attributes, these results are further confirmed. There are only a few attributes with significant differences between the age groups. The younger German CEOs score higher in humane behaviour (5.4 to 4.8), the older Estonians show more procedural behaviour (4.9 to 4.5) combined with higher status consciousness (5.2 to 4.6), and the behavioural style of the younger (!) Austrian CEOs is also characterised by an extended status consciousness (4.9 to 4.4).

With respect to participative behavioural styles the data for all countries shows an inter-generational stability within their specific cultural boundaries.

Table 3. Types of CEO Behaviour in Romania and East Germany

Romania		East Germany	
1. Transformational leader		**1. Transformational leader**	
Charismatic	0.828	Charismatic	0.889
Inspirational	0.814	Inspirational	0.884
Team-oriented	0.783	Visionary	0.780
Decisive	0.741	Team-oriented	0.768
Visionary	0.736	Intellectually stimulating	0.760
Humane	0.724	Decisive	0.741
Diplomatic	0.668	Informative	0,705
Intellectually stimulating	0.642	Performance oriented	0.673
2. Communicative Administrator		**2. Participative Communicator**	
Follower confident	0.701	Power sharing	0.745
Communicative	0.642	Communicative	0.705
Procedural	0.612	Follower confident	0.690
Administratively effective	0.573	Diplomatic	0.577
3. Individualistic Autocrat		**3. Individualistic Autocrat**	
Malevolent	0.746	Autocratic	0.791
Autocratic	0.708	Autonomous	0.758
Autonomous	0.707	Malevolent	0.746
Status consciousness	0.637		
4. Participative Leader		**4. Risk avoiding Administrator**	
(not) Self-protective	- 0.767	(not) Risk taking	- 0.760
Power sharing	0.702	Procedural	0.715
Non directive	- 0.674	Administratively effective	0.606
		(performance oriented	0.461)
5. Cautious Informant		**5. Laissez affair**	
Informative	0.587	(not) Status conscious	- 0,716
Calm	0.577	Calm	0,714
(not) Risk Taking	- 0.540	(not) Face saving	- 0,523

A Discussion of the Findings

The results of our analysis strongly support the findings in the literature review, especially with respect to less participative styles of leadership. But the different factors and types of leadership also show a surprising similarity to other typologies of leadership behaviour in the respective transforming countries. The "administratively skilled taylorist" as well as the "participative communicator" or the "individualistic autocrat" have found expressions in an in-depth study from 1997 (Alt and Lang 1998). Also, the special shape of the East German transformational leader with a low score for individual consideration, but an orientation towards high technical or administrative competence have striking similarities with the results from 1994/95 (see Lang 1997). The technically and administratively competent expert as a role model for the current group of managers may have been developed in the big state owned enterprises with its specific structures and cultures, as the results of Schreiber *et al* (2002) suggests. They found this type of leadership model or implicit concept of leadership as dominant among the former economic management elites (see also Steger and Lang 2003).

In the case of Romanian managers, the data also shows very similar patterns to those reported in earlier studies (f. e., Catana and Catana 1999; Kelemen and Hristov 1998). And last but not least, the results reported for Estonia in the mid-90s and mentioned in studies later on (see Ennulo and Türnpuu 2001), can be supported and explained in more detail by these findings (see Tuulik and Alas 2003).

For all the countries, the leadership patterns described stay close to the characteristics of the national cultures, as seen from other studies (e.g. Lindert 1996; Lang *et al* 1998, Edwards and Lawrence 2000; Brodbeck *et al* 2000; Bakacsi *et al* 2002, etc).

Cultural factors seem to be more important in explaining a specific leadership style than the influence of the previous system. Only in a few leadership attributes, especially self protective behaviour, were significant differences found between a non-"Eastern Block" country, such as Austria, and the transforming countries in the sample.

The results of the meta-analysis as well as our own empirical findings have also highlighted the difficulties of the change process in the behavioural patterns.

The similarity between studies conducted over the last 13 years and the results presented above clearly prove the stability of the behavioural patterns within the management group.

In a quasi-longitudinal series of studies on values and implicit leadership concepts in East Germany, traditional values and tayloristic attitudes as important internal factors indicating leadership style have also shown stability over recent years (Lang 2002). It can also be seen that very high rates of organisational change have led, in turn, to a re-stabilisation of the traditional values as the basis for adequate behaviour (Alt and Lang 1998). But the similarities between the expected types of leadership as shown by Brodbeck *et al* (2002), and the actual behaviour (see above), may also explain the stability in leadership styles.

Bakacsi *et al* (2002, 78) have also observed two sides to the picture. Transformation is connected with a strong and positive impetus for changing cultures and values. But transformational settings and previous experience have led to a "gap between espoused values and the theories-in-use" with a strong negative effect on motivation and a passive acceptance and adaptation to the circumstances.

Looking for further explanations, it becomes clear that changes to behavioural patterns within a transformational setting are much more difficult than the transfer of more universal and general practices, or more technical concepts and instruments (Lang and Steger 2002, 285).

According to institutional theory, behavioural training programmes and instruction have also been seen as institutional elements (e.g. Scottand Meyer, 1991) which may disseminate a leadership ideology and support the justification of modernity. But institutional theory also suggests a decoupling of legitimising practices at the surface from the real behaviour of managers.

The façade of legitimacy allows managers to continue acting in a similar way to before.

But the discrepancy between the more globalised surface and the culturally embedded local behaviour will lead to conflicts and only on the long run to more evolutionary changes in leadership styles.

Many authors therefore expect changes to occur with the "next generation" of younger managers. But, the results regarding age differences are in a

sharp contrast to this view of the "new young and successful generation of managers in transforming countries". Also, in the case of Estonia, we have only found very weak traces of changed behaviour within this younger group of managers. By contrast, the results support the earlier findings for East Germany (Lang 2002) more. All in all we have to accept that the next generation of top managers will continue to act in a similar manner to the present one.

Notes

[1] The CEO's in East Germany are not only of East German origin but also West German and other nationalities.

[2] It has to be taken into account that the analysis used the factors derived from the GLOBE project in order to compare the data with leadership expectations. This certainly includes a tendency towards more similar patterns.

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Innovators or Interrupters? An Exploration of the Polemic on American MNCs and their HRM and Industrial Relations Practices in Ireland

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Introduction

The economic and political influence of multinational corporations (MNCs) is now well established. Thus, for example, the UNCTAD (2002, 14) estimates that there are some 65,000 Transnational Firms, with some 850,000 foreign affiliates engaged in international production. Consequently, MNCs may be viewed as key drivers in the increased internationalisation of business. Indeed, Ferner & Hyman (1998, xiii) have labelled MNCs "…the dominant actors in the internationalization (sic) process".

An important issue in this debate is whether such firms are best described as 'innovators' in or 'disruptors' of local established labour management practices. In the case of the former, the MNC might be seen as displaying a healthy regard for such local established traditions and institutions and seeking only to build on such traditions through congruent and workable innovations. Conversely, in the case of the latter, the MNC might be seen to display a marked preference for the jettisoning of local established practices in favour of a headquarters imposed model.

This paper[1] addresses this polemic through an examination of industrial relations (IR) and human Resource management practices in two large American subsidiaries in Ireland with a view to further illuminating the debate about whether such MNCs are innovators in or disruptors of established workplace HRM and IR practices. Here we concern ourselves in particular with the extent to which IR and HRM practices in our case firms exhibit characteristics more proximate with the MNCs headquarters' preferences than local host location established practices. Apposite to this it is also important to establish the extent to which MNCs embrace local institutional provision and incorporate it into HRM and IR practices. In this regard we explore whether IR practice has been adapted to take account of the Irish context through an exposition of patterns of union recognition and avoidance, collective bargaining and the IR 'climate', along with other contemporary labour management developments.

Background to HRM and IR in MNCs in Ireland

Ireland's economy is more dependent on MNC activity than any other EU nation. Having initially pursued a protectionist approach to industrial development on achieving independence in 1922, Ireland reversed this policy stance in the late 1950s. With the objective of accelerating industrialisation and creating a more open economy, the country set out to encourage FDI through a package of financial incentives, particularly its low tax rate on profits, and other attractions such as its young workforce and comparatively unregulated industrial relations environment (cf., Gunnigle & McGuire 2001; Gunnigle *et al* 2002). The attraction of FDI thus represents a key plank of Irish industrial policy and the country has been extremely successful in this regard. The FDI sector accounts for some 50% of manufacturing employment, compared to an average of 19% for the eleven other member states

for which the OECD presents data (Barry 2002). MNCs contribute approximately 55% of manufactured output and a staggering 75% of industrial exports (O'Higgins 2002; Tansey 1998, also see Hannigan 2000).

In 2000 the FDI sector exported over €47 billion in goods and services and generated direct expenditure within Ireland of some €14 billion (IDA 2001). The key areas of MNC activity are electronics, pharmaceuticals & healthcare, software and internationally traded services. American owned firms represent by far the largest source of FDI into Ireland, accounting for 70% of all industrial output (O'Higgins, 2002). The significance of American FDI in Ireland was most pointedly highlighted in the *Economist's* (1997) finding that almost a quarter of US manufacturing investment and some 14% of all FDI projects into Europe in the period 1980-1997 located in Ireland, while some 40 per cent of all new US inward investment in the electronics sector located there.

Turning our attention to the polemic established at the beginning of this paper, in the established literature we find evidence that MNCs have acted as an important vehicle for innovation, most notably in areas such as developing the role of the HR function and in the application of 'new' HR techniques such as performance related pay, performance management and high commitment work systems (see Murray 1984; Mooney 1989; Gunnigle *et al* 2002). Concomitantly, we also find evidence of MNCs acting as a source of interruption to local institutional provision:

> …it is equally clear that that MNCs pose particular and unique challenges in the HRM/IR sphere, such as their potential for altering the balance of bargaining power (through, for example, threats to close subsidiaries or switch investment to other locations) and, more generally, their capacity to challenge, and potentially undermine, pluralist industrial relations traditions.
>
> Gunnigle *et al* 2003, 7

Such capacity for interruption appears most pointed in the area of collective employee representation where we find considerable evidence of contrasts between MNCs of different national origins. Since the 1980s we have witnessed a significant increase in union avoidance in the FDI sector, most particularly among MNCs of US origin (McGovern 1989; Gunnigle 1995; Gunnigle, O'Sullivan & Kinsella 2002; Roche 2001). In contrast European owned firms appear much more likely to recognise trade unions and engage in collective bargaining. Wallace (2003, 7) argues that the pattern of union avoidance among US firms which emerged in Ireland from the early 1980s mirrored the trend which had developed in the US a generation earlier:

> Essentially, non-unionisation started in a small number of US companies. Notable early non-union companies were Digital and Wang Laboratories. Unions tended not to initiate vigorous recruitment campaigns in such companies for a variety of reasons. Pay and conditions were good and there may have been a poor prospect of gaining employee backing for recognition or/and the fear of unfavourable publicity. The successful maintenance of the non-union status of these companies over an extended period, produced a "demonstration effect", which challenged the conventional wisdom among personnel practitioners that unionisation was inevitable.

A number of factors facilitated the growth in union avoidance in the Irish context. We have already mentioned the increased scale of U.S. FDI into Ireland in the 1990s. Much this growth was in the information and communication technology (ICT) sector, particularly electronics and software – sectors of widely seen in the US context as hotbeds of opposition to union recognition (Lawler 1978; Foulkes 1980; Beaumont 1987; Kochan, Katz & McKersie 1986). A change in the policy stance of Ireland's state agencies with responsibility for attracting FDI was also a factor.

During the 1960s and 1970s these bodies actively advised inward investing firms to recognise trade unions and engage in collective bargaining – an approach in line with practice in most of the larger organisations in Ireland at the time (McGovern 1989). However, faced with increased international competition for FDI these agencies have, since the early 1980s, adopted a 'union neutral' stance, indicating to inward investing MNCs that they have the freedom to recognise or avoid trade unions in accordance with their preferred approach to HRM (McGovern 1989; Gunnigle, Turner & D'Art 1997). Thus, over time union avoidance has become a common strategy among US MNCs.

Research Context and Procedure

Drawing upon data gathered from two detailed case studies of IR and HRM practice in the Irish subsidiaries of two US MNCs in the pharmaceuticals and healthcare sector[2], this paper explores the extent of innovation and/or interruption in established HRM and IR practices at workplace level. This broad sector was chosen because it is largely dominated by MNCs, especially US MNCs, and also because of its significance to the Irish economy. It has recently been targeted by Ireland's main agency for promoting inward investment, *IDA Ireland*, for further development and investment. The pharmaceutical and healthcare sectors contribute some €35 billion per year to exports (IDA 2000). Both of our case firms are identified through pseudonyms to protect their anonymity.

Pharmaco as the name suggests, operates in the pharmaceutical sector and is in the top fifty global firms in this sector (UNCTAD 2002). It features high up the *Fortune 500* list as well as being one of America's best companies to work for. Revenue in the year 2002 totalled over US$32 billion, and the corporation now employs some 90,000 people worldwide. In Ireland its subsidiary operations employ over 1,400 people, mostly in the *south* of the country. The *Healthco* Corporation boasts a product range incorporating pharmaceuticals, diagnostics, nutritionals and medical devices. It employs 71,000 people in over 130 locations around the world. In 2002, it was just outside the top 100 in the *Fortune 500* list and one of the 'most admired' companies in the their sector. Sales in 2001 amounted to over $16 billion, making it one of the top ten healthcare companies in the world. In Ireland *Healthco* operates largely in the medical devices sector but is also involved in some pharmaceutical and diagnostics activity. It operations are spread over eight different sites, mostly in the so-called 'border-midland- west' area of Ireland. It currently employs 1,800 people in Ireland and recently plans to create a further 950 jobs.

Access to both case companies was extremely good. The data used in this paper was collected primarily through interviews with company personnel. Information was also gathered through reviews of company documentation, web site data and observation. A series of in-depth interviews were held with all top management team members in the Irish subsidiaries, a reasonable cross section of middle ranking and front line managers/team leaders, shop floor workers and employee representatives (shop stewards).

In *Healthco* a total of fourteen personnel were interviewed in the period between January and December 2002. The interviews included four 'top' managers, two 'middle' managers, four 'front line' managers, two general manufacturing operatives (GMOs) and two trade union representatives (Services Industrial Professional and Technical Union, SIPTU), one of whom was the Chief Shop Steward. The average length of service of the 14 interviewees was 16 years with the longest being 28 years and the shortest 7 years.

In *Pharmaco* a total of nine people were interviewed. The interviews included three of the top management team (the MD, Head of Employee Resources, Director of Finance), a selection of middle managers (Production Manager, the Manufacturing Leader and a Production Supervisor), and a number of HR practitioners (HR Manager, HR Advisor, Senior HR Specialist). The average length of service of these employees was significantly lower at just over 12 years. The maximum length of service was 30 years (Director of Finance) and the minimum length of service was one just over one year (Senior HR Specialist). Unfortunately due to the nature the IR climate at the time of our research we failed to gain access to employee representatives. A summary outline of the interview schedules in *Healthco* and *Pharmaco* is outlined in Appendix 1.

Each interview lasted a minimum of one hour and was tape recorded for accuracy and later transcribed. Some people were interviewed more than once (mostly HR practitioners). Each interview was conducted by a minimum of two interviewers from the University of Limerick, while some of the 'top' team interviews involved a member of the UK research team. Interviewees were fully briefed in advance regarding the research agenda/ nature of issues being investigated. The interviews were semi-structured and covered broadly similar themes in each instance. This involved the use of a number of standardised questions regarding the main issues being addressed. However, our discussions were quite open ended to allow interviewees expand on certain topics, bring their personal experiences within the company to bear, and generally

address any issues which they felt were relevant to our investigation.

Research Findings

Trade Union Recognition and Avoidance

In our earlier discussion on the IR and HRM practices of US MNCs firms we found that the extant research suggests that US firms are commonly characterised by antipathy towards trade unions and preference for more individualised management-employee relations and non-union status (Jacoby 1997; Kochan *et al* 1986). Both *Healthco* and *Pharmaco* entered into union recognition agreements for operator and craft grades on establishing their first operations in Ireland. Thus collective bargaining arrangements were set in train from the outset and remain the main vehicle for handling IR issues in these original plants to the present day.

We explored the reasons why both firms opted to recognise trade unions from the outset, given that in the vast majority of their US and other foreign subsidiaries of both companies were non-union at that time. Indeed of the General Manager of *Healthco* reported that all seventeen *Healthco* plants in the US were 'staunchly non-union', in some cases moving to rural areas partly as a method of union avoidance. The Head of Employee Resources in *Pharmaco* indicated a similar trend, indicating that, at the time, the company was 'a typical American multinational' and 'solidly non-union in the States'.

We found that both firms took the advice of the Industrial Development Authority (the predecessor of *IDA Ireland*) during original start-up, and embraced a strategy of union recognition using post-entry closed shop arrangements with specific trade unions prior to the start of production. This was also the line adopted by Ireland's main employer's association, the Federated Union of Employers (FUE), at the time. We noted earlier that union recognition via pre-production agreements with specific trade unions was the predominant pattern among inward investing firms during the period when *Healthco* and *Pharmaco* established their first Irish subsidiaries (1969 and 1974 respectively).

Thus new MNC subsidiaries of that era voluntarily agreed to deal with trade unions and engage in collective bargaining, even where this was at odds with

company tradition in the home country. This pattern formed the basis of the so called 'convergence thesis' in Irish IR, which argued that there was little discernable differences between IR approaches of MNCs and comparable indigenous firms (see, for example, Enderwick 1986, Kelly & Brannick 1985). Also potentially significant in the decision of both firms to recognise trade unions was the highly publicised and failed attempt by *EI* (a subsidiary of General Electric) to establish a non-union plant in Ireland in 1968 (see Roche and Geary 1997).

A final contributory but arguably much less significant factor may have been the fact that both firms had a requirement for craft workers, such as fitters, which tend to be among the most highly unionise occupational categories in Ireland (see Gunnigle 1995). The HR Director of *Healthco* observed that craft unions tended to be quite protective of their craft by ensuring that only 'card-carrying [unionised] workers were permitted to undertake certain types of work'. Interviewees pointed to a range of these factors in explaining the decision of these traditionally non-union firms to recognise trade unions. The following quote is illustrative of the opinions we elicited:

> When they first came to Ireland in the late 1960s they would have done an assessment about whether to go union or non-union, but the climate at the time in Ireland was very much union. There was that firm's case of union recognition in Shannon where a company was shut down through failing to recognise a union [the EI dispute referred to above]. This was prominent in the minds of management at that stage so they took the advice of the FUE[3] and recognised the unions.
>
> Head, Employee Resources, *Pharmaco*

Similar views were expressed by managers in *Healthco*. Thus the overall IR strategy adopted by both *Pharmaco* and *Healthco* was to recognise trade unions representing operator and craft categories from start-up. Pay increases for both these grouping are subject to collective bargaining involving separate negotiations with general and craft groups on a plant-by-plant basis. We also found that both firms operate outside the terms of nationally negotiated agreements which have been the predominant mechanism for setting set pay norms for unionised workers for much most of the past thirty years in Ireland (see Gunnigle;

McMahon & Fitzgerald 1999 for an outline of agreements).

Looking first at the case of *Healthco*, we find that it has consistently agreed pay increases above the norm set down in national agreements. A case in point is the most recent pay settlement in Hospital Devices (Plant 3) where a pay claim by SIPTU, the trade union representing general workers, was referred to the Labour Court which recommended pay increases of over 13% over two years, plus a further increase of €6 per week, and other improvements in terms and conditions. This amounted to a total award equivalent of 15.5% which an Industrial Relations News (Industrial Relations News (IRN) 2002) analysis found was "a good deal higher than the final phase pay award under the Programme for Prosperity & Fairness" while a related IRN analysis found that that *Healthco* concluded the largest number of 'above the norm deals' during the second year of the *Programme of Prosperity and Fairness* [PPF] (IRN 2002).

A similar trend is evident in *Pharmaco*. Indeed recent negotiations on the implementation of the final phase of the PPF resulted in the following agreement. In return for significant changes in working practices, operatives in *Pharmaco* received a 16% pay increase in excess of the PPF. This will bring these operatives basic pay rate to €679.31 per week. Employees in the newly merged plant also received an additional payment of €12.70 per week to harmonise their rates with those in the other plants. The deal also incorporated significant improvements in sick pay schemes (IRN 2002). The report further indicated that *Pharmaco* had agreed pay increased significantly above the norm set out in national agreements even before the 'Celtic Tiger' boom of the 1990s.

The Industrial Relations Climate

In evaluating the IR climate in our case firms, we find quite a contrasting picture. In *Pharmaco*, the evidence points to quite an adversarial climate of management-union relations, particularly the older plants. Indeed, the IR landscape in *Pharmaco* is quite complex with seven different trade unions recognised for collective bargaining purposes. Our interviews with management at various levels found the trade unions in *Pharmaco* are seen being extremely tough and aggressive in negotiations with industrial action not uncommon. Management did

report a desire to avoid strikes, but not at all costs. The Production Manager reported that the corporate management in the US had a large say in whether the company could stand its ground and risk a strike. Referring to one particular incident he noted:

> The last thing you want is New York saying, 'What the hell is going on, that you are in dispute?' But at times you have to take a stand or else you are going to be seen as very weak management as well. So you have to give people every option you can to put out but some people just dig their heels in and say you know, and they keep pushing. That comes to a breaking point eventually. Disappointing, but I think you can't give in all the time either… One of the guys from New York called a lot of the shots as regards to whether we could or could not have a strike. We'd advised him that we think this is an issue we can make a stand on, but New York said, 'I'm sorry but you cannot afford a strike now.

Many of the interviewees pointed to the long legacy of industrial disputes and at the time of writing unions and management were in a cooling off period following the settlement of a recent dispute. The heavy day to day IR demands on management was mentioned by a number of people: for example, the Production Director estimated that he spent 'fifty to sixty per cent of his time on IR issues', while the Head of Employee Resources commented that "you could never relax nor take your eye off the ball" when it came to IR issues. This is at odds with much mainstream literature which suggests a decreasing emphasis on IR issues at workplace level over recent decades (cf. Milward *et al* 2000; Purcell & Ahlstrand 1994). At a minimum it certainly reflects the enduring significance of IR in the management of *Pharmaco* Ireland.

The *Healthco* experience provides quite a contrast. Management, union and employee respondents felt that management-employee relations were 'very good' and all pointed to the positive IR climate which existed in the facility. For example, the Chief Shop Steward (general workers) gave management-employee relations a score of '8 to 10 out of 10', when asked to rate such relations on a 0 to 10 scale. Both sides spoke of respect for one another and a "great" working relationship. When asked to elaborate, the Chief Shop Steward commented as follows:

There would be the occasional blip but all in all, we (union and management) find that we get on very, very well. It is all down to respect - respect for one another's roles. We know they have to manage, they know we have to represent the people. But all in all, I can honestly say that there is a lot of respect there on both sides. We give it and we get it. It's not posturing.

In our discussions with managers, employees and union representatives in *Healthco,* we came across numerous instances of union-management co-operation. At the time of our investigation the manufacture of certain products was being transferred to third party suppliers in Hungary, a decision based on the lower cost of production there. We found that the trade unions in *Healthco* unions have co-operated with this move, while at the same time lobbying senior management to secure replacement products and maintain employment in the Irish facility. Another example of union-management co-operations related to the recruitment of students to work over the summer period (2002) to compensate for the level of absenteeism at the time. Management initially anticipated union opposition but as it turned out, the unions were happy to accept this approach. We also came across instances where union representatives in *Healthco* helped to 'actively manage' work related problems on the shop floor, as illustrated in the following example quote from a SIPTU shop steward:

I think we (the union) get a lot of respect here from management because we really do try to enforce what we promise on the floor and deliver on it. You'd often hear our head shop steward telling some of the girls to get back to work if they were sitting around chatting and there was no supervisor around.

Shop Steward 2

On the issue of the autonomy of the Irish management team in dealing with IR issues she felt that 'by and large' the power existed within local management to deliver on most agreements. The second shop steward responded:

Oh, we have lots of rows but we get a lot done… .We've done more than we ever get credit for. People on the floor say 'go on, give them hell'. There is only so much they can give us. They're not God, we're not God….Its better to have a good working environment and still get a rea-

sonable amount of money. We get on very well and there is a good relationship between the management and us…

Looking at the IR history of *Healthco* Ireland, the HR Director spoke of a "them and us type situation" in the early days of Plant 1. He said that young managers and young people in general populated the plant and that some "people management mistakes were made along the way". He felt that *Healthco* Ireland "had got ahead of itself" by the mid 1980s and management decided to undertake a rationalisation programme in 1987. Some one hundred employees took the voluntary redundancy package on offer at the time.

We found that Corporate HQ in the US was initially reluctant to go down this route, as they feared for the IR repercussions. However, they eventually acceded to the Irish senior management team's insistence that it 'needed to happen'. The General Manager (country leader) claimed that a 'cultural change' also began at this time to reduce 'demarcation and inflexibility'. This was partially expedited through a Total Quality Management (TQM) initiative involving the devolution of greater autonomy to shop floor workers.

A change in organisation structure was also embarked upon involving a reduction in the number of hierarchical layers (shop floor to top management) from six to three. During the implementation of this 'flatter structure' and TQM initiative a six-week strike ensued involving the trade union representing craft workers (the Technical Engineering and Electrical Union [TEEU]). Our interviews with members of the management team suggested that while the explicit perception was that this strike related to a demarcation issue (GMOs doing some work which had previously been seen as the responsibility of craft categories), the real issue was more procedural in nature. Management wanted craft workers to sign a form indicating when and how they had fixed a particular machine, thereby taking responsibility for it. In response TEEU members submitted a claim for additional pay on the basis that this would extend their job description. Significantly, the general workers/SIPTU did not support this action.

According to the HR Director, management did not change their position and the strike ended with little or no lost production. It would appear that the Irish

management team, acting on their own initiative, deliberately set out to face down the craft union on this particular issue. Since then, both management and employee reps indicated that IR had largely 'calmed down' with regard to what now pertains. Nevertheless, *Healthco* still have a number of IR issues to deal with from time to time.

Most recently, a dispute with SIPTU (GMOs) in Hospital Products (Plant 3) resulted in a Labour Court hearing. This related to a comparability claim whereby SIPTU members argued that they should receive the same increases as that awarded to employees in Nutritionals (Plant 2). Management counter argued that it was not 'like work' and so could not be rewarded in the same way. The issue failed to be resolved at conciliation stage and, when brought to the Labour Court, the union's claim was upheld. The Court recommended an increase of 15.5% over two years. Initially, this was rejected by the 420 union members in Plant 3 but when they were balloted for strike action, nearly two-thirds voted against a strike. At the time of writing it seemed likely that SIPTU members will accept the Court's decision .

All in all, the nature of IR in *Healthco*'s unionised plants add up to a picture of conformity with what up the 1980s would have bee consider traditional Irish IR traditions. All of these plants are highly unionised and most IR issues are handled through collective bargaining of a pluralist-adversarial nature, which over time has moved to a more co-operative less adversarial footing. Eschewing the corporate tradition of union avoidance, *Healthco* entered into pre-production recognition agreements with a general and craft union and under the guidance of local management have continued to handle IR issues affecting the great majority of its workers through collective bargaining.

As we have discussed, the *Pharmaco* IR experience is somewhat different and arguably more adversarial in nature, a characteristic of IR there from the early days. In the early 1970's the company experience a number of industrial disputes, which the HR Advisor described as 'crazy strikes over nothing' and 'little more than horse-trading'. Indeed the Head of Employee Resources indicated that he had been faced with seven unofficial disputes within seven weeks of joining the company in 1973. Murray's (1984) research also pointed to a higher level of strike activity and other forms

of industrial action in companies that recognised more than two trade unions. The Director of Finance noted that:

> At the time I moved into my job, we had a known, tough, streetwise group of shop stewards on this site…when we needed anything on this site, we'd sit down and touch base and communicate with them…they'd generally strike and then we'd have to come back again.

The Production Manager concurred:

> Regularly they [the employees] used to go out and come back in again. They would do it to make a protest, you get this kind of stuff.

The Head of Employee Resources observed that the names of militant shop stewards were known to senior corporate level managers in the US and that within about three or four years of him joining, several of these stewards had left *Pharmaco* with redundancy packages. Indeed the Head of Employee Resources expressed the fear that the future of the Irish operation could have been in jeopardy if the IR climate had not settled down:

> I think that if things hadn't changed it would have had major implications for the site, but it did change later on in the early 1980s and settled down.

This may be reflected in the traditionally high levels of demarcation which have been evident in the Irish operation. Indeed the HR Advisor went as far as to suggest that the pharmaceutical sector in Ireland was "the last bastion for demarcation". This view is echoed by the Production Supervisor who noted:

> I think the lines are fairly clearly drawn. If you wanted to, if we wanted to take something on, to try and challenge something. If someone says that a particular task is not their job and we don't agree then we are going to try to challenge that in some format. But to be honest about it the lines are clearly drawn and we know what's allowed and what isn't allowed. We just don't ask people to do something that isn't one of their tasks. For instance, if you have to use a spanner to disconnect lines, that's a fitter, it's not an operator. You don't ask an operator to do it. Whereas if an operator turns a valve with his hand, if there is

a lever on it, that's an operator's job, he doesn't need a tool. On a day-to-day basis you don't challenge it and it goes on month-to-month and year-to-year. It's really only when the agreement comes up for renewal.

However, our findings suggest that IR in *Pharmaco*'s unionised plants retain comparatively militant characteristics to the current day. Management observations on the negotiations which were taking place at the time of our investigations were indicative of the perceptions we found. At this time *Pharmaco* was in the midst of complex IR negotiations relating to the recent acquisition of one of its main competitors, and the integration of the acquired company's Irish production sites into the *Pharmaco* Ireland portfolio. The HR Manager outlined some of the key issues in the negotiation:

> The old (*Pharmaco*) unions didn't want that. They didn't see why the new guys (in the acquired sites) should be brought up to their rates. It's a tough negotiation. We're negotiating the integration and harmonisation, we're negotiating the PPF and with some groups we're negotiating substantial change…It's highly frustrating for me. Some of our unions are as near as you'd get to public sector unions. Incredible stuff.

Looking at the preparation for, and conduct of, these negotiations, it appears that Corporate had significant involvement and are kept well informed during the process:

> The strategy would have been agreed up front with them [corporate]. There's a serious 100 page document covering the negotiations and from the start of the negotiations they would be updated and as we made less progress they became involved and now they're seriously involved in the decision. I'm still on the negotiating team and obviously if we have a problem on any of the sites it will spill over to here regardless of whether I'm dealing with it or not so I'm actively involved in it. But right now they're saying we're actively involved in helping you solve this problem.
>
> HR Advisor

In summarising the nature of IR in our case companies, we can point to a number of interesting trends. Firstly both subsidiaries conformed to traditional host country IR practice through recognising and negotiating with trade unions when they initially established their Irish operations. We point to a number of factors which influenced this decision, namely: the advice of Governmental agencies charged with attracting inward investment and employers organisations to do so; the legacy of the high profile failed attempt of a large US firm to establish on a non-union basis in Ireland, and; the fact that both companies required a number of craft employees, a cohort which traditionally has a high propensity to unionise.

In relation to collective bargaining, we find that both firms have traditionally operated outside national partnership agreements and generally negotiated pay increases above the norms laid now in such agreements. We also see a pattern of increasing corporate influence over IR issues in *Pharmaco*, a trend which had not emerged in *Healthco* to date. Looking at the IR climate differences between both firms emerge: while in the early years of both firm's operations in Ireland, IR took on a fairly traditions pluralist-adversarial characteristics and involved considerable industrial unrest (more so in *Pharmaco* than *Healthco*), more recently we have seen IR in *Healthco* move to a more co-operative basis while in *Pharmaco* an adversarial IR climate pertains to a greater extent.

Contemporary Developments

Turning to contemporary IR developments, perhaps our most significant finding relates to the decision of both companies to adopt a non-union strategy in their more recently established plants. In both our cases we find a trend of increased union avoidance over recent years. This trend is particularly pronounced and consistent in *Healthco*. Initially, union avoidance occurred in relation to the opening of the so-called 'pumps' plant, established as an ancillary service operation to the main hospital devices plant (Plant 1). More significantly, the larger Diagnostics plant which opened in 1994, and the new Pharmaceutical facility, opened in 2003 were also established on a non-union basis. Less surprisingly, the sales and marketing group, based on the east coast has always been non-union. The non-union status of these new plants (pumps, diagnostics and now pharmaceuticals) represents a significant departure from the initial policy of union recognition via post-entry closed shop agreements.

Our research in *Pharmaco* also indicated a trend towards union avoidance in a recently established plant. We noted earlier that corporate management in *Pharmaco* appeared to accept the presence of unions in the Irish operation, although interviewees did indicate that US management did not fully understand the union situation and had a certain distrust of unions. The following quote from the Managing Director is indicative of the opinions we elicited:

> Yes, I would say that the US, New York company has a level of suspicion, distrust, dislike, whatever you want to call it, of unions.

This may suggest that senior management in *Pharmaco* demonstrate a sense of anti-unionism, which is commonly identified in the literature as distinctive of US companies (cf. Jacoby 1985; Kochan *et al* 1994). The establishment of the company's tablet plant which opened on a greenfield site in 2000, employing 200 people, is based around the concept of autonomous work teams and operates as a non-union site which may be interpreted as a further indication of the company's reluctant acceptance of trade unions in the other Irish *Pharmaco* facilities.

In explaining the non-union status of *Healthco* Pumps and Diagnostics plants, senior management indicated that 'pumps' largely employed technicians, while 'diagnostics' was their high tech facility, which initially only employed engineers and other qualified technical categories, all of whom, management claimed, 'were not pre-disposed to take up union membership'.

While the pumps facility is still largely staffed by technicians, the Diagnostics plant now employs a significant number of general operatives, posing the conundrum of why these have not sought to unionise. Here the management argument was twofold. They suggested that the operative level employees in Diagnostics were mostly quite young and thus 'not all that pushed' about union membership (HR manager). Secondly, they argued that the company treated employees well, both in terms of pay and the general quality of work life, and thus employees had little incentive to unionise.

> A few years ago they (a section of employees in diagnostics) made moves to say they wanted to join a union but that was overcome with increased communication. The plant had grown

so fast and I think they were disgruntled at how things had changed.

> HR Director, *Healthco*

By and large, it appears the company encountered little serious union opposition to its decision to go non union, initially in pumps, later in Diagnostics and most recently in the new Pharmaceuticals plant. The opinion of the Chief (SIPTU) Shop Steward is instructive here:

> Not once did SIPTU even make a play for the pumps plant or the new one. It surprised me to say the least.

While pursuing a non-union strategy in the Pumps facility, Diagnostics and Pharmaceuticals is clearly a departure from tradition for *Healthco* Ireland, it is very much in line with the recent practice among new inward investing companies (see Gunnigle 1995 and later discussion). However, the concurrent employment of union recognition in some (older) plants and union avoidance in other (newer) plants, often called 'double breasting', represents a surprising departure in the Irish context (Beaumont & Harris 1992; Salamon 2000).

Hitherto, the conventional wisdom was that older MNCs, which had recognised unions from the outset, largely maintained this approach, while newer MNCs, particularly those in the ICT sector, tended to opt for non-union status (Gunnigle 1995; Gunnigle O'Sullivan & Kinsella 2002; Geary & Roche 2001; Roche 2001; Roche & Ashmore 2000)). The *Healthco* case raises the spectre of union avoidance becoming a growing trend among longer established MNCs with a record of active engagement with collective bargaining and associated pluralist industrial relations traditions. To date use of 'double-breasting' appears to have been relatively unproblematic for *Healthco*. However, this may not always be the case. An immediate issue facing the company is the impending move to re-locate the non-union pumps facility to the site of the unionised hospital products plant:

> The challenge for us is that we're looking to move our pumps operation from two miles away and bringing it up here (Hospital Products, Plant 1). Then you'll have union and non-union side by side. That would cause concern. We'd have a separate entrance for them but they would be in the same canteen. I still think we'll

get away with it. If you were a union rep coming in to recruit in this area, it's very hard to tell the engineer from the technician. They are both doing a very similar job.

So what was the management rationale for going non-union in the more recently established plants and what specific approaches, if any, did management use to expedite this policy? Perhaps the most immediate question which springs to mind, given our findings on the existence of 'good' management-employee relations in *Healthco*, is why might management diverge from a tried and trusted approach which appears to have worked well, and, most pertinently, from where did the decision to go non-union emanate? Interestingly, our findings suggest that the decision to go non-union was taken by the Irish (top) management team:

> It was the preference of Irish management but it was also what US (corporate) management want. If local management had wanted to go the union route, we could have convinced corporate to agree. It was our preference
>
> HR Manager, *Healthco*

Our discussions with the management team further indicated that while the decision was made locally, without corporate direction, it was one which the Irish management team knew would 'go down well' at corporate level. On the question of 'why go non union', this seemed largely a management decision conditioned by a number of factors. Firstly, as mentioned above, management seemed fairly confident that they would encounter limited union opposition to such a policy. Second, they felt that, on balance, it would make management's task easier in the new facilities.

In our attempts to get management to elaborate on this latter rationale, it seems that management felt that even small changes are sometimes difficult to implement in the unionised plants and that non union status gives management the 'ability to get changes done quicker' (HR Manager). However, as we have mentioned the choice to go non-union was not an absolute priority with the Irish management, simply a preferred choice, which they would implement if it could be achieved in a straightforward manner. The following comment from the HR manager with responsibility for both unionised (hospital products, plant 1) and non-union plants (pumps and diagnostics) largely reflects the bal-

ance of opinion among the management team on the decision to go non-union:

> It is not a huge issue though, just a preference. We don't have militant unions here. We get on fine. Going non-union is less hassle, especially with the operators. Here (plant 1) we meet with SIPTU formally once a week and informally almost every day. The TEEU situation is much easier; we meet formally once a year and have good relations with them. Demarcation can be a bit of an issue between the two operator grades but it's not huge.

In elaborating on the management argument that going non-union made the implementation of 'minor changes' easier, the HR manager gave the following recent example:

> Just recently at Christmas, we didn't want to work the Monday before Christmas, so we wanted our people to work the equivalent of a short day – 5 hours – the previous week, at the normal hourly rate, to get the production done. In the non-union plant it was no problem. In union plant the SIPTU workers couldn't agree - some would, some wouldn't. The Craft workers said no: they would have to work the Saturday and normally expect time and a half. It was just too much trouble and took up a lot of time (in the union plant).

We have earlier seen that another element in the management rationale for going non union in the new facilities was the suggestion that since these plants initially employed mostly technicians (pumps) and engineers/scientists (diagnostics) whom, they claimed, were less pre-disposed to unionise, this meant there was little pressure to recognise unions of the outset. The use 'staff' categories to carry out work traditionally done by craft employees reflects a broader trend identified in the early 1990s and we consider this issue more fully in our discussion later (Gunnigle 1995; Gunnigle, McMahon & Fitzgerald 1999).

Discussion and Conclusions

Earlier we noted that MNCs may act as sources of both innovation and interruption in regard to host country IR practice. Looking at the evidence from both our case firms we find what appears on initial review to be a relatively traditional picture.

Healthco initially recognised two trade unions representing manual and craft categories. *Pharmaco* entered into similar pre-production agreements with three trade unions, one representing manual and two union representing craft categories. Pay and other major IR issues in these plants are handled via collective bargaining, conducted separately for each of these employee categories and handled on a plant by plant basis in both firms.

We have seen that the practice of entering into union recognition agreements at start-up stage was a standard feature of IR practice in the FDI sector in the 1960s and 1970s. These 'sweetheart deals' as they became known, allowed new firms prescribe which trade unions it wished to deal with. Such agreements were based on post-entry closed shop arrangements, whereby workers were required to become and remain members of a particular union while in that firm's employment (Kelly and Brannick 1984; Enderwick 1986; Fennell & Lynch 1993).

In the *Healthco* case, on taking up an offer of employment all general workers were obliged to join the general workers union, while a similar proviso applied to craft workers joining their particular trade union. A similar story emerged in *Pharmaco*. The decision to recognise trade unions and engage in collective bargaining in both these firms clearly aligned their IR approach to the prevailing trend among inward investing MNCs of the time. It also represented a departure from both companies non-union status in the US. It seems that the advice of the local Irish management team, the IDA, and the main Employer Association in the country (Federated Union of Employers) convinced Corporate HQ to go the union route.

It is also significant that in relation to collective bargaining, both companies operate outside national agreements, and have separate plant level agreements at each of their unionised sites. It should be noted that the Irish 'system' of collective bargaining is grounded in voluntary principles, relying on the moral commitment of the participants to implement agreements achieved through the bargaining process. In the context of centrally negotiated agreements therefore, employers and trade unions are free to adhere to, or deviate from, the terms of such agreements.

There is no legal compulsion to stick to the terms agreed. Firms which do not follow centralised agreements, are free to negotiate terms which exceed or are less than those laid down in such agreements. However, it has recently been noted that MNCs largely 'came into line' and adhered to centrally agreed wage norms during the most recent period of centralised bargaining (Geary & Roche 2001). However, we found that over recent years both companies have consistently agreed 'above the norm' pay deals with its unions. As noted earlier, an recent analysis of pay agreements found that in 2002 both of our case firms as having negotiated 'key local pay deals' above the terms set down in the PPF in 2002 (*Industrial Relations News*, report). In this regard, the Industrial Relations News reports identified pharmaceuticals and healthcare as the sectors with the consistently largest numbers of 'above the norm deals', labelling them as 'normally recession-proof' sectors which appear to be 'carrying on business as usual' (*Industrial Relations News* 2002b, 20). Thus, it seems that the tendency for these firms to agree 'above the norm' deals largely relates to sectoral factors rather than managerial choice. We consider this issue further below in our discussion of rewards.

While it is clear that collective bargaining goes on as normal in *Healthco*'s and *Pharmaco*'s unionised facilities, the shift to non-union status in its newer plants represents by far the most significant IR departure since these firms arrived in Ireland. Having first established its small 'pumps' facility on a non-union basis in 1993, *Healthco* has since opted for non-union status in both its Diagnostics (1994) and Pharmaceuticals (2003) plants. Again this decision appears to have been taken by the Irish management team, albeit in the knowledge that it accorded with the preference of corporate management. Likewise the decision by *Pharmaco* to take the non-union route seems to have been primarily driven at subsidiary level.

Regardless of the source of these decisions, the adoption of union avoidance strategies by both these major MNCs gives support to the argument that host country effects are increasingly being overridden by the country of origin effects in regard to HRM practice in the MNCs. Ireland is of course not alone in this. Thus, the UK Workplace Industrial Relations Surveys indicate a fall in union recognition among newly established companies (Cully *et al* 1999) and even in the US, where

employers have traditionally opposed union recognition, there is evidence of an increased intensity in opposition since the 1980s (Blanchflower & Freeman 1992; Kochan *et al* 1986).

However, the concurrent adoption of union recognition and avoidance in sister plants does appear novel in the Irish context. We know that union de-recognition4, which Bassett (1986) identifies as the "sharpest form" of union avoidance, is quite uncommon in Ireland, although the UK witnessed some important cases since in the 1980s (Salamon, 2000). While neither case entails de-recognition, they are examples of so called 'double-breasting' arrangements whereby a multi-plant organisation recognises trade unions in some (long established) plants but does not concede union recognition in other (more recently established) plants (Kochan *et al* 1986; Beaumont & Harris 1992; Blyton & Turnbull 1994). In addition to the progressive trend of increased union avoidance among new MNCs in Ireland, any widespread use of 'double breasting' among older MNCs would create additional problems for trade unions here, particularly given the recent industrial policy focus on getting existing MNCs to deepen their roots in Ireland.

On the reasons why Healthco has chosen to operate on a non-union basis, our earlier analysis pointed to three major factors. Firstly, management believed they would encounter little union opposition to this decision; secondly, management felt 'on balance' going non-union would make their managerial task easier in the new facilities; and finally, they believed that because the initial employees in the new plants were either technicians or professional/managerial grades, these would not seek to take up union membership. Although not explicitly advanced as a reason for going non-union, a plausible explanation for Pharmaco's decision could be the need to avoid disruption to production as a result of strike action, a desire likely which is probably increasing at corporate level, given the increasing significance of the Irish operation to the Pharmaco's portfolio. The following quote from the HR Advisor illustrates the significance of the Irish operation:

> If something went badly in Cork there was massive repercussions. You've also got to remember that Ireland is the base for XXX [a company product] which is XXX [one of the biggest selling drugs in the world with millions of dollars

of revenue] and its just huge for us and all the bulk is being manufactured here. All is being tableted here and the base for XXX [that product] is Ireland from a tax point of view.
>
> HR Advisor, *Pharmaco*

In this regard the Senior HR Specialist reiterates Corporate's primary concern with regard to industrial relations issues:

> Their primary objective would be to avoid any strike action, I would imagine ultimately. Continuity of production.
>
> Senior HR Specialist, *Pharmaco*

Clearly a key factor in both subsidiaries decision to go non-union was the Irish management team's capacity to choose this alternative. Numerous commentators have noted Ireland's long track record in competing aggressively for FDI. Having pursued a protectionist approach to industrial development since independence, Ireland reversed this policy stance in the late 1950. With the objective of creating a more open economy, the country sought to attract FDI through a serious of incentives, including a generous subsidy programme based partly on the promise of jobs but also including, where appropriate, grants and subsidies, together with an extremely attractive low rate tax rate on profits.

An additional attraction of Ireland, especially for US MNCs, is its comparatively lightly regulated industrial relations environment. Given its public policy emphasis on attracting FDI, successive Irish governments have sought to position Ireland a 'new' economy: pro-business and enterprise, and an attractive location for FDI (Gunnigle, O'Sullivan & Kinsella 2002). As we have seen earlier this has resulted in our the industrial promotions agencies promoting Ireland as a 'union neutral' location, allowing employers to choose to unionise or not. Ireland thus competes for FDI on a number of dimensions, one of which is the absence of constraining IR institutions which might impose an alien HR/IR (home country practices) on inward investing MNCs, as is seen to be the case in countries such as German (Royle 2000). Indeed the opposite is the case: like the UK, Ireland has a comparatively weakly regulated IR environment with the consequence that US MNCs experience little institutional pressure to adapt or alter their HR/IR practices. This is particularly evident in regard to union avoidance where US MNCs have

long been to the fore. Similarly regulation in areas such as works councils, employee participation and employment rights are generally less developed in Ireland than countries such as Germany. Cooke (1997) found a strong negative correlation between the extent of labour regulation and levels of FDI while related work pointed to the influence of labour regulation on the location of U.S. FDI (see Cooke & Noble 1998).

Several commentators have identified the density of labour regulation in particular EU states as a negative factor for many inward investing MNCs, particularly those of US origin (Dunning 1993; Cooke 1997; Sparrow & Hiltrop 1994). Traditionally, MNCs have been averse to labour regulations seen as interfering with the mechanics of the market and restricting their freedom to manage (Dunning 1993). In Ireland, an qualitative study of US MNCs which had chosen to establish significant subsidiary operations in Ireland found a "high degree of satisfaction with levels of labour regulation in Ireland", with the majority indicating that:

> …..Ireland compared favourably with other destinations: i.e. they experienced comparatively lower levels of labour regulation…... Thus, Ireland was perceived as having a have a 'pro-employer' focus, particularly in contrast to certain other European countries.
> Gunnigle & McGuire 2001, 58

The following quotes from the same study provide some insights on the opinion of senior US MNC executives on the impact of labour regulation (both these executives had played a key role in the management team which selected Ireland over other competing EU destinations, see Gunnigle & McGuire 2001, 58-59):

> US Multinationals look very closely at labour regulation - freedom of operation is socialized into their value system. Germany is very regulated, through, for example works councils, and employers are in a straight-jacket. This encourages a more conservative approach to employment creation. This is not nearly the case in Ireland, which is more employer friendly.
> Vice President (HR),
> Company J (Electronics)

> In terms of implications of labour regulation, especially in comparison to the UK, if Ireland

keeps it's advantages in other areas, such as labour quality/supply, then it will be OK, if not, then more labour regulation will be a serious problem and a disincentive to locate here for high-tech companies. This is a very unforgiving sector.
> Director and Vice President (Taxation),
> Company C (Electronics))

In essence, both these cases demonstrate the capacity of US MNCs in Ireland to implement HR policies (in this instance, union avoidance) which align with corporate HR practice. Such capacity emanates from Ireland's weakly regulated IR/HR context which allows inward investing US MNCs much greater scope to implement their home country practices than is the case in most, if not all, EU countries. It also reflects the recalcitrance of Irish trade unions to engage employers on the issue of union recognition, in this instance employers with track records of union recognition in other plants.

Appendix 1. Interview Schedules

Pharmaco				Healthco			
Gender	*Position*	*Years with company*	*Years in current role*	*Gender*	*Position*	*Years with company*	*Years in current role*
Male	Managing Director	17 years	7 years	Male	General Manager	28 years	1 year
Male	Head, Employee Resources	23 years	9 years	Male	HR Director	23 years	5 years
Male	Director of Finance	30 years	7 years	Male	Financial Controller	16 years	6 years
Male	Manu-facturing Leader	23 years	3 years	Male	Product group manager	22 years	5 years
Male	Production Manager	7.5 years	3 years	Male	Department Manager	9 years	1 year
Male	Production Supervisor	3 years	3 years	Male	HR Manager	5 years	1.5 years
Female	Senior HR Specialist	1.5 years	1.5 years	Female	Team Manager 1	18 years	2 years
Male	HR Advisor	2 years	2 years	Male	Team Manager 2	8 years	4 years
Male	HR Manager	4 years	4 years	Female	Team Manager 3	16 years	1 year
				Female	Team Manager 4	21 years	3 years
				Female	GMO (Chief Shop Steward)	20 years	20 years
				Female	GMO (Shop Steward)	25 years	25 years
				Female	GMO 1	9 years	8 years
				Female	GMO 2	7 years	7 years

Notes

[1] This paper draws on a study of IR and HRM practice in Irish subsidiaries of U.S. MNCs. It is part of a larger comparative study covering four European countries: Germany, Spain, the U.K. and Ireland. The overall project is co-ordinated by Professor Anthony Ferner, De Montfort University, U.K., and involves researchers from De Montfort, Kingston and Warwick Universities, U.K., University of Trier, Germany and IESE Business School, University of Navarre, Spain, in addition to the University of Limerick, Ireland.

[2] In this report we have not provided the full references to any documentation which would reveal the name of the company.

[3] The FUE (Federated Union of Employers) was the primary employers organisation in Ireland at the time. The name changed to the Federation of Irish Employers (FIE) in 1989 and later the FIE merged with the Confederation of Irish Industry in 1993 to form the Irish Business and Employers Confederation (IBEC).

[4] Claydon (1989) defines union de-recognition as "a decision to withdraw from collective bargaining in favour of other arrangements for regulating employment relations".

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Individual, Organizational and Work-Related Determinants of Employee Well-Being

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Abstract

In the context of major changes in the external environment experienced by companies and other organisations as well as changes in work demands and the contractual position of employees, employee well-being has become an issue that cannot be simply swept away. Employee ill-being is expensive for the company, the individual and the entire society. The purpose of this study is to identify the individual, organisational and work-related predictors of employee well-being. Well-being will be measured using four indicators: the work ability index, the psychological well-being scale, the general satis-faction scale and the emotional exhaustion scale. The work ability index failed to correlate with the other three well-being scales or the individual, organisational or work-related variables. The best predictors of employee well-being were work-related variables such as the mental demands at work, participation, job insecurity and conflicts at work, and also two individual health behaviour indicators: alcohol drinking and physical exercise. The results emphasise the crucial role of super-visory skills in creating a good and secure employment relationship and working environment.

Introduction

The external environment of companies and other organisations has changed radically within the past decade. Increased international competition and the globalisation of businesses and organisations through rapid technological change and higher customer demand for products and services have affected the organisation of work and the position of employees. Restructuring and downsizing and the attendant new patterns of working as well as an increasing stringency in the use of labour have had an impact on employee well-being and workability (Vahtera *et al* 1997; McDonough 2000; Dunham 2001). In addition, the employers' concerns about the diminishing age cohorts entering working life, after the baby-boom generations started to approach retirement or early retirement age, have fostered an interest among employers in employee well-being in general.

The concept of employee well-being refers to psychological well-being, which consists of several components including affective well-being, job satisfaction, competence, autonomy, aspiration, anxiety, burnout and depression (Warr 1990 & 1994; Ryff & Keyes 1995; Daniels 2000; Holman 2002). Generally speaking, affective well-being consists of frequent experiences with a positive affect, and researchers have identified different affective well-being structures (see, e.g., Daniels 2000). That is why several measures of well-being are also applied in this study.

The focus of this paper is thus employee well-being. The *purpose* is to evaluate the impact of individual, organisational and work-related factors, derived from employee and company-level surveys, on employee well-being. The paper is part of a large project involving the Finnish Institute of Occupational Health, Helsinki School of Economics and the Central Pension Security Institute in Finland focusing on organisational practices, company performance and employee well-being (Tuomi 2000; Tuomi & Vanhala 2002).

Prior Research on Employee Well-Being

The interest in psychological well-being in organisational research can be traced back to the studies by Elton Mayo in the 1930s. There are a lot of defi-

nitions and measures of psychological well-being. At one end, work-related well-being is operationalized as job satisfaction (Clegg & Wall 1981), at the other end, there is a whole variety of components and sub-components of psychological well-being such as aspiration, autonomy and competence (Warr 1990 & 1994; Ryff & Keyes 1995; Daniels 2000).

Employee well-being covers both physical and mental well-being. Occupational health and safety protection legislation has focused on the protection of employees' physical safety, while attention paid to the mental well-being of employees has a much shorter history. In Finland, mental health protection was included in the Occupational health and safety protection legislation in 1988 (Suviranta 2000).

The need for paying attention to the promotion of the workability and well-being of employees has increased after the economic recession in the early 1990s. In order to survive and succeed, mergers and acquisitions, employee layoffs and re-engineering and reorganisation of jobs and employment relationships were applied. At the same time, the academics of HRM focused attention upon the relationship between HRM (or strategic HRM) and company performance emphasising the role of human capability in company success (Pfeffer 1995; Guest 1997; Lähteenmäki *et al* 1998). At the rhetorical level, managers repeatedly stated that employees were the most important assets of the company, at the practical level, labour costs were decreased by all measures available. This meant that there were fewer people in work, doing more in less secure employment situations. For instance, in Finland, the same value of GDP produced in 1990 was produced six years later by nearly 400,000 (~20%) less employees (Statistics Finland 1997). In addition, the growing concern among political decision-makers and employers seems to be how to retain the competitive ability of Finland in a situation in which diminishing age cohorts are entering working life and the large baby-boom age groups are approaching retirement or early retirement age.

Researchers have found that the recent trend in the restructuring and downsizing of organisations has led to an increase in perceived job insecurity (Worral & Cooper 1998; OECD 1999). The actual increase in job insecurity has been minor. In Finland, the perceived job insecurity was highest at the bottom of the recession in the early 1990s, after

which, for example, the fear of lay-off is still a concern in about 10% of all employees (Ylöstalo 2002). In most cases, the reductions in the number of employees have been carried out by "natural labour turnover", i.e., new employees are not hired and fixed-term contracts are not renewed. According to several studies (e.g. Borg *et al* 2000; McDonough 2000) it has been perceived that, from the point of view of employee health and well-being at work, it is insecurity that contributes most (negatively).

Prior research on HR practices has demonstrated that HR practices can have a positive effect on employee well-being. Such HR practices are, for example, training and development, performance appraisal and fair payment systems (Spector 1987; Blau 1999; Deery *et al* 2002). Based on prior studies on the effects of performance monitoring, Holman (2002) concludes that in such cases where performance monitoring was used developmentally rather than punitively, it was positively related to well-being. Such is also the case with team leader, supervisory or peer support and job design; the interpersonal contacts may be pleasant or unpleasant (e.g., Burke *et al* 1984; Leiter & Maslach 1988; Kickul & Posig 2001). In Browne's (2000) study on the relationship between HRM practices and organisational effectiveness, employee stress and satisfaction revealed that all measured HRM practices (employee communication, recognition, internal career opportunities and continuous improvement) were positively related to organisational effectiveness and employee satisfaction, and four out of five measures of HRM practices were negatively related to stress. The HRM practices concerning internal career opportunities were also negatively (but not significantly) related to employee stress. In Browne's study, the measures representing HRM practices were better predictors of organisational effectiveness and job satisfaction than employee stress.

According to several studies (Schulz *et al* 1995; Kalliath *et al* 2000; Simola 2001), there is a strong relationship between the employees' perceived organisational practices in their own work-organisation and employee well-being.

There is a great deal of evidence that an employee's level of control over their own work has effects on health and well-being. Low levels of personal control have been found to be psychologically harmful, while greater levels of control/perceived

control seem to be associated with higher levels of well-being (Spector 1986; Mullarkey *et al* 1997). There are also indications that performance-appraisal and merit-pay systems can contribute to heightened burnout and employee ill-being (Gabris & Ihrke 2001).

There has been an increase in different working time arrangements. The impact of working time arrangements on employee well-being varies according to the nature of the arrangement. For instance, the impact of flexible working hours on well-being has proven to be in most cases advantageous – but also disadvantageous. This can be explained according to whether employees have control or choice over their work schedules or not (Sparks *et al* 2001).

There are a few studies focusing on the causal direction of the relationship between job characteristics and employee well-being. For instance, the job characteristics model by Hackman and Oldham (1980) assumes that job characteristics affect employee well-being, not vice versa. This means that the causal direction is seen as being unidirectional. There are, however, studies that indicate a reciprocal nature between job characteristics and well-being; i.e., in addition to a direct causal relationship from job characteristics to well-being, well-being also affects how employees perceive the job characteristics (Daniels & Guppy 1997). Jonge *et al* (2001) tested the reciprocal relationship between job characteristics and psychological well-being. The study indicated that job characteristics themselves are relatively important predictors of employee well-being. The results did not invalidate the evidence supporting a reverse causal relationship; it was, naturally, much weaker than the direct relationship.

The buffering effect of supervisory emotional support on employee well-being and, especially, burnout has received a lot of attention among researchers. According to some studies, the amount of supervisory support an employee receives in stressful situations, serves to buffer or reduce the effects of job stressors (Kirmeyer & Dougherty 1988; Fried & Tiegs 1993), while other studies have not found support for the buffering effect (Kaufmann & Beehr 1986; Burke & Greenglass 1995).

The concept of healthy organisation (e.g. Browne 2002) involves, in addition to the well-being of employees, also effectiveness and company performance. The relationship between company performance and employee well-being is complicated. Company performance may explain employee well-being: successful companies have slack resources (Vanhala 1991), they can afford to invest in employee well-being – or company performance is higher because of laying off people and intensifying the work, which may result in ill-being, dissatisfaction and/or burnout. The third alternative for the relationship is that investing in employee well-being would result in better performance.

Methodology

Empirical data was gathered from the metal industry and retail trade in Finland. The target groups in the study included the management (company level data; N=91) and employees of these companies (individual level data; N=1389). Empirical data was collected using a survey method. The managerial survey was distributed in 1999, and the employee survey, as the second round of data collection, was distributed in 2000. The first phase in these same companies and which targeted the same respondents took place in 1997 and 1998 (Tuomi & Vanhala 2002).

Measures

Employee well-being was measured by four combined scales (Appendix 1):
Work Ability Index (Tuomi *et al* 1997). The Work Ability Index consisted of seven items, and its values vary between 7 (low) and 49 (high) (Cronbach's α=.80).
Psychological well-being was measured using a shortened version of a GHQ (General Health Questionnaire) (Cooper & Cartwright, 1994). The items range from 1 (low) to 4 (high) (α=.90). The combined scale was recoded into a 5-point scale ranging from 1 to 5.
Bradburn's (1969) five-item scale measures general *satisfaction* and well-being and ranges between 1-5 (α=.86).
Emotional exhaustion was measured using a modified version of the Maslash Burnout Inventory (MBI) (Maslach & Jackson, 1981). The measure covered 7 items, and the scale applied ranged from 0 (never) to 6 (every day) (α=.90). The scale was recoded into a 5-point scale (1-5).

The means and correlations between the work ability index, psychological well-being, general satisfaction and emotional exhaustion are presented in Table 1.

Table 1. Means, standard deviations and correlations between employee well-being measures

	range	mean	sd.	1 WAI	2 GHQ	3 GS	4 MBI
1 Work ability index (WAI)	7-49	40.77	5.66				
2 Psychological well-being (GHQ)	1-5	3.20	.90	.03			
3 General satisfaction (GS)	1-5	3.20	.76	.06*	.44***		
4 Emotional exhaustion (MBI)	1-5	2.03	1.03	-.08**	-.52***	-.38***	
N				1109	1342	1333	1333

$p<0.05*$, $p<0.01**$ and $p<0.001***$

The mean value of the work ability index is relatively high; psychological well-being and general satisfaction are above the mean of the scales and the level of emotional exhaustion is relatively low (if attention is not paid to the fact that any degree of emotional exhaustion is too high). The work ability index does not correlate highly with the other three measures; instead, psychological well-being, general satisfaction and emotional exhaustion are strongly related to each other.

The *individual-level factors* applied in this study were gender (1=female, 2=male), age (19-65), children at home (0-3), basic education (1-3), position (1=blue-collar worker, 2=white-collar employee, 3=management) and tenure (2-40). *Individual-level health behaviour* habits asked about were: smoking (0=never, 4=daily), drinking alcohol (0=never, 6=daily) and physical exercise during leisure time (1=a few times a year or less, 4=three times a week or more).

The *organisational-level factors* applied were: sector (1=retail trade, 2=metal industry), size of the company (10-2100), priority of internal recruitment (range 1-3; 1= low, 3=high), stringency of recruitment policy (4 items, ranging between 1-3), percentage of employees who participate in company training (0-100), coverage of profit sharing scheme (1=none, 2=part of employees, 3=all employees), flexible working hours (3 items; 1=low, 3=high), atypical employment relationships (3 items; 1=low, 3=high) and promotion of employee well-being (3 items; range 1-5; α=.56). In addition, *company performance* was measured partly by financial indicators and partly by managerial evaluations concerning the position of his/her company when compared with the competitors in the same field (ten items).

The financial indicator applied in this study is the gross margin percentage in 1998 (ranging between

−43.0-35.8). The factor analysis of the company performance measure produced three factors: competitiveness (4 items; range 1-5; Cronbach's α=.82), success in product/service development (3 items; range 1-5; α=.59) and the ability to keep key employees committed with the company (3 items; range 1-5; α=.86). All these company-level measures were picked from the company survey in 1999 (91 companies). For the analyses, the company-level values of each company were added to the responses of the employees concerned.

The *work-related factors* represent the employees' own view of the situation in 2000 (employee survey). The work-related factors measured were: supervisory support (4 items; range 1-5; α=.88), conflicts in the workplace (6 items; range 1-5; α=.87), job insecurity (5 items; range 1-3; α=.80), opportunities for participation (7 items; range 1-5; α=.86), organisation of work (5 items; range 1-5; α=.78), mental demands (4 items; range 1-5; α=.67) and physical demands of the work (9 items; range 1-3; α=.86).

Analyses

Factor, correlation and linear regression analyses were applied. Factor analysis was applied to reduce data for the combined scales. The reliability of the combined scales was measured by computing Cronbach's alpha coefficients. Most of the alpha coefficients were over .80, which means that the combined scales are internally consistent. The lowest value was α=.56, which is just acceptable but not really high. Correlations and linear regression models were computed separately in the groups of individual, organisational and work-related factors. The final regression modes combined the three levels of variables: individual, organisational and work-related. Actually, we should talk about the final models, because three separate measures of employee well-being were

applied (psychological well-being, satisfaction and emotional exhaustion).

Results

Individual-level determinants of employee well-being

According to the correlation analysis of demographic and two positional variables, women and older employees indicated more mental well-being than men and younger employees when measured according to general satisfaction. The highest correlation was between position and general satisfaction, which means that managers (+ white-collar employees) are more satisfied than blue-collar workers. The work ability index did not correlate with any individual-level variable. It was not, thus, included in the regression analysis.

The health behaviour indicators, smoking, alcohol drinking and physical exercise, did not correlate especially highly with any employee well-being indicator. Alcohol drinking has a statistically significant negative correlation with psychological well-being and general satisfaction, and a positive relationship with emotional exhaustion. Physical exercise is positively related to psychological well-being and general satisfaction. All correlations are relatively low.

A step-wise regression analysis was applied in order to identify the individual-level determinants of employee well-being. In the regression models, alcohol drinking was included in all three models and physical exercise in psychological well-being and satisfaction models. This means that alcohol drinking decreases well-being and satisfaction and increases stress and burnout – or vice versa! The explained variances of all three regression models remain low (2-6%). The individual-level factors best explained general satisfaction.

Company-level variables and employee well-being

There are only a few statistically significant correlations between company-level variables and well-being indicators. Employees in the metal industry are somewhat more satisfied and suffer somewhat less from emotional exhaustion than employees in the retail trade. Priority of internal recruitment has a loose positive relationship with psychological well-being, and flexible working hours and the ability to get employees committed, with the work ability index.

Table 2. Means, standard deviations, correlations between individual demographics & behavioral variables and employee well-being indicators and regression models for the well-being indicators.

	Mean	Sd.	Correlations				Regression models		
			Work ability index	Psycho-logical well-being	General satisfac-tion	Emo-tional exhaus-tion	Psycho-logical well-being	General satisfac-tion	Emo-tional exhaus-tion
			r	r	r	r	β	β	β
Gender	1.57	0.49	-.02	.02	-.11***	-.05	-	-.091***	-.091**
Age	43.19	10.15	.00	-.02	.08**	-.06*	-	.065*	-
Children at home	0.95	1.03	.01	-.00	.02	-.03	-	-	-
Basic education	1.97	1.08	-.03	.01	.00	.03	-	-	-
Position	1.43	0.69	-.03	.03	.17***	-.03	-	.168***	-
Tenure	14.20	8.85	.01	-.02	.05	-.05	-	-	-
Smoking	1.13	1.22	.05	-.05	-.05	.06*	-	-	-
Alcohol drinking	2.07	1.38	-.05	-.07**	-.10***	.10***	-.073**	-.065*	.130***
Physical exercise during leisure	2.85	0.98	-.00	.11***	.07**	-.05	.017***	.069**	-
R2							.017	.055	.017

p<0.05*, p<0.01** and p<0.001***
- Beta coefficient not significant

Table 3. Means, standard deviations, correlations between company-level variables and employee well-being indicators, and regression models for well-being indicators.

	Mean	Sd.	Correlations				Regression models		
			Work ability index	Psycho-logical well-being	General satisfac-tion	Emo-tional exhaus-tion	Psycho-logical well-being	General satisfac-tion	Emo-tional exhaus-tion
			r	r	r	r	β	β	β
Sector	1.44	0.50	.00	.02	-.10***	-.06*	-.120***	-	.078*
Size of the company	103.11	257.86	.03	.01	.02	.01	-	-	-
Priority of internal recruitment (3)	2.54	0.76	-.02	.07*	.03	.03	-	-	-
Stringency of recruitment policy (3)	2.12	0.67	.02	.02	.04	.02	-	-	-
Company training	60.47	38.54	-.00	.04	.01	.01	-		-
Profit sharing scheme	1.68	0.83	.01	.00	.02	.02	-	-	-
Flexible working hours (3)	0.87	0.56	.07*	.03	.03	.03	-	-	-
Atypical employ-ment relationship (3)	1.95	0.82	-.04	.02	.07**	.04	-	-	-
Promotion of well-being(3)	3.41	0.75	-.00	.01	.06*	-.01		.099*	-
Gross margin percent	11.43	8.79	.03	.04	.01	-.02	-	-	-
Competitiveness (4)	3.56	0.89	.02	.06*	.06	.01	.184***	-	-
Success in product development (3)	4.03	0.69	.01	-.00	-.02	-.01	-.093*	-	-
Ability to get employees committed (3)	3.73	0.76	.08**	.03	.04	-.01	-	-	-
R2							.026	.010	.004

p<0.05*, p<0.01** and p<0.001***
- Beta coefficient not significant

The regression analyses confirmed that the company-level factors have practically no explanatory power in employee well-being issues. The explained variances remained low, near zero (0-3%). The "best" regression solution was related to psychological well-being, which was explained by sector (metal industry higher), competitiveness (positive) and success in product development (negative).

Work-related determinants

The work-related variables of this study were measured using the employee survey. Employees themselves evaluated the demands of work and the situation at the workplace. The associations with the well-being indicators are relatively strong–with the exception of the work ability index, which does not correlate with the majority of work-related vari-

ables and, again, is not included in the regression analyses.

The regression analyses revealed that only one variable, "physical demands of work", is not included in any regression models. The highest explained variances are related to emotional exhaustion (30%) and to general satisfaction (24%); psychological well-being remained at 14%. The best work-related determinants of psychological well-being are conflicts in the workplace and mental demands of the work; i.e., with conflicts and increasing mental demands psychological well-being decreases. General satisfaction is best explained by high supervisory support, high participation in decision-making and good organisation of work. Emotional exhaustion is mainly explained by high mental demands of work and conflicts in the workplace.

Table 4: Means, standard deviations, correlations between work-related variables and well-being indicators, and regression models for the well-being indicators.

	Mean	Sd.	Correlations				Regression models		
			Work ability index	Psycho-logical well-being	General satisfac-tion	Emo-tional exhaus-tion	Psycho-logical well-being	General satisfac-tion	Emo-tional exhaus-tion
			r	r	r	r	β	β	β
Supervisory support (4)	2.82	1.08	.08**	.20***	.41***	-.26***	-	.207***	-.073***
Conflicts in the workplace (6)	2.35	0.91	-.04	-.27***	-.24***	.37***	-.225***	-.075**	.233***
Job insecurity (5)	1.27	0.54	-.17***	-.16***	-.19***	.24***	.086**	-	.119***
Participation (7)	3.07	1.05	.02	.15***	.36***	-.22***	.120***	.193***	-.096***
Organisation of work (5)	3.39	0.93	.06	.20***	.40***	-.27***	-	.172***	-
Mental demands (4)	3.41	0.70	-.03	-.16***	-.11***	.42***	-.155***	-	.342***
Physical demands (9)	2.24	0.76	.02	-.07*	-.14***	.13***	-	-	-
R2							.136	.240	.300

p<0.05*, p<0.01** and p<0.001***
- Beta coefficient not significant

Summary of results

The three levels of factors related to employee well-being indicators were combined in the summary regression analyses. The linear regression models are presented in the next table.

An interesting observation is that although the predictors for each well-being indicators are practically the same, the best predictors differ. The three best predictors for psychological well-being are: conflicts at work (negative), physical exercise and participation. The best predictors for general satisfaction are: participation, supervisory support and organisation of work. The best predictors for emotional exhaustion are mental demands at work, conflicts at work and uncertainty. All but one of

these main predictors are within the responsibilities of company managers and supervisors.

Discussion of the Results and Limitations of the Study

The purpose of this article was to evaluate the impact of individual, organisational and work-related factors on employee well-being. Because there are, in prior studies, several definitions and measures for employee well-being, in the present study four different measures were applied: the Work Ability Index (Tuomi *et al* 1998), psychological well-being (GHQ) scale (Cooper & Cartwright 1994), Bradburn's (1969) satisfaction and well-being scale, and the emotional exhaustion scale (MBI) (Maslach & Jackson 1981). The

Table 5: Regression models for the well-being indicators

	Psycho-logical well-being	General satisfaction	Emotional exhaustion
	β	β	β
Gender	-	-.098***	-.062
Organisation of work	-	.154***	-
Supervisory support	-	.186***	-.082**
Job insecurity	-.072**	-.064*	.125***
Conflicts at work	-.214***	-.069*	.206***
Participation	.102***	.220***	-.099***
Mental demands at work	-.081**	-	.351***
Alcohol drinking	-.065*	-.062*	.110***
Physical exercise	.110***	.053*	-.059*
R2	.111	.256	.304
N	1160	1152	1152

p<0.05*, p<0.01** and p<0.001***
- Beta coefficient not significant

Work Ability Index neither correlated with the three other well-being measures nor with the individual, organisational or work-related variables. The Work Ability Index is composed of different types of information, for example, "the number of current diseases diagnosed by a physician" or "sickness absence during the past year". The three other well-being scales measure the respondent's own feelings and attitudes. None of the well-being measures is above the others or exclusive; they are partly overlapping and supplement each other, and they can be used together. The validity and reliability of the four well-being scales can be considered quite high. All well-being scales have been widely tested in prior studies, and the reliability analyses produced high values (Cronbach's α=.80-.90).

Another general observation is related to company-level variables; they were only marginally associated with the well-being indicators. When the results of the analyses are evaluated from the manager's point of view, such HRM policy issues as "priority of internal recruitment" or the application of "profit sharing schemes" or "atypical employment relationships," do not seem to be related to employee well-being, satisfaction or emotional exhaustion. This is contrary to the expectations based on prior studies. Only the promotion of employee well-being seems to involve a small positive effect on general satisfaction. In addition, there was practically no correlation between well-being indicators and company success measures. Actually, there was only a slight positive correlation between competitiveness of the company and employee psychological well-being.

In prior studies (e.g. Browne 2000), there was a relationship between HR practices and organisational effectiveness, satisfaction and stress. The results of the present study related to organisational/HR practices and employee well-being do not support the results of prior research. There are several alternative interpretations for the lack of association. *First*, there was a year between the two data collections. The company level survey was done in 1999 and the employee survey in 2000. The purpose of designing the research in this way was to "guarantee" the logical order of events: organisational practices are adopted and rooted in the company and a year later the consequences of such a state of affairs or procedures could be identifiable in the employees' answers. However,

a year between the two measures may be too long, especially in times of rapid change.

Secondly, the company-level survey involves, not only numerical and other facts, but also quite a lot of evaluations of the state of affairs. These evaluations represent the opinions of one person (manager) per company, only. They may not be highly reliable measures for generalising, even though such measures are widely used in prior research. *Thirdly*, the statistical procedure, adding the company-level figures to the individual-level data for each company may also decrease the reliability of company-level variables.

The work-related variables measured by the employee survey explained 30% of emotional exhaustion, 24% of general satisfaction and 14% of psychological well-being. The work-related variables are thus the best predictors of employee well-being. According to several studies (Schulz *et al* 1995; Kalliath *et al* 2000; Simola 2001), there is a strong relationship between perceived organisational practices and employee well-being. For example, perceived insecurity is more related to employee well-being than actual security/insecurity (Worral & Cooper 1998).

The results of the present study and several prior studies seem to refer to a kind of "Hawthorne effect", i.e., employee well-being is more related to the atmosphere or organisational climate than the actual "objective" situation in a company. Employees' perceptions of organisational practices, feelings of leadership and supervision, sympathies and antipathies in team-working, etc., are important and attention should be paid to them. The results of the present study support, thus, the social context model of organisational/HR practices on organisational outcomes (Rogg *et al* 2001).

The main conclusion from the results of the present study is that employee well-being and satisfaction can be fostered and emotional exhaustion decreased by affecting, first of all, employees' work and work-related social context. A better working environment can be created by developing leadership and increasing supervisory support and employee participation, decreasing job insecurity and mental demands at work and paying attention to the organisation of work and the solution of conflicts in the workplace. It is a question of good supervisory work. This also includes resolving employee alcohol abuse, which was related to all

the well-being indicators, and motivating employees to take care of their health and well-being during leisure.

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Appendix 1

Appendix Table 1.: Content, range and reliability (Cronbach's α) of the combined variables of employee well-being

Work Ability Index (7-49) (α=.80) (Tuomi *et al.*, 1997)
- Subjective estimation of current work ability compared with lifetime best
- Subjective work ability in relation to both physical and mental demands of work
- Number of current diseases diagnosed by a physician
- Subjective estimation of work impairment due to diseases
- Sickness absence during the past year
- Own evaluation of work ability two years ahead
- Mental resources

Mental well-being (1-4) (α=.90) (GHQ; Cooper & Cartwright, 1994).
Compared with the normal situation, have you recently
- Been able to focus on your tasks
- Felt capable to make decisions
- Been able to encounter difficulties
- Felt that you are useful in taking care of things
- Been able to enjoy your daily duties
- Felt yourself relatively happy
- Stayed awake due to worries (Reverse scale)
- Felt all the time exhausted (Reverse scale)
- Felt yourself unhappy and depressed (Reverse scale)
- Lost your self-confidence (Reverse scale)
- Felt yourself worthless (Reverse scale)
- Felt that you could not survive your problems (Reverse scale)

Satisfaction (1-5) (α=.86) (Bradburn,1969)
During the past few weeks have you felt
- Pleased about having accomplished something
- That things around you were going as you wished
- That you were satisfied with your work
- That you were particularly excited or interested in something
- That you were on the top of the world

Emotional Exhaustion (0-6) (α=.90) (MBI) (Maslach & Jackson, 1981)
- My job draws me emotionally empty
- After work I feel totally exhausted
- I feel tired when I get up in the morning and I should encounter a new working day
- I feel burned out due to my job
- My work makes me frustrated
- I feel that I work too hard
- I feel that I will loose my temper at any time

Knowledge Migration and the Transfer of HRM Knowledge in International Joint Ventures and HRD Alliances in the Czech Republic and Bulgaria

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Abstract

A linear 'knowledge transfer' approach to HRM knowledge within joint ventures and HRD alliances is often found in transaction-cost and resource based perspectives, but an increasingly influential approach views them from an organisational learning perspective, enabling researchers to develop theories that analyse the role of HRM policies and practices in facilitating or inhibiting learning and knowledge diffusion. This paper attempts to build on this approach by developing a model of 'knowledge migration' rather than knowledge transfer or knowledge diffusion. 'Transfer' of HRM knowledge has often taken place in Central Europe to facilitate their transition to a market economy and modernise their management of people. The paper argues that knowledge diffusion is much more akin to 'translation' than 'transfer', as HRM knowledge is situated in specific contexts. The paper then develops a model of knowledge migration by building on viable systems theory (VST) perspectives. The paper then uses these concepts to develop a model of knowledge migration and it applies this to case studies of international HRD alliances. The alliances discussed are between a UK university and partners from the Czech Republic, the Czech Academic Link Project to develop management education, and Bulgaria, to manage change in the National Radio of Bulgaria. It then develops an agenda for further research in this area.

Keywords: Knowledge transfer; strategic HRM; knowledge migration; Bulgaria; Czech Republic

Introduction

When two or more organizations enter into a voluntary co-operation, they can form what have been variously referred to as joint alliances, ventures, and partnerships (e.g. Kelly and Parker 1997; Fitzgerald 2000). Stimulated by host government insistence or the desire for rapid market entry, increased economies of scale, and risk-spreading, gaining, sharing and transferring knowledge are becoming increasingly important (Schuler 2001). Alliances are of a different nature to more formal mergers, acquisitions, and international joint ventures, legally distinct organizations formed by two or more sponsoring partners originating in two or more countries (Geringer 1991; Muralidharan and Hamilton 1999). For Glaister and Buckley (1997, 200), 'alliances' are generic forms of co-operation, and we shall refer to generic forms of co-operation between parties involved in international HRD projects as 'international HRD alliances' or IHRDAs.

We will focus here on IHRDAs in Central and Eastern Europe and develop a general framework for understanding and analysing such alliances. Of particular interest are issues of knowledge flows and organizational learning, and we seek to develop a model based on viable systems theory that analyses such processes in terms of knowledge development and migration in IHRDAs and the different cognitive interests, purposes and influences of the parties involved. The case of a particular IHRDA between Liverpool Business School and the

Technical University of Ostrava and other Czech partners—termed here the Czech Academic Link Project (CZALP)—will then be explored to illustrate the usefulness of the analytical framework, and this will be further illustrated with research on a project aimed at managing change in the National Radio of Bulgaria. We will first review previous theoretical approaches to and empirical research on alliances in general before focusing on IHRDAs in Central Europe.

The aims of the paper are to:
1. Review theoretical and empirical studies of alliances and of IHRDAs in Central and Eastern Europe in order to develop an analytical framework for understanding IHRDAs.
2. Use this analytical framework to identify a number of factors impacting on IHRDA performance, in particular focusing on the role of actor cognitive interests, purposes and influences on knowledge migration and development in alliance learning.
3. Analyse the processes of knowledge migration and development and the role of actor cognitive interests, purposes and influences from a viable systems perspective, focusing on the organising, behavioural and cognitive domains of the IHRDA as a system and the suprasystem of actors in an IHRDA.
4. Apply this framework and theory to specific case studies of an IHRDA – the Czech Academic Link Project between Liverpool John Moores University, UK, and the Technical University of Ostrava, Czech Republic, and a collaboration between Liverpool John Moores University and the University of Sofia Bulgaria to manage change in the National Radio of Bulgaria – in order to explore the usefulness of the framework and theory, and identify principles relating to the development of IHRDAs to guide further research in this area. (Note 1)

Theoretical and Empirical Perspectives on International HRD Alliances and Knowledge Transfer

Most approaches have been based on transaction-cost and resource-based theories or on technology transfer, knowledge diffusion and organizational learning perspectives (Glaister and Buckley 1997). The resource-based view focuses on the motivations for alliance formation, especially the need to exploit excess or idle, under-performing resources

and acquire or access new resources for growth. Alliances are thus seen as bundles or portfolios of resources contributed by partners, not as coalitions of business activities, but enabling selective access to required resources and phased approaches to resource acquisition and transfer (e.g. termination with acquisition by one partner, e.g. Zhai, Shi and Gregory 1999). Since knowledge is increasingly seen as a key resource, this perspective is aligned with those perspectives emphasising the 'transfer' and 'diffusion' of knowledge, especially technological knowledge, within alliances.

'Technology transfer', first applied to the reconstruction of Europe and Japan after WWII, was later applied to the transfer of technology between 'developed' and 'developing' countries in the late 1950s (Klauss 2000). Discussion of technology transfer in IHRDAs is dominated by a 'hardware orientation', involving the application and transfer of 'hard' technologies in relatively unproblematic ways. Even when applied to so-called 'soft' technologies, such as the transfer of American-style MBA and management training programs into Central and Eastern Europe, 'transfer of management and educational technology' metaphors and analyses predominate (e.g. Hull 2000). Such studies fail to question the mission (e.g. to assist economic transformation) or the process (e.g. one way transfer of modern management and educational technology from the 'Western' to the 'Eastern' partner in the IHRDA). Our approach seeks to build on resource-based, organizational learning and knowledge leveraging perspectives by regarding knowledge as a critical resource, and knowledge development and migration rather than transfer or diffusion as key processes in IHRDAs.

IHRDAs and IJVs

IJVs differ from IHRDAs in duration, contractual basis, and strategic nature. However, many issues and factors identified as important variables in research on alliances in general, may also be of importance to IHRDAs in particular, and useful in developing a framework to guide further research on IHRDAs.

A major issue for empirical research has been partner selection, as performance outcomes are influenced by the nature of the partner selected influencing the mixture of skills and resources available to the alliance, and so its ability to achieve

its strategic objectives (Geringer 1991). Partners are likely to have different and/or asymmetrical objectives; alliances may be more likely to succeed when partners possess complementary missions, resource capabilities, managerial capabilities, and other attributes that create a 'fit' in which the bargaining power of the partners is evenly matched (Harrigan 1985). This draws attention to issues of power in alliances. Geringer (1991) distinguishes between task related and partner-related criteria, which have often been neglected (Glaister and Buckley 1997).

In addition, a central focus of research has been partner strategic interests, especially the strategic interests of the foreign partner. The interests of local partners have often been overlooked, surprisingly since Li and Shenkar (1997) argue that local partners' strategic objectives also impact on choice of both partner and structure, with potential for conflict if objectives differ. Some partners may engage in alliances where knowledge and competencies match each other (compatibility); others may look to alliances where they add to or build on those of the partner (complementarity). Gray and Yan (1997) found that the institutional environment, the relative bargaining power of the parents, the nature and extent of their prior relationships and the level of the initial success of the alliance were all important factors in affecting alliance performance.

A particularly important issue is that of trust in alliances. Butler and Gill (1997) distinguish personal, procedural and institutional trust; continuing parent trust was dependent on alliance performance, and developed over time through multiple level, ongoing interactions. Trust was also enhanced by high and increasing levels of autonomy granted to the alliance, its physical separation, its distinct geographical and organizational identity, parent forbearance during problems and their consistent support. As ambiguity and interdependence increased, there was a greater need for personal trust with the formal contract most useful to alliance partners at foundation for developing mutual understanding (Gill and Butler 1996).

This review of research on alliances in general has identified a number of factors affecting alliance performance. We next turn to specific studies of IHRDAs in Central Europe to analyse issues and factors of particular importance to IHRDAs, especially in terms of knowledge migration and knowledge transfer.

IHRDAs in Central Europe

Since 1989 and the transformation of Central Europe, there has been considerable interest in management and management development in the context of a discourse of market fundamentalism and 'transition' (Henderson and Whitley 1995). Official policy and rhetoric, supported by the IMF and the European Bank for Reconstruction and Development, has favoured free-market 'restructuring'; however, whilst enterprise managers may subscribe to the need for technological, financial and structural restructuring, they may not see the need for managerial restructuring (e.g. Kelemen and Lightfoot 1999).

In Poland, the business press may offer positive images of successful 'modern' enterprises contrasted with old, failed enterprises (always Polish) alongside a strongly gendered, idealised and Americanised image of management (Kostera 1995, 2000). 'Moral crusades' promoted by Western political and financial institutions, trainers and consultants, adopting an unreflexive 'knowledge transfer' view of management development 'missionaries' with unproblematic assumptions about management learning, have often neglected or disparaged the heritages of the countries in which they work (e.g. Kostera 1995, 2000; Jankowicz 1994; Henderson and Whitley 1995). Host partner trainees or students may 'comply' in class with Western models but reject such ideas privately as inappropriate (e.g. Kostera 1995; 2000; Kelemen 1999).

Examples of IHRDAs include the Krakow Consortium Initiative, formed between Teesside University, various North East England companies and Polish universities and companies to develop Polish academics as trainers in Polish industry (Jankowicz and Pettit 1993). Managerial style can jar alliances, as can cultural differences (Iborra and Saorin 2001; Fedor and Werther 1996) and differences in teaching, training and learning styles are a particular issue for IHRDAs. For example, Jankowicz and Pettit (1993) discuss how both Western trainers and Polish academics may 'collude' in accepting directive, 'expert' services from Western trainers as functional for both parties. Jankowicz (1994) comments in a similar fashion on Holden and Cooper's (1994) account of training

Russian construction managers, whose tendency to learned helplessness, preference for authoritative exposition and lack of a common managerial vocabulary led the Western trainers to develop a directive, 'modelling' approach to training. Such an approach may not best facilitate meaning transfer, self-directed learning or long-term application and transfer of learning in the host country. Voros and Schermerhorn (1993) point to the need to build on the strengths of the system (e.g. in mathematics, critical debate) to avoid the dual traps of 'dependence' and 'local convenience' in IHRDAs, both of which may inhibit sustainable development of learning.

Studies of management education in post-communist Central Europe (e.g. Lee *et al* 1996), managerial learning as a result of Western acquisitions (Villinger 1996) and joint ventures with Western companies in Hungary (e.g. Simon and Davies 1996) identify various barriers to learning. These include language problems, different cultures and attitudes to business and foreign expatriate managers making little attempt to learn Hungarian or familiarise themselves with the country. The importance of language to IHRDAs is emphasised by Cseh and Short (2001) in a case study of a British-Hungarian collaboration between 1994 and 1997 to design and deliver training in change and crisis management and team building in a large Hungarian public sector organization, using interpreters and translators. Understanding the meaning attributed by participants to their environment is necessary, but more difficult when communication is mediated by a translator, because it is through language that meaning and social reality is created, managed and shared. Jankowicz (1999) uses metaphors of 'export sales' and 'new product development' to discuss knowledge transfer across cultural and linguistic boundaries. In the first case, the assumption is made that both parties share the same conceptual background and assumptions, whereas in the second case, the two parties are seen as co-equal collaborators. Every language encodes phenomena differently, so the meaning encoded by one party may be subtly different from that encoded by the other. Jankowicz (1999, 319) argues that instead of knowledge transfer from change agents with a 'correct' understanding, the term 'mutual knowledge creation' is preferable, as it refers to the negotiation of new understanding.

Knowledge Management and Knowledge Transfer of HRM in a Cross-Cultural Context

Holden (2002), who tries to explore culture and cross-cultural management from a knowledge management (KM) perspective, rejecting the dominant approach to culture in international management with its roots in anthropology and social psychology as over-emphasising cultural differences, culture shock, culture clashes and collisions and problems in cross-cultural communication and negotiation, instead proposes that we view cross-cultural management as a form of KM and as a knowledge domain. Culture is seen as an organisational knowledge resource, and knowledge transfer is crucially seen as a form of <u>translation</u>, allowing the exploration of the transferability of cross-cultural know-how and the conceptualisation of the cross-cultural worker as a form of knowledge worker. Cross-cultural management is thus seen as a form of interactive translation, and international knowledge transfer then becomes a form of cross-cultural translation.

Newell (1999), in a discussion of the use of Western-style management education, such as the MBA, in China, points out that much of the knowledge base in China has been imported in a linear fashion from the West through the translation of Western textbooks and the use of Western teachers and trainers. She presents an alternative model of knowledge involving social construction, knowledge-sharing, participation in social networks and interaction between Chinese and Western ideas and people. Social technologies like HRM are less codified and even more interdependent with the social context than physical technologies. She refers to the 'mental models' developed by people to make sense of their experiences and the difficulty of articulating and transferring tacit knowledge essential to effective management. Knowledge has to be continually 'reinterpreted', 're-created' or 're-constituted' rather than 'transferred', to create a unique bundle of management knowledge, deeply embedded in the unique social, political, cultural and economic context of China' (Newell 1999, 290). Western management may also have much to learn from China in terms of its emphasis on networks and stakeholders: knowledge flows are not simply one-way, from the Western source to the Eastern destination. In addition to concerns over whether 'knowledge' of Western HRM and management practices can be un-problematically

'transferred' in the way suggested by many proponents of 'technology transfer', a further question arises as to whether it is appropriate to attempt to 'transfer' Western HRM practices (primarily derived from attempts by American, private sector companies in the 1980s and 1990s to respond to increasing global competition, especially from Japan) to other contexts.

Developing a Model of Knowledge migration

a competitive partnership are related to the need at which the partners can learn from each other". Some partners may emphasise learning, others may not; "the behaviours and styles of managers in organizations have a significant impact on the ability and willingness of a firm to learn" (Schuler 2001, 317). A lack of openness, a need for control, low cultural awareness and ethnocentricity may reduce the ability of organizations and managers to learn, whilst flexibility and a willingness to take risks may promote it.

Knowledge Translation and Knowledge Migration

Knowledge Source

Knowledge

Actor 1 ←→ Environment

Knowledge migration between two actors, one operating as a source and the other as a sink via knowledge intermediaries

Knowledge Intermediary

Note: an actor may be an individual or a coherent group

Knowledge Sink

Knowledge

Actor 2 ←→ Environment
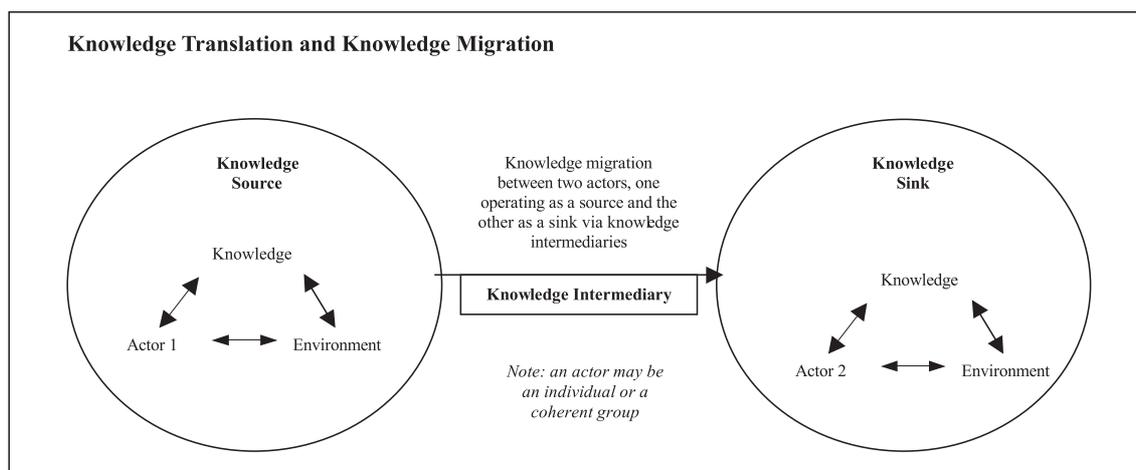
Figure 1. (adapted from Steenhuis and de Boer 1999, p 86)

The knowledge translation process is here considered to be a process of knowledge migration from knowledge source (the knowledge base, often in the 'West') to knowledge destination or sink, often in the 'South' or 'East' (Figure 1). Knowledge can be seen as potentially capable of migrating in both directions, not only from source to destination but also destination to source. A 'knowledge intermediary', or KI, may assist in this process as a knowledge broker working in partnership in an international HRD alliance or IHRDA (Iles and Yolles 2003) to migrate knowledge across cultural boundaries.

Viable Knowledge Creation and Learning in IHRDAs

For Schuler (2001), learning is critical to alliances, at the very foundation of the alliance and as the parents learn more about each other, from each other, and from the alliance itself. This learning can also be useful for other units and alliances. Competitive alliances appear to be the most challenging, leading to greater priority for alliance learning; as Pucik (1988, 81) says, "shifts in relative power in

HRM and HRD policies and practices may support or inhibit knowledge flow, sharing and development. Asymmetry in learning capability may lead to alliance instability and dissolution, despite short-term gains for one partner. Inkpen and Currall (1997) discuss issues of relative bargaining power and learning asymmetry, and suggest that if partners learn at equal rates or engage in forbearance, the need for control diminishes and trust increases. Learning about an alliance partner provides the basis for increased trust, as trust is the vehicle for knowledge migration. Learning from a partner provides the basis for increased bargaining power and reduced dependence. Opportunistic behaviour may lead to instability and greater efforts at control by the other partner.

Alliances, including IHRDAs, can therefore provide significant opportunities for organizational learning, especially the transfer of culturally embedded knowledge, if personal, procedural and institutional trust are developed and substantial non-contractual inputs invested (Fitzgerald 2000). Benefits are likely to be appropriated asym-

metrically according to the organizational learn-
ing capacity or absorptive capacity of the partners
(Pucik 1988).

Schuler (2001) identifies a number of HR alliance
issues of relevance at the organizational level (such
as parent to parent relationship, parent-alliance
relationship, alliance-context relationship, and
parent characteristics) and at the individual/group
level (staff learning and sharing knowledge, staff
competencies, staff attitudes and behaviours, staff

Ongoing Inputs to IHRDA			
Partners e.g. **Liverpool John Moores University** **Technical University of Ostrava** Cognitive interests Cognitive Purposes Motives Objectives Contributions Knowledge Relative Bargaining Power Prior relationships Culture Language Management Style Teaching and Learning Style HR Practices: Absorptive Capacity	Cognitive Influences Interaction	Support Forbearance	Independence Expectations

IHRDA e.g. CZALP Foundation and Formation	IHRDA Development and Implementation Phase 1 e.g. CZALP 1	IHRDA Re-structuring Phase 2 e.g. CZALP 2	IHRDA Re-structuring Phase 3 e.g CZALP 3, MBA
Cognitive Purposes Cognitive Interests Strategy Structure Control Systems Processes e.g. HRM/D	Knowledge Migration and Development Complexity Trust Compatibility Initial Success Learning Climate HRD Practices	Knowledge Tracking Line Involvement Management Experience Alliance Champions	

Figure 2. Development and Performance in IHRDAs, including CZALP

motivation and commitment, and recruitment to
the alliance). At formation, the reasons for the
alliance, how its benefits will be utilised (e.g. how
knowledge is managed), the selection of managers,
the selection of partners, the building of trust and
negotiating the alliance are important issues. At
the development stage, locating the alliance, estab-
lishing the right structure, and getting the right
senior managers are crucial issues.

At implementation, establishing alliance vision,
mission, values, strategy and structure, developing
HR policies and practices, staffing and managing
employees are critical, especially in supporting
and rewarding learning and knowledge sharing.
Finally, learning from the partner, migrating the
new knowledge to the parents, and migrating
the new knowledge to other locations are critical

processes in restructuring. Three key issues that
need to be addressed are control, trust and conflict.
Learning and trust are positively related, whilst
trust and the use of informal and formal controls
are negatively related, so establishing mechanisms
to enhance trust may benefit the relationship
between alliance partners (Schuler 2001).

A framework summarising empirical research and
theorising into IHRDA and IJV performance and
identifying a future research agenda is presented
in Figure 2 (Iles and Yolles 2003), where it is spe-
cifically applied to the CZALP case to be discussed
later. The initial foundation or formation of the alli-
ance is seen as influenced by the respective partners'
motives, objectives, resource contributions, relative
bargaining power, prior relationship, expected
returns, organizational and national cultures, man-
agement styles, training/learning styles and envi-
ronmental and organization-specific HR issues. The
development and implementation phases of the alli-
ance are seen as being influenced by ongoing part-
ner inputs such as levels of partner interaction, the
development of mutual trust, partner capability (e.g.
resource complementarity), the degree of inter-part-
ner learning, the level of knowledge development
and migration, as well as the cognitive purposes
and interests of the alliance itself. Of particular
relevance to knowledge migration are the cognitive
influences brought to bear by the actors.

Evaluation of alliance performance may then lead
to restructuring, such as phases 2 and 3 identified in
Figure 2. As Cyr (1995) says, goals and expectations
between the parents and between the parents and the
alliance change over time, necessitating a process
of building relationships, establishing channels of
communication, and engaging in continuous learn-
ing. A decision to re-structure is seen in Figure 2 as
dependent on knowledge tracking, line management
involvement, management experience, and the pres-
ence of alliance champions in the management team
(Muralidharan and Hamilton 1999). Inter-partner
trust may contribute to successful restructuring, as
various changes may affect partners' incentives to
continue with the alliance.

The criteria for defining alliance success or fail-
ure will depend on the parents' expectations and
motives and the viewpoints of the various stake-
holders involved, issues taken up in the case study,
which will discuss the various phases of CZALP (1,

2 and 3) in more detail to illustrate the applicability of the framework presented in Figure 2.

Figure 2 presents a simplified model of an alliance formed between two partners. In reality, of course, there may be multiple partners and numerous restructurings. In addition, a comprehensive model needs to consider the relationship of the IHRDA to funding bodies (e.g. the British Council, EU). Figure 2 highlights the importance of organizational learning, knowledge migration and cognitive interests, purposes and influences. These are discussed in the next section. It identifies a number of issues and factors important to a future research agenda, especially the analysis of knowledge migration and learning in IHRDAs. These will next be explored through viable systems theory.

The Purpose of Alliances and Viable Systems Theory

Alliances, including IHRDAs, are children of complexity, particularly susceptible to examination by methodologies from management systems, as they represent structured approaches to inquiry that are capable of reducing complexity (Yolles 1998, 1999). According to Yolles (1999) there are two types of worldview: weltanschauung and paradigm. Weltanschauungen become *paradigms* (Kuhn 1970) when formalised (Yolles 1999); this passes through a formalised or semi-formalised shared weltanschauung stage called a virtual paradigm that may or may not become a paradigm.

Worldviews operate through culture (beliefs, values, attitudes and language) established within "rational" organised structures called propositions and norms. They have a relationship with each other, and with the behavioural world. This relationship is shown in Figure 2 (Yolles 1999), where we have collected together types of worldview into a cognitive domain, differentiated from the behavioural domain within which it is defined by the "real" or perceived behavioural world. In order to distinguish between these two domains and the transformations that occur between them, we have also introduced the organising domain.

The behavioural domain is made up of structures and actions that define the behavioural world and are created within a frame of reference defined by the cognitive domain. Connection occurs between the two domains through a transformational or organising process that we say defines the organising domain, with attributes that relate to self-organization. Each of the three domains has associated cognitive properties. The behavioural domain has cognitive interests, the organizing domain cognitive purposes, and the cognitive domain cognitive influences. We shall return to this shortly.

Our interest lies with purposeful adaptable organizations in interaction in an IHRDA; they can be modelled as actors in a suprasystem of actors themselves in an environment. Each actor has a behavioural system that exists within a behavioural domain, and a metasystem defined in terms of the cognitive domain, within which occur decision-making processes (Figure 3). The metasystem may be simply defined as the 'cognitive consciousness' of the system (Yolles 1999).

Actors manifest behaviour when viewed from the perspective of the IHRDA suprasystem, shown in Figure 4, but internally they display social, cultural, and political processes. They also possess an economy that facilitates organised behaviour.

Traditionally, the interactive behaviour of actors in a suprasystem (e.g. partners in an IHRDA) is explained in terms of actor attributes, needs, and the individual characteristics of policy-makers. The external environment, and particularly the structure of power and influence in a suprasystem, may have profound effects on the general orientations of one actor towards another. Thus, the major characteristics of any suprasystem can be used as one set of variables to help explain the typical actions of an actor.

While a suprasystem such as an IHRDA may simply be a collection of actors in interaction, it can also have associated with it purposefulness and be seen as an actor in its own right. In such cases, it is essential that a new suprametasystem is formed that can act as its "cognitive consciousness" and make decisions for the suprasystem. In many cases, such as may occur with IHRDAs, the suprametasystem does not successfully form, and attempts are made to drive the suprasystem from one of the actor metasystems (e.g. the Western partner). This often causes problems. The assembly of worldviews associated with each actor of the suprasystem will be incommensurable to some degree. The degree of incommensurability will likely be greater if the actors derive from very different host cultures, as
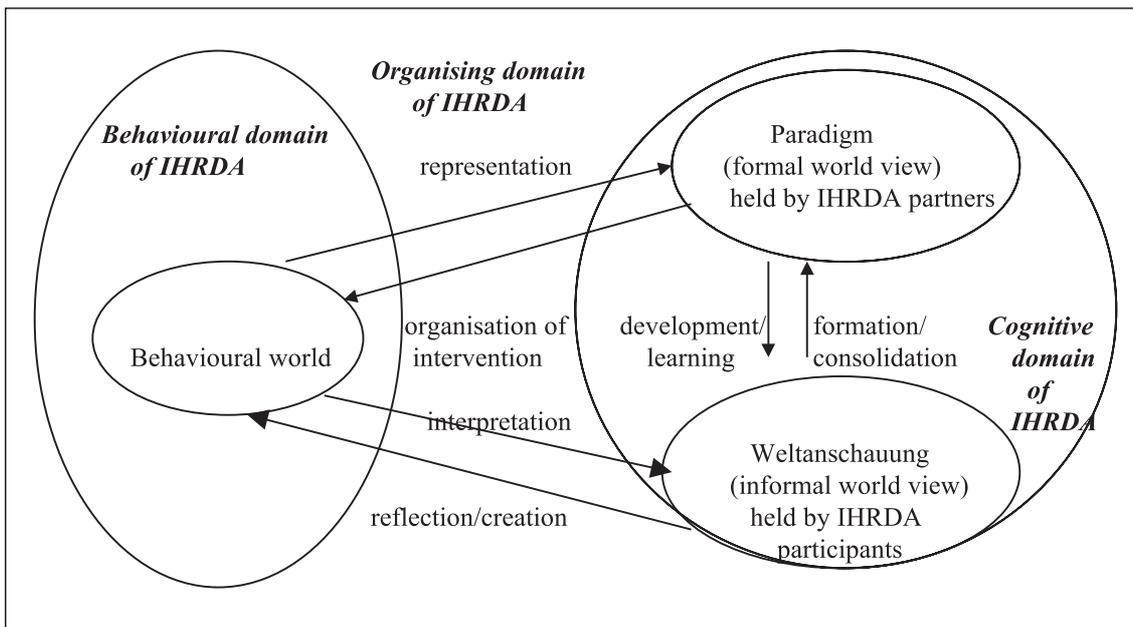
Figure 3. Relationship between types of worldview and behaviour

is common in many IHRDAs. The nature of this incommensurability is important for the development of a suprametasystem.

When two or more worldviews come together during attempts for meaning to be shared between a group of viewholders, some cognitive strands become coincident, providing for commonalities of understanding (Yolles 1999). With worldview incommensurability, a cognitive pattern emerges entailing a "cognitive turbulence" becoming a source for con-

flict manifestation arising from the interference that occurs because of incommensurable differences in cognitive organization and knowledge.

Application of the Viable Systems Framework to IHRDAs

IHRDAs often begin life as intended purposeful suprasystems, and fail for a number of reasons, often centring on cultural differences (Kelly and
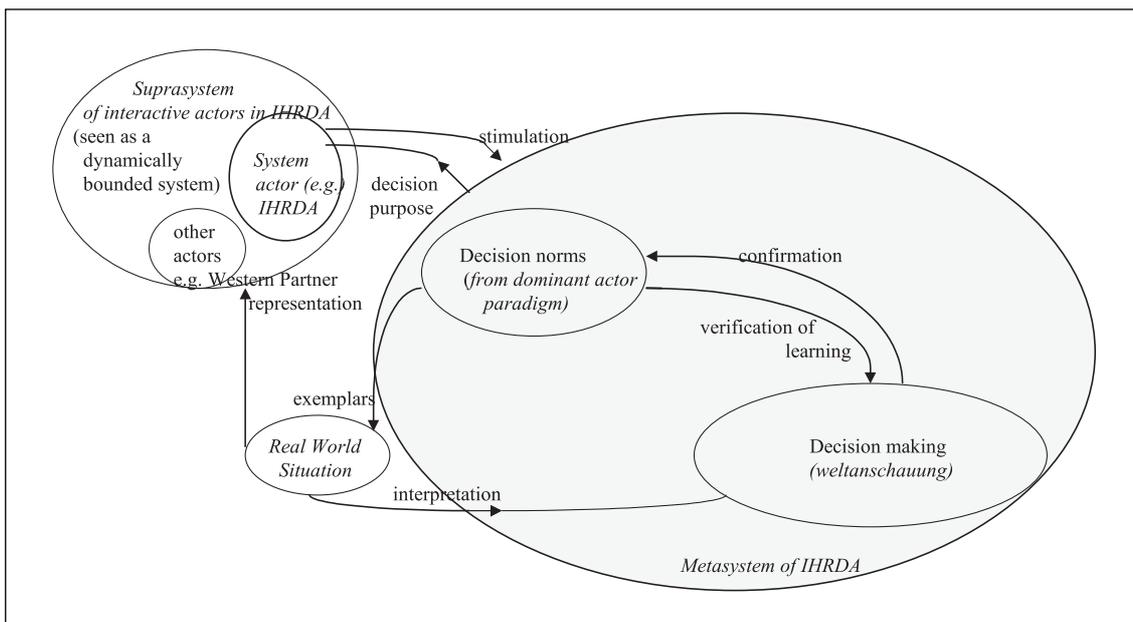
Figure 4. A Suprasystem of Actors in an IHRDA and a Decision Making Metasystem of one Actor (e.g. IHRDA)

Parker 1997). Their cognitive purposes may be different, or expressed differently because of problems of language. The cognitive interests may also be divergent or misinterpreted. Finally, and perhaps most importantly, they may fail because cognitive turbulence is not dealt with, and as such no stable suprametasystem is able to form. Cognitive turbulence will impact on the organising and behavioural domains. The organising domain is the place where worldview differences are contested (Yolles 2001). The contesting process defines a cognitive purpose that will be directly responsible for the manifestation of conflict. In so doing, intention is realised through the creation and strategic pursuit of goals and aims that may change over time, and this enables actors through control and communications processes to redirect their futures.

The strategic process derives from a relational logic that derives from actor rationality. This will likely be different for each of the actors (partners) in a suprasystem involved in contesting differences. Each actor may pursue its own missions, goals, and aims, resulting in an organization of thought and action that ultimately determine the behavioural possibilities of the actors. Finally, ideology defines the manner of thinking. This intellectual framework enables policy makers to interpret reality politically, involving ethical and moral orientations, and providing an image of the future that enables action through 'correct' strategic policy. It also gives a 'correct' view of the stages of historical development in respect of interaction with the external environment (e.g. Western views of free market 'restructuring' and 'transition' in Central and Eastern Europe, e.g. Henderson and Whitley 1995, where 'market fundamentalism' is commonly found).

In Figure 3 we defined these domains, and each has cognitive properties (Yolles 1999), an extension of the ideas of Habermas (1970) regarding cognitive interest.

In the behavioural domain, the organised behaviour of actors in the suprasystem operates for cognitive interest through work, enabling the achievement of goals. This also involves a technical ability to undertake action in the environment, and the ability to make predictions that ultimately feed back to organising and enable the establishment of control. In situations of cognitive turbulence that lead to conflict, complexity can increase. To enable the suprasystem to work as a unity and pursue intended purposes, it is essential that the suprametasystem is

stabilised, and this can only occur with the management of complexity and chaos.

New paradigms arise through the process of knowledge recognition or development, or knowledge migration that occurs through the cognitive influences of other paradigms. Cognitive interest relates to the structural/behavioural domain and can be differentiated from the knowledge domain. Cognitive purpose (Yolles 1999) relates to rational and cybernetic processes that can also be differentiated from the knowledge domain.

There is also a cognitive property associated with the cognitive domain that we refer to as cognitive influences. The typological dimensions in this are cultural, political and social, and contribute to knowledge migration from one world-view to another in IHRDAs.

Application of the Model to the Czech Academic Link Project (CZALP) Case Study

This case study shows an IHRDA between Liverpool John Moores University (LJMU), UK and the Technical University of Ostrava, Czech Republic. Beginning in 1992 for the development of resource based learning, it later came to involve other Czech partners. It is termed here CZALP (Czech Academic Link Project) and will first be analysed in terms of the framework presented in Figure 2.

The Technical University of Ostrava, Faculty of Economics, offers both undergraduate and post-graduate courses in the region of Moravia. Within the last few years, in association with LJMU, it has been able to develop its management and business activities significantly as an outward looking institution interested in expanding its campus based courses to a wider market throughout the region using distance learning.

The Faculty has connections with all of the medium sized and large organizations in the region, and is a provider of education for their employees. For example, it services the needs of Vitkovice s.p., a steel company with about 20,000 employees, and the smaller organization Investicni banka, both of which are organizations within the immediate catchment area of the University. Since distance teaching is new to the university, care needed to be taken in how it could manage course delivery for students at a distance.

The project brought together the expertise of both the Liverpool Business School and the Learning Methods Unit, Liverpool John Moores University. The Business School had a track record in a variety of international developments, including two Know How Fund projects, one with the Russian Federation, and another with the Czech Republic.

Later we will refer to the viable systems perspective on knowledge migration discussed above as it relates to the whole CZALP project to identify directions for future research.

Background to CZALP Phase 1, 1992 – 1995: Foundation of the IHRDA

Funded by Know-How, the long-term goals of the project were directed towards helping the Czech economy in its development, with the realisation that, since the socio-political shifts, business-related higher education had a unique and important role to play.

The Liverpool team was aware of the need to demonstrate cultural sensitivity in all of its joint activities, and the Czech leadership showed itself to be very aware of its new social roles and responsibilities, and keen on providing guidance on how to provide maximum assistance to the project. This leadership was, in addition, able to take its staff with it in this enthusiasm, as shown for instance by the good representation at presentations made by the Liverpool partners. This also applied to the managers of their commercial contacts, who have not only attended these presentations, but also visited Liverpool.

During the initial three year CZALP phase 1 project 1992-5, work focused on the development of management education in three areas, namely Banking, Information Technology and Management. This was successful in that new courses were prepared and supported by extensive packs of learning materials suitable for full time students. In parallel with these developments, LJMU and the faculty shared ideas and experiences on wider aspects of their activities. In particular, the faculty was interested in LJMU's long experience of face-to face part time education. In the Czech Republic, regional universities such as Ostrava have had little involvement in this form of education. The constraints of the traditions of curriculum design and delivery and costs mean that continuing education has not been very developed.

Through their contacts with western countries, there was a growing faculty recognition that reaching the 'stock' of current managers should be part of their efforts to underpin economic development. The faculty now has a part time degree delivered at weekends, consistent with government policy to encourage this form of access.

Another stimulus for development arose from the split of what was Czechoslovakia. Czech Telecom had been developing an in-company programme with a university now in Slovakia. These developments, together with local business contacts, led to a recognition of a demand for both short up-date courses and an undergraduate degree to be available throughout the region and to include some face to face tuition supported by learning materials. Consequently, the faculty began setting up an Open Learning Unit, planned to have a full time member of staff with up to ten associates based in member departments.

Application of the IHRDA Framework to CZALP

In terms of Figure 2, the Czech partners' motives in CZALP1 included demonstrating how it could play a role in Czech economic development in the 1990s, especially in Moravia. It particularly wished to develop expertise in open and distance learning and in management education, banking and IT in collaboration with its partner, as well as developing part-time courses in business and management education. It offered senior management commitment and financial and staff support to the project, as well as contacts with local enterprise managers.

LJMU could offer expertise in part-time education and in open and distance learning, and was interested in applying its expertise in new market opportunities in Central and Eastern Europe. Both partners recognised the impact of their national and professional cultures on their management and training and learning styles, and were committed to understanding and respecting their partners' respective styles. Frequent interaction, visits and attendance at workshops led to a degree of trust and feelings of compatibility, examples of successful learning and knowledge migration, and successful delivery of project outcomes (e.g. development of a

part-time degree, setting up of an Open Learning Unit, and development of new courses and open learning packs for full-time students in the areas of Banking and IT).

Both partners were also committed to knowledge tracking, monitoring and scanning developments in pedagogy, IT, and the evolving Czech economic and social situation. CZALP 1 enjoyed alliance champions in the form of the dean and leadership of the faculty of the Technical University of Ostrava on the one hand and the two authors of this paper on the other. As a result, a need for restructuring the project was recognised, leading to the development of the second phase of the project, CZALP 2 (Figure 2). Phase 3 of the Project, the development of a franchised MBA, is not the subject of the present paper.

Purposes of CZALP 2: Phase Two, 1997 – Present

The restructured phase two had three main objectives. One was to build on work carried out in the three areas of banking, information technology and management by developing open learning modes. The second was to advise and support the nascent Open Learning Unit through sharing experience gained at LJMU. The third was to participate in, and facilitate, the establishment of a network of institutions in Moravia capable of delivering open learning, according to market demands. The broader objectives of CZALP 2 included the creation of staff centred development groups for resource-based learning in areas relating to managing in a market economy.

As part of this process, evaluation of the development needs and schedule of activities as perceived by the Faculty of Economics in Ostrava was necessary. The local environment demanded part-time education using open learning. Some of these needs had been filled within the previous CZALP project, yet there was little provision in most areas. Exploration of ways to satisfy the developing needs of the faculty in respect of the above was seen as necessary in CZALP 2.

A major reorganization of enterprises in Moravia has been taking place, helped by the faculty and less directly by LJMU. The faculty enjoyed excellent relations with its local and distant enterprises, and provided courses in various areas to satisfy their needs. It aimed to continue to develop these links

and enhance its role in developing management education in its catchment area. Jointly, LJMU and the faculty intended to take advantage of the best practices available for both effective and efficient course delivery and curricula development.

Almost every sector of Czech industry has been facing up to the challenge of competition and liberalisation of regulations, with an emphasis on improvements in productivity, value for resources invested and new ways of monitoring performance. All sectors have been involved in a major change of culture. The aim of CZALP 2 was to continue to work closely with the partners to identify the training needs for improved enterprise performance within a competitive environment. In addition, this was also intended to relate to the wider European objectives of the Technical University of Ostrava. The next section explores CZALP through viable systems theory and the cognitive interests, purposes and influences involved in knowledge migration.

Exploring CZALP through Viable Systems Theory

IHRDAs, as we have seen, arise in order to satisfy cognitive influences, purposes or interests, developed through establishing a virtual paradigm that may initially be ill-formed and unstable. They can be volatile, with many dissolving prematurely, and may have limited cognitive influence, purpose or interest, and an intended limited life span and domain of action; examples are the single projects described earlier. Alternatively, they may be instances of an enduring general agreement intended for the long term, as in CZALP. If this occurs, it is usually the case that a paradigm will have developed that will have, associated with it, recognisable patterns of behaviour.

The strategic motivation for alliances varies with the organizations involved and their cognitive purposes and interests (Kelly and Parker 1997). We have selected five of these as applying to IHRDAs, and supposed of the types of alliances their capability of becoming viable systems in their own right (Table 1). As a result, we have proposed their associated cognitive properties. We note that in Table 1, the last column is referred to as knowledge migration, which is cognitive influence dependent. In Table 1, we have also applied these three

domains specifically to the three CZALP phases in the latter half of the table.

Action Research and Knowledge Migration in the Bulgarian National Radio

One of the key issues in our model of knowledge migration in IHRDAs (Figures 1 and 2) is what factors facilitate successful knowledge migration. Such migration is most likely when structured semantic communication is facilitated, and action research methodologies seem potentially very promising in facilitating semantic communication. Such communication is central to effective action research, which produces intervention strategies that generate coherence in complex situations. In such interventions, learning occurs through local individual knowledge creation and the migration of knowledge from one cognitive domain to another.

Though we can never be sure that commonality occurs, we can use control recursive approaches to enhance the likelihood of it happening, and action research to deliberately seek collaborative community reflection and learning. During inter-action between individuals and stakeholders, new knowledge is exchanged for a purpose that enables coherent purposeful action. For these reasons, we decided to use action research approaches to manage change in the Bulgarian National Radio (BNR).

A three-day workshop was held in December 2002, in partnership with the University of Sofia, involving fifteen participants from BNR. The first day focused on systems intervention strategy. The second day focused on organisation development, involving exploration of intervention strategy in terms of cultural change and likely resistance. The third day involved syntegration, based on viable systems theory to enable the change team to develop patterns of communication and facili-tate semantic migration and knowledge migration. Participants appeared to respond positively to this state of intervention, though full evaluation has not yet been completed.

Conclusions: Towards a Systemic Theory of IHRDAs

We propose that alliances, including IHRDAs, may occur between purposeful adaptive organizations, introducing the conceptual extensions of cognitive influence, purpose, and influence. Within alliance theory it is common to talk of project mission and goals. The notion can, however, also be applied to other partnerships, such as between SMEs and academia (Iles and Yolles 2002), and international joint ventures (Iles and Yolles 2002b), because when a cognitive domain is established, it results in the formation of a metasystem that directs the system.

It is essential that a cognitive interest or purpose exists to facilitate an IHRDA. However, it cannot work without the formation of a local frame of reference from which a local metasystem is derived. This will be formed through the cognitive influ-

ences of all the worldviews involved, and will be a formation of the whole rather than any one part of the actors of the suprasystem. It is through the locally defined metasystem that the actors can deal with paradigm incommensurability, and thus the formation of cognitive turbulence and manifest conflict. With it, local purposefulness and direction can develop, but without it, behaviour will be prone to chaos.

IHRDAs between organizations are therefore considered to be purposeful adaptive activity systems, analysable in terms of three domains: cognitive, transformational, and behavioural, each with the cognitive properties of influence, purpose and interest. This may provide the potential

Table 1. Example IHRDA situations and their cognitive attributes as viable systems

Situation	Cognitive Interest (may be divergent or mis-interpreted)	Cognitive Purpose (may differ or be differently expressed)	Knowledge Migration through Cognitive Influence
Cooperation in research and development e.g. on open learning	Share cost of innovation	Lead time to development	Share basic knowledge of innovation
New markets in Central Europe e.g. Moravia	Joint working with host country organization to develop market	Developing joint control and logico-relational processes with host country organization	Share product and market knowledge
Accessing segmented specialist local market e.g. Czech Telecom	Help in facilitating access to local markets		Share product, market knowledge
Guide technical knowledge to keep up with development in e.g. technology (OL, IT)		Develop new goals e.g. Open Learning	Share technical knowledge e.g. IT
Expand market share in stagnant or crowded markets e.g. part-time, in-company degrees	Help by facilitating market access to new markets	Develop market share	Share marketing knowledge for given sectors
CZALP 1 1997 – present	Management education (IT, Banking, Management) Part-time education OL Unit	Develop new markets. Support restructuring of Czech economy especially in Moravia	Share knowledge of local market Share experience in part-time education Open learning
CZALP 2 1997 – present	Open learning Open learning support network	Develop new approaches Support Czech Telecom	Share knowledge of Open learning
CZALP 3 1999 – present	Launch franchised MBA. Develop Ostrava as self standing professional University	Develop Company Links. Demonstrate Ostrava as mainstream Business School within European standards.	Share knowledge of MBA modes. Knowledge migration to facilitate autonomous development.

for further developing the theory associated with alliances, enabling us to formulate a more general viable systems theory of alliances, including International HRD alliances such as CZALP, and identify issues and directions for further research. The Bulgaria case indicates the potential value of a chain research in migrating HRM knowledge in international HRD alliances.

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Ethical Aspects of Value-Based Relationships

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Introduction

Recent ethical scandals involving such global corporations as Arthur Anderson, Enron, and World-Com have prompted considerable alarm about the state of ethics in the business world, and about what these scandals signify about the societies and cultures that have engendered them. In the historical perspective, it can be argued that these scandals are nothing new. They are simply the latest manifestations of ethical failures and corporate social irresponsibility that have at minimum generated bad publicity for companies (witness: charges that certain athletic shoe manufacturers are guilty of human rights violations and employee exploitation in some of their third-world operations).

There is evidence, however, that levels of attention paid to ethical issues, and of pressure to take action to improve how ethical challenges are dealt with, are intensifying. Berlin-based Transparency International has, since the 1990s, published running indices of corruption and bribery, which annually place a number of countries in a favorable or unfavorable light. During the 1990s a growing number of organizations adopted ethical codes or drafted human rights policies. The newly revised standards for accreditation of business school programs adopted by AACSB International (the Association to Advance Collegiate Schools of Business) have elevated the teaching of ethical aspects of business decisions and practices to a primary level of importance—a requirement for achieving accreditation.

This paper explores the foundations of ethics and corporate social responsibility in the Baltic States in terms of a broader context: as grounded in the personal value systems of individuals, and therefore as part of a larger social capital infrastructure within each country. Ethics is important not just because it has to do with conforming to laws and norms or because of a desire to avoid bad publicity, but because it is part of the nexus of human relationships that underlies the prosperity of business organizations and the societies in which they operate (Fukuyama 1995). The growing literature on social capital emphasizes the quality of interpersonal relationships in business organizations and other societal institutions, in terms of the contributions these relationships make to achieving high levels of economic performance. The literature on organizational change and continuous quality improvement underscore the importance of building quality work relationships in developing an ethos of teamwork, cooperation, and employee involvement. The important role of ethics in all such human relationships has never been accorded more importance.

The next section examines changes in the Baltic states that have increased the need for social capital in the form of cooperative, ethical interpersonal relationships, especially in light of the growing importance of knowledge work in this region.

Paradigm Shifts

The transition to a civil society and market-oriented economy begun by each of the Baltic States more than a decade ago has involved a succession of challenges. Collectively, these have exerted powerful pressures for change in personal values, and continue to do so.

Prior to 1990, Estonians, Latvians, and Lithuanians held values deeply rooted in the agricultural and industrial eras of the past, including recent experience with decades of Soviet occupation. Value patterns in each country included preferences for stable goals, a steady production environment, preoccupation with justice, and equal rights under the law. These value patterns were in some respects

congruent with, but in many other respects conflicted with, requirements from 1990 associated with a newly democratic environment and early steps toward a market economy. The enormous social costs of economic transformations during the 1990s, many of which continue today, cannot be overstated. Social capital may be crucial for successful economic transformation as Fukuyama (1995) argues, but many aspects of economic transformation can liquidate social capital as well, by removing social and economic safety nets and damaging, at least for many sectors of society, an overall sense of fairness, security and well-being.

Baltic integration with European Union market systems is bringing new pressures for fundamental changes in the very long term, which will also profoundly shape work-related values from this point on. Many of these fundamental changes are inherent in today's knowledge-driven economy, and the nature of knowledge work itself. The shift from "brawn to brains" in knowledge work taps the uniquely human abilities to accumulate, refine and acquire knowledge.

A second major change relates to shifting approaches to the creation of welfare and wealth. As societal wealth progresses from the possession of rich hunting grounds to the wealth expressed in well-tended fields and cattle to the accumulation of capital used in an industrial economy, knowledge gains in importance and physical force and position/power decline in importance.

Indeed, rich forests, cultivated land, and physical facilities are sterile without well-educated and positively engaged managers and workers. Equally important is the fact that knowledge is valuable only when it is applied to privately and socially desirable activities. Rising productivity and a more effective division of labor increases international competition and reduces employment in traditional and even relatively new lines of work. Knowledge-based improvements in agriculture, industry and services are of paramount importance to maintaining employment and to creating new jobs. Whatever the consequences of these shifts, they do lead to more freedom and greater choice in human relationships, but also to confusion between old and new values, with the consequent stresses and strains.

Advances in management know-how—the "soft" side of technology—represent another revolution in demand for new values and behaviors. Risky, difficult work and product innovations, which offer the best opportunities for creating high economic value in excess of costs, and for the generation of new wealth, are today not usually accomplished with autocratic or patriarchal management, nor simply with harder, more intensive work. Adoption and application of existing and new knowledge is increasingly collegial. Collegial relationships, though not necessarily always friendly, permit careful explorations of old problems and new opportunities. A fundamental ingredient in developing improved, more productive relationships is mutual trust and cooperation in teamwork that is: internationally competitive, profitable enough to assure an adequate return to owners of capital, and capable of providing for timely expansion, regular payment of taxes for social programs, and increasingly higher compensation for managers and their co-workers.

The most desirable managerial qualities cannot be primarily associated with ownership of capital or the authority delegated by owners. Our experience with knowledge-driven enterprises suggests a growing prevalence of economic activities in which the use of traditional capital is integrated with intellectual capital and social capital. Social capital in this context implies an economic environment of trust and cooperation. Just as capital eventually requires new investments, intellectual capital requires new knowledge to be more productive.

Innovative as well as other kinds of change processes stress participants and deplete social capital. Greater and more rapid changes require replacement of and increases in social capital. For the purposes of this discussion, more effective human relations are critically important components of social capital. Making human relations more ethical directly increases the value of social capital. Learning to build better human relations in a changing environment is a source of social capital.

Knowledge-driven economic activity has become increasingly ethically-oriented and collegial. Louis V. Gerstner, Jr. (2002), recent Chairman and CEO of IBM, stresses that "an organization is nothing more than the collective capacity of its people to create value." Dr. Michael Phillips, President of Frank Russell Company, a truly innovative global firm for managing investment managers, in a recent address at Pacific Lutheran University

described three qualities new university graduates should ideally have:

1. An impeccable reputation. A reputation for ethical behavior is the foundation of collegiality with internal colleagues and with external partners and clients.
2. High professional technical competence. This expertise extends far beyond narrowly defined vocational knowledge and skills. It includes not only advanced knowledge in one or two disciplines, but also a profound understanding of the collegial relationships that optimize teamwork and productivity. It reflects the ability to use technically and conceptually important knowledge as tools in more effective competition in domestic or international markets.
3. International orientation reflects an ability to help expand business activity abroad. Essentially, this is the ability of a person who can compete and cooperate on many levels in many cultural settings. Such a manager works closely with others and has excellent human relations. Because of ongoing changes in values, technologies and in the demand for products and services, this person always needs to review existing relationships. To do so competently requires continuous replenishment and expansion of knowledge.

The paramount obligation of organizations today is to "do the right thing" in a changing environment. In practice, this requires a mutually understood relationship between managers, their co-workers and colleagues on every level. For enterprises in the Baltic states, this means developing clearly accepted goals and operational principles, unusually open and honest communications, and above all, equal rights and equal treatment under established rules. This is but one manifestation of a deep respect for the individual.

In the words of Gerstner (2002) of IBM, "fairness is critical for successful leadership. Favoritism destroys the morale and respect of colleagues." Given his experience with a large information technology company that is highly structured, complex, and has a tradition of powerful managers, Gerstner is very concerned that managers do not use their authority arbitrarily. One exception to a rule, he thinks, begets other exceptions; taken together, exceptions undermine accepted values. Gerstner goes as far as to suggest that no exceptions to established rules ever be made.

Baltic Value Patterns

Two sets of data from more than a decade of research into value patterns of managers and business students in the Baltic states (King, Barnowe, Pauna, & Krūmiņš 2000) shed light on the fit between Baltic value patterns and the competitive demands discussed above. The first, shown in Table 1, consists of ratings of the importance of a set of 11 value constructs selected from England's (1975) 66-construct Personal Values Questionnaire (PVQ). These eleven values were judged *a priori* as likely bases for ethical behaviors and the development of ethical relationships. The second, shown in Table 2, consists of responses to a set of questions in Hofstede's (1980) cultural values instrument having to do with preferred management style.

Table 1. Importance of Selected Value Constructs Related to Ethics and Social Responsibility*

	Mean importance rating** and percent indicating high importance		
Rank	Estonia (N=40)	Latvia (N=101)	Lithuania (N=99)
1	Loyalty (3.22, 85%)	Trust (3.22, 90%)	Trust (2.85, 70%)
2	Trust (3.20, 85%)	Cooperation (3.17, 80%)	Employee welfare (2.59, 54%)
3	Cooperation (3.18, 82%)	Loyalty (2.81, 62%)	Honor (2.58, 50%)
4	Employee welfare (2.85, 65%)	Employee welfare (2.77, 61%)	Loyalty (2.46, 52%)
5	Honor (2.79, 63%)	Honor (2.59, 54%)	Cooperation (2.46, 46%)
6	Social welfare (2.65, 60%)	Social welfare (2.38, 38%)	Social welfare (2.45, 42%)
7	Conformity (2.50, 42%)	Equality (2.34, 37%)	Obedience (2.19, 25%)
8	Compassion (2.35, 40%)	Compassion (2.21, 27%)	Compassion (2.14, 24%)
9	Equality (2.10, 25%)	Obedience (2.11, 18%)	Conformity (2.07, 18%)
10	Obedience (2.00, 10%)	Conformity (2.09, 18%)	Equality (2.02, 22%)
11	Religion (1.62, 12%)	Religion (1.62, 15%)	Religion (1.86, 26%)

* Respondents were business students at Estonian Business School (data collected in 2002), Stockholm School of Economics in Riga (2000), and Vytautas Magnus University (2000)

** 4-point scales; a high score indicates high importance.

Although the mean values in Table 1, particularly for the Lithuanian sample compared to the Estonian and Latvian samples, differ somewhat for technical reasons related to the scoring of the PVQ (details available from the first author), the rank orders of value importance from student respondents in the three countries are remarkably similar. From the standpoint of social capital, they also represent good news: According to Fukuyama (1995), trust and cooperation are the very cornerstones for a nation's social capital. Loyalty, employee welfare and honor are also rated as highly important in each country, and may serve as foundations for ethical conduct internal to organizations. Values for social welfare—compassion, equality, conformity and obedience—were rated relatively less important. Despite significant differences in the prevalent religion in the three countries, religion was rated lowest by respondents in each country.

It should be noted that values concerning trust, cooperation and loyalty were rated highly not only in the analyses reported here, but in each country were among the most important values of the entire PVQ set of 66 values. For example, students in the Latvian (SSER) sample rated trust as the fifth most important value among 66, and cooperation as eighth.

It should be further noted that the respondents in each country were business students who have been exposed through their studies to a wide range of western, market-oriented thinking. Their responses may scarcely resemble those which might be made by earlier generations who have incurred much of the social and economic cost of transition since 1990. At this point in Baltic history, generational differences in basic values, attitudes, beliefs and even conceptions of what is ethical may be substantial.

Table 2 shows responses to a question asking which of four different managers they would prefer to work under, given a brief description of how a manager using each style would handle a particular decision situation. A majority of respondents in each country indicated a preference for consultative or participative management styles.

Table 2. Preferred Management Style

Style	Estonia (N=40)	Latvia (N=101)	Lithuania (N=99)
Directs	3%	7%	4%
Explains	18	14	30
Consults	45	58	46
Participative	34	22	20

From the standpoint of knowledge work and the demands for collegial, ethical working relationships, these findings likewise represent good news. A large proportion of the new generation of students graduating in each country appears to be primed to play collegial, fully engaged roles.

At the same time, one fifth or more of business student respondents in each country still prefer to work for a manager with more traditional, directive management styles, in which the manager either simply makes a solo decision without any prior communication, or solicits inputs from subordinates and takes those inputs into account before making a decision. This minority of our respondents may share these preferences with large numbers of managers and workers from previous generations, who were socialized under the Soviet system of management. In the Baltic States, as in other countries, such differences in preference and style may produce numerous stresses and strains, for managers and those they manage. It falls to human resource managers to attempt to solve problems of "fit" between managers and subordinates by designing and enacting careful selection and management development practices.

New Directions and New Tasks

A major challenge for the future in each Baltic country will be to capitalize on fundamental values shown to be important in Baltic societies today, by reinforcing important values within individuals—through education, training and improved management practice—so that these values have staying power and can continue to impact needed behaviors in the years ahead. A second major challenge is institutional change—articulation of ethical standards and practices within business organizations, the establishment of regimens of ethical practice at all levels of government, and the promotion of ethical relationships via the educational system. (Regarding the latter, it is important to acknowledge the limitations of passively taught introduc-

tory ethics courses. Active learning is needed to bring ethical values to an operational level).

As our earlier discussions of social capital and ethics suggest (King & Barnowe 2001; 2003), one of the most important tasks in building more effective Baltic work relationships is gaining mutual trust as a basis for close personal and professionally rewarding cooperation at work and beyond. Building trust has several dimensions.

One is the need to accelerate the abatement of corruption that ranges from outright bribes and criminal transactions to modest gifts, expressions of friendship, and minor favors. These dimensions of corruption make it difficult to measure the incidence of unethical and questionable activities reliably. Personal and organizational definitions vary, and reports about corrupt activities may be incomplete and not comparable.

Even allowing for a lack of consistency in these summary ratings, we are pleased to note steady improvement of Baltic reputations in recent years. Vīksniņš (2003) notes that in the reports of the United Nations Development Program, the Baltic states' standing on the Human Development Index (HDI) is again rising, and shows increasing normalization of life in the Baltic states. The HDI in Estonia is up from a low .749 for 68th place in 1993 to .826 and 42nd place in 2000. Ratings for Latvia ranged from .820 and 55th place in 1993 to .800 and 53rd place in 2000; for Lithuania, from .719 and 81st place in 1993 to .808 and 49th place in 2000.

The widely cited Index of Economic Freedom ratings also indicates substantial economic freedom in all three Baltic States. Bureaucratic controls often invite bribes and other unethical behavior to gain favorable decisions. The ratings earned by the Baltic States suggest that their economic performance is increasingly free from excessive controls. Estonia has an enviable rank of 4th place in the world, Latvia 38th and Lithuania 29th.

Even with respect to Transparency International's Corruption Perceptions Index, the Baltic States show improved or impressively high standing. Estonia (26th in 1998) ranked 29th in 2002; Latvia (71st in 1998) ranked 52nd in 2002; and Lithuania (50th in 1999) ranked 36th in 2002.

All individuals, all groups, indeed, all nations are unique. For this reason alone, there is no one valid model for better management of human resources that fits all. Several periodical publications in America conduct and publish surveys to find characteristics of the best companies to work for. Fortune concentrates on very large companies. Washington CEO (Hindman 2003), surveys successful medium-sized and smaller companies. The characteristics of successful companies vary, suggesting that creating a cohesive work environment and effective managerial values depend on many common as well as different values and circumstances. Therefore, the usefulness of the following recommendations offered by Hindman (2003) should be considered carefully when applied in the Baltic States:

1. Combine the values of mutual trust and respect with training to allow decisions on the lowest level.
2. Add lessons learned from education and experience to day-to-day decisions and managerial guidance.
3. Consider group participation in external projects to build team spirit and to cultivate sensitivity to outside publics.
4. Reduce monotony and help develop more creative work environments.
5. Establish special individual, group achievement and recognition rewards.

The components of Hindman's formula, taken individually or together, are all about expanding knowledge to strengthen corporate culture, as discussed by Gerstner. This process involves all kinds of learning. It obviously includes the transfer of new knowledge from academic and training institutions to individuals and teams of working organizations. This is not isolated learning. It wisely includes integration of new knowledge and insights into the management of human resources through the use of individual and group study of relevant articles, cases, and books, as well as discussions, exercises and new team work assignments.

Fair and collegial relationships should extend beyond current company practice. With reference to emerging ethical issues in personnel relations, it is important to study emerging international issues (Beauchamp & Bowie 1997). Some of them, such as affirmative action and discrimination problems, may not yet demand immediate managerial atten-

tion in the Baltic States. The acceptance of international norms and the integration of decisions with wider legal perspectives can be expected for any enterprise operating within the European Union. Fairness, in all employment relationships, is becoming a global imperative.

We urge Baltic managers to review the value mix in their own organizations. It is important to identify values as they relate to the ethical climate desired in their human relationships in their organization. They should build on and reinforce existing strengths, and correct obvious problems. Some of them will find it advantageous to develop company codes of conduct, attend courses and seminars, and hold regular, frequent discussions of the state of human relations in the firm and in all work groups. Individuals who are unable to adjust to the norms of their team, and to other core values which comprise their organization's culture, may have to be reassigned or seek a better fit with another employer.

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Organisational Culture in the Eyes of Students of Extramural Master's Studies

(Example from the Technical University of Czestochowa)

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Introduction

In the history of management research, stress has been placed on the different elements of an organisation. The developmental directions of research in this field have been defined according to their meaning of these elements.

Since the Second World War, great attention has been paid to human resources and the opinion that this constitutes the main asset of a company has become more and more popular. It has resulted in the establishment and development of a new field – human resource management. The topic of this paper, namely organisational culture, is directly related to this field.

The aim of the paper is to present basic notions related to organisational culture as well as the knowledge and opinions on this subject held by students of extramural studies who are already employed. The students were to present their opinion of the company or institution in which they work and on the university and faculty where they study. These issues will be subsequently presented in the paper.

Organisational Culture in the Literature – Notions and Theories

As with people, each company has its own personality. Each organisation is characterised by a unique and individual atmosphere. This atmosphere is a special invisible feature, particular to that company.

Culture is omnipresent, it influences the functions of societies and organisations. It is a complex notion, covering knowledge, beliefs, art, morality, customs, habits – all the elements and phenomena people are familiar with as members of particular societies. These are informal social relationships uniting members of organisations and reflecting the interactions between them.

Similar to the way societies possess their own cultural heritage, companies also have their own climate, distinguished norms of behaviour, common feelings and beliefs. Organisational climate is "the prestige of an organisation – an image of itself in the eyes of those social elements with which the organisation maintains direct contacts" (Dobrzyński 1977).

It is primarily "a set of relatively constant characteristics in an organisation, perceived by its members and shaping the motives of their organisational behaviour" (Bratnicki and Wyciślak 1980). This atmosphere, characteristic of a particular company, has an enormous influence on the efficiency of its operations and effectiveness of the processes involved in implementing its aims. It influences staff motivation, mobilising them and facilitating company development.

The notion of corporate organisational culture was born several years ago. However, it has been applied in well-developed countries only recently, becoming one of the key elements of management theories. There are numerous definitions of this phenomenon. However, they all define organisational culture as a set of positive assumptions, norms, values, attitudes, behaviours, or ways of thinking that influence organisation members, shape its image and facilitate success. It is a system of values, beliefs, traditions and behavioural norms specific to a particular group and commonly accepted. "Organisational culture is a set of values that help organisation members understand what

the organisation declares for, how it works and what it considers important" (Griffin 1996). Both external factors (national culture, regional culture, local values) and internal factors (aim of activity, branch of industry, position, staff, structure, management, company history and traditions) influence organisational culture. It is a part of each manager and employee, an attribute of human relationships present in the whole organisation.

It was Edgar Schein who has elaborated the most popular model of organisational culture. In the model, the stress was put on three levels of factors influencing corporate personality:

1. *Artefacts* - (artificial products of a given culture) the most visible level; artefacts are visible for people outside a company and its employees, they may be divided into: *linguistic artefacts* (language, myths, legends) – expressions specific to a company; *behavioural artefacts* – ceremonies, rituals, symbols, methods of conduct characteristic to a company; *physical artefacts* – art, technology, material objects.
   The main objective of artefacts it to strengthen the relationship between a company and its employees (Kostera and Kownacki 1997).

2. *Norms and values* (declared, observed), of which people are partially conscious are more durable than artefacts and more difficult to observe. Norms result from the accepted system of values. They define what shall be aimed at, what shall be avoided and how to do it (responsibilities, orders). They are of moral, customary and praxeological character. Visible norms of human behaviour, being certain cultural patterns are called *attitudes. Values* on the other hand are objects or situations valued by people, aimed at or respected. Norms and values may be divided into declared (corporate ethical code) and perceived (unwritten customs, principles observed by employees).

3. Assumptions are the most difficult elements of organisational culture. They are invisible phenomena of which employees are hardly conscious. They concern human attitudes towards universal problems such as the natural environment, philosophy, religion, etc. Assumptions are related to human culture or human relationships (competition, teamwork).

While analysing levels of organisational culture, one may draw the conclusion that the major factors that influence it are human, managerial and environmental ones.
One should also mention developmental stages of organisational culture. E. Schein distinguishes three stages: *forming, functioning and maturity.*
Organisational culture fulfils numerous functions and facilitates the implementation of corporate objectives.

Schein has distinguished two groups: concerning problems with adaptation to the environment and internal integration and functioning. Another theorist - S.M. Davie defines organisational culture as a *standard of beliefs giving meaning to employee activity and principles of conduct in their enterprise* (http://www.teldoc.pl).
Organisational culture should conform to the organisation's direction and strategy. The feeling of community among employees lies at the basis of culture (Griffin 1996).

Each company ought to aim at shaping its own positive image, in order for its employees to feel safe and secure. Happy workers are the best asset a company has, they work efficiently, they are loyal and effective and greatly influence the process of creating a staff community. Satisfied employees and a good atmosphere facilitate company development. Compatibility between formal organisational solutions and expectations and preferences of employees is extremely important for the efficient operation of a company. Lack of this compatibility is the reason for many negative phenomena.

Empirical studies based on the following definition: "An organisation's basic beliefs and values are about itself and its clients, customers, suppliers, and the public at large. Organisational culture also encompasses an organisation's view of its value to society. It is embodied in the way things are done in an organisation as defined by both written and unwritten policies, procedures, and practices. It is manifested in how the organisation defines success and how people are rewarded and punished – the organisational norms that have become accepted and encouraged (or prescribed) by management."
                              (Tracey 1991).

Research Objectives, Methodology, Description of Respondents, Research Course

The research problems are both: the organisational culture of the student's workplace and the organisational culture of the university where they study. The aim of the research was to find out the opinions of working students regarding the following issues:

1. Understanding organisational culture (what is corporate organisational culture);
2. Factors influencing organisational culture in the respondents' workplaces;
3. People shaping corporate organisational culture;
4. Suggestions for changes to be introduced in the organisational culture of the workplace;
5. The organisational culture of the university and suggestions for changes to it.

The methodology applied was quite unusual. Some of the issues researched involved gathering information using human resource management examination questions, while others involved the use of a survey. The data obtained from students is thus a result of an examination, which took place in February 2002. (The questions were generally open-ended. Student's responses were collected in categories and analysed statistically.) This fact points to two reservations. Firstly, an examination is not anonymous. Secondly, and even more importantly, each examination is connected with stress and hurry. A total of 1,245 students participated in the project.

Women made up 72% of the sample and 28% were men. The age of the respondents varied. Some of them were students in the first year – only 22 - 26 years of age. Most frequently however, the participants were people about 30 years old and between 31 and 40 years of age. Only very few of them were over 40. Generally speaking, the respondents' age corresponds with their motivation to study, which has already been discussed in Polish and foreign research. People less than 40 study in order to increase their chances of finding a job and if they already have one – to be promoted. The older study because they are afraid of losing their jobs as well as to be promoted. The young are of the opinion that climbing the rungs of the career ladder without a university degree is, in present Polish conditions,

Table 1. The socio-demographic characteristics

		Number	**%**
Sex	Women	875	72,0
	Men	370	28,0
	Total	**1245**	**100,0**
Age	Under 26	73	5,9
	26-30	395	31,7
	31-40	727	58,4
	41-50	47	3,8
	Over 50	3	0,2
	Total	**1245**	**100,0**
Inhabitancy	Czestochowa City	343	27,5
	Czestochowa region	101	8,1
	Silesia region	801	64,4
	Total	**1245**	**100,0**
Kind of company	His/her own company	35	2,8
	Private company	270	21,7
	State-owned company	853	68,5
	Other	87	7,0
	Total	**1245**	**100,0**
Organisational position	Top manager	14	1,1
	Executive manager	87	7,0
	Administration position	454	36,5
	Worker	591	47,5
	Other	99	7,9
	Total	**1245**	**100,0**

extremely difficult, if not impossible, especially in the light of Poland's accession to the European Union. The older, on the other hand, feel threatened by the young. They want to equal them and think studies are their last chance. Sometimes being a student improves their image in the eyes of their own family and environment.

From the data obtained from the respondents as well as from documents from the dean's office, it follows that although the great majority of them work, about 1/3 remain unemployed. Some of them have never been permanently employed.
Such a situation is primarily caused by the local job market conditions and increasing unemployment. Other, minor reasons include marriage, pregnancy or bringing up a child.

It should be noted that several of the respondents live in the Silesia region and after having graduated from their first degree (licentiate) there or at the Technical University of Częstochowa, they found it advantageous to continue their studies at the University.
Long-term contacts with those people allow us to state that students from the Silesia region often work, frequently in responsible positions; they are enterprising, possess their own firms or work in their parents' companies of which they are co-owners and/or future owners.

The other group of students come from Częstochowa and just like the former group, commencing studies proves their active attitude towards their future professional career. However, the job market in Częstochowa is difficult. Numerous plants have been closed down, others have not been recruiting new employees for years or recruit not on the basis of qualifications but connections. While studies help the students from Silesia keep their current position or gain promotion, they provide a feeling of safety to those from Częstochowa by providing them with the hope of a better position or any position at all.

The third group covers students from the Częstochowa region, mostly from small towns characterised by high unemployment in which a university diploma does not mean anything in the light of unemployment. Workplaces, both in large institutions like offices and plants and in small and medium enterprises, are available only for those well-connected. If any other person gets a job,

he or she is desperate to keep it regardless of the conditions, as they are aware of numerous other candidates ready to take their position.

Extramural studies require students to be present at the university on Saturdays and Sundays during 12 meetings per semester. Not all offices and departments of the university work during those days and the students rarely come during weekdays. As their number exceeds the limits they create a new type of quality.

As already mentioned, some of the students have graduated from their first degree at the Technical University of Częstochowa, the others come from the Silesia region or distant towns. Their studies may be characterised as temporary and speedy. They have limited contact with the university and with each other (as they mentioned in the examination-survey paper). They only know people from the same town or of the same profession, and would welcome integrated meetings.

The course ending in the examination-survey was easy. The students were divided into two groups – numbers 1 to 20 came to write it as the first group and the remaining numbers 21 to 40 as the second. The students were informed that the examination course dictated eight broad areas to be considered and they were given 45 minutes to complete the survey. After the first group of students left the room, the remaining 600 people were invited to write the same paper.

Workplace Organisational Culture

The basic aim of the survey (examination) concerning organisational culture of the respondents' workplaces was to answer the question: "What makes the organisational culture of a company?" The answers are presented in Table 2.

Table 2. Understanding organisational culture

ORGANISATIONAL CULTURE	NUMBER	%
Definitions of the above mentioned authors have been quoted: „... cultural system of an organisation comprising of artefacts, ethical systems, assumptions..."	675	54,2
„...factors that unite and integrate a team, principles of human relationships, ways of thinking, communication, interpersonal relationships characteristic to a particular company.."	175	14,1
„...system of values and norms defining patterns of behaviour, work conditions necessary for efficient company operation, binder, basis..."	142	11,4
„...personality, soul, image, identity, property (material and mental) of all people working in a company; "something" that distinguishes it from the others..."	71	5,7
„...patterns of staff behaviour, dress, opinions, customs, traditions of a company..."	69	5,5
„...how a company is perceived by others and how it deals with its environment, assumptions and image..."	64	5,2
„...external and internal phenomena, multi-layered system of visible and invisible factors; standards of a company...:	41	3,3
„...principles of the company conduct..."	8	0,6
TOTAL:	**1245**	**100 %**

On the basis of the above data one may state that organisational culture is perceived very differently by different people. Many students tried to provide their own definition of the phenomenon. However, almost half of them utilised the ones supplied in the subject literature. The survey (examination) results prove that the students possess an average knowledge of different levels of organisational culture. Numerous notions are combined with each other. Over half of the students understand organisational culture as "a set of attributes characteristic to a given organisation" and many stress that it is the way in which "an organisation deals with its external environment".

One should ask why have so many students of extramural studies mentioned this issue?

The external environment is usually dependant on the actions of a company that, whether consciously or not, influences it, shaping its opinion of the firm. The external environment comprises customers, competitors, investors, banks, the stock exchange, credit institutions, the local community and ex-employees. The environment shapes opinions creating a company image. A good image is the aim of all enterprises as it is thanks to such an image that a customer chooses their product or service in spite of the huge competition. The notion of "customer-oriented culture" [8] has appeared recently.

This means that all employees of a company feel responsible for it, are motivated and aware of the importance of quality customer service. Numerous answers mention values, norms, patterns, principles, beliefs and assumptions as the factors shaping corporate organisational culture.

Many students are of the opinion that the organisational culture of a company is formed by the behaviour of its employees, their appearance, dress, gestures, etc.

To sum up the above answers, one may conclude that employees aim at reaching common objectives. They want to accept and share common norms and values as well as to identify with the company, its mission and co-workers. The students also need to identify with their group by being a part of it and implementing its own aims. One should stress that ¾ of the respondents were women. Their sensitivity to certain phenomena seems to be greater than that of men, but this issue remains to be studied.

We took an interest in the students' knowledge regarding the elements of organisational culture. The respondents' answers were as follows:

Table 3. Elements of organisational culture

ELEMENTS OF ORGANISATIONAL CULTURE	NUMBER	%
„...logo, dress, headed paper, identity cards, interior design, aesthetics, colours..."	209	16,8
„...integration meetings, discussions, greetings, behaviour patterns..."	201	16,1
„...verbal and non-verbal communication, interpersonal relationships, customer service..."	127	10,2
„...customs, habits, common aims, mission..."	129	10,4
„...language – special, professional, conversational topics…."	82	6,6
„...universal values, common beliefs, actions, religion, myths..."	45	3,6
„...employee satisfaction (gratification, car, mobile phone)..."	33	2,6
„...social care benefits (tickets, coupons), taking care of staff culture..."	19	1,5
„...respect for work, punctuality ..."	15	1,2
„...company as a second family, taking care of it, motivating and appreciating employees..."	11	0,9
No answer (unemployed)	374	30,1
TOTAL	**1245**	**100 %**

The most commonly enumerated elements of organisational culture were artefacts (linguistic, behavioural, physical), all that is conscious and visible – logo, dress, patterns of behaviour or image. Almost 1/5 of the students considered integration meetings, greetings, etc. important elements of organisational culture. These elements aim at integration, communication or identification with a company.

Many students are of the opinion that interpersonal relationships and the way employees are treated by their supervisors are extremely important. Taking care of people and their needs, respect for the individual and justice were also commonly enumerated.

Numerous students mentioned customs, traditions, company missions or common goals as elements of organisational culture. Formal – overt aspects of organisational culture have been combined with informal – covert ones. Contrary to expectations, the students had difficulties enumerating these elements. The answer to the question about their understanding of organisational culture was often repeated here. Another element mentioned was language. Organisational culture needs to provide a common language as otherwise employees would not be able to communicate and thus it would not be possible to integrate. There are also phenomena from the hidden sphere such as creating a special atmosphere in the company. Ideologies, language, myths and religion help understand sudden, unexpected events and thus eliminate fear, stress and uncertainty.

The second objective of the research was to find out who shapes the organisational culture of a company. Almost all respondents answered this question. The table below presents their opinions.

Table 4. People shaping organisational culture

WHO SHAPES ORGANISATIONAL CULTURE	NUMBER	%
All employees, the organisation, staff, personnel, external environment	643	51,7
Managers, presidents, supervisors, bosses.	123	9,9
Board of directors	54	4,3
Organisation's external environment	41	3,3
No answer	384	30,8
TOTAL	**1245**	**100 %**

Three quarters of the students were of the opinion that all people employed in a company as well as its external environment shape organisational culture. The corporate internal environment includes people and institutions with the fastest and most direct access to it. These are the employees and their families, ex-workers (pensioners) and co-workers, who are often in the centre of events and influence change and transformation occurring within a company.

All the staff contribute to the organisations image. Employees identify with the company and are proud that they work for it, they cherish its mission and observe the principles of the organisation. They contribute to social patterns – who befriends whom during work hours and after them, who is cool and who is not. The answer to this question was however, that the "organisational culture is shaped by all employees", that is, also by the managers (presidents, shareholders, board). One should mention here particular organisational cultures, which are cultures common for people of the same profession or branch of industry. They behave and communicate in a way characteristic only to them.

This phenomenon is caused by the character of their work and the social role of that profession. The culture of a profession is an important part of corporate organisational culture. The answers from most students confirm the opinion that has been already mentioned in this paper, namely that the "Community of employees lies at the founda-tion of culture and organisational culture should be compatible with the company developmental direction and strategy. An enterprise should plan its personnel policy in order for it to form a community among employees, a feeling of attachment, satisfaction and safety. An employee needs to feel part of a team, it is an example of the culture of individuals". (Handy 1989).

An enterprise shall be oriented on an employee, enabling him or her to fulfil their needs within the organisation. The culture of individuals is observed mainly in companies anxious to present the best possible image. In such organisations, specialists work independently of each other.

Almost 1/6 of the students stated that organisational culture is formulated by the board and the managers.

One should stress that the strong personalities of the company owners or managers (directors, board members) exert a huge influence on the norms and culture of the enterprise. The same statement applies to the history, myths within the company and its traditions. If an enterprise has a deeply rooted organisational culture, there may be problems during a transformation process.

Another research problem (and examination question) concerned changes in the organisational culture suggested by students. The answers have been standardised and categorised and now give a rather clear picture of what should be changed in Polish companies. The table below presents the results.

Table 5. Suggested changes in the organisational culture of a workplace

CHANGES IN THE ORGANISATIONAL CULTURE	NUMBER	%
„...interpersonal relationships between employees, supervisors and subordinates, company and customers as well as non-verbal communication..."	354	28,5
„...integration meetings for all employees, breaks during working hours..."	132	10,6
„...work atmosphere, respect (a human being is of value)..."	124	9,7
„...changes in the leadership style..."	66	5,3
„...improvements in the company aesthetics (dress, repairs, badges, flags with logos), social benefits..."	66	5,3
„...giving up old and disadvantageous customs..."	61	5,0
„...better communication and information..."	46	3,7
„...training and development possibilities..."	15	1,2
„...I would not change anything..."	7	0,6
No answer	374	30,1
TOTAL	**1245**	**100 %**

The answers to this question were very varied, numerous answers having been combined. As much as 29% of the students would like to change interpersonal relationships. One may draw the conclusion here that employees do not form good teams, in spite of the fact that teamwork is considered a higher form of organisation.

According to Harrison, there should be a culture of support in each organisation. "There is the support from a group or society given to individuals that cherishes integration and common values" (McKenna and Beech 1999) People want to go to work with pleasure, they dream about a good atmosphere at work. A large number of students postulate that everybody should use their first names in order to strengthen relationships between co-workers. Another postulate is to remove internal divisions and to introduce less formal relationships with managers. The common employee's comfort at work depends on access to information about the company, contact with the supervisor and dismissal conditions. Only about 4% of the students were of the opinion that information flow and communication in their companies should be improved. Often employees are not aware of what happens in their organisations. They do not get enough information about the work they do and have responsibility for and especially about the financial condition of the enterprise. It is well known that enterprises where employees have full access to information operate best.

There were also suggestions about changes concerning the methods of treating employees, increasing their value; suggestions about showing more respect to everybody and treating each person individually. The students' postulates mention dignity, respect, tolerance (religion, disability). These are just a few of the opinions, but were considered extremely valuable and enriched the analysis. One may also encounter views suggesting the introduction of new employees, negative attitudes to this idea as well and changes in the methods of serving customers (concentrating on the customer, already mentioned).

Only 1% of the students would not change anything in their firms. The conclusion is that there are organisations that are perfect in their eyes and that do not need any modifications. Analysis of the responses shows that employees need trips, integration meetings, parties. This need is justified by the statement that informal and social meetings have the greatest impact on integration among employees and between employees and the board. Some respondents want breaks to be introduced during working hours, others want the breaks for managers to be abolished. Some desire more flexible work hours, others want to have greater influence on the company situation and to change their own attitude towards the work done.

We observed a correlation between sex, age, workplace, organisational positions and changes the students suggested: women, respondents under 30, working in private companies and persons in low organisational positions need increased interpersonal relationships, integration meetings and a good atmosphere at work.

The Organisational Culture of a University – Present and Postulated Status

Students of extramural studies form what has long been called a youth subculture to a much lesser extent than their colleagues from daytime studies. However, they form a student culture. Their opinions of the organisational culture of the university are presented in Table 6.

Table 6. University organisational culture

UNIVERSITY ORGANISATIONAL CULTURE	NUMBER	%
„...inauguration of an academic year (dean gowns, anthem, handing index books)...”	391	31,4
„...faculty logo and building (colours, rooms, modern halls)...”	388	31,2
„...ways of addressing the staff...”	79	6,3
„...common aims of students (diploma, knowledge acquisition, development, ambitions)...”	64	5,1
„...university customs and traditions...”	49	4,0
„...misconduct on the part of administrative staff of the dean's office...”	40	3,2
„...the way academic staff behave and talk...”	33	2,7
„...organisation of studies (groups, specialities) and of conducting classes, lectures and seminars...”	29	2,3
„...relations between students, co-operation...”	21	1,7
„...proper conduct of e.g. porters ..”	21	1,7
„...university climate, atmosphere experienced especially at the beginning of studies...”	18	1,4
„...respect towards academic staff resulting in formal contacts...”	18	1,4
„...conflicts between academic staff members and students...”	17	1,4
„...vocabulary (examination, test)...”	14	1,1
„...lecturers' dress – conservative and elegant...”	13	1,1
„...students' dress during examinations...”	10	0,8
„...others (different cultures, student organisations, University prestige)...”	40	3,2
TOTAL	**1245**	**100 %**

The analysis of the above data shows that the most spectacular elements of university organisational culture are considered the most important. These elements include the splendour of inauguration on the one hand and modern infrastructure on the other. One might suggest here the existence of a longing for daytime studies, of which many of them had dreamt. The inaugural ceremony for extramural students has been introduced only recently and as it turns out, it is necessary indeed. The university assembly hall, being a separate building forms the basis of its prestige. Moreover, it is the first building constructed after a 20-year break and paid for from resources gathered thanks to extramural and evening studies. The building of the Faculty of Management was also financed from this money. One may expect that it will also become an element of the faculty culture in the eyes of its students.

One should note that some aspects of organisational culture enumerated by the students do not really apply to them (e.g. holidays announced by deans or rectors). Pointing to these factors may also be considered an expression of the desire and longing of the respondents to study in the daytime studies.

Relationships between academic staff and students have mostly been assessed positively, whereas the evaluation of the administrative staff working at the dean's office was rather negative. All these relationships, including those between the students themselves create a network of interpersonal relationships, patterns of behaviour and attitudes and constitutes another element of organisational culture.

Women and younger respondents were more interested in the inauguration of the academic year, academic staff behaviour and relationships between students. The last part of the analysis concerned suggestions students made as far as changes in the university organisational culture were concerned. Table 7 presents these suggestions.

Table 7. Changes in the university organisational culture

CHANGES SUGGESTED	NUMBER	%
„...organisation of studies, technical changes...”	221	17,8
„...the attitude of the dean's office staff towards students...”	204	16,4
„...information flow (speed and clarity)...”	183	14,7
„...better attitude towards students (of both academic and administrative staff)...”	87	7,0
„...greater discipline of the academic staff...”	81	6,5
„...social infrastructure organisation, more bars, parking places ...”	60	4,8
„...better contact with the academic staff (possibility of calling, identity badges)...”	59	4,7
„...integration among students (meetings)...”	44	3,5
„...changes in the curricula...”	39	3,1
„...integration between students and the staff...”	31	2,5
„...better treatment from porters...”	30	2,4
„...nothing should be changed...”	59	4,8
„...others...”	56	4,5
„...not available – no data...”	91	7,3
TOTAL	**1245**	**100 %**

The most important changes to be introduced seem to be technical ones. These issues include a good plan, which may be learned in advance, classes and lectures conducted in one building, the possibility of moving to another group, rooms for large groups (this postulate has been partially met by building a new faculty building and modernising the rooms) and smoking-rooms.

It is definitely most disturbing that every seventh student complains about the administrative staff in the dean's office. Information flow is almost as unsatisfactory. These issues are related to a better attitude towards students, treating them as partners, respecting their time and problems (commonly financial ones precluding paid studies).

The changes suggested concern academic staff as well. They should be closer to students and more disciplined. Not all students know the people conducting their classes and lectures, they lack identification badges for example, in order to address them properly.

Similarly, women and students under 30 need more contact with academic staff and integration between students. Not much attention has been paid to infrastructure and the external environment. Nobody mentioned the poor resources of the library or the reading room.

Conclusions

1. The students researched (examined) possess average knowledge about the notion and elements of organisational culture.
2. Organisational culture in a workplace is evaluated realistically, mostly stressing the importance of interpersonal relationships, as well as suggesting numerous changes in different aspects of the culture.
3. Although the students of extramural studies have limited contact with the university, one obtains a clear picture of the university organisational culture while analysing their answers. One may also point to specific shortcomings in the sphere of interpersonal contacts and organisation that need to be dealt with.

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Appendix
Questionnaire

1. What is organisational culture?
2. Name the elements of organisational culture.
3. Who creates the OC of your company?
4. What would you change in the OC of your company?
5. Give the elements of the OC at your Unversity.
6. What would you change in the OC of your University?

Socio-demographic characteristics

7. Sex
8. Age
9. Inhabitancy
10. Kind of company
11. Your organisational position

The Cultural Dimension of Human Resources in Slovenia from the Perspective of Austrian Business

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Introduction

The transformation of the former "East Block" into western style societies has provided the scientific community with a wide range of questions and problems. Not the least important issue from the beginning was how to get these countries on a market economy track. Who does not remember the disputes about "shock therapy" versus a more gradual transition? In any case the complete historical failure of Communism made neo-liberal economic theory the almost ultimate interpretation of economic life overnight, if not for society as a whole, at least a magic wand for prosperity. Similarly, on the level of managerial tools, the transfer of western run-of-the-mill arrangements dominated. But soon it became obvious that development and entrepreneurial success are more complicated matters. On the country level expert panels started to ponder "path dependency", as something historically inherent in societies, affecting the success of policies.

At the same time, a discourse on the cultural "embeddedness" of business organisations gained momentum. And this occurred under the circumstances that practically in all countries from Finland via Germany and Austria to Greece (i.e. those neighbouring the former Iron Curtain in the west and south) the managerial elite seem to be deeply convinced of their natural "Ostkompetenz". Perhaps due to this but perhaps also despite this self-perception something called "cross-cultural management" quickly developed as a genre of research, particularly in Central Europe. The German term "Ostkompetenz" suggests a natural understanding of people and circumstances in the "East" due to historical experience. It does not imply mutuality ("Westkompetenz") although it does not exclude it either. Besides the history it is also the geographical closeness, which makes it sound reasonable to assume "Ostkompetenz".

As far as distant trading partners are concerned (e.g. Europe vs. Japan) the necessity to pay attention to *local customs* and *preferences* is widely understood in business circles. However, with neighbouring countries the need for cultural sensitivity appears much less necessary. Hence, for some it was quite surprising when comparative research about business culture revealed quite complicated patterns between countries such as Austria and Germany on the one hand and, for example, the Czech Republic and Hungary on the other (Goethe Institut 2002; Fink and Meierewert 2001). Slovenia has attracted less scientific attention in this question, maybe because of its size but also because of the enormous success of Austrian investments in this country. And indeed, at first glance the two countries might appear so similar that even the assumption of a common business culture is plausible.

In this contribution we will try to show that the reality is more complicated and even with such close neighbours, cultural sensitivity is not a luxury (Furnham and Bochner 1986). The core of the material we will use is drawn from two projects, in which Austrian business managers describe their experience with the Slovenian business culture. It can be shown that, though Austria and Slovenia (together with Croatia) can historically be counted

to a common cultural sphere, different aspects of business cultures do exist. The reasons for these differences will be discussed. As far as theory is concerned, research is confronted with a wealth of approaches (Wimmer 1996; Thomas 1996; Reckwitz 1997), the empirical probation of which is still due. Therefore it is anything but obvious to discuss the economy of Slovenia on this basis. This is one reason why the following analysis will remain provisional. It is based on about 200 standardized interviews of organisations in Southern Austria/Carinthia ("Alps-Adriatic network project"; Langer 1998) and from an exclusively Austrian perspective. Results from 19 intensive interviews with Austrian managers active in Slovenia are also taken into account (Feichtinger, Langer and Meierewert 2001).

Similar Conditions?

Is the Slovenian business culture (Globokar 1995) despite different institutional and political conditions comparable with the Austrian, when it comes to values and attitudes? We pursued this question in the "network project" with a set of standardized items derived from an earlier study on Austrian, German and Czech managers (Schroll-Machel 1997)[1]. Additionally, aspects such as foreign language use, which can be interpreted as indicators of the intellectual culture of an economy (Langer 2000) are contained in this data. Answers to the questions regarding the Alps-Adriatic region can also be considered as cultural indicators. Austrian businessmen count Slovenia, Carinthia and the neighbouring Italian provinces as the core of this region. Furthermore varying business practices inside this sphere are generally not felt as obstacles for business connections. However it is not quite clear whether the respondents think that they can cope with it or whether such differences ever exist.

It is different with language as a cultural prerequisite for social relations and circumstances. The acquisition of a foreign language is time consuming. The decision pro or contra can also say something about the importance of the respective culture for an individual. The importance can be justified by the usefulness, but also via complex collective feelings. English as *lingua franca* of globalisation however, is obligatory in most Austrian schools. Here usefulness has been decided on a collective level. It is different with languages such as Slovene or Italian, which require more initiative. But this is not the focus here. The question is rather -which languages are actually used in business relations.

According to our investigation, the configuration of languages used by organisations in Southern Austria (Carinthia) with Slovenia is basically different from the pattern, for example, with Italy (Table 1). With regards to Slovenia one fifth of the organizations use either only Slovene or only German. Especially the enterprises (27%) often prefer employees with knowledge in Slovene. A further fifth use German and English mixed. English alone as medium of communication is indicated by less 10 per cent of the organizations.

Table 1. Languages used by Austrian companies/organisations when negotiating with Slovenian partners

	Organisation[2]				
Language	Economy (64)	Social (40)	Culture (45)	Politics (36)	Total (185)
German	17,2	22,5	26,7	25,0	22,1
English	10,9	2,5	8,9	11,1	8,6
Slovene	26,6	20,0	13,3	16,7	20,0
Slovene/ German	4,7	12,5	8,9	16,7	9,7
German/ Slovene	3,1	7,5	-	5,6	3,8
German/ English	17,2	25,0	26,7	22,2	22,2
English/ Slovene/German	4,7	2,5	2,2	-	2,7
Other	15,6	7,5	13,2	2,8	10,8
Total	**34,6**	**21,6**	**24,3**	**19,5**	**100,0**

The order of languages used with Slovenian companies is German, Slovenian and then English. Whereas in the case of Italy, Italian is in the first place in combination with German (21%), followed by Italian alone (15%) and then English alone (12%) - with the companies 20 per cent - and German in combination with some Italian (12%). Only 8 per cent of the organizations can manage with German alone. This comparison shows that at least in Austria's most southern region, organizations have a relatively high competence in the neighbouring languages. Furthermore, one can see that in relations with Italy some basics in Italian are more or less a precondition whereas with Slovenia one can get quite far with German or with German in combination with some English.

One can therefore assume that in Austria the language barrier towards Slovenia is far lower than towards Italy. This is not only due to the existence of a Slovenian minority in southern Austria for which there isn't any Italian equivalent but also due

to the considerable knowledge of German in Slovenia itself. Mlinar (1997) quotes a representative survey (Slovene PUBLIC Opinion) according to which 40-50 per cent of the population have some knowledge of German, with the trend increasing slightly.

Even closer to a cultural perspective than language are items that ask for various behaviours, which can be considered as typical of a modern economy. In the sense of a theory of social values, they express preferences for behaving in specific situations. The interviewees were asked to respond to these items with respect to their relations to Italy and Slovenia on a scale between "much less" and "much more".

Table 2. How Austrians perceive certain behaviours with their Slovene partners In comparison with Austrians Slovenes are ...

Behaviour	Organisation							
	Economy (64)		Social (40)		Culture (45)		Politics (36)	
	less	more	less	more	less	more	less	more
Thorough	50,8	9,8	17,2	17,1	18	15,4	22,6	16,1
Accurate	49,2	9,8	25,7	14,3	23,7	13,2	28,1	6,3
Reliable	50,8	6,6	19,4	16,7	15,8	10,5	28,1	6,3
Keeping job and private sphere separated	23,3	3,3	19,3	12,9	24,2	9,1	24,1	20,7
Emphasize competence	14,7	18	17,1	28,6	13,2	15,8	18,8	12,5
Stay inside official channels	28,4	26,7	20	28,6	27	27	32,2	25,9
Punctual	46,6	5	11,1	8,3	23,7	5,3	19,4	9,7
Flexible	29,5	36,1	27,8	25	31,5	18,4	29	32,2
Self-confident	13,1	26,3	22,9	20	21,1	21,1	12,9	38,8
Emphasize teamwork	22,8	24,6	5,6	27,8	13,2	26,4	9,7	25,8

The truth is that in the case of Slovenia the interviewees very often chose "no differences" when comparing with the Austrian business culture. However, this occurred more often among representatives of cultural organizations than among those of companies (Table 2). Of the latter 51 per cent observe less *thoroughness* (51%), *reliability* (51%), *accuracy* (49%), *punctuality* (47%) and *separation between private and professional matters* (23%) with Slovenian partners (Table 2). On the other hand a considerable number of them consider

Slovenians more *flexible* (36%) and *self-confident* (26%) than Austrians. The pattern with the social, political and cultural organizations is similar but the emphasis is much weaker. The reasons for the difference is probably methodological - the research is based on business organisations - but it can also be that in certain circles in southern Austria, it is *politically correct* not to assume cultural differences most especially with Slovenia.

The assumption of such intervening variables is confirmed by answers, which one gets when asking

the same questions with respect to neighbouring Italy. Here, on the one hand, behavioural differences are mentioned more frequently, whilst on the other hand the pattern of responses between four types of organizations is more homogeneous than in the case of Slovenia. With respect to Italian partners much more *flexibility in new situations* (68%) and greater *self-confidence* than with Austrians is stated. On the other hand *reliability* (60%), *punctuality* (56%) and *adherence to rules* are considered less distinct with Italians. Political, social and cultural organizations produce similar responses with the exception of *professional competence* where about one fifth consider their Italian partners as placing less emphasis on competence.

With regards to the business organisations the perception is completely different: They ascribe high competence expectations to their Italian partners. Of course the question remains, - how can one interpret such figures? Because out of ten economically relevant behaviours only three (thoroughness, adherence to rules, reliability) are felt to be more weakly developed in Slovenia than in Austria by around one half of the respondents. Also with respect to Italy they are three (adherence to rules, reliability, punctuality). The majority of the behaviours are seen as similar for both countries. However, in one point, Italy is viewed superior to Austria: the flexibility of the enterprise. This is not the case with respect to Slovenia. To get further in the interpretation, one can consult other methods (e.g. narrative interviews).

As example statements of a high ranking civil servants conducting negotiations with Slovenes (that time still "Yugoslavs") and Italians concerning two cross-border projects during the eighties:

"The negotiations for this project still took place with the Yugoslavian authorities.

The language of negotiation was always either German or Slovenian. Interpreters translated everything. Under the communists there was always a second level in the negotiations.

Barriers had to be overcome also in the ways of thinking of the neighbours. The main problem was to understand each other.

As Austrian the Yugoslav way of thinking and vice versa, the Yugoslavs had to understand the Aus-trian society and its system of law. This took time but it became more and more objective the further the negotiations moved from the high political level down to the level of technology and realization. The major problems were produced by the people from Belgrade, but sometimes also the Slovenes ...

With the Italians we did not meet so often ...

However, I must say the negotiations with the Yugoslavs were much more determined than with Italy. The reason for this was, that in the case of Italy there were always many who interfered, from Rome as well as from Friuli. In Yugoslavia the republics had more autonomy than the regions in Italy. There were always people present from Rome. The groups were also larger ...

The Italian wasn't a serious negotiating party at that time.

One could never rely on what the Italians said, whether it concerned appointments or other things. This was very difficult. There were different levels, the bilateral organizations and the small working groups. On the level of the small working groups it was still the best, with concrete technical questions ...

If I may summarize the differences during the negotiations in these two projects: In the first phase the negotiations with Yugoslavia were coined by political points of view, which were controversial but still permitted the pursuit of common goals. The more visible the common goal became, the better were the negotiations. They were very pleasant, open, determined and concrete negotiations.

In the case of Italy however, it always disintegrated on the high level. I have already mentioned, although I don't want to generalize, but it is unfortunately the experience fom these negotiations that the Italian isn't a serious partner.

Even today after the completion of the project there are again and again open questions with the Italians, whereas the agreements with the Slovenes still hold one hundred per cent".

In the interview, two dimensions are addressed which also appear to a greater or lesser extent in the questionnaire: the influence of the institutional frame (hierarchies) and reliability. However, com-

plete convergence only exists in the assessment of the "reliability" of the Italian partners, which appears very low, although frictions in the hierarchy are also ascribed, primarily to the Italians. The negotiations with the "Yugoslavs" are described altogether more positively than that with the Italians. More than the questionnaire, the interview indicates an affinity between the Slovenian and Austrian negotiating culture. The statement that in both cases, negotiations worked best on the level of small groups is also important. Though this difference loses weight slightly regarding the Italians, the irritations don't seem to come so much from the culture of the neighbours near the border but rather from the "high level".

One can say that organisations operating from Southern Austria into the Alps-Adriatic region meet more similarity in behaviour than differences. And this statement is truer for Slovenia than for Italy. In a parallel study based on intensive interviews, more but similar features of differences appeared for Slovenia (Feichtinger, Langer and Meierewert 2001). Theoretically this study was operating with the concept of "Kulturstandards" (Thomas 1996). The 19 Austrian managers professionally active in Slovenia at the end of the nineties observed the following additional cultural distinctions of Slovenian business: *the power of informal organisation*, low significance of *formal etiquette, paternalistic expectations,* the relevance of *indirect* (vs. straight forward) *communication*, the importance of *status symbols* and the ability *to improvise.* These standards were considered somehow more developed in Slovenian than in Austrian business culture by the interviewees. But it was also indicated that these differences were not experienced as a cultural shock. The Austrian managers could cope with them.

Summary

As far as the economy is concerned, Slovenia is not, of course, an unknown world for Austrian managers and businessmen. This applies especially to the micro-world of behaviours and values. "Cultural shock" will remain limited. Slightly different business practices aren't felt as significant obstacles according to our investigations. However, it would be also risky to speak of an equal-type or even identical business culture. Apart from the fact of clearly different institutional and political conditions for almost half a century, the commu-

nist social order most likely left its traces in the system of values and behaviour ("the communist mind"; Melich 1997; Langer 1999). However, from the point of view of Austrian businessmen, the things they have in common overshadow this. With some restrictions, one could even still speak of a common business culture between Austria, Slovenia and Northern Italy. Crucial to such a conclusion is the weighting of the restrictions. Empirical investigations generally show only the surface of a phenomenon, while the deeper structures can only be understood through practical experience.

Only with such experience can it be seen, how far a particular partner matches the imagination of the other culture and whether differences in variables such as "reliability" or "punctuality", which were stated scientifically, are actually decisive for the success of the respective business. This relativization of the cultural factor is supported further by the increasing functional independence of the economic sector ("systemic paradigm") with its factual and goal-oriented language. Cultural aspects are not explicitly part of this kind of communication anymore; the protagonists also can try to overlook them. But the more they are conscious of the latent cultural meanings of any communication, the better they will succeed. Hence, even in economies that believe in their "Ostkompetenz", raising awareness of cultural differences in the new Eastern markets will sooner or later pay off and thus should be part of human resource departments programmes.

For the future it becomes apparent that Slovenia, like many other countries in transformation, will be integrated into the emerging society of the European Union. Thus, as far as the prerequisites for cultural homogeneity are concerned, a similar situation will be reached as at the end of the Habsburg monarchy. Additionally, the basic political and institutional frameworks will converge. Last but not least, the global media and local activities of international companies will procure this. In the course of this, for example, the transfer of marketing strategies will be easier. Simultaneously and in contrast to the previous "socialist market economy", the economic system will be further differentiated and functionalised. And this can enable economic organisations (enterprises, associations etc.) to neutralize cultural "irritations" by other subsystems of society (kinship, politics, education, religion etc.) more easily. On the other hand

the so-called "globalisation" is leading to the presence of enterprises from quite different cultures in one and the same territory. Then a manager, e.g. from Austria, will have to pay more attention to the international origin of a company or subsidiary in Slovenia rather than whether Slovenia has yet another business culture. The cultural question will remain, but will have to be posed differently.

Notes

[1] Questions about cultural differences were only a minor part of the „network project". Its main focus was on relations (networks) between organisations in the Alps-Adriatic cross-border region as far as these relations originated in Austria. All together 203 (N) organisations were investigated. Among them 68 business organisations.

[2] The distinction between "economic", "political", "social" and "cultural" organisations is based on the assumption of four types of societal subsystem in the structural-functional paradigm of sociological theory. With this approach the project assured that no type of organisation was left out in the area of investigation.

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International Reward and Compensation in Chinese MNEs

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Executive Summary

This study reveals that Chinese MNEs adopt dual approaches to international reward and compensation towards different nationalities and different levels of managerial status. The approach to international reward and compensation for non-executive host-country nationals is host-based, and for executive host-country nationals is contract-based. The approaches for expatriates are classified into three categories: the diplomat-based, the host-based plus home salary and the contract-based. To a certain extent these three approaches are different from the existing approaches in literature in this field. This study indicates that international strategy, reliance on international markets and senior management's perception of the home reward and compensation system determine approaches to international reward and compensation. Other factors, including legal, economic and socio-cultural factors, and type of industry or niche within industry influence methods of implementing these approaches. Moreover, international HRM (IHRM) policies and practices, including recruitment and selection, management development and performance appraisal, have a strong effect on international reward and compensation.

Keywords: IHRM, international reward and compensation, Chinese MNEs, international reward and compensation model

Major Issues in International Reward and Compensation

An effective international reward and compensation is very important because they may considerably influence staff performance and motivation. Also, according to Shen (2003a), there are reciprocal relationships between international reward and compensation and other IHRM policies and practices. Moreover, 'wage cost control will contribute positively to the output of the organisation as a whole' (Logger *et al* 1995, 144). However, international HRM is a relatively underdeveloped area (Shen and Edwards 2003). International reward and compensation is one of the areas that need to be further explored. There is a lack of empirical research into how MNEs reward and compensate employees in overseas operations, especially in MNEs from transitional economies, and why MNEs adopt particular approaches.

The following two issues are particularly important in addressing international reward and compensation policies and practices.

Issue 1: How different or similar are international reward and compensation policies and practices in different national MNEs and different managerial posts within a MNE?

According to Logger *et al* (1995), the wage structure and wages paid for comparable positions in different countries are significantly different. Different economic systems, development levels, political and institutional contexts, traditions and cultures make it difficult to find a uniform method for comparison. The question is, whether these differences are becoming greater in the context of international reward and compensation?

According to Dowling *et al* (1999), key components of international reward and compensation include:

- *Base salary* as a primary component of a package of allowances serving as a benchmark for other compensation elements
- *Foreign service inducement or hardship premium* is a salary premium as an inducement for

an expatriate to accept a foreign assignment or as compensation for any hardship caused by the transfer

- *Allowances* are compensations that enable expatriates to remain 'relative' to home standards
- *Benefits* include pension plans, medical coverage, social security, vacations and special leave.

However these components can be dealt with differently in different MNEs. The two major approaches to international reward and compensation in current literature are home-based and host-based policies.

- Home-based policy (Anderson 1990): This approach links the base salary for international employees to the salary structure of the relevant home country. The home-based policy is also called the balance sheet or home-net system (Reynolds 1986; Dowling *et al.* 1999). With the home-based approach, according to Dowling *et al.* 1999, the basic objective is the maintenance of the home-country living standard, plus financial inducement. Home-country pay and benefits are the foundations for this approach. Adjustments to the home package balance additional expenditure in the host country. Financial incentives, such as expatriate and hardship premiums, are added to make the package more attractive. The home-based approach is the most common system in use by MNEs.

- Host-based policy (Anderson 1990): The base salary for international transfer is linked to the salary structure in the host country, but significant international supplements are usually connected to home-country salary structures. The host-based policy is called the local going-rate system by Dowling *et al* (1999). This approach 'relies on survey comparisons of host-country nationals (HCNs), parent-country nationals (PCNs) of the same nationality and PCNs of all nationalities. Base pay and benefits may be supplemented by additional payments for low-pay countries (Dowling *et al* 1999, 188). This approach is effective in attracting expatriates or third-country nationals (TCNs) to a location that pays higher salaries than those received in the home country, but it poses problems upon repatriation when the person's salary reverts to home country levels.

The key advantages and disadvantages of the two approaches are listed in Table 1.

Table 1. Advantages and disadvantages of international reward and compensation approaches

Reward and compensation approach	Advantages	Disadvantages
Home-based policy	• Equity between assignments and expatriates of the same nationality • Facilitates expatriate re-entry • Easy to communicate to employees	• Can result in great disparities between expatriates of different nationalities and between expatriates and locals • Can be quite complex to administer
Host based policy	• Equity with local nationals • Simplicity • Identification with host country • Equity amongst different nationalities	• Variation between assignments for same employee • Variation between expatriates of same nationality in different countries • Potential re-entry problem

Source: adaptation of Dowling *et al* 1999, 188-190.

According to Reynolds (1988), if regional expatriates are paid on separate scales appropriate to their regions, this kind of reward and compensation is region-based. A region-based policy can reduce compensation costs significantly. The region-based policy is sometimes seen as another kind of international reward and compensation approach. The three existing approaches are all derived from MNEs from advanced economies. A fact that has raised questions regarding the applicability of

these approaches to other economies, especially developing or transitional economies.

Issues 2: What are the major factors affecting international reward and compensation policies and practices in MNEs?

The development of global product markets has not yet resulted in global compensation practices (Logger *et al* 1995, 144-5). According to Dowling *et al* (1999) and Logger *et al* (1995), when developing international reward and compensation polices, MNEs seek to satisfy several objectives, such as:

- To be consistent in respect to overall strategy, structure and business needs
- To be internally equitable and externally competitive in order to attract and retain suitably qualified employees
- To facilitate the transfer of international employees in the most cost-effective manner for the MNE. "A balance needs to be struck between uniform basic rules and requirements on the one hand, and country-specific elements on the other for the staff employed in the various different countries" (Logger *et al* 145)
- To stimulate employees by rewarding performance and compensating them for inconveniences
- To enable the organisation to optimise its total wage level.

When formulating effective international reward and compensation policies, MNEs need to take various factors into consideration. Hodgetts and Luthans (1993, 42) suggest, "the cross-cultural dimensions of compensation management must be understood when multinational companies develop plans for local managers in countries around the world." Dowling *et al* (1999, 181) argue,

"For multinational firms, successful management of compensation and benefits successfully requires knowledge of the employment and taxation law, customs and employment practices of many foreign countries. MNEs should be familiar with currency fluctuations and the effect of inflation on compensation and an understanding of why and when special allowances must be provided and which allowances are necessary in what countries. All of these needs must be fulfilled within the context of shifting political, economic and social conditions."

Dowling's argument is supported by Logger *et al* (1995, 153), who state,

"It is essential that an MNE's compensation policy should remain balanced and comparable when crossing borders…differences in tax and social security contributions must also be weighed".

Moreover, Dowling *et al* (1994) suggest that MNEs need to match their compensation policies with staffing policies and general HRM philosophies. If a firm has an ethnocentric staffing policy, its compensation policy should be one of keeping expatriates as a whole. If the staffing policies follow a geocentric approach, the MNE needs to consider establishing a system of internationally based pay. The nature and duration of the assignment also, to a large extent, determines the method of compensation. According to Logger *et al* (1995), there are close links between selection, training needs and appraisal criteria, which can result in a more integrated HRM policy. Shen (2003b, 279-280) argues,

"Being aware of the interplay of IHRM practices and policies is very important because it helps MNEs understand the relationship between their own IHRM policies and practices, which consequently lead to developing mutually supportive and consistent policies and practices…an MNE should consider the consequences of one policy for others."

Equally, another question arises: Are these defined factors applicable to other economies, especially developing and transforming economies? Otherwise, what factors influence international reward and compensation policies and practices in MNEs from other economies?

The Current Study

IHRM in Chinese MNEs is a topic that has not been adequately reported in existing literature. This study aims to conceptualise international reward and compensation policies and practices in the Chinese context. Under a planned economy, the Chinese reward and compensation system was characterised by rare dismissals and layoffs, egalitarian pay systems, group-based rewards and cradle-to-grave welfare coverage (Goodall and Warner 1997). The most popular wage system in China was the national wage scales, which were structured differently for blue- and white-collar employees (Wang 1990), and were determined by government legislation and regional agencies.

There were minimal wage differentials among workers, technicians and managers (Nelson and Reeder 1985). Wage increases were infrequent, occurring at intervals of several years, and commonly took the form of national unified grade promotions for all employees (Dowling *et al* 1999). The 'iron-rice bowl' approach also emphasised managing employee needs through free housing, schooling, medical care and the like. Therefore, there was no real financial incentive for employees to strive for promotion (Glover and Siu 2000).

Since the mid-1980s, while the government maintains control over the size of the total payroll, firms have been given the autonomy to set up their own remuneration systems within state guidelines. By the 1990s, job responsibility had replaced age as the most significant predictor of rewards and more advanced education and training had begun to make a difference to workers' remuneration (Child 1994). A performance-related reward system (equitable reward system) has been introduced to replace the grade-based system, which is on a 'post-plus-skills' basis. According to the principle 'to each according to his work' or 'post-plus-skills', pay was based on a basic wage determined by job level and wage category and an efficiency-based bonus.

Age, job level and qualification determined basic wages. Seniority is still an important constituent of pay and egalitarianism still prevails. While interest in equitable reward and compensation is growing, the deep-rooted egalitarianism among the Chinese greatly hinders such efforts. The range of wages and salaries is narrow. Enterprises usually use group pay when they allocate bonuses so that everybody in the group receives the same amount, regardless of individual performance (see, for example, Zhu and Dowling 1994; Easterby-Smith *et al* 1995; Huo and Von Glinow 1995; Mitsuhashi *et al.*, 2000).

When operating overseas, Chinese MNEs may adopt reward and compensation approaches different to their domestic operations because of differences in international and domestic strategies, objectives, the influence of other firm-specific factors and host environments. There is a lack of empirical research conceptualising international reward and compensation in the Chinese context. The current study tries to fill the literature gap by exploring the following issues:

1. What are the approaches to international reward and compensation policies and practices in Chinese MNEs?

2. What are the major factors affecting international reward and compensation policies and practices in Chinese MNEs?

By analysing the factors influencing international reward and compensation in the Chinese context, the author will attempt to develop a Chinese international reward and compensation model. This study used a semi-structured interview based survey for collecting data from ten Chinese MNEs that have subsidiaries in the UK. In total, 30 in-depth interviews were carried out between February and September 2001.

In each case one general manager, one HR manager at headquarters and one executive manager in the UK subsidiary were interviewed respectively. Interviews with general and HR managers at headquarters took around three hours. Interviews with executives of the UK subsidiaries took about two hours. Follow-up telephone calls, emails and visits were also made to clarify specific issues. Company documents, reports and magazines, especially those related to strategy, structure, culture, size and performance, were also collected, where available, during the research. The profiles of the companies in this study are shown in Table 2.

Table 2. The profiles of companies studied

Company	Ownership	Foundation year	HQ location	Industry type	No of Employees/ overseas employees	Total overseas subsidiaries
A	SOE	1929	Beijing	Banking and financial services	50,000/ 18,000	24
B	SOE	1988	Beijing	Airline	13,000/450	37
C	SOE	1952	Beijing	Technology import/export, investment agency	1000/280	28
D	SOE	1955	Beijing	Technology import/export, investment agency	1050/300	10
E	SOE	1961	Shanghai	Shipping	80,000/5,000	125
F	SOE	1950	Beijing	Natural resources import/export	15,000/1,504	124
G	SOE	1959	Beijing	Technology import/export, investment agency	2000/450	30
H	Share-holding	1984	Qiandao	Electronics	30,000/3,100	49
I	Share-holding	1969	Qiandao	Electronics	9,000/940	10
J	Share-holding	1988	Guangzhou	Health products	1000/150	6

Notes:

1. SOE: state-owned enterprises.
2. Share-holding enterprises are also known as joint stock enterprises, which are usually financed and controlled by different SOEs or other groups in China.

Major Findings

International Reward and Compensation Policies and Practices

All companies participating in the study pursue dual approaches to reward and compensation of expatriates and HCNs and devolve full responsibility for reward and compensation of non-executive HCNs to the executive managers of the subsidiaries. The headquarters do not even hold detailed information about reward and compensation policies and practices for non-executive HCNs. All companies employ a host-based reward policy for non-executive HCNs. The host-based pay includes a contract package salary (fixed) and bonus (flexible). Both the contract package salary and bonus are on an individual basis. Bonuses usually comprise two or three months extra salary, based on

individual performance appraisals. The selected Chinese MNEs are quite generous with salary and compensation for HCNs. Almost no complaint has been received from HCNs about unfair or low payments. As the executives in the companies C, D and J reported:

> *My company pays about £ 30,000 annual salary and a two- or three-month wage bonus for a secretary in London. Our company has been called a generous company.*

In all the companies participating in the study, the headquarters are directly responsible for the reward and compensation of HCN executive managers. They universally pursue a 'contract-based system' for HCN executive managers, which is different from both home and host-based reward systems. With this system the salary packages are

negotiated between the HCN executive managers and headquarters. A HCN executive's salary package is based on his or her ability, the importance of the projects and divisional performance.

In terms of the reward and compensation system, the term 'expatriates' means those who are on international assignments for more than three months. Those who are on short-term assignments are paid their original salary plus compensation, covering the costs of working abroad. Reward and compensation policies for expatriates are divided into the following three categories.

- Group A comprises of companies denoted H and I. The two firms pursue a host-based salary plus home salary policy. The expatriates in these two firms receive two salaries during overseas assignments. One is the old home salary; the other is the new host-based salary, which is the same as that which HCNs receive.

- Group B includes only company J. Company J adopts the negotiable contract-based reward and compensation policy, which is based on the individual's abilities, the importance or difficulty of the projects and the location of assignments. This approach is the same as the reward and compensation policy that all the companies use for executive HCNs.

- Group C consists of companies A, B, C, D, E, F and G. These firms employ a post-based reward and compensation policy. The total income for expatriates in these firms includes a fixed salary (so called 'post-based salary' because the salary is based on the position in the organisation), performance bonus (also post-based within the same organisation) and other compensations. Compensations vary according to differences in prosperity, spending power, social security contributions and taxation rates in the host countries. The fixed salary for expatriates is much higher than that for the domestic employees. Bonuses are usually related to divisional or departmental performance, and even those are conferred according to managerial status. The post-based reward and compensation policy was originally used by the Chinese Foreign Ministry to reward its diplomats and other overseas workers and has now been used by many Chinese MNEs. Therefore, it has been widely called the 'diplomat-based' approach by Chinese MNEs.

All the selected Chinese MNEs adopt a uniform reward and compensation policy throughout the corporation in order to minimise the income gaps between different divisions. In general, differentials in income among expatriates in different units of the same MNE are very small. The participating companies universally adopted the paid holiday policy in international operations, which is never seen at home.

Factors that Influence International Reward and Compensation

Moving on to why the participating companies adopt the particular international reward and compensation policies and practices, respondents generally mentioned concerns for fairness and equity, and the development of business and competitiveness in attracting and retaining qualified staff. These plain explanations imply various underlying intervening factors. For example, fairness relates to the different living costs in different countries. The differences in prosperity and spending power influence the expatriates' income. The concern for equity relates to performance-related pay, which is industry-specific. The reason the Chinese MNEs participating in the study provide generous pay to attract high calibre employees is because of the low availability of qualified employees within the companies and in the host labour markets. The intervening factors are further analysed in the following section.

Contextual Factors

Legal factors The empirical research indicates that reward and compensation are subject to the host country legal systems. As reported by the respondents, the Chinese MNEs place great emphasis on conformity to host legislation requirements, such as paid holiday and minimum pay systems. A major difference in the reward system between China and some Western countries is the holiday system. Unlike Western countries, Chinese labour law does not require organisations to give employees paid holidays. In overseas operations, all Chinese MNEs adopt a paid holiday system.

Economic factors All the selected firms also take economic factors into consideration in their reward and compensation system. All respondents reported that geographical compensation is a large part of an expatriate's income, which is based on

differences in prosperity, purchasing power, social security contributions and taxation rates from country to country. Expatriates receive higher geographical compensation in North America and Western Europe than in Africa and South America. The competition for high calibre staff in the international arena is fierce, which directly and greatly affects an MNE's reward and compensation policy. In order to improve competitiveness in attracting and retaining qualified local staff, Chinese MNEs usually provide generous pay to local employees.

Socio-cultural factors The dual approaches to reward and compensation to host and parent employees reflect differences between host-country and home-country cultures. In China, salary is usually not negotiable; therefore a labour contract does not specify salary, as salary is fixed according to the level of the position, qualifications, number of working years and firm's overall performance. However, the need for negotiating salaries with HCNs has been universally accepted by the participating Chinese MNEs. These Chinese MNEs have noticed some advantages in negotiating salaries, such as motivation and the relationship to performance. The participating companies adopt negotiable salary systems for all HCNs and some expatriates while giving more consideration to egalitarianism and face saving in expatriate management than HCN management. In the selected firms expatriates are given group-based bonuses.

The availability of qualified employees in host labour markets also affects the participating company's reward and compensation policy. Since the availability of qualified HCNs is normally low, the participating Chinese MNEs provide HCNs with generous pay in order to attract high calibre HCNs.

Firm-Specific Factors

International strategy Companies H and I, pursuing an international differentiation strategy, aim to greatly explore local markets by localising IHRM policies and providing competitive reward and compensation packages to attract qualified employees. This is the key reason why these two companies delegate the management of reward and compensation to subsidiaries and adopt a universal host-based approach. The remaining companies pursuing a global strategy put priority on highly centralised control over expatriates. The diplomat-

based and contract-based reward and compensation policies serve such a purpose well. However, the contract-based approach, which is used by company J, is flexible. It can also be localised and adjusted to achieve the company's particular international business objectives.

Type of- or niche within industry The influence of the type of industry or niche within industry relates largely to performance-related pay, mainly bonuses, rather than approaches to international reward and compensation. Employees in trading enterprises and sales offices are more likely than in other firms to be appraised and rewarded on the basis of individual achievements. This finding supports Braun and Warner (2002: 571) who state, "In comparison with manufacturing staff, those in sales typically have their bonus linked more strongly to individual performance." Moreover, business objectives on which reward and compensation are based are more flexible in service and trading industries than in manufacturing companies because the realisation of these objectives in service and trading industries is more affected by market fluctuation.

Reliance on international markets Reliance on international markets is to a great extent related to MNEs' corporate objectives and has a strong effect on international reward and compensation. The concern for cost in companies with a high reliance on the home market is stronger than in those companies that are not mainly reliant on the home market or are ambitious to explore international markets, because the latter are concerned more with long-term objectives than remuneration costs. The concern for cost directly affects a MNE's reward and compensation policy and practice. Companies that are only lightly reliant on international markets, such as companies C, D and G, pay more attention to egalitarianism, but less attention to competitiveness of pay than companies H, I and J that rely heavily on international markets.

The diplomat-based reward and compensation approach is concerned with equity between assignments and expatriates corporate wide. Although companies A and E adopt the diplomat-based pay, these two companies tend to explore, and therefore, are becoming more reliant on local markets. Bonuses and benefits in the two firms are host-based and are dealt with entirely in subsidiaries. Although we do not have evidence to prove that the reason for adopting the diplomat-based pay is low

reliance on international markets, it is evident that the reason for adopting the host-based plus home salary and the contract-based pay is a high reliance on international markets.

Senior management's perception of the home reward and compensation system
Home reward and compensation systems are universally regarded by the participating companies as unsuitable for HCNs. This is why all participating companies adopt host-based policies for HCNs. The perceptions of the suitability of home reward and compensation and the transferability for expatriates, however, are different. The majority of participating companies adopt diplomat-based pay for expatriates.

Diplomat-based pay is actually the same form of post-based pay used in home operations. In the eyes of most of the senior management in these companies, their home reward and compensation systems are applicable for expatriates across the company. The senior management in companies H, I and J, bear in mind the idea of trying to create new reward and compensation systems along the lines of modern HRM concepts. Companies H and I tend to adapt to host practices, which is often called the practice of 'conformity to international standards'. These two companies adopt a host-based plus home salary pay policy. Company J adopts contract-based pay, which varies according to the nature of the assignments, projects and locations of assignments. In general, Chinese cash mentality has been recognised and transferred into international reward and compensation systems. The participating companies usually spend less on employee, protection but more on immediate cash rewards.

The Influence of Other IHRM Policies and Practices

The empirical research shows that international recruitment and selection strongly affects an MNE's reward and compensation policy and practice. Companies pursing the polycentric staffing approach are likely to adopt host-based pay. Participating companies pursuing the ethnocentric staffing approach tend to adopt diplomat-based pay. Companies pursuing an ethnocentric staffing approach with a strong tendency towards polycentric are likely to localise their bonuses and benefits for expatriates. There are also strong links between

performance appraisal and reward and compensation because all participating companies adopt performance-related pay.

Companies conducting individual-based appraisals also adopt individual-based bonuses. Moreover, the investigations show that international reward and compensation is affected by international management development policy and practice. The participating companies are generally weak in international management development. All the participating companies except companies H and I do not include HCNs in management development programmes. HCNs' management careers are usually restricted in subsidiaries. There is almost no chance for HCNs to be promoted or transferred to headquarters. The lack of promotion opportunity puts off many qualified HCNs from working for Chinese companies. Therefore the participating Chinese MNEs usually provide generous pay in order to enhance their competitiveness.

The Model of Chinese International Reward and Compensation

Based on the above analysis, a model of Chinese international reward and compensation has been developed, which is shown in Figure 1. This model contains the approaches to international reward and compensation in the participating companies, factors determining the approaches, factors influencing the implementation of the approaches and the international policies and practices that have reciprocal influence on international reward and compensation.

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┌─────────────────────────────────────────┐
│ Factors determining approaches to         │
│ international reward and compensation     │
│                                           │
│ Firm-specific factors                     │
│  • International strategy                  │
│  • Reliance on international markets       │
│  • Senior management's perception of home │
│    reward and compensation                │
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┌──────────────────────────────────────────────┐        ┌──────────────────────────────────┐
│ Approaches to international reward and         │        │ Mutual influence of IHRM policies │
│ compensation                                   │        │ and practices                      │
│                                                │        │                                    │
│  • Host-based approach to non-executive HCNs   │ ◄────► │  • Recruitment and selection       │
│  • Contract-based approach to executive HCNs   │        │  • Management development          │
│  • Diplomat-based approach to expatriates      │        │  • Performance appraisals          │
│  • Host-based plus home salary approach to     │        │                                    │
│    expatriates                                 │        └──────────────────────────────────┘
│  • Contract-based approach to expatriates      │
└──────────────────────────────────────────────┘
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┌─────────────────────────────────────────┐
│ Factors influencing ways in implementing  │
│ approaches to international reward and     │
│ compensation                              │
│                                           │
│ Host contextual factors                   │
│  • Legal factors                          │
│  • Economic factors                       │
│  • Socio-cultural factors                 │
│                                           │
│ Firm-specific factors                     │
│  • Type or niche of industry              │
└─────────────────────────────────────────┘
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Figure 1. A model of Chinese international reward and compensation

Concluding Remarks

First, it is very interesting to note that there are four different approaches to international reward and compensation adopted by the participating Chinese companies, including host-based, home salary plus host-based, contract-based and diplomat-based approaches. Relatively, the host-based approach is more adaptable to local practices, whilst the contracted package approach gives more consideration to the nature of international assignments. However, the diplomat-based policy is concerned more with hierarchy. Decision-making on international reward and compensation in the participating companies is less national and industry-wide and more company-specific.
This fact is strikingly different from the domestic operations where companies usually adopt the same approach to reward and compensation. The

contract salary system and the home salary plus host-based salary system are negotiable and are mainly based on individual ability and performance, which are different from the home reward and compensation system, where pay is position- and/or time-related and basically non-negotiable. Therefore, it is concluded that Chinese IHRM is more progressive than domestic HRM in adopting modern Western HRM concepts.

Among these four approaches, home salary plus host-based, contract-based and diplomat-based approaches are different from the existing approaches in the literature, which include host-based, home-based and region-based approaches. The differences in approaches to international reward and compensation between the participating companies and Western MNEs do not necessarily mean that Chinese IHRM is anchored to traditional

personnel management. On the contrary, this finding indicates that the participating companies adopt 'the best fit international reward and compensation policies and practices by taking various factors into consideration' (Shen and Edwards 2003).

Second, dual approaches to international reward and compensation for different employees indicate that the participating Chinese MNEs distinguish and treat employees differently according to their national backgrounds and their managerial status. The approach to reward and compensation of HCNs is either host-based or contract-based, whilst the approaches to expatriate's vary significantly between the participating companies. This finding shows the dilemma, whereby Chinese MNEs want to conform to 'international standards' on the one hand; and hold tight centralised control over subsidiaries on the other. The corporate-wide reward and compensation practices and policies in the participating companies facilitate the transfer of international employees as well as the centralised control mechanism.

Third, the differences in international reward and compensation between participating companies and the differences between international and domestic reward and compensation practices indicate that international reward and compensation are influenced by particular firm characteristics and are subject to different host environments. International strategy, reliance on international markets and senior management's perception of the home reward and compensation system determine approaches to international reward and compensation. Methods for implementing these approaches, such as the components of reward and compensation and the levels of salaries and compensation, however, are influenced by three contextual factors: legal factors, economic and socio-cultural factors, and firm-specific factors, including type of or niche within industry.

Moreover, the emphasis on the mutual influence of IHRM policies and practices is important because it helps MNEs understand the relationship between their own IHRM policies and practices, which consequently lead to developing mutually supportive and consistent policies and practices. Although political factors in the host countries, international organisational structures, organisational cultures, international experience and the size of international operations impact upon IHRM in general,

there is no obvious specific impact of these factors on international reward and compensation in the participating companies.

The development of the model of Chinese international reward and compensation is significant. The model is of great help for academics and practitioners for considering what factors should be included when analysing or formulating international reward and compensation policies and practices in the Chinese context. Distinguishing the factors that determine approaches to international reward and compensation from those influencing the implementation of the approaches, indicates the importance of the determinant factors in the strategic decision making process. Although this model is generally applicable, some modifications might be necessary when applied to MNEs from other economies. This is mainly in terms of what factors should be included in the model, whether those that influence approaches to international reward and compensation or the implementation of these approaches.

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Electronic Recruiting: Trends in the Italian Market

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Introduction

The emergence and progress of the Internet on a worldwide scale in recent years has been one of the most remarkable social, economic and cultural events of the century. Today the economy is driven by the important information and communication technology (ICT) sector. The Internet is an extraordinary means of user-driven communication; it is the user that dictates the means, the length and the importance of the communicative process.

Recent years have seen a rapid and significant increase in e-business characterised by use of the web instead of or in addition to, traditional means of business development. It goes without saying that, given this reality, businesses are trying to maintain their competitive edge in the "physical market" at the same time as the "virtual market", changing and adapting as necessary[1]. Thus, in a world where production is flexible, where the consumer market imposes rhythms that vary, the road from the old market to the new has brought about the need for new professionals, but also numerous responses from the job market, making human resources a critical factor.

Such changes also, and perhaps especially, have repercussions for the internal organisation of businesses, in particular in terms of human resource management, recruitment and selection procedures. The analysis of the relationship between new web technologies and the recruitment and selection process reflects a crucial issue in the literature on organisations, that is, the relationship between technology and organisations, which has been the direct and indirect subject of numerous research projects (Woodward 1965; Perrow 1967; Thompson 1967)[2]. In place of the "deterministic conception of technology" that can be reduced to the theory of structural contingency and partly that of organisational action, since the mid-70's an alternative "phenomenalogical" vision has been posited, which maintains that technology is a variable that is endogenous to organisations[3] and is subject to a process of adoption by individuals within organisations[4].

If on the one hand, the process of technological evolution seems to be a long term objective that will bring improved efficiency in organisational processes through the automation of manual activity and support for decision making, on the other hand, the outcomes of the adoption process in individual organisational contexts, bearing in mind ICT technology, do not seem to be pre-determined, but are subject to a process of planning and learning which reflects the characteristics of individual organisations. These considerations suggest a need to examine the use of information technology and the Internet in recruitment and selection procedures.

What was once simple recruitment is now e-recruiting: this is a change, recently established, which entails the use of Internet databases. There are already around three million people[5], in Italy alone, that look on the Internet for work or career progression, by providing data and a curriculum vitae. Along side the mass of users the business of e-recruiting has emerged, managed by specialised sites (about 200 in Italy) some of which, in turn are managed by companies that makes billions of Euro. These sites, in order to succeed, have had to be smart, transforming themselves from simple virtual spaces for putting together job requests and offers and for collecting CVs into effective "portals for work." Their objective is to give companies a key competitive and sustainable advantage in terms of the quality of the recruits discovered using the new technology.

There are many advantages including speed, low costs, level of qualifications, improved company image and better quality of candidates.

In spite of the world economic crisis and particularly that of e-commerce, the data demonstrates an exponential growth in recruiting on-line. The fact is that the Internet is an indispensable research tool, since it allows the expansion of search parameters in terms of geography, quantity and interaction.

On-Line Recruitment: Origins and Development

On-line recruitment has recently been identified as a technological and organisational tool, which can provide real support in the management of recruitment and selection procedures[6]. The phenomenon was born in the nineties in the Unites States, where the Internet emerged, along with the World Wide Web and the majority of services available. The date on which the Internet was first used for recruitment and selection purposes is not known. What is certain is that the two giants of web-recruiting, Monster.com and CareerMosaic.com, both started operating on the net in 1994. Many years have subsequently passed and these sites have recorded real growth, along with the entire on-line sector, which has become an inexhaustible business resource.[7]

In the U.S. the Internet, with time, has won a leading role in personnel recruitment, a trend being reflected in Europe where it looks like becoming the preferred means of finding work. To have an idea of its size and of the speed with which this phenomenon is developing, it is worth considering that in 1999 the Electronic Recruiting Index recorded a 60% increase in recruitment on-line in the space of a year; 28 million jobs were published on-line.

The use, in practice, of web-recruiting by U.S. firms is in line with these findings. In a research project carried out by Forrester in 1998, in America alone it was found that companies had spent 105 million dollars on the publication of adverts on the Internet. About 50% of all U.S. firms trusted selection processes using the Internet to find staff. Today this figure has nearly doubled! The growth of the recruitment on-line market will reach 4,5 million dollars in 2003. In the same year Internet recruiting in Europe will be worth 600 million dollars (about 600 million euro). The signs are positive and suggest that in 2005, the value worldwide will be more than 7 billion dollars and will represent 55% of business investment in recruitment, taking ground from traditional off-line methods such as adverts in newspapers, job centres and traditional head-hunting companies. In the U.S. alone 85% of companies will be using web-recruiting for the selection of their employees[8].

Research Aims

The primary aims of this research project were to examine how firms are using the Internet to interact with workers and how people use it to look for work. We explore whether these levels of use have changed over time. The secondary aims were to quantify levels of recruiting activity as a point of reference for current and future research. More specifically, the survey had the following distinct research objectives:

1. To examine the current level of Internet adoption by Italian firms and people, in terms of the functions and services being offered.
2. To investigate whether the current levels of Internet adoption have influenced the recruiting activity, in terms of the number of people that use it for work.
3. To explore the rate of change in Internet and e-recruiting activity, over a six-year period, and how these rates vary within different activity groups or different size bands.

The following section of this paper explains the method used to achieve these objectives.

Research Methodology

This study of the adoption of e-recruiting involved a review of recruiting websites. Website activity was reviewed on an annual basis over a six-year period from 1998 to 2003 in order to collect the internet data and over a two-year period from 2001-2002 for the e-recruiting data.

Method of Internet Data Collection

In "demoscopic" research there are problems of interpretation and the meaningfulness of data, not only due to the statistical validity of the "sample" but also (often more considerable in number) concerning the way in which the research has been carried out. In the case of a topic that is "in fashion", like the Internet, there is always a degree of

exaggeration which is difficult to quantify. There are often large differences, in regard to the same parameter, between different studies. This is not surprising, it is a matter of methodology.

E-xaggeration as it was labelled by *the Economist*, can be a result of the fact that research methods improve with experience, but it is also due to an increased penetration of the net; therefore, not only providing a broader statistical base but also a greater capacity for individuals to define their own behaviour.

There are still remarkable differences between the various sources of data. Notwithstanding, the findings for Eurisko (11 million people went on-line "at least once a month" in May 2003), Onetone (10.5 million in March) and Censis (8,9 million "habitual users") are fairly similar to one another. Other sources are more "blown-up" (due to a broader definition of the concept of "user"), surveys by Ipsos-Explorer, Nielson and Eurisko with the broadened definition report 11,5 million, 13,5 million and 12 million respectively. For the purpose of this study the Eurisko analysis is considered representative. The data collection took place in the month of June.

Method of Data Collection for E-Recruiting

The data pertinent to e-recruiting has been obtained by comparing the analysis of the principal web-recruitment sites:
1. Monsteritalia.it, an American portal specialised in the matching of job applications to offers, represented in 15 countries in the world with 30,000 job offers in Europe and 440,000 worldwide. It is part of the Monster.com network of Internet sites.
2. Jobpilot.it, a German portal represented in 18 countries in the world, which offers recruitment services, 146,937 positions vacant and 66,333 job offers worldwide. JobpilotItalia is found in Milan and Rome.
3. Manpower.com, is a site specialised in temporary positions. It is an American company found in 54 countries with 3,500 offices.

In addition, there are the daily Italian newspapers, which offer similar services:
The Corriere Lavoro with Corriere.it/lavoroon-line, Cerco LavoroGiovani with ilsole24ore.it/lavoro, La

Repubblica with jobletter.it and Il Giornale with starlink:it/cgi-bin-giornale/carrer.

In order to facilitate the accurate and consistent acquisition of information pertaining to the range of services offered through e-recruiting web sites, a pro forma web site assessment document was designed. The content of this document in terms of a website's functionality was established by thoroughly reviewing the websites of the seven companies detailed above.

Two main categories were identified:
1. the "web recruiters": proper e-recruiting companies, for our purposes, Monsteritalia, Jobpilot and Manpower.
2. the "web information recruiters": companies which offer e-recruiting as an additional service; the other four companies.

In each of the two categories, data was entered that had been obtained by companies that had commissioned research by specialised bodies with the purpose of constructing an identikit of the job seeker. All the information relevant to the two identikits -the surfer and the Italian job seeker have been compared with a view to discovering the inherent possibilities for developing the e-recruiting market in Italy.

Research Results

The Internet in Italy: the Identikit of the Italian Surfer

The business of e-recruiting is a relative novelty in Italy, however, the success it has met in the United States leads one to hope for an extraordinary rate of development in our country too, even if the net is still treated with suspicion and is consequently under exploited. A necessary condition for e-recruiting to mature in Italy is mass penetration of the Internet. The number of users is constantly increasing. Once certain telephone operators started offering connection without a standing charge (freenet), links to the internet increased, even though growth has been slowing since the second half of the year 2000. As of June 2003[9], the total number of people that access the net in Italy, at least occasionally, will be about 12 million which reduces to 11 million if you exclude access via external situations such as while on training courses, at a friend's home, in a library

or café; which reduces to 8 million if you identify the individuals that claim to connect "at least once a week".

A major difference can be seen between "domestic" and "work" use. In the past the net penetrated mainly offices. Since the beginning of the year 2000 it has begun reaching families. It
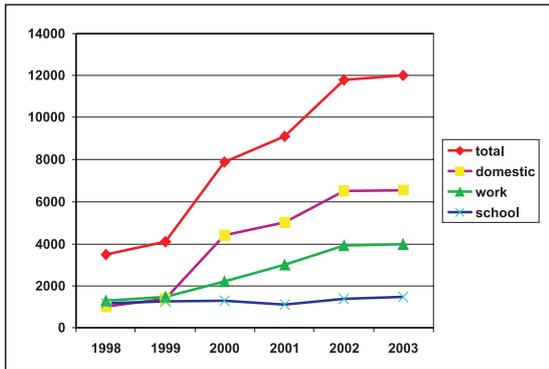
Figure1. Internet Users in Italy 1998 - June 2003 (numbers in thousands)

is worth noting that among those who use the net "often"(more than twice a week), "work" use is most prevalent.

Furthermore, that the number of people that make both "domestic" and "work" use of the Internet continues to grow. We will have to wait a bit longer to have a clearer picture, but it seems (notwithstanding this months negative signs) that there is an on-going increase in the use of the net in Italy. This growth is not particularly fast, but has been constant in the medium to long term. A relatively slow increase in the number of people on-line can be found in various countries, but this slow down is more evident in Germany and Italy (while a somewhat more dynamic course of events is found in France and Spain).
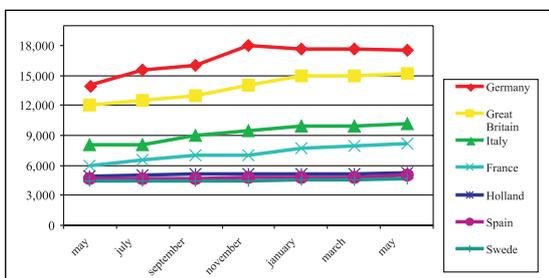
Figure 2. Internet Users in Seven European Countries. May 2001-May 2002 (numbers in thousands)

From the investigations carried out by Eurisko various interesting aspects of the identity of the

frequent user of the web in Italy emerge in terms of socio-demographics and behaviour.

Those who surf the most are men (58%) and young people between 25 and 34.
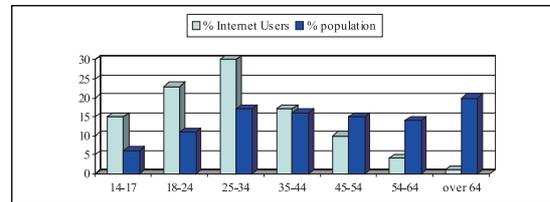
Figure 3. Internet Users by Age (percentages)

This data does not indicate a significant change in respect to the previous year either. A new influx of young people was identified in 2000-2001 (previously far less were represented), but this evolution is now in a static phase. This analysis has found that the segment that is traditionally strongest (24-44 year olds) now only represents half of the total picture (but it is still 65% of those who connect from their place of work, moreover there is also a significant number of people over 45 that connect from work).

Employees and students (29%) are multiplying and the unemployed (13%) are also on the increase.
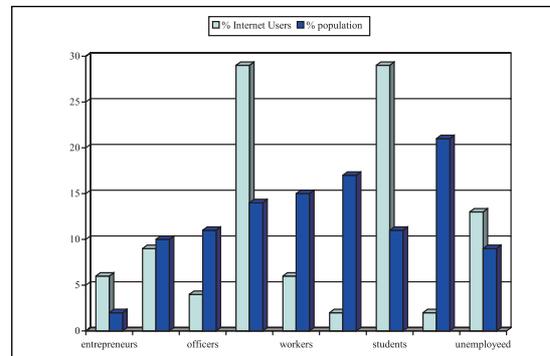
Figure 4. "Users" in terms of Occupation (percentage)

Here we also see the spread in the use of the Internet to broader categories confirmed with a notable penetration amongst employees and teachers. The growth in the student category and among the unemployed might be explained by the presence of young people on-line looking for their first job. Users of the Internet are fairly elevated in terms of education and culture – 45% have attended senior school, 16% have a degree and 2% have a doctorate or master's. Merely 4% of surfers possess only primary school qualification.
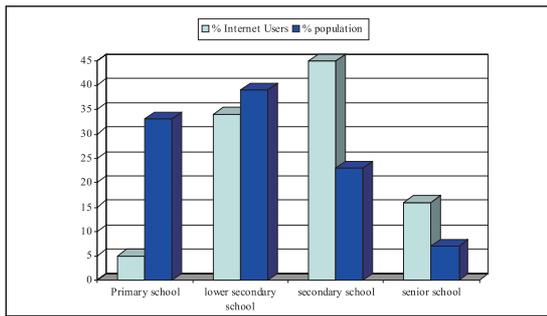
Figure 5. Users in terms of scholastic level (percentages)

There are no real surprises in the most recent data either. The changes had already taken place between 1998 and 1999 with a greater penetration in "secondary schools". The real difference in respect to one or two years ago is the on-going improvement in lower secondary schools.

Let's look at a comparison between 1999 and 2002.
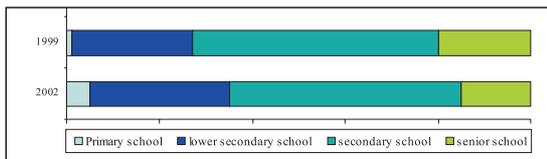
Figure 6. Users in terms scholastic level (percentages)

There is an expansion, but it remains concentrated in the higher scholastic levels, which is extenuated by frequent users of the Internet in these groups.

The monthly income is between 1200 and 2300 Euro. There is little difference between those that are still at home with mum and dad (41%) and those who are married and or live with someone (40%). The nuclear family of 4 are the most common (34%) even if the teenagers and children are absent (in 72% there are no young children in the home).
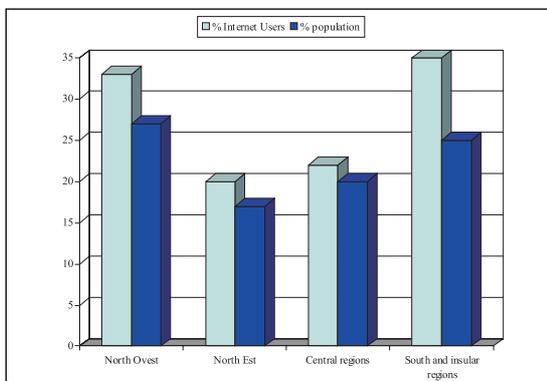
Figure 7. Internet Users in terms of large Geographic Areas (percentages)

The majority of users live in the north (53%) and live in big centres (17% live in cities with more than a million inhabitants), the large areas are relatively coherent even if not absolutely stable.

The situation has changed fairly radically compared to three or four years ago, when there was a concentration in the north west. The 2002 data confirms a balanced consolidation in the central and northern regions and a gradual improvement in southern and insular Italy. The data from the various studies do not generally correspond, but all sources demonstrate a progressive reduction in the difference.
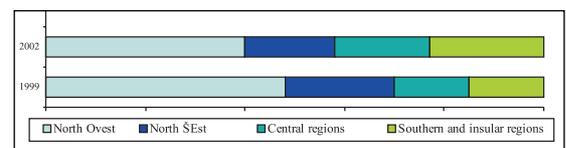
Figure 8. Internet Users in terms of large Geographic Areas 1999-2002 (percentages)

A gradual movement toward a more even distribution is apparent, though it is not going to be completed in the short term.

E-Recruiting in Italy: the Identikit of the Job Seeker

The end of the twentieth century has seen a remarkable increase in the use of technology and the Internet by individuals and organisations. One of the areas in which organisations have applied web-based technology is in recruitment. These organisations have invested heavily in the design and implementation of their websites. Today, e-recruiting is expanding rapidly in the world and in Italy.

Various studies provide indisputable evidence that this phenomenon is on the increase: about 30% of internet users make use of the internet to visit e-recruiting sites, which means that today in Italy there are nearly 4 million job seekers.

The identikit of the typical e-recruiting website user profiled by NetObserver is: male, aged between 25 and 34, well-educated and cultured, already working, with a good income, living in the north.

As far as the socio-demographic characteristics are concerned, 88% of the sample were aged between 25 and 49, even if the most striking concentration

Italian market of e-recruting in million of euro

E-recruting operators in Italy %

☐ publishing business
☐ traditional recruiting
■ new corner
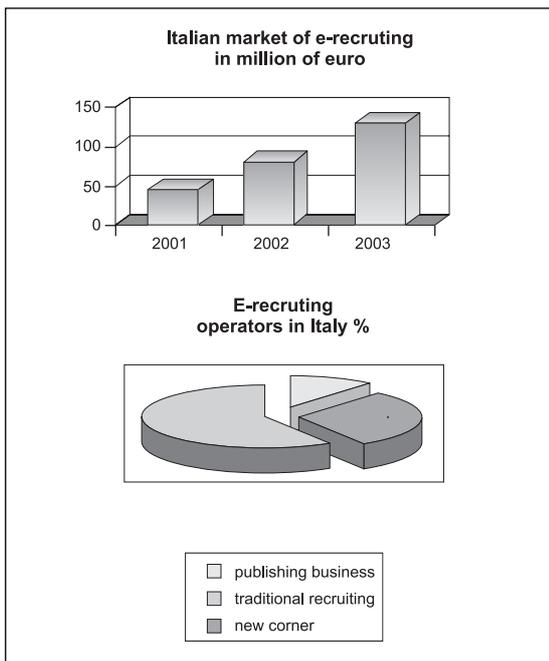
Figure 9. E-recruiting in Italy

Those that use web recruiting are internet experts: they have used it for 4 years (93%), they normally go on-line at work (55%) and go on-line more than once a day (47%). Over half the users (62%) surf for more than 20 hours a month.

☺ Man
Σ Age:25-34
c/o Single
❖ North Italy
■ Graduate
€ employed
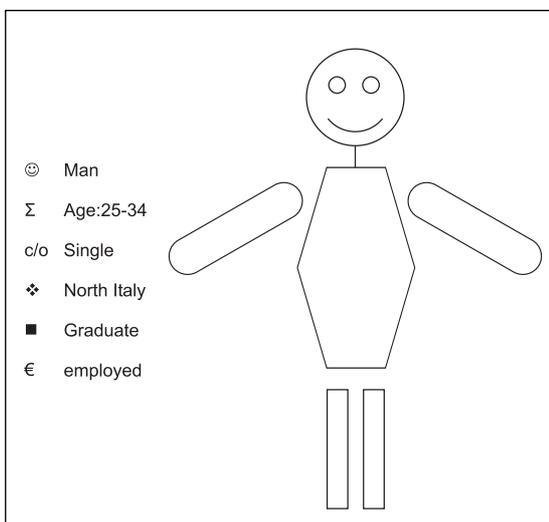
Figure 10. Identikit of Italian web user

Reflections

The Internet and Recruiting

The use of the Internet for recruitment satisfies firms' needs, though often latent, as a credible and reliable means that simplifies the process and reduces management systems[10]. Privacy and data security problems aside, both synchronised data resulting from the exchange of information between the business and the worker and non-synchronised data can be put together and transferred on-line, via Intranet or Internet. This would enable multimedia technology on the market to manage both the increasing interaction between firms and workers, and the information that is collected.

This process puts firms at the centre of a net of specialised services offered by various companies. These mainly offer either software for on-line staffing management (ASP Application Service Provider) or are providers of e-recruiting services, (such as the "job boards"), which, dealing with CV filtering and initial selection, usually offer additional services to workers and firms, especially those which operate in consulting and management of human resources, and that have integrated off-line services along with the on-line services. In addition to this, up-to-date professional portals and search engines usually have extremely broad sections devoted to job adverts which guarantee even "passive" job seekers high access to job adverts.

Firms are turning to the internet and in so doing are discovering it has a lot to offer: first and foremost university students between 20 and 35 years old who constitute their main targets for junior posts. For the 1200 sites (or more) world-wide that deal with both job seeking and recruitment, in order to meet the needs of both these areas, the unavoidable strategy is to specialise and narrow the range of services.

The anticipated expansion in the use of the Internet for looking for work is proportional to the further spread of the personal computer and of basic computer skills. As a consequence of this, e-recruiting is destined to experience continuous and substantial growth. This phenomenon is even more evident if market trends are taken into account:

1. The gap between supply and demand, which is now around the 18%, is expected to grow in the next years; this will amplify the fact that

the "chronic" deficiency of qualified personnel (which, in turn, will generate a high turnover of internal human resources) is destined to increase, unless businesses find efficient training solutions (starting with e-learning), or proper ways to keep existing talent or attract potential new talent.

2. The continuous development of technological infrastructures, starting with the increased quality of training on-line that will follow the use of broad-band.

3. Business awareness that a competitive advantage can be found in human resources.

4. The substantial savings assured by digital solutions, in comparison with recruitment off-line.

5. As a consequence of the well known Moorell principle, the steady decrease in PC prices (25% p.a.) contributes to the expansion of business computerisation.

It would appear that the Internet was invented for this type of service: swift consultation and appropriate information in a fragmented and sizeable market such as that of the supply of and demand for jobs. The attraction of truly talented members of the workforce and the ability to hold on to them is the real battle for all businesses, especially small businesses that have to compete with the big boys, who can attract and "meet" a greater number of candidates via on-line recruitment.

The study of e-recruiting has shed light on a phenomenon of extreme importance. E-recruiting in the last thirty years has gone through a period of considerable expansion both geographically and as an applied sector. Furthermore, the point the research has revealed is that there is a remarkably heterogeneous picture, including companies that use e-recruiting as the means of choosing the right employee, to companies that only use sites to display company details (address and fax number) in order to attract job applications.

In fact, the degree of use made of the internet as a recruitment tool is strictly correlated to the degree of familiarity that the sector under analysis has with the internet and the degree required by the job on offer. The lower the qualification necessary for the position the lower the adequacy of e-recruiting as a tool for filling the post. It is less likely, for instance, that a worker in the manufacturing industry would make use of the Internet to look for work than a worker in the field of information

technology. In the former case traditional advertising media remain the medium of choice.

Those that work in the field of Information Technology and Communications and Consultancy make use of the net not only to gather CV's but also for screening profiles directly on-line, avoiding the logistical cost of a direct pre-selection and of a recruitment agency. International consultancy companies have the richest and most up-to-date recruitment sections. Through a series of interactive instruments the candidate is provided with details, which allow an assessment to be made of the role and the position that they might be able to fill in the company. The candidate can collect feedback and can chat on-line with personnel and simulate selection interviews.

Future Prospects - the results obtained and today's improved techniques have brought to light the following future prospects:

1. The number of job applications made on the Internet will increase. Given the efficiency of internet recruiting big companies will aim to increase the proportion of e-recruiting to 100%, constricting candidates to make on-line contact; the remaining companies will follow suit. Moreover, companies will require job seekers to complete an on-line form rather than simply to send a CV by e-mail.

2. Companies will try to be efficient and effective, and will try to improve the levels of training and experience among Internet recruiters. The right personnel for working in the field of human resources will need to be well-aware of the improved results obtainable by making use of the internet and of the possibility of reducing the overall workload.

3. Recruitment via the Internet will lead to a reduction in the importance of the traditional means of recruitment. The spread of the internet will reduce the number of job adverts posted in newspapers while the job hunting agencies will only be used to search for professional individuals required for specific posts. Having identified the trend, the competitors on the Internet (professional reviews and job hunting agencies) have to do something about it swiftly, underlining its importance; they are in fact positioning themselves in order to capture a slice of the emerging market.

4. The recruitment of high calibre resources will become a bilateral process that involves the candidate and the employment provider. The free flow of information guaranteed by the internet will not only allow firms to present general job opportunities, but to improve the quality of the contact with specific human resources taking into consideration their relatively higher potential if in the future suitable positions become vacant. In recruitment procedures and management of personnel companies should take the same care as they do in trying to sell a product. As the more expert and worthwhile human resources acquire increased visibility they may choose to give their own contribution to the business if the right opportunity comes along.

5. The job sections on websites will become increasingly interactive and the recruitment process for human resources will become more and more automated. Businesses are studying how to make their web pages devoted to jobs more dynamic and interactive; candidate lists will be automatically prepared so that by entering keywords significant and brief answers will be produced; the candidates (as already happens in some consultancy fields) will be able to undertake on-line tests in order to assess abilities and aptitudes.

6. Internet recruiting will grow geographically beyond its concentration in North America to Europe and Asia and linguistically beyond the prevalence of English. It is not surprising that the majority of companies that recruit via the Internet are located in North America; this is dependent to a large extent on the greater penetration of the Internet in this region. Nevertheless, considering the spread of the Internet in the rest of the world and in virtue of the direct relationship already outlined, one expects the growth of the phenomenon, which is the object of this study.

7. The creation of a really effective recruitment system that will satisfy business needs and reduce to a minimum incidents of employees resigning or abandoning the company.

8. The explosion of on-line candidates -– for candidates, e-recruiting may be a cultural fact. The leader in the American market has gathered CV's from 13% of the workforce and this proportion continues to grow astonishingly. The prospect in the short term is that the net will become the principal way to find and employ personnel in all sectors and for all jobs. This indicates an unstoppable trend, which surely will shortly reach similar levels in Europe and in Italy. At present, some sectors and qualifications have a low resonance on the Internet on account of the level of penetration of the Internet into families.

The key condition for e-recruiting to reach its maturity is the greater spread of the Internet. At present in looking for personnel it is necessary to keep in mind the different redemptions that exist between profiles, activity sectors and geographic areas.

Furthermore, e-recruitment is waiting for decisive intervention from the state; in particular one hopes for regulation of the sector, which identifies agents that are serious and qualified in finding candidates jobs that are reliable and valid.

Developmental Trends in Web Recruitment in Italy

The observations and data analysed lead to the emergence of two important developmental trends.
1. By the end of 2003 proceeds from the recruitment of personnel through the web will increase.
2. Internet technology will integrate the entire recruitment process forming a highly electronic chain.

The growth in competition between firms to recruit the best human resources and the increasing use of the Internet by the Italian population, despite the current static period, will spur even the more reticent firms to introduce on-line recruitment procedures. It is expected that e-recruiting will increase the efficiency and productivity of the companies that make use of it; firms will be better off, especially since they often complain about being inundated with C.V.'s; job seekers satisfaction will improve even if they don't demonstrate enthusiasm for the application forms available on-line.

The recruitment system will function efficiently independently from a body that is economically solid or precarious: the characteristics of this auto-

mated personnel recruitment system will allow it to reach passive candidates when there is an economic boom or to filter the elevated number of candidates in periods of economic depression and when the job market is in crisis.

It is possible to conclude that the real efforts of Italian companies in terms of recruitment should be directed towards preparing adequate websites and this is especially relevant for big companies with strong brand names that have heavily visited websites.

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Performance Appraisal in the University of Tartu

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This article focuses on the system of performance appraisal and compensation in the University of Tartu, in particular in the Faculty of Economics and Business Administ-ration. The average salaries in this faculty are comparatively higher because the average work capacity of the academic staff there significantly exceeds those of the academic staff of other faculties of the university. Performance appraisal and compensation has a crucial role in order to reform the higher educational system. Motivated faculty members have become a very important resource helping the achievement of rapid changes in higher education in order to meet the transformation in public demand. The main goal of the present paper is to show how performance appraisal and compen-sa-tion problems were solved in one of the universities offering an economics education in Estonia.

Performance Appraisal in the Organisation

Performance appraisal has been considered a painful annual event where the manager evaluates the performance of employees. It was rarely linked to the overall mission and program of the organisation that were designed to maximise human effort. Performance appraisal system, however, should create a link between organisational and personal goals; shape and change organisational culture towards result-driven climate (Grote 2000, 2-3). Performance appraisal is today an essential part of organisational life, for it helps to justify besides compensation differentiation, for example, promotions, demotions, selection validation and terminations (Longenecker 1999, 18-19).

Performance appraisal enables one to determine whether employee performance is in accordance with the established objectives, and this is primarily based on the appraisal of employee work results and activity (behaviour) and also their potential (skills, abilities and characteristics). To determine their performance, diverse appraisal methods and combinations of these methods are used. During the appraisal process it is primarily work results, which create the preconditions for a staff member's future improvement and enable the differentiation of compensation–on the one hand by diminishing equalisation, and on the other hand by increasing fair compensation–that are valued. Several problems occur in this process due to shifts towards more dynamic and universal tasks making it not always possible to determine the work results or compare them. The emphasis on individual work results also reduces the sense of teamwork and undermines the interests of the group as a whole (Coughlan 1999; Yager 2000).

The advantages and disadvantages of different appraisal criteria cause their balanced usage. For example, the appraisal systems of several well-known British companies are based on skills and competence, behavioural traits and outputs in the job. As work is, by nature, diverse and lacks objective measures in more than a third of cases, it is difficult to establish concrete objects for work and make them congruent with individual interests. Therefore, British companies exploit distinctly different appraisal criteria simultaneously, increasingly valuing, for example, co-operation (Sisson 1994, 484-485). A performance appraisal criterion has to be, on the one hand relevant, reliable and justly measurable, and on the other hand tightly linked to the objects of the organisation and its subdivisions. Such criteria are relatively difficult to find and as a consequence the best result is achieved through a balanced combination of distinct criteria.

Personnel appraisal presupposes an appraisal system, including the development of appraisal criteria and methods that, depending on the

appraised object, might be very distinct. This in turn presupposes discussions between the leaders and employees of the organisation and reaching a common agreement about the basis of appraisal. The appraisal system presumes its acceptance by employees, because then employees accept and value the feedback enabling them to link their own work objectives with organisational goals.

Performance Appraisal in European Universities and Colleges

Appraisal and management of performance has recently attracted much attention in European universities and colleges. With the increase in the number of students, total costs have risen and, with limited state funding, there is fierce competition for money among various social services, therefore we must turn much more attention to the quality of performance and total quality management (TQM) in higher educational institutions. Higher education is one major service sector that has been slow to take on quality management. Universities and colleges have generally had a superficial awareness of TQM (McCarthy, Keefe 1999).

In addition, Gatfield, Barker and Graham (1999, 239-241) claim that in the last decade the issue of quality has become a significant subject and will continue to be one of the prominent points of debate in higher education. The pursuit of quality is driven by consumer demands for increased standards and performance, and by the need for organisational excellence. In higher education, the principal method for determining quality has been the managerial approach. However, in recent years there has been rising interest in quality as perceived and determined by the consumer. Hence, it is important to determine the needs and quality demands of international and full-fee paying postgraduate students, for they provide universities with money.

Job performance is not necessarily related to academic standards—universities (colleges) must establish procedures to monitor the quality of graduates. This can be done through formal survey or informal feedback processes. For example, an evaluation of the education provided by different universities and colleges does not explain why some companies prefer particular graduates. It may be because certain companies need to hire individuals that have received training in a particular

academic field. Improving the quality of graduates begins with acknowledging the position of graduates in the labour market and also the demands of possible employers.

The three key functions of higher educational establishments are teaching/advising, research and service. Higher educational establishments continually need to re-evaluate course offerings, testing/ grading procedures, admission requirements, student services, and the employee skills and personal traits required by hiring firms (Willis 1999).

There may be a focus on particular stages of the educational process (McNay 1997, 73-74):
- On input e.g. quality/qualification of staff, curriculum design, nature of students recruited, resources for books, computing, equipment and materials.
- On processes e.g. approaches to teaching, integration of teaching and assessment, student involvement, feedback.
- On output e.g. qualifications of students, employment rates, staff publications.

Quantitative data such as exam pass rates, citation levels for research articles, cost per graduate and so on, may be available. In other cases, survey data from students or employers might be collected. The more criteria presented, even without rigid detailed scoring scales, the better the evaluation will be. Statistical performance indicators should inform judgement, not replace it.

Quality of performance in higher educational institutions would also include placement of graduates. The quality of placement in universities (colleges) includes surveying stu-dents about their satisfaction with the placement service. The final measure of the quality of the performance of a placement system is the percentage of students who are placed in approp-riate positions soon after graduation (i.e. within 6 months). Quality of placement could also include the number of positions offered and average compensation levels.

Quality of performance in teaching in higher educational institutions would include measures such as alumni feedback consisting of several questions, for example: What were the most helpful courses? What was least beneficial? What do you need more of? (Mergen 2000, 345) Teaching does not include only what is done, but how it is done. The possible

approaches to teaching and learning should be established keeping in mind the desired outcomes. Quality of performance in teaching requires that the higher educational institutions prepare the students for their first position as well as provide the basis for performance in future positions.

Part of the quality of performance is to maintain an awareness of the needs of the customer and to have the ability to build on strengths and eliminate weaknesses. An understanding of the personnel needs of business employers is necessary because this facilitates the assessment and enhances the quality of the college (university) graduates. The challenge to universities is to produce graduates who meet the requirements of potential employers (Willis 1999).

Quality of teaching depends on the qualifications and research potential of the academic staff. Research outputs, as well as successful teaching, are expected of everyone, in addition they help to keep one's position. This is also important for the future success of a university, as it helps to attract students of different levels. Hence, the following new performance targets have become important (Pratt 1999, 49-50):
- The number of doctoral students;
- The number of graduate students;
- The number of MBA students;
- The number of research contracts;
- Publications.

Additionally, it is important that the academic staff believes in the necessity of research and higher degrees to secure promotion and they know that adequate support will be available for research. Furthermore, the research points schemes were often worked out in order to support and encourage the academic staff (ibid. 1999, 51).

Performance Appraisal in the Faculty of Economics and Business Administration at the University of Tartu

The following section offers ideas for those seeking to improve research and publications performance in universities. A case study of the Faculty of Economics and Business Administration at the University of Tartu is exploited in order to promote managerial decisions. The case study identifies the decentralised university management structure and leadership at the dean level, which enables further development and increases the university's competitive power in the educational market.

From the annual report of the University of Tartu it is possible to obtain data concerning the academic staff (professors, associate professors, lectu-rers, assistants and teachers), the number of students, publications and the amount of work equal to one credit point (see Table 1). Unfortunately, official data about teaching done for one credit point in the Open University is not available.

Table 1.
The number of students taught by and the number of credit points given by members of the academic staff (lecturers) in the faculties of the University of Tartu (Tartu ... 2002; Tartu ... 2003; according to calculations by the author)

Faculty of Tartu University	Number of students (as of 31.12.2002)				The total number of lecturers	Number of students per lecturer	Number of credit points per lecturer/ researcher 2001/2002	Number of credit points per lecturer/ researcher 2000/2001
	BA/ diplo-ma stu-dents	Mas-ter's stu-dents	Doc-toral stu-dents	Total				
Theology	182	46	18	246	13	**18.9**	299	322
Law	754	87	21	862	31	**27.8**	644	422
Medicine	1366	59	110	1535	162	**9.5**	244	194
Philosophy	2321	372	130	2823	173	**16.4**	384	360
Biology and Geography	1079	195	170	1444	59	**24.4**	299	260
Physics and Chemistry	793	115	93	1001	57	**17.6**	254	228
Education	711	238	15	964	24	**41**	291	
Exercise and Sport Sciences	566	20	11	597	30	**19.9**	315	284
Economics and Bus. Adm.	**1064**	**381**	**43**	**1488**	**36**	**41.6**	**873**	**831**
Mathematics	606	102	44	752	50	**15**	406	442
Social Sciences	1605	295	86	1986	49	**40.9**	681	743

Compensation for work done by the academic staff in the University of Tartu is carried out according to the remuneration directive in which the regulations for the payment of bonuses are also stated. The quality and efficiency of the teaching process, the quality of scientific research, the results of innovation, the efficiency of management activities, the implementation of refresher courses and the application of research and development contracts with partners of the university are taken into consideration in the process of evaluating efficiency. According to the above-mentioned regulations and the wage budget the faculties shape their policy for compensation.

In compensating the academic staff of the Faculty of Economics and Business Administration in the University of Tartu, the payment-by-performance system, based on the implementation of objectives established by institutes and subdivisions (chairs), is exploited. The payment-by-performance system enables the determination of the basic salary and bonus for each employee separately, depending on his/her performance. Payment of bonuses presupposes performance of a higher capacity and quality than that expected or demanded in the orga-nisation, for example, the accomplish-ment of a management task, working at unsuitable times (e.g. during a day off), working in the Open University, etc.

An increment (bonus) is appointed to regular members of the academic staff, usually once a year on the basis of their performance in the previous period, within the boundaries of the institutes' budget and also in accordance with remunera-tion regulations. The total salary of an employee consists of their basic salary, an incremental compensation for management, and an increment for performance. The head of the institute may, on the basis of a development interview, correct the performance appraisal according to the qualitative appraisal of aspects of performance not considered. The specific methods of integrating figures in the performance appraisal and any subsequent changes are, as a rule, confirmed by the faculty committee at least one year before their application and the rules are made accessible to all members of the academic staff.

At the same time, the number of scientific publications and articles per person has increased several times, from 2,2 publications in 1996 to 11,0 publications in 2002. The number of articles in peer-reviewed international journals is still low compared with others faculties (especially in the natural sciences). Certainly, this is connected to the historical background of economic education. During the Soviet era it was a discipline with an ideological background and therefore did not publish abroad. There is a lack of tradition in this field when compared with the natural sciences. Therefore, since 1996 the number of publications per person in the Faculty of Economics and Business Administration has been several times greater than in any other faculty in Tartu University (see Table 2). At present, the aim is to stimulate and encourage the publication of research works in internationally accepted editions. This objective is also supported by the system of performance appraisal, which gives an increased number of points for the publications issued in peer-reviewed international journals.

Table 2
The total number of publications and the number of publications given by each member of the academic staff of the faculties in the University of Tartu (Tartu ... 1997; Tartu ... 2000; Tartu ... 2002; Tartu ... 2003; according to calculations by the authors)

Faculty of Tartu University	Total publications				Publications per member of the academic staff			
	1996	1999	2001	2002	1996	1999	2001	2002
Theology	16	27	40	33	1,6	2,3	2.7	2.1
Law	108	53	125	74	2,8	2,0	3.6	2.3
Medicine	437	440	304	341	1,6	1,8	1.0	1.6
Philosophy	578	464	757	883	2,9	3,8	3.6	4.4
Biology and Geography	357	454	332	362	3,1	4,0	2.6	2.7
Physics and Chemistry	296	237	195	225	2,5	2,4	2.0	2.3
Education			93	109			1.6	2.0
Exercise and Sport Sciences	116	104	180	174	3,5	3,5	4.4	4.5
Economics and Bus. Adm.	**115**	**309**	**429**	**474**	**2,2**	**7,5**	**8.1**	**11.0**
Mathematics	102	166	159	159	1,5	2,6	2.3	2.4
Social Sciences	91	250	196	237	1,4	3,8	2.8	3.6

During quantitative measurement of performance the quantity and quality of work is appraised mainly in three categories: teaching in full-time study programs and the Open University, research and publications and management tasks. The process for the evaluation of publications is based on their content, place of publication and volume. Only publications from the last three years are taken into account. Management tasks are evaluated according to their capacity and level of responsibility.

In assessing the volume of teaching (workload), this is divided into auditory and individual work. Auditory work consists of the lectures, seminars and tests held according to the time-table and the volume foreseen in the curriculum. Individual work comprises preparation for teaching, the supervision of all kinds of research papers, and also the work concerning exams, credit tests and other forms of assessment. Exact instructions exist for the consideration of individual work–they include the amount of time provided for various activities. For example: for the supervision of a research paper or thesis (bachelor paper) 6 and 12 hours is provided respectively. The quality of teaching in the Open University is appraised according to surveys of students.

The average salaries in the Faculty of Economics and Business Administration in the University of Tartu are relatively high. At the same time, the average work capacity of academic staff there significantly exceeds that of academic staff in other faculties of the University of Tartu. This can be seen both according to the number of students per lecturer as well as the amount of credit points given during a course (see Table 1). The wage differential among academic staff in the Faculty of Economics and Business Administration is considerable. This is due to considerable differences in contribution and as a result of this the sums of credit points received differ several times among members of the academic staff with the same qualifications. For example the maximum and minimum sums of points for professors differ from each other 1.4 times (see Table 3). The same figure for associate professors and lecturers is 4.1 and 4.4 times respectively.

Even bigger differences exist among different fields of work. For example the average sum of points deserved by professors for publications during the last three years fluctuates from 535 points up to 2283 points, and the same figures for associate professors show even greater differentiation (see

Table 3). It is evident from the table that the professors who are productive in research are engaged in less teaching and vice versa. This is also natural in every respect, because it enables professors to implement their more extensive knowledge more effectively.

The average salaries among members of the academic staff with different qualifications at the Faculty of Economics and Business Administration differ significantly less than their sums of credit points. For example the differences between the maximum and minimum salaries for professors, associate professors and lecturers are correspondingly 1.8, 2.5 and 2.5 times. Although the difference in absolute values is great, it is still not sufficient in the case of associate professors and lecturers who have such different work results.

The system of performance appraisal has enabled the academic staff of the faculty of Economics and Business Administration to increase their work results. For example, the number of publications has increased approximately five times during the past eight years. At the same time, a remarkable decrease in the number of research publications has been caused by the standards having become more strict and demanding. Many publications that were considered academically acceptable up to 1997 were already regarded as popular-science in 1999 and were no longer accepted as research publications.

Table 3
The performance appraisal of professors in the Faculty of Economics and Business Administration in the University of Tartu (sum of points)

Lecturer	Research	Teaching Full-time Students	Teaching in Open University	Management Tasks	Job Performance
Professor	1766	432	436	200	2833
Professor	535	877	936	400	2748
Professor	1477	655	249	400	2781
Professor	1331	908	1430	200	3869
Professor	2283	290	184	800	3557
Professor	2112	317	180	400	3009
Associate Professor	2452	432	378	200	3462
Associate Professor	131	862	453	0	1446
Associate Professor	737	685	566	200	2188
Associate Professor	505	1005	267	200	1977
Associate Professor	444	852	668	150	2114
Associate Professor	465	685	1231	200	2581
Associate Professor	682	747	47	0	1476
Associate Professor	139	619	38	50	846
Associate Professor	998	787	426	600	2811
Associate Professor	272	848	245	200	1565
Associate Professor	359	487	0	0	846

The number of points given to the academic staff has risen considerably during recent years, and this is directly related to the new system of performance appraisal. For instance, the sums of points given for research to professors have on average increased three times, which indicates a considerable growth in work effectiveness. Additionally, the entire sum of credit points has also risen for the above-mentioned employees. Only one out of seventeen cases experienced a decrease in the quality and sum of credit points for research during the last three years.

The Faculty of Economics and Business Administration received the highest appraisal results in comparison with other Estonian universities and colleges that teach economics. Evaluation of the MBA program and the related research at the end of 2000 by expert international evaluation teams most convincingly showed this. The MBA program received full accreditation and research activities were respectively considered excellent. (Business … 2000; Research … 2000) Both expert teams also approved of the credit point system exploited by the Faculty of Economics and Business Administration, and suggested its utilisation also in other universities, colleges and institutions that are concerned with the field of economics. All of this emphasises the importance and necessity of such a system of performance appraisal that improves the research and teaching of the academic staff.

Conclusion and Policy Recommendations

Modern organisations develop compensation systems that are based on performance management. Performance management is a remarkably broader concept than perfor-mance appraisal and its object is to improve organi-sational, functional, sub-divisional and individual performance by linking the above mentioned fields into a whole. The problems of performance management, set in the article, can be solved by refuting the erroneous stereotypes about job performance and compensation in the Estonian public sector, and by following the principles stated in European and American practice and modern compensation theories. Therefore, it is important to develop long run programmes in order to highlight the unreasonable differences in payments for different economics activities and the differences in payments.

The survey of the salaries of the academic staff in Estonian higher educational institutions enabled an estimation of the wage differences in this sector. The survey on wages provided average base salaries and also bonuses given to academic staff. The results of the research showed that the average base

salaries for the main academic posts differ approximately two times in various higher educational institutions. The salaries of academic staff at the universities financed by the state, as expected, are higher. That also grants them competitive power in the education market.

From the annual report of the University of Tartu, it is possible to obtain data on the academic staff, the number of students, publications and the amount of work equal to one credit point. A comparison of the average salaries in different faculties indicates relatively high differences in wage levels caused by the different capacity of privately paid teaching, the number of students per lecturer and the number of credit points per lecturer. The average salaries in the Faculty of Economics and Business Administration in the University of Tartu are relatively high. At the same time, the average work capacity of the academic staff there significantly exceeds that of the academic staff in other faculties of the university. This can be seen from both the number of students per lecturer as well as the number of credits given during a course.

In compensating the academic staff in the Faculty of Economics and Business Administration in the University of Tartu the payment-by-performance system is used. The system is based on the implementation of objectives established by institutes and their subdivisions (chairs). An increment is appointed to regular members of the academic staff usually once a year on the basis of their performance in previous period. The increment has to be appointed within the boundaries of the institutes' budget and in accordance with remuneration regulations. The total salary of an employee consists of a basic salary, an increment compensation for management tasks and increment for performance.

In quantitative measurement of performance, the quantity and quality of work is appraised mainly in three categories: teaching in full time study programs and in the Open University, research and publications and management tasks. The wage differentials among the academic staff in the Faculty of Economics and Business Administration are considerable. This is due to considerable differences in their professional contribution and as a result of this the sums of credit points received differ several times among members of the academic staff with the same qualifications.

The average salaries of members of the academic staff with different qualifications at the Faculty of Economics and Business Administration differ significantly less than their sums of credit points. The maximum and minimum salaries of associate professors differ, for example, 2.5 times, but the sum of points differs 4 times.

The system of performance appraisal has enabled the academic staff of the faculty of Economics and Business Administration at the University of Tartu to improve their professional results. The evaluation of MBA and research programs that was carried out at the end of 2000 by expert international evaluation teams most clearly indicated this. The MBA program received full accreditation and the research activities were also considered excellent. The Faculty of Economics and Business Administration received the highest appraisal results in comparison to other Estonian universities and colleges that teach economic science. Both expert evaluation teams also approved of the credit point system used by the Faculty of Economics and Business Administration, and also suggested its utilisation in other universities and colleges that teach economic science. At the same time, new objectives and goals have already been set for further improvement of the performance.

In the authors' opinion, the exploitation of the following should be considered:
1. The results of performance appraisal are crucial criteria for compensation and improve the efficiency of the academic staff. For this reason the quantity and quality of work should be appraised mainly in three fields: teaching, research and publications and management tasks. The most accurate indicators of the quality of teaching are the results of open-university student surveys, which should be used regularly.
2. The differentiation of salaries among academic staff in the Faculty of Economics and Business Administration is significant. This is due to considerable differences in contributions and credit points achieved both in research and teaching. Therefore, the differences in compensation are objectively explicable, and should be continually exploited in the future.
3. The system of performance appraisal and compensation has considerably increased the work efficiency of the academic staff as well as bettered the quality of teaching and research. This

shows clearly the importance and necessity of the system of performance appraisal, which should therefore be used in the entire university.

4. Different compensation criteria for the academic staff and the proportions of teaching and research determined in chairs and among lecturers should be followed. Additionally, it is important to avoid excessive orientation toward indicators of quantitative work results, as this has brought about a disproportionate growth of the workload. This extensive progress, however, may have negative sides as well. The burnout and rivalry between the faculty members might lead to poor interpersonal relationships.

5. The above explained appraisal system was introduced about seven years ago and during that time only the weight of the indicators has been changed. Thus, the academic staff have had time to learn how to magnify and manipulate their indicators and therefore a new appraisal system has to be worked out. Organisations need different appraisal principles at different stages of their development and they need to move slowly on to a performance management system, as this is the way forward.

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Psychological Contracts: as a Source of Work Behaviour Design and Understanding

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People can join an organisation and stay on for very different reasons. They may stay with the organisation for a longer or shorter period. But when an employee joins an organisation he or she usually formulates an understanding of what the organisation expects from him or her in terms of both responsibilities and outputs. At the same time the employee has an understanding of what he or she will gain in turn from the organisation.

Because of the norms of reciprocity that are a part of any exchange agreement between an individual and his or her organisation (Rousseau 1989), an individual often expects, seeks out and creates a psychological contract as a means for understanding and representing the employment relationship with his or her employer (Shore and Tetrick 1994). A psychological contract consists of an individual's beliefs about the terms and conditions of mutual obligations between the employee and his or her organisation (Rousseau 1989; 1998).

This kind of belief is based on the perception that the employer has made a promise concerning, for example, fair and competitive wages, challenging and meaningful work, growth and career opportunities and job training; in exchange for an obligation on the employee's part , for example, to give the employer his or her time, energy, technical skills and knowledge (Rousseau and Tijoriwala 1998; Roehling 1996; Lester *et al* 2002).

A psychological contract refers to the way the employment relationship is interpreted, understood and enacted by the employee in interaction with his or her organisation. A psychological contract always contains more than a formal contract, it consists of written and spoken promises as well as perceived promises. Unlike formal contracts in which the expectations are defined, in psychological contracts the expectations are unspoken,

implicit and predates the formation of the contract. Psychological contracts are inherently perceptual and therefore employer and employee may have different interpretations of the implied obligations (Lester and Kickul 2001).

Psychological contracts and the fulfilment of perceived promises shape and influence the quality of work-relations. Research shows (Bunderson 2001; Lester and Kickul 2001) that a perceived breach in the psychological contract often results in the employee deliberately reducing their effort towards the organisation and customers, and employees whose psychological contract is satisfactory have a high level of commitment.

Economic changes, technological innovation and industrial restructuring are crucial factors influencing organisations, the nature of jobs and work activities. As a consequence fundamental shifts in work settings and the nature of work have changed patterns of employment relations. In connection with these changes needs, attitudes and work behaviour of employees have also changed.

Long term employment contracts have been replaced by short-term employment within an organisation. In the past there were long-term employment relationships where employees acquired skills on the job and rose through the career ranks. Today employment relationships are dominated by short-term contracts for highly-skilled professionals and technical workers. Staff are hired on a need to have basis to perform specific high-skill tasks and are let go when their specific skills are no longer required by the organisation. (Lester and Kickul 2001). This has changed the behaviour of employees who now focus on the needs of the job at hand and career management through pursuing meaningful jobs, personal

growth, development of transferable skills and net-working (De Meuse, Bergmann et.al 2001).

The predominance of short-term employment relationships results in greater employee readiness to form psychological contracts, which are more about self-actualisation.

Lester and Kickul (2001) state that today, employees are becoming increasingly aware of the non-monetary rewards that companies are willing to provide in exchange for their skills. They suggest that employees are now more that ever able to seek out self-actualisation.

Rousseau and Parks (1993) declared that a perceived breach in the psychological contract is the cause of the change to a self-centredness and formation of *transactional* contracts instead of *relational* contracts.

The content of psychological contracts is described in terms of *transactional* and *relational* aspects. *Transactional* relations refer to short-term, well-specified exchanges of work for pay and *relational* contracts involve long-term commitments such as career advancement in exchange for *loyalty* (Rousseau 1989; Rousseau and McLean Parks 1993). The *relational* contract is what we generally describe as the traditional contract. Trust between two parties is substantive to developing *relational* psychological contracts. But a lack of job security would make it difficult to build this trust. The lack of job security has made the employee focus on developing transferable skills and contacts, which result in *transactional* contracts.

Today there are successful organisations, which can balance the unwritten needs and expectations of their employees with the needs of the organisation.

Mental Schema as the Basis for a Psychological Contract

The psychological contract is an important antecedent of work-related attitudes and behaviours. It serves as the basis for assessing success and well-being. Psychological contracts are idiosyncratic in nature, that means that they are formed on the basis of individual or group values, needs and former experiences.

The conceptualisation of the psychological contract is embedded in theories of social schemas (Ho

1999; Rousseau 1995; Shore and Tetrick 1994). A schema is defined as a cognitive structure that represents organised knowledge about a given stimulus, a person or a situation, and the rules that direct information processing. Schemas contain information, which serves as a guide for the interpretation of information, actions and expectations. Schemas are information processing stereotypes, which determine which stimulus is perceived and which not. They simplify the process by which people make sense of events and situations (Lord and Foti 1986). In this sense the psychological contract is conceived as a type of schema that individuals hold regarding their employment relationship. This type of schema helps an individual to define what an employment relationship entails and it guides his or her interpretation and recollection of the promises that exist within the employment relationship.

If the psychological contract functions as a schema then it is characteristic to the person and that means that the two individual parties in the relationship may have very different schemata for what their employment relationship implies. (see De Vos, Buyens and Schalk 2001 Antecedents of the psychological contract: The impact of work values and exchange orientation on organisational newcomer's psychological contracts. Working Paper Universiteit Gent D/2001/7012721).

An individual's goals and motivators have an important impact on the development and use of these schemata. Depending on their particular goals, individuals will allocate more or less attention to certain information. People have an inclination to consciously process information which is personally relevant (Fiske 1993). This can be a reason for developing incompatible behaviour patterns, which will have a negative impact on organisational success.

Psychological Contracts

Chris Argyris was the first to use the construct "psychological contract" in management literature, in 1960, in his book, "Understanding Organisational behaviour". The exact term he used was „psychological work contract" (p. 96) to refer to the relationship between factory line employees and their foreman. He used the term to describe the implicit understanding that existed between the two parties to the contract. If the foreman respected the norms of the informal culture of the

employees, the employees would continue to perform in a satisfactory manner with a minimum of problems. These contracts were more or less possible to delineate and both parties were more or less aware of the mutual obligations and terms. These were dyadic contracts.

The next was Levinson *et al* (1962) who expanded the definition of the psychological contract, he discussed the intangible aspects of contractual relationships. Levinson *et al.* defined the psychological contract as "a series of mutual expectations of which the parties to the relationship may not themselves be even dimly aware, but which nonetheless govern their relationship to each other" (p. 21). He defined the psychological contract in a work setting pointing out five substantive qualities – unspoken expectations, expectations from the past, interdependence, psychological distance and dynamics. Levinson *et al* posited that psychological contracts deal with the underlying problematic issues between human beings, whether the persons are in dyads or groups.

Schein (1965) further developed the term psychological contract. He marked with that, the mutual expectations that individuals and organisations have of each other. According to Schein "these expectations not only cover how much work is to be performed for how much pay, but also involve the whole pattern of rights, privileges and obligations between worker and organisations" (p. 11). Failure to uphold the contract can endanger the functioning of the organisation, and lead to a situation where employees no longer cooperate with the authority system.

Roehling (1997) was the one who made an extensive historical analysis of the development of the psychological contract and of concurrent literature. He asserts that the transition point in the development of the psychological contract occurred in 1989 when Denise M. Rousseau published her article "Psychological and implied contracts in organisations". D.M.Rousseau defines the psychological contract as "… an individuals beliefs regarding the terms and conditions of a reciprocal exchange agreement between that focal person and another party. Key issues here include the belief that a promise has been made and a consideration offered in exchange for it, binding the parties to some set of reciprocal obligations" (1989, 123).

Rousseau asserts that the psychological contract operates on the level of the individual.

Psychological contracts are subjective in nature due to the fact that psychological contracts are made up of an individual's personal beliefs of what the agreement with his or her organisation involves. A psychological contract therefore, is an individual-level phenomenon the formation and understanding of which can be influenced by individual differences. These differences have an impact on how a person perceives his or her psychological contract with an organisation. They may influence the formation of expectations and the potential for violation of these expectations. Ho (2000) demonstrated in his work that personality traits influence a subject's evaluation of the fulfilment of a psychological contract, as well as their subsequent behavioural intentions. Rousseau (1990) has asserted that individual differences can operate such that individuals feel they are obliged to receive certain benefits and rewards from their organisation.

Unlike the earlier researchers, Rousseau (1989) believes that the parties to the contract do not actually have to agree to the terms of the contract. Regarding the psychological contract as subjective she distinguishes the psychological contract from implied contracts as described by Argyris (1960) and Levinson *et al* (1962). She asserts that implied contracts exist as a result of a degree of social consensus regarding what constitutes a contractual obligation (Rousseau 1989, 124). So implied contracts exist at the *relational* level and can be identifiable and psychological contracts are subjective and exist only in the mind of the person.

Rousseau (1995) also distinguishes psychological contracts from normative contracts. A normative contract forms when members of a social unit share a common set of psychological contracts, which permit the formation of a similar mindset within a group as to their entitlements and obligations.

As the psychological contract is an individual level construct, the employee may perceive a promise as having been made without the employer ever having produced an explicit statement of such an intention. Rousseau (2001) believes that promises do not necessarily have to be spoken or written in order to be perceived as such. Promises are an important part of the psychological contract as they are subject to perceived obligations. Rous-

seau (1989) defines obligations as a commitment to some future action.

Another important aspect in psychological contracts is the perceived mutuality. A psychological contract is formed when an employee realises that his or her efforts and contribution to the organisation make the organisation in turn obligated to provide certain items in exchange. Employees perceive these contracts and agreements as mutual, in accepting an obligation he or she assigns the organisation equivalent obligations. Employees always perceives these agreements as mutually understood whether they are or not (Rousseau 1995).

Rousseau and Tijoriwala (1998) argue, that the basis for a psychological contract are perceived promises from which perceived reciprocal obligations arise. On these bases we can conclude that the organisation in these agreements is a passive party. As Rousseau (1995) emphasises the employee's role, she considers the organisation or the agents representing the organisation less critical in these contracts. A psychological contract is always formed on the basis of individual perception of mutuality and not on the real mutuality. But we can never underestimate the role of the work environment in the development of the psychological contract. The psychological contract is embedded in the context of social exchange (Rousseau 1989). Relationships within a social exchange framework permeate organisational functions and activities whereby benefits are expected due to past contributions and anticipated future contributions.

Rousseau and Greller (1994) assert that it is the interactions with the organisation by which employees learn and develop their psychological contract. Organisational practices, policies and communications are primarily factors that influence an individual's perception of employer promises. The conceptualisation of the psychological contract as being promised-based obligations tends to place more emphasis on messages and practices seen within the organisation and further displayed by its agents (e.g. supervisors, leaders, co-workers, team members, etc.) (Rousseau and Greller 1994; Rousseau and MCLean Parks 1993).

The content of psychological contracts is assumed to be subjective, implied and dynamic and sensitive to organisational change. The state of the psychological contract (Guest 1998) – the extent to which workers perceive that the organisation has fulfilled its promises and commitments, provided fairness of treatment and engendered trust.

The Conceptual Framework of Psychological Contracts Inventory

Rousseau's (2000) typology characterising employment relationships is derived from two interacting dimensions – the duration of the relationship (short-term versus open-ended) and performance-reward contingencies (highly contingent, low or non-contingent).

Relational contracts – long term or open-ended employment arrangements based upon mutual trust and *loyalty.* Rewards are only loosely conditioned on performance, derived from membership and participation in the organisation.
Balanced contracts – dynamic and open-ended employment arrangements conditioned on the economic success of firm and worker opportunities to develop career advantages.
Both worker and firm contribute highly to each other's learning and development.
Rewards to workers are based upon performance and contributions to the firm's comparative advantages, particularly in the face of changing demands due to market pressures.
Transactional contract – employment arrangements with a short-term or limited duration, primarily focused upon economic exchange; specific, narrow duties and limited worker involvement in the organisation.
Transitional contract – not a psychological contract form itself, but a cognitive state reflecting the consequences of organisational change and transitions that are at odds with a previously established employment arrangement.

These four contract types are sub-divided each into conceptually homogeneous components, which in inventory form separate scales.
The two components of a *relational* contract are **stability** and **loyalty.**
Stability is characterised by an employee's obligation to remain with the firm and to do what is required to keep the job. And the employer in return has to be committed to offering stable wages and long-term employment. A *loyalty* scale assesses an employee's obligation to support the firm, manifest *loyalty* and commitment to the organisation's needs and interests. The employer has to be committed to

supporting the well-being and interests of employees and their families.

Balanced contracts are formed of three scales: **external employability, internal advancement** and **dynamic performance.**
The *external employability* scale assesses career development on the external labour market. The employee is obligated to develop marketable skills. The employer has committed to enhancing the worker's long-term employability outside the organisation as well as within it.
The *internal advancement* scale assesses career development within an internal labour market. The employee is obligated to develop skills valued by this current employer.
The employer has committed to creating for the worker career development opportunities within the firm.

The *dynamic performance* scale assesses the employee's obligation to successfully perform new and more demanding goals, which can change again and again in the future, to help the firm become and remain competitive. The employer has to be committed to promoting continuous learning and helping employees successfully execute escalating performance requirements.

Transactional contracts are represented with two scales: **narrow relationships** and **short-term relationships.**
In the narrow relationships scale the employee is obligated to perform only a fixed or limited set of duties, to do only what he or she is paid to do. The employer has committed to offer the worker only limited involvement in the organisation, little or no training or other employee development.
In the short-term relationships scale the employee has no obligations to remain with the firm; committed to work only for a limited time. The employer offers employment for only a specific or limited time, is not obligated to future commitments.

As the transitional contracts aren't psychological contracts in nature they reflect the reliability and confidence of employment relations. Three scales represent this contract type: **mistrust, uncertainty** and **erosion.**

Mistrust is connected with employee beliefs that the firm sends inconsistent and mixed signals regarding its intentions; the employee mistrusts the firm. The employer has withheld important information from employees. The firm mistrusts its workers.
Uncertainty in this context means that the employee is uncertain regarding the nature of his or her own obligations to the firm. The employer assesses the extent that the employee is uncertain regarding the employer's future commitments to him or her.
Erosion occurs when the employee expects to receive fewer future returns from his or her contributions to the firm compared with the past; anticipates continuing declines in the future. The employer has instituted changes that reduce employee wages and benefits, eroding quality of work life compared with previous years.

The PCI Instrument

Denise M. Rousseau (2000) in the *Psychological Contract Inventory*, deals with four types of psychological contracts: **relational, balanced, transactional** and **transitional contracts.**
The PCI contains both content and evaluation measures. It assesses a variety of specific terms that can arise in employment. And then it assess the extent to which the respondent believes that he or she has fulfilled commitments made to the employer and whether that employer has fulfilled its commitments in turn.

The PCI is a self-scoring inventory assessing the employee's subjective positions in a concrete employment relationship. All the scales (10) are four item scales, which means that the questionnaire consists of 80 items. The respondents were asked to answer each question using the four-position scale: 1- not at all, 2 – generally not, 3 – generally yes, 4 – certainly yes.

Each construct is measured twice, first in terms of the respondent's beliefs regarding the employer's obligations to the employee, and then again in terms of the employee's obligations to the firm.

The items in the instrument are divided into four sets.
1. The first set contains the seven Employer Obligations (Short-term, *Loyalty*, Narrow, *Dynamic performance*, Internal Development, External Development, and *Stability*)
2. The second set contains the three Employer Transition scales (Mistrust, Uncertainty, and Erosion)

3. The third set contains the seven Employee obligations (comparable to the Employer measures above)
4. The fourth set contains the Employee Transition scales comparable to those above for Employer Transition.

Within each of the above four sets, items were sequenced such that no items on the same scale were near each other.

The Sample

A total of 347 respondents completed the Psychological Contract Inventory, but only 311 of them where wholly completed. We had to remove 36 questionnaires as they weren't completed correctly. The survey was carried out during March and April, 2003. All the respondents worked in Tallinn. Most of them, 198 respondents, were obtained from several advanced courses and 113 respondents were studying at Tallinn Technical University, following executive education programs. All the respondents were working at the time. All 311 respondents were full-time employees having employment contracts. The questionnaires were completed as an in-class or course activity.

Of the respondents, 55,3% worked in the public sector (172 individuals) and 44,7% worked in the private sector (139 individuals). Women are in the majority in this sample constituting 62,4% of the whole sample, 37,6% of the respondents being men. Forty-one percent of respondents were younger than 30 years, 31% were 30-40 and 28% were older than 40. The sample could be characterised by high level of professional training and education, 42% of respondents have subprofessional and 45% college or university education.

We also asked the respondents about the duration of their work experience at their present work place. Participants with a maximum work experience of three years at the present work place amounted to 44% of the total group, 40% had work experience of 4-10 years and 16% of respondents had work experience longer than 10 years. These percentages show that half of the respondents have been at their current employer for a considerably lengthy period, which means that the sample is quite experienced and lets us assume that these individuals have well developed attitudes toward their work and organisation.

The Results

Employee perceived obligations

Factors	α
Transactional contracts	0,52
Short-term relationship	0,11
Narrow relationship	0,74
Balanced contracts	0,80
External employability	0,69
Internal advancement	0,70
Dynamic performance	0,48
Relational contracts	0,74
Loyalty	0,74
Stability	0,53
Transitional contracts	0,88
Mistrust	0,85
Uncertainty	0,75
Erosion	0,84

Three scales turned out to be problematic. The scales didn't meet the traditional standards for reliability where a minimum Cronbach's alpha coefficient is 0,70. The problematic scales were *short-term relationship* (Cronbach's alpha 0,11), *dynamic performance* (Cronbach's alpha 0,48) and *stability* (Cronbach's alpha 0,53). *External employability* scales Cronbach's did not meet the reliability standard alpha 0,69 either for the four item scale, while a three item version met the reliability standard of alpha 0,82.

Employer perceived obligations

Factor name	α
Transactional contracts	0,41
Short-term relationship	0,34
Narrow relationship	0,55
Balanced contracts	0,89
External employability	0,55
Internal advancement	0,84
Dynamic performance	0,87
Relational contracts	0,86
Loyalty	0.84
Stability	0,72
Transitional contracts	0,90
Mistrust	0,81
Uncertainty	0,73
Erosion	0,83

The problematic scales here are different. The reliability standard didn't meet three scales: *short-term relationship*, alpha 0,34 and *narrow relationship*, alpha 0,55, both are *transactional* contract scales. The third scale was *external employability*, alpha 0,55 which is from the balanced contracts scale. But here again the three-item scale met the reliability standard, alpha 0,76.

The results here are quite similar to those of Rousseau (2000), where two *transactional* contract's scales also didn't meet the reliability standard.

The Results of Factor Analyses

Table 1 presents a six-factor solution for employee perceived obligations. The short-term relationships measure was not included due to very low reliabilities, alpha 0,11. Item-level factor analyses revealed six separate factors from which the sixth factor is theoretically meaningless containing only two significantly loading items, one from *stability* and the other from the *external employability* scale.

The first factor contains all four *external employability* scale items and all four *internal advancement* scale items. The four items have a loading greater than 0,60 the others are at the level of 0,49 and lower. The *external employability* scale's one item loads significantly also on the sixth factor. All *internal advancement* items make cross loadings, but not to an appreciable level (<0,40). The three items from the *internal advancement* scale's loaded on the *loyalty* scale.

The second factor exhibits a simple structure – it contains only *narrow relationship* scale items. The third factor contains *loyalty* items, loadings are all greater than 0,60. In addition it contains four items from different scales with loading levels lower than 0,40. Two items belong to the *internal advancement* scale and one is from *stability* and one from the *dynamic performance* scale. This can mean that in some way for employees development and career opportunities are associated with *loyalty*. And at the same time they don't distinguish between internal and external development and career opportunities.

The fourth factor can be conditionally called *dynamic performance* and the fifth factor can be called *stability*. Both factors contain less than four

items of the scale. This result was predictable, as both scales didn't meet the reliability criterion.

Principal component analysis of the entire questionnaire about employee obligations revealed a four-factor structure that supports the theoretical framework. All scales were included despite the low Cronbach's alpha. The results are presented in Table 2. These four factors represent the four psychological contract types. The first factor contains all transitional contract scales items. All item loadings on that factor were greater than 0,50.

The second factor represents the balanced contract type. Three items from *internal advancement* and three items from *external employability* scales had loadings greater than 0,50. The *dynamic performance* scale items had loadings greater than 0,34 on that factor and one of them had a cross loading greater than on its primary factor. These loading results concerning the *dynamic performance* scale were expected as its inner reliability was low, alpha 0,48.

The third factor is formed of *narrow relationship* scale items. Loadings greater than -0,60. No *short-time relationship* items loaded appreciably on that factor and these items did not have any appreciable cross loadings. This is the result of a very low Cronbach's Alpha 0,11. Therefore this factor has little theoretical meaning as the *transactional* contracts type was composed of two scales.

The *stability* and *loyalty* scale items constitute the fourth factor. This factor represents the *relational* contracts type. The *loyalty* scale items all have loadings greater than 0,50 and have no significant cross loadings. Only two *stability* scale items have loadings greater than 0,50, one has 0,43 and one item loads significantly on the second factor.

The results of the employer perceived obligations item-level factor analysis is presented in Table 3. The short-term relationship scale was left out of the analysis due to low inner reliability, alpha 0,34. Factor analysis revealed five factors, which don't affirm the expected theoretical framework.

The first factor was composed of *internal advancement, dynamic performance* and *loyalty* scale items. Internal advancement and dynamic performance scales belong to the *balanced* contract type, but the *loyalty* scale is from the *relational* contract

scales. The third scale of balanced contracts is an external employability scale, which formed a separate fourth factor. Three external employability scale items loaded significantly on that factor and one loads on the first factor.

The second factor can be named the *narrow relationship* factor as three items from that scale compose the factor. The third factor is formed of three *stability* scale items. The fifth factor is theoretically meaningless as only two items load significantly on that factor, loading greater than 0,50. Both are from different scales, one from the *narrow relationship* and the other from the *stability* scale.

The principal component analysis of the entire questionnaire for Employer obligations revealed a four-factor structure that supports the theoretical framework. All scales were included despite the low Cronbach's alpha. The results are presented in Table 6. These four factors represent the four psychological contract types.

The first factor is constituted of *balanced* contract scales. All four items from *internal advancement* and *dynamic performance* scales have loadings greater than 0,67. The *external employability* scale is represented via two items. This factor also includes all four items from the loyalty scale, which by proposed theory belong to *relational* contracts. All items have loadings greater than 0,60 and none of them have appreciable cross loadings.

The second factor contains *transitional* contract scales items. This factor is composed of three *narrow relationship* scale items and two *short-term relationship* scale items. All item loadings, except one, on that factor were greater than 0,50.

The third factor can be named a *transitional* contract as it is formed of *uncertainty, erosion* and *mistrust* scale items. All items have loadings greater than 0,59 and none of them have appreciable cross loadings.

The fourth factor is formed of all *stability* scale items and of two *external employability* scale items. Both represented scales belong to different psychological contract types. *Balanced* and *relational* contract scales have changed their places.

Somewhat interesting are the connections between the *loyalty* scale and *dynamic performance*

and *internal advancement.* This can mean that employer commitment to support the well-being and interest of employees finds its expression in career development and continuous learning opportunities.

The results for the principal component analysis of the Employer and Employee Transition questionnaire were similar. The analysis revealed a three-factor structure, which supports the theoretical framework. The results are presented in Table 4 and 5. These three factors represent the three scales of *erosion, uncertainty* and *mistrust.* Somehow problematic is the *erosion* scale in the employer transition obligations. It doesn't have a simple structure; it has an extended form containing one *mistrust* and one *uncertainty* item.

Inner Correlations

Inner correlations are presented both for the Employee and the Employer questionnaire in Tables7 and 8. The employee obligation questionnaire inner correlations analysis revealed that there were three problematic items, which formed not a single significant correlation ($\beta > 0,35$; $p - 0,05$) with any items of the questionnaire. In addition to these three, there are seven more items that have formed significant correlations only between one item and usually that item belonged to the same scale.

Significant correlations were mostly found between the items of one scale or between the items belonging to scales forming a certain psychological contract type. The only exception is the *loyalty* scale where all four items form significant correlations with the *balanced* contract scale items.

This may imply that commitment to an organisation's needs and interests is perceived as an obligation to develop skills and knowledge valued by the employer and by obligation to successfully perform new and challenging goals.

The employer obligation questionnaire inner correlation analysis revealed a similar tendency to the employee questionnaire analysis results. Significant correlations were found between the items of one scale or between the items belonging to scales forming a certain psychological contract type.

Correlations were stronger between items belonging to the same scale and somewhat weaker, but still significant between the items belonging to scales of the same psychological contract type. Five items didn't form a single significant correlation (β > 0,35; p – 0,05) with any items of the questionnaire.

Loyalty scale items formed significant correlations with *balanced* contract scale items and not with *stability* scale items, just as the theoretical framework proposed. All *stability* scale items formed significant correlations with each other, but not a single item formed significant correlations with *loyalty* scale items. In the theoretical construct these two scales form the *relational* contract. From the *balanced* contract scales the weakest connections were formed by *external employability* scale items.

These correlations between items reflect employee expectations towards their employers. It may imply that commitment to an employee's interests, needs and well-being is perceived as establishing opportunities for continuous learning and career development. This statement can be illustrated by correlations between *loyalty* scale items and *inner advancement* scale items.

The analysis results confirm the theoretical framework of transitional contracts both in the Employee and Employer questionnaire. All the items formed significant correlations (β > 0,35; p – 0,05) between items belonging to the same scale and at the same time with items belonging to scales from the same psychological contract type. Inner scale correlations were stronger. Transition contract scales inner correlations are presented in table 9 and 10.

Descriptive Statistics

These results are presented only for illustrative purposes, since further research is needed to make the inventory work.

Employee perceived obligations

Factor name	Mean	St.dev.
Transactional contracts		
Short-term relationship	2,11	0.96
Narrow relationship	2,56	0,84
Balanced contracts		
External employability	2,96	0,73
Internal advancement	3.06	0,73
Dynamic performance	3.23	0,63
Relational contracts		
Loyalty	2,95	0,82
Stability	3,21	0,63
Transitional contracts		
Mistrust	1,95	0,81
Uncertainty	2,12	0,79
Erosion	2,13	0,85

The higher the mean scores the more the respondents believe they fulfil the perceived obligations. Low scores indicate the absence of obligations.
Statistical analysis results show that respondents form mixed psychological contracts. They perceive their obligations in the frames of *balanced* and *relational* contracts. This kind of mixed contract explains the low scores on the *external employability* scale. If an employee values loyalty he or she can't be active outside his or her organisation. It means that employees seek opportunities in his or her organisation and not in the labour market.

Pearson correlation matrix p – 0,001

		ER42	ER56	ER62	ER66	ER51	ER55	ER60	ER67
ER	ER42 Loyalty	1.000							
P56	ER56 Loyalty	0.482	1.000						
P62	ER62 Loyalty	0.554	0.653	1.000					
P66	ER66 Loyalty	0.508	0.617	0.697	1.000				
P51	ER51 Inner ad.	0.474	0.478	0.527	0.495	1.000			
P55	ER55 Inner ad.	0.386	0.513	0.546	0.522	0.604	1.000		
P60	ER60 Inner ad.	0.444	0.493	0.486	0.449	0.660	0.498	1.000	
P67	ER67 Inner ad	0.298	0.453	0.503	0.543	0.581	0.480	0.598	1.000

Number of observations: 311

For example, 51.1% of respondents answered no to the question: "I increase my visibility and attractiveness outside my organisation". This influence is mutual – preference for *balanced* contracts has its influence on loyalty, 71,7% of respondents answered no when asked: "I take this organisation's concerns personally".

As the items in the questionnaire assess mistrust and uncertainty, low scores refer to trust, stability and certainty. This corresponds to high scores in the *stability* scale. Low scores on *transactional* contract scales refer to greater responsibilities, rights and liberties, which in turn might increase employee responsibility before his or her organisation.

Employer perceived obligations

Factor name	Mean	St. dev.
Transactional contracts		
Short-term relationship	2,29	0.99
Narrow relationship	2,34	0,76
Balanced contracts		
External employability	2,68	0,79
Internal advancement	2,58	0,80
Dynamic performance	2,78	0,76
Relational contracts		
Loyalty	2,48	0,74
Stability	3,16	0,86
Transitional contracts		
Mistrust	1,97	0,78
Uncertainty	1,97	0,76
Erosion	2,07	0,75

The scores for Employer perceived obligations are lower than the scores for Employee perceived obligations. This difference refers to the possibility that the employee perceives his or her contribution to be greater than the organisation's contribution and that means that the employee feels that the organisation doesn't fulfil its promises. These differences can be the origin of dissatisfaction.

These results may confirm D.M.Rousseau's (1998) statement that if the contracts are perceived to be out of balance, then the employee focuses on his or her needs and goals instead of the organisation's needs. As seen before, the employee has a tendency to mix two different psychological contract types, *balanced*, which focuses on the employee's needs and *relational*, which is organisation centred.

We can see from the scores that perceived employer obligations are more connected with *balanced* contracts. Also the scores show that the employer has succeeded in establishing stability and trust in the organisation.

Discussion

The results are somewhat similar to those of D.M. Rousseau (2000). All three scales of Transitional contract meet the criteria for internal consistency and reliability in both questionnaires, in the employee as well as the employer questionnaire. In all six scales the Cronbach's alpha was higher than 0,70. Also the item-level factor analyses support the theoretical construct, three factors were formed that correspond to theoretical construction.

Analyses show that more scales are problematic than was revealed in Rousseau's (2000) research. Only eight scales out of fourteen met the established criteria for reliability (Cronbach's alpha greater than 0,70). In the Employee perceived obligations questionnaire three scales need to be revised – the *short-term relationship*, *dynamic performance* and *stability* scales. In the Employer perceived obligations questionnaire three scales also turned out to be problematic – the *short-term relationship*, *narrow relationship* and *stability* scale. The first two scales form a *transactional* contract and this means that this scale didn't turn out to be measurable.

Item-level factor analysis didn't confirm the theoretically expected obligations scales structure in both domains. In the domain of employer perceived obligations, factor analysis revealed five factors and one of them was theoretically meaningless. As was expected, six factors as one-scale measures were left out due to very low inner reliability. The *short-term relationship* scale was left out, as the alpha was only 0,34. The results in the employee perceived obligation domain were also similar. The short-term relationship scale was also left out from the item-level factor analysis due to an alpha of 0,11. Theoretically, as expected, the six-factor analysis revealed a six-factor structure, but the content of all the factors failed to match the theoretical model. One factor was a combined factor including two scales, *inner advancement* and *external employability*. Other factors represented one obligation scale.

In the domain of employer perceived obligations item-level factor analysis revealed five factors from which four were theoretically meaningless. The first contains *balanced* contract scales – *dynamic performance* and *inner advancement* scales and one scale, *loyalty,* from the *relational* contract. Rousseau gained similar results. This implies that in the employer obligation domain, respondents form integrated psychological contract types. Other factors represented one employer obligation scale.

This kind of psychological contract structure could be expected as the balanced contracts represent first of all the individual developmental needs of an employee. These needs are substantial for dealing with the changing work and work relationships. The *loyalty* scale belongs to the *relational* contracts, which prevailed before. We usually talk about them as classical conservative employment relationships.

The principal-components analyses of employer as well as employee questionnaires revealed a four-factor structure. These four factors represent four psychological contract types and confirm the theoretical framework.

The descriptive statistics results indicate that the whole sample reports higher scores on employee perceived obligations and lower scores on employer perceived obligations. But this can mean that there is not enough balance in the perceived obligations. Employees can consider their contribution greater than what they are getting in return for their efforts from the organisation. This is a potential source for job dissatisfaction. It can also be an easy reason to focus more on individual problems and interests and not so much on organisational problems and interests. In addition, employees can feel a bigger responsibility to fulfil individual needs than organisational needs. The results present some evidence of these kinds of responsibilities – they feel obligated to keep and protect the organisation's image, but they don't regard the organisation's problems as personal.

Higher scores in the employee obligations domain on *dynamic performance*, *internal advancement*, *external employability, stability* and *loyalty* scales indicate that employees derive their obligations from the combination of *balanced* and *relational* contracts.   In the domain of employer perceived obligations the scores are also higher on *balanced* and *relational* contract scales. Somewhat surprisingly, the highest scores were given on the *stability* scale.

The results indicate that some changes have taken place in employment relationships, new forms of contracts have been developed. Taking into account the importance of psychological contracts as employment relationship moderators future research is needed.

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Table 1. Employee perceived obligations
Rotated Loading Matrix (VARIMAX, Gamma =   1.0000)

		1	2	3	4	5	6
EE28	External empl.	0.804	0.000	-0.164	0.127	0.078	0.035
EE27	Internal advanc.	0.770	-0.021	-0.026	0.258	0.096	0.035
EE17	External empl.	0.659	0.085	0.166	0.022	-0.124	0.017
EE22	External empl.	0.635	0.068	-0.073	0.074	0.372	0.186
EE25	Narrow relat.	-0.027	-0.798	0.068	-0.002	0.084	-0.080
EE20	Narrow relat.	-0.128	-0.776	-0.068	-0.109	-0.144	0.053
EE3	Narrow relat.	-0.014	-0.756	-0.085	0.115	-0.071	-0.115
EE14	Narrow relat.	0.009	-0.595	-0.314	-0.143	0.089	0.055
EE13	Loyalty	0.153	0.083	0.684	-0.077	0.015	-0.142
EE24	Loyalty	-0.033	0.028	0.670	0.178	0.409	0.079
EE9	Loyalty	0.015	0.285	0.657	0.270	0.127	0.042
EE19	Loyalty	-0.046	0.011	0.640	0.230	0.257	0.169
EE26	Dynamic perf.	0.136	0.070	0.150	0.741	-0.027	-0.078
EE4	Dynamic perf.	0.104	0.064	-0.058	0.599	0.081	0.403
EE7	Stability	0.109	-0.141	0.216	0.538	0.272	0.130
EE23	Stability	0.025	-0.050	0.124	0.064	0.824	-0.102
EE10	Stability	0.103	0.037	0.198	0.065	0.721	-0.000
EE2	Dynamic perf.	0.088	0.007	-0.003	0.167	-0.011	0.763
EE6	External empl.	0.476	0.316	0.263	-0.121	-0.107	0.419
EE11	Dynamic perf.	0.163	0.232	0.325	0.165	0.415	0.259
EE15	Stability	0.488	0.001	0.368	-0.112	0.033	0.199
EE21	Internal advanc.	0.494	0.068	0.382	0.343	0.037	-0.188
EE16	Internal advanc.	0.365	0.080	0.323	0.326	0.232	0.144
EE5	Internal advanc.	0.389	0.298	0.235	0.411	0.131	0.125

"Variance" Explained by Rotated Components

1	2	3	4	5	6
3.148	2.551	2.676	1.980	1.998	1.305

Percent of Total Variance Explained

1	2	3	4	5	6
13.119	10.631	11.148	8.250	8.325	5.438

Table 2. Employee perceived obligations and perceived Transitional contracts
Rotated Loading Matrix (VARIMAX, Gamma =   1.0000)

	1	2	3	4
EE33	0.725	-0.029	-0.028	-0.280
EE38	0.725	-0.011	-0.161	-0.123
EE35	0.709	-0.018	-0.127	-0.181
EE29	0.681	-0.045	-0.135	-0.199
EE36	0.675	-0.194	0.009	0.087
EE39	0.657	0.010	-0.108	0.024
EE40	0.649	0.049	-0.083	-0.070
EE37	0.648	0.074	0.004	-0.271
EE31	0.647	-0.203	-0.005	0.225
EE34	0.615	0.089	-0.003	-0.240
EE30	0.572	-0.149	0.065	0.164
EE32	0.547	0.050	-0.029	-0.251
EE27	0.020	0.743	-0.065	0.082
EE28	0.150	0.700	-0.042	-0.007
EE22	0.018	0.682	0.020	0.085
EE17	0.096	0.560	0.119	0.023
EE5	-0.068	0.534	0.298	0.289
EE16	-0.149	0.526	0.111	0.336
EE6	0.036	0.447	0.408	0.014
EE25	0.021	-0.011	-0.773	0.091
EE20	0.033	-0.154	-0.747	-0.122
EE3	0.188	-0.030	-0.714	0.024
EE14	0.132	-0.020	-0.603	-0.187
EE24	-0.252	0.130	0.092	0.679
EE19	-0.316	0.135	0.093	0.579
EE23	-0.073	0.116	-0.140	0.554
EE9	-0.243	0.149	0.352	0.548
EE13	-0.063	0.038	0.200	0.517
EE10	-0.086	0.216	-0.028	0.507
EE7	-0.113	0.353	-0.152	0.427
EE11	-0.146	0.344	0.231	0.414
EE21	-0.114	0.467	0.079	0.383
EE1	-0.159	0.218	0.087	-0.352
EE26	-0.115	0.307	0.052	0.331
EE12	-0.113	0.243	0.044	-0.272
EE15	0.003	0.469	0.109	0.163
EE4	-0.101	0.429	0.029	0.098
EE2	-0.079	0.378	0.098	-0.095
EE8	-0.091	0.006	0.033	0.078
EE18	0.040	-0.211	-0.443	0.006

"Variance" Explained by Rotated Components

1	2	3	4
5.647	4.103	2.917	3.507

Percent of Total Variance Explained

1	2	3	4
14.119	10.258	7.293	8.768

Table 3. Employer perceived obligations
Rotated Loading Matrix (VARIMAX, Gamma =   1.0000)

		1	2	3	4	5
ER44	Dynamic perf.	0.812	-0.192	0.185	-0.088	0.068
ER59	Dynamic perf.	0.792	-0.159	0.094	0.146	-0.078
ER62	Loyalty	0.789	0.129	-0.036	0.198	-0.033
ER43	Dynamic perf.	0.783	-0.236	0.233	-0.075	0.067
ER55	Internal advanc.	0.780	-0.264	0.159	-0.034	0.018
ER66	Loyalty	0.776	0.163	-0.020	0.165	0.068
ER50	Dynamic perf.	0.755	-0.105	0.076	0.103	-0.005
ER56	Loyalty	0.746	0.118	-0.089	0.215	0.025
ER51	Internal advanc.	0.743	-0.127	0.001	0.116	-0.295
ER46	External employ.	0.713	-0.317	0.223	-0.008	0.033
ER60	Internal advanc.	0.639	-0.057	0.008	0.309	-0.364
ER42	Loyalty	0.631	0.036	0.009	0.233	-0.011
ER67	Internal advanc.	0.622	0.037	-0.085	0.234	-0.367
ER49	Narrow relation.	-0.084	0.781	-0.063	-0.068	-0.024
ER63	Narrow relation.	0.023	0.778	0.157	0.038	0.079
ER48	Stability	0.065	0.004	0.783	0.076	-0.018
ER64	Stability	0.133	0.079	0.766	-0.148	-0.060
ER57	Stability	0.035	0.113	0.502	0.258	0.223
ER65	External employ.	0.215	-0.313	0.305	0.624	-0.111
ER61	External employ.	0.293	-0.298	0.268	0.606	-0.177
ER58	Narrow relation.	-0.089	0.129	-0.066	-0.113	0.643
ER54	Stability	0.092	-0.109	0.179	0.358	0.565
ER68	External employ.	0.116	0.136	-0.219	0.459	0.140
ER53	Narrow relation.	-0.255	0.438	0.160	-0.254	0.071

"Variance" Explained by Rotated Components

1	2	3	4	5
7.371	2.039	1.951	1.650	1.241

Percent of Total Variance Explained

1	2	3	4	5
30.711	8.494	8.128	6.874	5.169

Table 4. Employee perceived Transitional contract
Rotated Loading Matrix (VARIMAX, Gamma =   1.0000)

		1	**2**	**3**	
EE34	Erosion	0.871	0.109	0.172	
EE32	Erosion	0.836	0.107	0.113	
EE37	Erosion	0.703	0.099	0.359	
EE40	Erosion	0.683	0.124	0.333	
EE30	Uncertainty	0.090	0.874	0.112	
EE31	Uncertainty	0.062	0.816	0.281	
EE36	Uncertainty	0.215	0.789	0.237	
EE33	Mistrust	0.279	0.127	0.798	
EE29	Mistrust	0.124	0.236	0.780	
EE35	Mistrust	0.244	0.169	0.769	
EE39	Uncertainty	0.152	0.164	0.708	
EE38	Mistrust	0.296	0.202	0.706	

 "Variance" Explained by Rotated Components

1	2	3
2.741	2.270	3.265

Percent of Total Variance Explained

1	2	3
22.843	18.914	27.210

Table 5. Employer perceived Transitional contract
Rotated Loading Matrix (VARIMAX, Gamma =   1.0000)

		1	2	3
ER76	Erosion	0.821	0.105	0.158
ER78	Erosion	0.760	0.361	0.230
ER74	Uncertainty	0.746	0.034	0.242
ER77	Erosion	0.713	0.389	0.266
ER75	Mistrust	0.535	0.278	0.454
ER73	Erosion	0.500	0.095	0.488
ER80	Uncertainty	0.126	0.855	-0.002
ER70	Uncertainty	0.202	0.698	0.406
ER71	Uncertainty	0.244	0.646	0.452
ER72	Mistrust	0.252	0.058	0.770
ER69	Mistrust	0.186	0.287	0.766
ER79	Mistrust	0.425	0.377	0.598

"Variance" Explained by Rotated Components

1	2	3
3.247	2.244	2.558

Percent of Total Variance Explained

1	2	3
27.057	18.698	21.316

Table 6. Employer perceived obligations and perceived Transitional contracts
Rotated Loading Matrix (VARIMAX, Gamma =   1.0000)

	1	2	3	4
ER51	0.758	-0.177	0.183	0.001
ER59	0.757	-0.158	0.261	0.140
ER43	0.726	-0.164	0.132	0.300
ER50	0.725	-0.092	0.183	0.141
ER62	0.725	0.081	0.372	-0.016
ER44	0.720	-0.114	0.234	0.254
ER55	0.705	-0.230	0.223	0.210
ER66	0.699	0.122	0.334	0.019
ER56	0.694	0.059	0.299	-0.033
ER46	0.679	-0.225	0.137	0.292
ER60	0.674	-0.158	0.226	0.015
ER67	0.671	-0.094	0.199	-0.155
ER42	0.611	0.011	0.233	0.051
ER47	-0.033	0.836	-0.142	-0.055
ER49	-0.033	0.782	-0.088	-0.146
ER63	-0.019	0.729	0.104	0.133
ER45	0.104	0.515	0.117	0.299
ER53	-0.190	0.453	-0.298	0.078
ER78	-0.282	0.009	-0.742	-0.147
ER77	-0.332	0.076	-0.728	-0.116
ER79	-0.288	0.033	-0.726	-0.145
ER76	-0.031	0.261	-0.712	-0.204
ER75	-0.280	0.098	-0.676	-0.091
ER73	-0.174	-0.010	-0.641	-0.097
ER70	-0.324	-0.093	-0.637	0.054
ER71	-0.422	-0.056	-0.634	0.121
ER72	-0.131	0.003	-0.620	-0.114
ER74	-0.094	0.249	-0.619	-0.265
ER69	-0.343	-0.028	-0.599	-0.078
ER54	0.046	0.020	0.062	0.700
ER57	0.085	0.117	0.052	0.643
ER48	-0.025	0.099	0.170	0.525
ER65	0.298	-0.324	0.164	0.392
ER64	0.050	-0.055	0.068	0.376
ER61	0.413	-0.354	0.078	0.324
ER80	-0.284	0.064	-0.425	0.175
ER41	-0.004	0.199	-0.425	-0.152
ER58	-0.132	0.195	-0.198	0.115
ER68	0.186	0.049	0.008	-0.082
ER52	-0.079	0.215	-0.042	-0.026

"Variance" Explained by Rotated Components

1	2	3	4
7.720	3.127	6.295	2.366

Percent of Total Variance Explained

1	2	3	4
19.301	7.817	15.737	5.915

Table 7. Employee perceived obligations
Pearson correlation matrix

	EE1	EE2	EE3	EE4	EE5
EE1	1.000				
EE2	0.164	1.000			
EE3	-0.012	-0.089	1.000		
EE4	0.075	0.233	-0.026	1.000	
EE5	0.059	0.175	-0.199	0.309	1.000
EE6	0.048	0.246	-0.225	0.092	0.334
EE7	-0.063	0.087	0.055	0.278	0.264
EE8	-0.074	0.043	-0.114	0.031	0.033
EE9	-0.019	0.080	-0.203	0.172	0.341
EE10	-0.003	0.056	-0.041	0.098	0.273
EE11	0.074	0.118	-0.165	0.269	0.308
EE12	0.600	0.085	-0.049	0.082	0.126
EE13	-0.147	0.018	-0.134	-0.019	0.162
EE14	0.039	0.004	0.354	-0.107	-0.238
EE15	-0.031	0.086	-0.148	0.141	0.275
EE16	0.089	0.149	-0.118	0.229	0.421
EE17	0.068	0.062	-0.077	0.115	0.332
EE18	-0.096	-0.206	0.216	-0.085	-0.158
EE19	-0.013	0.116	-0.077	0.185	0.233
EE20	-0.085	-0.054	0.472	-0.105	-0.292
EE21	-0.030	0.110	-0.045	0.169	0.392
EE22	0.030	0.174	-0.081	0.217	0.262
EE23	-0.082	0.021	-0.016	0.057	0.163
EE24	-0.075	0.052	-0.130	0.132	0.279
EE25	-0.061	-0.062	0.507	-0.063	-0.202
EE26	0.025	0.161	-0.038	0.244	0.323
EE27	-0.002	0.199	-0.004	0.196	0.346
EE28	-0.013	0.120	0.007	0.233	0.270

	EE6	EE7	EE8	EE9	EE10
EE6	1.000				
EE7	0.095	1.000			
EE8	-0.023	0.065	1.000		
EE9	0.257	0.261	-0.017	1.000	
EE10	0.103	0.243	0.110	0.294	1.000
EE11	0.257	0.308	0.031	0.375	0.347
EE12	0.051	-0.047	-0.106	0.018	0.065
EE13	0.121	0.094	0.085	0.361	0.141
EE14	-0.211	-0.044	-0.037	-0.389	-0.058
EE15	0.274	0.166	0.030	0.183	0.159
EE16	0.262	0.291	0.036	0.310	0.223
EE17	0.372	0.101	0.069	0.147	0.084
EE18	-0.099	-0.119	-0.062	-0.112	-0.076
EE19	0.134	0.262	0.049	0.414	0.234
EE20	-0.255	-0.026	-0.007	-0.283	-0.120
EE21	0.189	0.226	0.065	0.306	0.223
EE22	0.248	0.223	-0.001	0.060	0.168
EE23	-0.057	0.211	0.087	0.189	0.494
EE24	0.103	0.335	0.050	0.496	0.323
EE25	-0.277	0.096	-0.025	-0.154	0.048
EE26	0.088	0.314	-0.144	0.265	0.134
EE27	0.243	0.216	-0.016	0.117	0.136
EE28	0.236	0.143	0.056	0.012	0.084

	EE11	EE12	EE13	EE14	EE15
EE11	1.000				
EE12	0.052	1.000			
EE13	0.205	-0.099	1.000		
EE14	-0.228	0.036	-0.189	1.000	
EE15	0.226	0.017	0.226	-0.079	1.000
EE16	0.325	0.100	0.213	-0.135	0.264
EE17	0.136	0.102	0.079	-0.086	0.254
EE18	-0.163	-0.096	-0.051	0.189	-0.186
EE19	0.308	0.005	0.299	-0.204	0.121
EE20	-0.275	0.009	-0.168	0.385	-0.067
EE21	0.281	-0.029	0.295	-0.155	0.278
EE22	0.248	0.097	0.119	-0.063	0.254
EE23	0.232	-0.038	0.130	0.035	0.070
EE24	0.366	-0.031	0.353	-0.169	0.215
EE25	-0.122	0.004	-0.053	0.310	-0.039
EE26	0.126	0.014	0.124	-0.102	0.115
EE27	0.231	0.032	0.118	-0.027	0.258
EE28	0.132	0.005	0.015	-0.004	0.299

	EE16	EE17	EE18	EE19	EE20
EE16	1.000				
EE17	0.272	1.000			
EE18	-0.183	0.015	1.000		
EE19	0.338	0.068	-0.104	1.000	
EE20	-0.201	-0.142	0.424	-0.160	1.000
EE21	0.348	0.336	-0.024	0.264	-0.213
EE22	0.400	0.270	-0.212	0.149	-0.177
EE23	0.241	-0.004	-0.089	0.251	-0.074
EE24	0.277	0.069	-0.123	0.626	-0.127
EE25	-0.013	-0.069	0.285	0.010	0.493
EE26	0.314	0.119	-0.118	0.196	-0.136
EE27	0.332	0.358	-0.065	0.086	-0.088
EE28	0.162	0.404	-0.074	0.010	-0.127

	EE21	EE22	EE23	EE24	EE25
EE21	1.000				
EE22	0.216	1.000			
EE23	0.169	0.233	1.000		
EE24	0.242	0.154	0.391	1.000	
EE25	-0.044	-0.058	0.106	-0.023	1.000
EE26	0.309	0.130	0.122	0.224	-0.075
EE27	0.412	0.510	0.085	0.085	-0.027
EE28	0.304	0.535	0.034	0.018	-0.029

	EE26	EE27	EE28
EE26	1.000		
EE27	0.264	1.000	
EE28	0.142	0.658	1.000

Number of observations: 311

Table 8. Employer perceived obligations
Pearson correlation matrix

	ER41	ER42	ERP43	ER44	ER45
ER41	1.000				
ER42	-0.101	1.000			
ER43	-0.166	0.465	1.000		
ER44	-0.202	0.455	0.804	1.000	
ER45	-0.026	0.095	0.088	0.111	1.000
ER46	-0.170	0.408	0.690	0.670	0.089
ER47	0.176	-0.072	-0.215	-0.167	0.351
ER48	-0.047	0.075	0.149	0.125	0.104
ER49	0.126	-0.050	-0.230	-0.184	0.228
ER50	-0.163	0.481	0.537	0.583	0.062
ER51	-0.160	0.474	0.565	0.561	0.050
ER52	0.057	-0.012	-0.070	-0.069	0.043
ER53	0.142	-0.237	-0.178	-0.192	0.100
ER54	-0.092	0.120	0.161	0.103	0.136
ER55	-0.239	0.386	0.671	0.666	0.028
ER56	-0.164	0.482	0.504	0.516	0.093
ER57	-0.090	0.115	0.131	0.103	0.020
ER58	-0.036	-0.151	-0.136	-0.106	0.014
ER59	-0.175	0.500	0.628	0.626	0.093
ER60	-0.206	0.444	0.457	0.479	0.077
ER61	-0.127	0.277	0.321	0.311	-0.042
ER62	-0.093	0.554	0.494	0.568	0.124
ER63	0.085	0.008	-0.076	-0.077	0.402
ER64	-0.032	0.042	0.196	0.218	0.181
ER65	-0.130	0.247	0.315	0.295	0.095
ER66	-0.089	0.508	0.502	0.536	0.105
ER67	-0.120	0.298	0.407	0.413	-0.042
ER68	0.026	0.100	0.045	0.058	0.032

	ER46	ER47	ER48	ER49	ER50
ER46	1.000				
ER47	-0.222	1.000			
ER48	0.100	0.014	1.000		
ER49	-0.232	0.724	-0.026	1.000	
ER50	0.578	-0.129	0.060	-0.136	1.000
ER51	0.528	-0.190	0.032	-0.124	0.598
ER52	-0.081	0.127	-0.032	0.102	-0.074
ER53	-0.229	0.351	0.018	0.330	-0.256
ER54	0.198	-0.061	0.443	-0.070	0.136
ER55	0.632	-0.266	0.074	-0.253	0.591
ER56	0.436	-0.024	0.063	-0.044	0.504
ER57	0.106	-0.042	0.366	-0.062	0.150
ER58	-0.128	0.155	-0.023	0.126	-0.112
ER59	0.584	-0.195	0.055	-0.221	0.623
ER60	0.433	-0.167	0.078	-0.120	0.495
ER61	0.373	-0.236	0.132	-0.229	0.316
ER62	0.505	-0.043	0.044	-0.036	0.585
ER63	-0.176	0.496	0.155	0.428	-0.031
ER64	0.180	-0.033	0.411	-0.009	0.107
ER65	0.351	-0.255	0.134	-0.268	0.303
ER66	0.447	0.028	0.079	-0.026	0.532
ER67	0.374	-0.125	-0.064	-0.047	0.459
ER68	0.080	0.039	0.038	0.022	0.062

	ER51	ER52	ER53	ER54	ER55
ER51	1.000				
ER52	-0.093	1.000			
ER53	-0.270	0.159	1.000		
ER54	0.047	-0.020	0.026	1.000	
ER55	0.604	-0.065	-0.228	0.166	1.000
ER56	0.478	-0.127	-0.297	0.041	0.513
ER57	-0.018	-0.019	-0.041	0.359	0.117
ER58	-0.155	0.070	0.162	-0.030	-0.070
ER59	0.638	-0.114	-0.301	0.155	0.665
ER60	0.660	-0.103	-0.230	0.057	0.498
ER61	0.392	-0.154	-0.217	0.205	0.384
ER62	0.527	-0.050	-0.215	0.085	0.546
ER63	-0.126	0.064	0.222	0.055	-0.142
ER64	0.101	0.012	0.026	0.549	0.180
ER65	0.274	-0.108	-0.222	0.214	0.269
ER66	0.495	-0.051	-0.225	0.073	0.522
ER67	0.581	-0.100	-0.155	0.037	0.480
ER68	0.105	-0.073	-0.032	-0.054	0.046

	ER56	ER57	ER58	ER59	ER60
ER56	1.000				
ER57	0.084	1.000			
ER58	-0.092	0.045	1.000		
ER59	0.578	0.103	-0.139	1.000	
ER60	0.493	0.051	-0.213	0.596	1.000
ER61	0.273	0.166	-0.099	0.371	0.422
ER62	0.653	0.078	-0.150	0.581	0.486
ER63	0.108	-0.045	0.127	-0.070	-0.063
ER64	0.040	0.370	-0.025	0.171	0.044
ER65	0.217	0.141	-0.112	0.334	0.333
ER66	0.617	0.161	-0.066	0.563	0.449
ER67	0.453	0.057	-0.205	0.510	0.598
ER68	0.157	0.021	0.001	0.164	0.091

	ER61	ER62	ER63	ER64	ER65
ER61	1.000				
ER62	0.269	1.000			
ER63	-0.148	0.071	1.000		
ER64	0.107	0.079	0.117	1.000	
ER65	0.609	0.281	-0.102	0.128	1.000
ER66	0.263	0.697	0.106	0.326	0.177
ER67	0.366	0.503	-0.054	0.026	0.215
ER68	0.056	0.168	0.004	-0.053	0.105

	ER66	ER67	ER68
ER66	1.000		
ER67	0.543	1.000	
ER68	0.124	0.129	1.000

Number of observations: 311

Table 9. Employee perceived Transitional contracts
Pearson correlation matrix

	EE29	EE30	EE31	EE32	EE33
EE29	1.000				
EE30	0.331	1.000			
EE31	0.436	0.629	1.000		
EE32	0.285	0.161	0.163	1.000	
EE33	0.637	0.214	0.368	0.337	1.000
EE34	0.323	0.189	0.215	0.714	0.420
EE35	0.595	0.259	0.331	0.320	0.656
EE36	0.319	0.609	0.608	0.305	0.366
EE37	0.380	0.219	0.257	0.485	0.483
EE38	0.516	0.299	0.323	0.330	0.626
EE39	0.538	0.240	0.332	0.269	0.489
EE40	0.307	0.223	0.242	0.480	0.410

	EE34	EE35	EE36	EE37	EE38
EE34	1.000				
EE35	0.365	1.000			
EE36	0.291	0.412	1.000		
EE37	0.607	0.428	0.269	1.000	
EE38	0.370	0.579	0.422	0.459	1.000
EE39	0.266	0.486	0.328	0.343	0.496
EE40	0.547	0.429	0.303	0.569	0.467

	EE39	EE40
EE39	1.000	
EE40	0.400	1.000

Number of observations: 311

Table 10. Employer perceived Transitional contracts
Pearson correlation matrix

	ER69	ER70	ER71	ER72	ER73
ER65	1.000				
ER66	0.493	1.000			
ER67	0.537	0.628	1.000		
ER68	0.479	0.383	0.395	1.000	
ER69	0.367	0.420	0.424	0.419	1.000
ER70	0.349	0.321	0.306	0.383	0.428
ER71	0.525	0.448	0.447	0.457	0.445
ER72	0.367	0.330	0.365	0.343	0.477
ER73	0.469	0.491	0.535	0.441	0.457
ER74	0.427	0.468	0.540	0.408	0.451
ER75	0.631	0.508	0.563	0.509	0.500
ER76	0.257	0.498	0.442	0.209	0.185

	ER74	ER75	ER76	ER77	ER78
ER70	1.000				
ER71	0.504	1.000			
ER72	0.567	0.468	1.000		
ER73	0.471	0.567	0.576	1.000	
ER74	0.511	0.570	0.593	0.823	1.000
ER75	0.460	0.531	0.467	0.585	0.615
ER76	0.212	0.337	0.218	0.339	0.306

	ER79	ER80
ER75	1.000	
ER76	0.386	1.000

Number of observations: 311

Being Different and Feeling Organizational Culture Differently: Implications For HRM

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Introduction and Background to the Research Problem

Chatman and her colleagues (1998) have published a paper 'Being Different Yet Fee-ling Similar: The Influence of Demographic Composition and Organisational Culture on Work Processes and Outcomes' in the Administrative Science Quarterly. The title of the current paper is touched by their work and, therefore, in this light we would like to elicit some similarities between Chatman *et al.* and our paper. These themes will be discussed from the perspective of Human Resources Management which here is defined as a series of decisions about the employment relationships that influence the effectiveness of employees and organisations. These decisions vary over time, across organisations, and the recent debates reveal the variation across countries. There are multiple stakeholders in HR decisions.

Chatman *et al.* found that the connections between organisational culture and collectivism depended on organisational members' (participants in the experiment) demographic characteristics (1998). These results emphasise the need to include organisational members with diverse socio-demographic backgrounds in the investigation. The analogy of Chatman's paper and ours is tied in with the theme of the socio-demographic composition of an organisation. We consider also that this is an important factor of its functioning because of turnover, innovation etc. caused by the composition of the organisation (Pfeffer 1991).

There is no person exactly similar to another and everyone represents the unique combination of certain characteristics and therefore, socio-demographic characteristics are important in regard to work-force diversity, which has become an important topic in the organisational and organisational

culture studies (for instance, Baumhard & Starbuck 2001; Pant & Singh 2001). The importance of this topic has increased due to tendencies in the organisational world. Barak exemplifies: "The demographic changes in the American population, coupled with civil rights legislation have created an unprecedented diversity in the American workforce and have made diversity management a central issue in human resource management" (Barak 2000). This is the first argument in our study because information about employees is critical in setting organisational goals and shaping human resource decisions. Individual differences relevant to human resource management include socio-demographic characteristics, the employees' attitudes, experience, and other tangible and intangible issues.

The second argument derives from the Estonian background. The transition to a market economy in Estonia provides the context for uncovering the impact of socio-demographic characteristics and speculates how these affect the organisations. Namely, that Estonian history is strongly influenced by different cultures. Vihalemm differentiates political, economic and cultural space and indicates countries that were dominating the societal space of Estonia in the different periods (Vihalemm 1997). Between 1918 and 1940, in terms of political space, Estonia was influenced by Germany and Russia, economic space by Germany and Great Britain; and cultural space by Germany, Finland, and Sweden. After World War II, from the perspective of these three dimensions, Estonian society was governed by the Soviet Union. There was an overwhelming attempt to turn the multicultural entities within the Soviet Union into a single mono-cultural bloc centred on the Russian language. Very different ways and methods were used in order to shape *homo sovieticus.* Consequently, two large subcultures exist in Estonia due to this

manipulation. So, we can investigate cross-national aspects of attitudes towards organisations besides other socio-demographic characteristics.

We take as our focus the *organisational culture*, and in so doing, we argue that organisational culture is an appropriate concept to describe the impact of socio-demographic characteristics from an organisational point of view (for example, Carroll & Harrison 1998; Cox 1993). This is an exploratory study. First, we aimed at exploring the organisational culture in the light of different socio-demographic characteristics in Estonia, and our second aim was to draw some ideas for HR activities. There was the intention to relate our findings to the general theme of this conference: *People Friendly Management*. This serves as a framework of implications for HRM.

Organisational Culture and Socio-Demographic Characteristics

Organisational culture is often seen as *an umbrella* concept that helps explain behaviour in organisations. This is, however, a rather simplistic way of understanding organisational culture, for the concept which affects and is affected by individual behaviour in complex and often unpredictable ways. This concept enables us to focus on the organisational members' understandings, within, as well as understandings around the organisation.

The studies of organisational culture, especially in the light of new paradigms (for example, "Body and organisation", 2000), have confirmed that the behaviour patterns of the organisational life that seems to be casual on the surface, are actually influenced by several hidden factors. The concepts of organisational culture cover intangible issues. Even, nearly forty years ago, Katz and Kahn (1966, 66) claimed, in their seminal study, that "just as a society has a cultural heritage, so social organisations possess distinctive patterns of collective feelings and beliefs along with new group members." Many employees have to support the well-being of the organisation, and the organisation should be aware of the organisational members' wishes to support their organisation. Organisational culture depends, indeed, on the understanding that organisational members hold about this entity.

Schultz spotlights two most widely used organisational culture scales, which measure strong-weak and efficient-inefficient aspects of organisational culture (1995, 10). She describes that the first one evaluates the internal consistence of organisational culture whereas the latter describes cultures in relation to fulfilment of goals, ability to innovate and strategic capacity (Schultz 1995, 11; see also Alvesson 1995, 29-41). Schultz's overview of approaches to organisational culture presents that task and relations are important aspects when we look at this phenomenon. Schein believes that orientations, task and relationship, are equally important when he discusses productive learning organisation and its culture (1992, 371).

Organisational culture is a broad category, which reflects organisational members' common views on the organisational life. Organisational culture is shaped by the organisational task and relation orientations. Here the term "task" means something similar to that proposed by Roger Harrison as the task culture (Harrison 1992). This stipulates that the organisational goal is relevant to all activities and organisational members are expected to strongly support the organisational goals. Harrison revised his treatment of person oriented organisational culture and the posterior — empowerment culture gives a good perspective about relation orientation. This is based on warm and harmonious interpersonal relationships. Organisational members know each other well and care for co-workers. De Witte & van Muijen admit that organisational members belong to many different groups at the same moment and the analysis of organisational culture might reveal that, in fact, many different, sometimes even conflicting cultural assumptions prevail (1999).

The above-mentioned issues lead us to the questions of interaction of organisational culture and socio-demographic characteristics. Chatman *et al* (1998) said that they make an attempt to resolve some of the contradictions by considering how differences in the organisational culture moderate, how demographically diverse people approach and solve problems when they start the investigation of organisations focusing on individualism or collectivism. When Alvesson points to the over-simplification of some approaches to organisational culture, he emphasises the role of the employee's age, gender, qualifications, and interests in the determination of the organisational culture (Alvesson 1995, 33). This composition is one source of uniqueness in the organisation. Silvester *et al.*

mention that *organisational culture is a popular but elusive concept* (1999) and Denison discusses why the organisational cultures are described by the expression "it depends". He also invites one to begin by focusing on aspects of culture that can be compared (Denison 2001).

If we look at the continuum of organisational members, we probably do not notice that socio-demographic characteristics put an impact on organisational culture. Different understandings of organisational culture come into view when we examine this phenomenon in various groups. Pfeffer has expressed in his article:

> Most, if not all, surveys include questions on the backgrounds of the respondents, such as their age and time within the organisation. Similarly, most organisational personnel information systems contain basic demographic information, such as date of hire (and, by inference, length of time in the organisation), age, and sex. The demography of an organisation is nothing more than the description, within the terms of the distribution, of these various dimensions (1991, 355).

It seems clear that a point of view, however underestimated and understudied aspect in the organisational context. Lawrence (1998) has called it the *black box*, and claims that researches allow demographic variables, loosely specified and unmeasured, despite their importance be included. For example, she says if diversity increases, communication within the group becomes more difficult, resulting in greater conflict, but this circumstance is not considered in the studies of communication. On the other hand, Carroll & Harrison (1998) have found that an impressive set of studies were conducted in regard to the length of service and turnover which they mention as the most investigated variable in this area.

Method

We follow the idea that organisational members with different socio-demographic backgrounds hold specific patterns of relationships in relation to organisational culture. Demographic and cultural diversity are two important types of diversity in organisations.

Participants

Data was collected during the years 1996-2001. Altogether, 1328 subjects (461 men and 829 women, 38 participants did not indicate their gender) participated in the survey. The average age of the participants was 35.7 years (SD = 10.1), ranging from 17 to 66 years. Three groups were differentiated on the basis of age. The first group consisted of those who were under 30 (n = 445). We called them "the younger age group". The younger age group represents the organisational members who graduate from schools and start employment in the working organisations. They acquire their professional and social skills in order to perform in organisations. The second group was formed from the respondents whose age was between 30 and 40 years (n = 387) (medium age group). They are concerned with career and try to integrate work, social life, and family. The third group of respondents were over 40 years old (n = 381) (older age group). The older age group had spent most of their working life in the Soviet system. They are more mature than younger groups in professional and personal life.

Our division deviates from the distribution that is usually used in labour market studies, where the first age group is of an age between 16 and 24, and the second between the ages of 25-39. We expanded the younger age group because it enables us to capture the first work experience that young people take on after finishing their education. For subsequent analyses, the respondents were divided secondarily into three classes: so-called blue-collar workers (n = 615); white-collar workers or specialists (n = 457), and managers (n = 207). In terms of ethnicity or cultural descent, the sample consisted of 648 Estonians and 680 Russians living in Estonia who completed the set of questionnaires either in the Estonian or Russian language, respectively.

Measures

The task and relationship orientations seem to be vital aspects of organisational culture. We have developed an instrument that would enable the measuring of the two aspects in a reliable way. The contents of these statements are connected with the cohesiveness orientation of culture, or in other words the strength and weakness of the culture, and the members' support of the organisation. The respondents were asked to estimate their opinion

of such statements on a 10-point scale, where 10 indicates absolute agreement with the statement and 1 total disagreement with the statement for the specific organisation. The statements were translated into Russian both by a translator and a person (from a translation agency) who had, since early childhood, been part of both Estonian and Russian language environments.

A principal component analysis of the 43 items followed by a varimax rotation was separately performed for the Estonian and Russian samples. The obtained factor structure accounted the total variance at 39.3% and 37.8% in Estonian and Russian data sets, respectively. The congruence of the factor structures of the two versions was exemplary—the Tucker congruence coefficients between the Estonian and Russian versions was 97 and .99 for the first and the second factor, respectively. We have developed the scales of measurement of two orientations of organisational culture: task orientation (OC1) and relationship orientation (OC2). Across all respondents, the Cronbach alphas for OC1 and OC2 subscales were .80 and .74, respectively.

Results: Cultural, Age and Gender Differences in Organisational Culture

The mean values of the two organisational culture subscales, OC1 and OC2 are shown in Table 1.

Table 1
The Mean Values and Standard Deviations of the Organisational Culture Subscales

	Scales of QOC			
	OC1		OC2	
	M	**SD**	**M**	**SD**
The entire sample (N=1270)	5.2	1.81	6.55	1.48
Males (449)	5.34	1.81	6.25	1.38
Females (789)	5.15	1.8	6.7	1,5
ANOVA results	F(1,233)=330	p=.070	F(1,236)=28,2*	p=.000
< 30 (445)	5.36	1.8	6.34	1.49
30-40 (387)	5.09	1.88	6.6	1.47
>40 (381)	5.15	1.76	6.67	1.45
ANOVA results	F(2,1208)=2.67	p=.070	F(2,1212)=5.81*	p=.003
Workers (587)	4.78	1.78	6.59	1.57
Specialists (444)	5.61	1.71	6.48	1.37
Managers (196)	5.63	1.82	6.43	1.39
ANOVA results	F=(2,1217)=34.9*	p=.000	F(2,1220)=1.21	P=.30
Russians (644)	4.4	1.78	6.69	1.59
Estonians (623)	6.04	1.41	6.4	1.33
ANOVA results	F=(1,1260)=330.0*	p=.000	F=(1,1265)=12.28*	p=.000

Note. QOC = Questionnaire of the Organisational Culture. OC1 = "General attitudes towards organisational task;" OC2 = "Interpersonal relationship;"
*p < .001

A one-way ANOVA revealed that in general, Estonians scored higher than Russians on OC1 scale, $F(1,1260) = 330.00$, $p = .000$, but the situation was reversed for OC2 scale: the interpersonal relationships were more highly regarded by Russians than by Estonians, $F(1,1265) = 12.28$, $p = .000$. The same kind of variation was observed in relation to the respondents' profession: specialists and managers scored higher than workers on OC1 subscale, $F(2, 1217) = 34.90$, $p = .000$ but their standing was unlike on OC2 scale, $F(2, 1220) = 1.19$ (n.s.). The LSD test also shows that specialists and managers gained a similar score on the task scale whereas the workers' results are lower. Thus, managers and specialists are the strongest supporters of organisational task than workers. The position in the organisation does not differ in how important the person saw the relations within the organisation. Therefore, this aspect of the organisational culture is not influenced by the position, which is the acquired or relatively easily modified characteristic (quality) during their lifetime, if compared with gender and age. The interaction between the occupation and ethnic group was not significant for either subscale.

Across all respondents, gender had a significant effect only on the OC2 subscale, $\underline{F}(1, 21) = 56.69$, $p = .000$, with women ($M = 6.70$, $SD = 1.50$) scoring significantly higher than men ($M = 6.25$, $SD = 1.38$) on this scale. Men are the stronger supporters of the organisational task while women contribute more to the relationship issues. Age puts impact on the OC2 scale, where the respondents of the younger age group estimate the relationship orientation less important than their older counterparts. The older respondents are more oriented on the relationship than younger subjects. But their will to support the organisational task does not depend on the age differences.

Ethnicity is the socio-demographic characteristic, which makes up differences in regard to both orientations of OC (Figure 1).
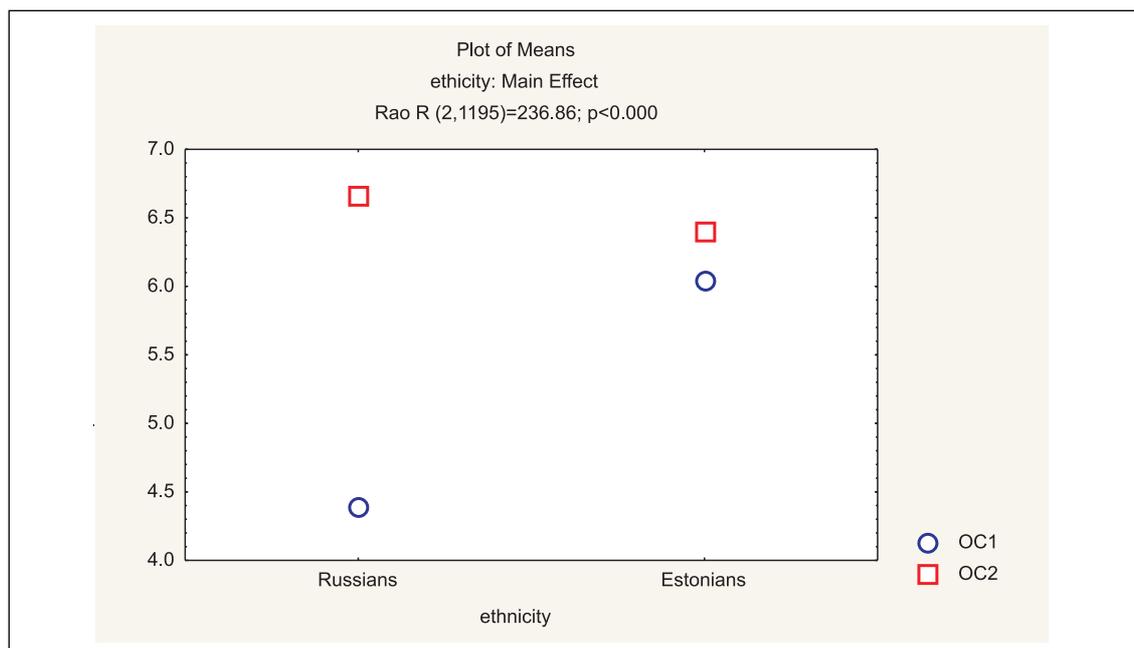
Figure 1. The Russians' and Estonians' evaluations of OC orientations

Note- OC1- task orientation of OC; OC2- relationship orientation of OC

Figure 1 illustrates clearly the results of statistical analysis. Estonians are more optimistic towards the organisational task, while Russians move towards relationships. There is another tendency as well, which is shown by Figure 1. This is the gap in the evaluations of two orientations. In the Estonians' case the difference in the evaluation of orientations is not very large but in the Russians' case the gap between evaluations of orientations is much more significant. This fact deepens the idea that differences exist in regard to ethnicity because the

differences of relative importance may have a significant role as well, if comparing Russians' and Estonians' evaluations of organisational culture.

Discussion and Implications for HRM

The dynamics of the process and problems with regard to the transition vary a lot in the Central and East European Countries (CEE) but sometimes these were seen as the same kind in those countries. Gilbert (2001, 411) has put into words that some early Western analysis of management change in the countries of the CEE tended to approach the topic as though the events of the second half of the twentieth century rendered the whole region culturally homogeneous. But not many are aware of intracultural variations that could also influence organisations and the way they have been built up. This is one of the main results of our study. We have found that even in a very small state such as Estonia (with a population of less than 1.4 million) various subgroups can be differentiated, not only according to their ethnic/cultural background, but also gender and employment. Their members have rather different attitudes towards various domains of social relationships, including organisation, by which they are employed. This is somewhat disregarded sometimes.

The intracultural variation leads to one of the HR issues, especially in MNC-s and globalisation in general. Ethnicity is one of the resources of an organisation, which is tied with culture. Fink & Mayrhofer (2001) express that this is a challenge for cross-cultural management and, if considered, will make international firms perform better than national firms, because it allows the tapping of more, better, and cheaper resources than any national firm can exploit. Of course, the management of such a diverse resource requires cultural sensitivity.

If managers think about different evaluations of organisational culture, they would probably understand better the influence of the local culture on the organisational life. This complex area subject-matter may generate stereotypes of culture or as Zarkada-Fraser (2001) says "pictures in our heads" which serve as cognitive tools and as the reason for shaping static conceptions. He, raising boundaries and definitions of "other-ness" requires the processing of information that is not available and even if it is available it appears to be too vast to

process." Stereotyping is the process of categorising an individual as a member of a particular group (i.e. ethnicity) and assuming that the characteristics attributed to the group apply to the individual. We speculate that such differences in evaluation of organisational culture could be one of these notions, which produce prejudiced opinions about the nature of nations.

Let us call **the avoidance of cultural and country based stereotypes** as the first *People Friendly Management* issue because stereotyping can be viewed as an error of overgeneralization or oversimplification. This could be seen as the first implication, which is based on our empirical study.

The second aspect, which is relevant to the HR activities, rises when position within an organisation comes on the scene. There is considerable tension between different groups of occupation within Estonian organisations. "Blue collar" (workers) as opposed to "white collar" (specialists and managers) perceive organisation and its culture differently. While the upper echelon of an organisation is thinking about organisation, primarily in terms of the general attitude toward organisational tasks, the workers stress more the importance of interpersonal relations. These clearly different attitudes may be a potential source for intra-organisational tension, because values shared by a large group of its members and are not identical, and in some cases even diametrically opposed to those held by the administration.

The demography of an organisation is the composition of its workforce on variables such as age, gender, ethnicity, length of service, and education. This result is in accordance with Alas and Vadi findings that different attitudes towards organisational change are caused by different evaluations of organisational culture (in press). It could be a source of intra-organisational tension in the organisation. The diversity or homogeneity of this composition has important implications for organisational culture. Nicholson argues that demographic homogeneity is associated with a "strong" organisational culture (1998). We have found that groups with certain socio-demographic characteristics may have specific estimations of orientations of organisational culture and therefore those groups could generate homogeneous understanding of organisational culture. Here we propound once more Schultz's definition of strong-

weak organisational culture according to what is characterised by internal consistence of organisational culture (1995).

The latter circle of problems gives opportunity to formulate the second topic, which reveals the presuppositions of *People Friendly Management.* Managers have to be aware that employees may evaluate their organisations from different perspectives but **the managerial responsibility is the sharing of common views and values.** It enables the avoidance of stereotyping on a basis on age, gender, organisational position etc.

If we take into account the view that the organisation is in a constant relationship with its environment, it follows that macro-structural changes of economic transition will affect the behaviour of the organisation and its members. Trice & Beyer have put it as follows, that the surrounding culture is most likely to influence those aspects of organisations involving their relations with individuals (e.g. management policies, leadership styles, communication patterns) and at least likely to affect machine technologies (1993, 333). We have demonstrated that ethnicity is the variable which plays its role in the evaluation of organisational culture. It evokes the third, and the most contra dictionary aspects of current study, because salient differences could be a source of stereotypes.

Our findings demonstrated that ethnicity is an important factor in characterising the attitudes towards organisation and its culture. Russian-speaking members of the organisation were considerably less task-oriented than Estonian-speaking members and, in turn, much more interpersonal relationship-oriented than Estonians. We propose that changes in society may result in Russian-speaking people supporting less organisational tasks. We propose that their participation in the organisational life is tied in with their attitudes toward society and vice versa.

The explanation of this problem may be useful in order to develop the understanding of causes and consequences. In the case of Estonia, it can be argued that fifty years of communist ideology and practice have had a marked effect upon organisations and organisational members, in particular making them ill-fitted to adapt to the current environmental conditions of western corporatism. There is a lack of salient identity among the

Estonian Slavs and it has significant implications for within-group agreement, political issues and between-group differences (Brady, Kaplan 2000). These people, faced with the dramatic change in their society, experienced the feeling of majority since 1991, and it turned the feeling of being a minority due to the lost direct contacts with that large state that stayed behind them. Most of the Russian respondents are living in the Estonian region that is the target of the integration of the non-Estonians to independent Estonia.

Jerschina & Górniak have examined differences between national minorities and majorities when analysing the degree of activeness of various groups (i.e. majority, minority) of different Central and Eastern European countries (1997). There was no difference found in minorities and majorities in Latvia or Lithuania, whereas the Estonian minorities (mainly Russian) are passive, and they differ strongly from the national majority in regard to activeness in the transformation process of society. The low extent of involvement of minorities would be one source of social and political problems and it creates resistance toward transition. Our study denotes that this is a problematic issue in the organisational context as well. There is a significant difference between Estonians and Russians when they evaluate their organisations. Consequently, there are reasons for essential conflicts and it would create stressful internal dislocation for those individuals. Guidham (1999, 68) has put it as follows: "Organisations with a strong dominant culture force those from the 'minority' culture (who may or may not be in a numerical minority) to adjust their behaviour to accommodate it. " Here we can formulate the third idea for *People Friendly Management*, which says that **organisations have to be sensitive towards minorities**. Even more, organisations have resources to reduce tensions within society if they will, and admit this as a responsibility.

The limitation of our study is that the socio-demographic characteristics, however, are not the only predictors of organisational culture on the level of individuals. For example, O'Reilly III *et al.* (1991) have shown that person-organisation fit is a significant predictor of normative commitment, job satisfaction, and intention to leave, independent of age, gender, and tenure. It raises the importance of another aspect of the 'diversity' concept. Diversity is supposed to be the source of synergy within the

organisation, because it brings various resources into the entity.

Organisations have seldom the same composition that our sample has, in terms of socio-demographic attributes. The operating area and other factors mould the composition of the particular organisation and thus some patterns of relationships are visible and some others latent. Organisational members who belong to these certain groups have a disposition towards organisational tasks and relations and these together constitute the whole.

The composition of organisation and the notion of organisational members' attitudes toward different groups enables us to predict their attitudes regarding tasks and relations in the organisational life. Consequently, the organisations that mostly consist of the above-mentioned people depend on the organisational members' disposition toward their organisation. Accordingly, organisations are able to be innovative and respond to the requirements of the environment. In this light, the management has an opportunity to interact with the organisation's life through the involvement of personnel, or by addressing its communication to certain groups when support for the organisational task is necessary. The diversity of the workforce could be one of the resources of synergy in the organisation, if the managers have knowledge of how to bind different people together.

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Challenges for the German Model of Employee Relations in the Era of Globalisation

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Abstract

In this paper we investigate the challenges posed to the German model of employee relations by the different internationalising strategies of multinational companies (MNCs) in the heavy engineering sector. We also highlight some of the disadvantages of the German model for specific MNC strategies; in particular those relating to global manufacturing strategies based on a standardised product. We contrast a negotiated approach to change management in our German MNC with a unilaterally imposed approach in the Finnish MNC and discuss some of the effects on the subsidiaries with particular reference to employee relations. We conclude that the subsidiaries are strongly influenced by the characteristics of the German national business system and that this presents both opportunities and obstacles to MNCs' change management strategies in Germany. A major challenge for MNCs investing in Germany is how to capture the advantages of the German focus on diversified quality production based on local skills and process ownership, together with a tight integration of manufacturing, R & D and sales and service, whilst pursuing globalise strategies of production and service delivery.

Keywords: Employee Relations, Globalisation, Multinationals in Germany

Introduction

This paper investigates the challenges both faced and posed by the German model of employee relations when it is confronted with the internationalising strategies of multinational companies in the heavy engineering sector. We look at the implications of two very different change management approaches for employee relations, in particular for employee participation and authority sharing, in German subsidiaries.

The current debate on the German model of industrial relations focuses on whether the traditional German business system will be able to adapt to the demands of increasing internationalisation or whether it will be forced to adopt a more Anglo-Saxon orientation (Schmidt and Williams 2002). This would represent a fundamental shift in the basic characteristics of the German model, which include patient capital, long-termism, a highly developed vocational education and training system, highly skilled labour and cooperative management-labour relations (see Ferner, Quintinalla, Varul 2000, 109; Wever 1995, 11-14; Geppert, Williams, Matten, forthcoming).

Whilst some researchers, e.g. Lane (2000) and Jürgens, Naumann and Rupp (2000), point to an increase in centralised integration and Anglo-Saxonisation centred on shareholder value concepts in some German MNCs, other studies reveal continuities in the operation of the German model (Ferner and Varul 2000; Girndt and Meiners 2002; Schmidt and Williams 2002).

Our own research based on detailed case studies of three MNCs with subsidiaries in Germany reveals some of the tensions involved in the MNCs' bid to integrate their German subsidiaries into wider global strategies. On the one hand, the MNCs seek to exploit the advantages of the German model, including highly skilled labour and research and

development expertise, whilst on the other, they try to circumvent what they see as less advantageous traits, particularly the influence of the works councils on the operations of the subsidiaries. Although the three MNCs operate in the same industrial sector, they were found to adopt very different globalisation strategies (Geppert *et al* 2002a and 2002b), which have very different implications for employee relations in their subsidiaries in Germany.

Theorising Change Management Approaches in MNCs and its Influence on the 'German Model'

Underlying much of the mainstream literature on globalisation strategies in MNCs is the view that inexorable technological and market forces are leading to an increasing convergence of MNC organisational structure and operations with the Anglo-Saxon model of shareholder capitalism (examples include Bartlett and Ghoshal 1989; Hirsch-Kreinsen 1998; Hunt 2000; Ohmae 1990; Parker 1998; Whittington and Mayer 2000). The discourse is largely apolitical and has mainly focused on organisational design strategies to deal with the challenge of globalisation and on strategic decision-making processes, mainly at headquarters (HQ) level. Political and cultural factors are similarly seen as converging on the emergence of the stateless or global firm (Ohmae 1990, 94), where previous national cultural and institutional differences are eroded. Similarly, managerial practices move towards global management patterns of international best practice (Mueller 1994). Research in this direction has similar arguments to contingency approaches, stressing 'organisational convergence' due to the worldwide spread of technology and increasingly global communications, the global success of the Western market approach and managers' subscription to universal goals (e.g. efficiency, economic growth, increased technological development to improve standards of living) and methods (e.g. teamworking, benchmarking and quality systems) (see e.g. Pugh and Hickson 1997).

However, studies of MNC-subsidiary relations show how subsidiaries can operate as relatively autonomous units and, in some cases, develop their own initiatives within the global firm, so-called 'subsidiary charters' (Birkinshaw 2000; Birkinshaw and Fry 1998; Birkinshaw and Hood 1998).

The organisational resources available to such subsidiaries are explored, but not the social embeddedness of many of the resources, which are closely related to the specific national business system in which the subsidiary operates.

The national business system (NBS) literature explores the 'home embeddedness' of both the MNCs themselves and their host country subsidiaries in contrast to the 'statelessness' outlined earlier. The study by Edwards and Ferner (2001), for example, shows the powerful effect of the US finance system on the operation of US MNCs in terms of the short-term nature of their strategies and employee relations. Whilst Ferner and Varul (2000) illustrate the 'Germanisation' of international borrowings made by German MNCs, when these are applied in the home system. In relation to the subsidiaries, Kristensen and Zeitlin (2001) and Geppert *et al* (forthcoming), for example, investigate how the national business system shapes the distinctive powers of subsidiaries to influence HQ decisions. Research by Quack and Morgan (2000), Whitley (2001) and Sorge (1991) demonstrate that national business systems shape factors such as sectoral and technological specialisation, work systems, interest representation, how commitment is elicited in organisations and how authority is shared. This has led to the development of particular types of firms in particular market economies.

In Germany, the characteristics of firms include a focus on diversified quality production (DQP) and low authoritative coordination, where management consults with subordinates and involves them in decision making. There is strong occupational identity and loyalty and, since it is difficult for management to coordinate work on complex tasks, decision-making is delegated to local units. Similarly, Sorge (1995) stresses that choice and differentiation of organisational design and employee relations are not just influenced by the firm's objectives and the set-up of the industrial sector in which the company operates, but also by the political and institutional traditions and power balance in the country concerned. In this sense, the German business system is closely related to the work system characteristics of DQP, which combines both high production output and customisation of development and production of goods and services (ibid, 280-283).

In this study we will discuss these characteristics of German firms as they are reflected in the two German case study subsidiaries. Whilst the German MNC in the case study also reflects these peculiarities of the German NBS, the Finnish MNC adopts a more Anglo-Saxon approach with high authoritative coordination, where top management seeks to control the actions of subordinates through authoritative commands and unilateral decision making (see Whitley 2001, 2).

On the one hand, there are now voices that increasingly question whether the 'societal effect' or NBS approaches are still useful in understanding the globalisation strategies of MNCs operating particularly in Germany (Lane 2000). Similarly, Mueller sees global organisational effects in MNCs emerging that undermine the influence of national institutions (1994). Moreover, Schmidt and Williams (2002) see the 'German model' as on trial by arguing that the consensus model of German industrial relations has been weakened and that, to some extent, 'the ideology of the market has cleared the markets of ideologies' in the new Germany. Again, globalisation and internationalisation strategies of multinational companies are seen as drivers of this process.

On the other hand, Schmidt and Williams (ibid) look at survey material which shows that leading German managers still want strong unions, are aware of the pitfalls of giving up the welfare state and, of course, see the advantages of having one of the lowest rates of industrial action in Europe. Their study distinguishes between the different change management strategies of German managers, ranging from, on the one extreme, a 'radical remodelling' and, on the other, a 'conservative remodelling' of the 'German model'. Exactly at this point lies the contribution of our research. In this paper we want to shed some light on the question of how differences in change management strategies in MNCS, here called negotiated and universally imposed approaches, will challenge the German model of employee relations. In particular, we want to find out more about emerging problems and conflicts caused by particular change management approaches, especially those that are imposed or negotiated. We are interested in the question of whether there are still 'beneficial constraints' in the German NBS that lead to different, more humane, forms of organisation and greater levels of employee participation in management-employee relations, as suggested by Streeck (1997)[1].

Research Design and Methodology

This paper forms part of a wider research project to analyse change management processes in MNCs, which has been jointly developed with researchers from Germany. Elsewhere the focus has been on the (top-down) application of new strategies by power holders at MNC HQ level (Becker-Ritterspach *et al* 2002), the emerging choices and constraints in the management practices of the local managers in German and British subsidiaries of three MNCs in the same industrial sector as they interact with their wider social context within the host country, and within the MNC itself (Geppert *et al* forthcoming) and the interplay between pressures for convergence from the global level and continuing diversities at national level (Geppert *et al* 2002b).

To analyse these issues we selected three of the four major global players of one business sector, Lifts & Escalators (for details see Table 1). All have HQs in different host countries: *Amy* in the USA, *Jukka* in Finland and *Karl-Heinz* in Germany[2]. Qualitative research methods, in the form of interview guidelines and semi-structured questionnaires in German and English, were used for managers involved in or responsible for change management measures in their companies. Between spring 2000 and summer 2001, so far, 28 in-depth expert interviews were conducted with MDs and managers at the MNC level (in the HQ and its functional subunits) and at subsidiary level in both countries. Moreover, works councillors and union representatives of the Lifts & Escalators industry were interviewed in both countries. In the interviews we sought general information about the company, past, present and planned re-organisation and change processes, details on the starting points of change and managers' assessment of the positive and negative aspects of the subsidiary's location in a particular national context as well as the influence of the MNC's country of origin. Additionally, official documents of these companies, newspaper and Internet sources were included.

In this paper we focus on the effects of different change management approaches adopted on employee relations in the German subsidiaries of two of our MNCs. We decided to concentrate this

paper on the German and Finnish cases, because these companies, whilst operating in the same industrial sector and both having subsidiaries in Germany, applied quite opposite change management approaches[3]. The Finnish MNC (Jukka) adopted a radical unilaterally imposed strategy to enforce a global model of operations, which led to the highest levels of tension and conflict within a German subsidiary and between the subsidiary and HQ. The managers interviewed had all been imposed on the German subsidiary from the HQ apart from one, the head of international R & D for escalators. This can be related to the global strategy of the Finnish MNC who quite recently acquired the German subsidiary in order to enlarge its competencies and capabilities from a sole focus on lifts to lifts and escalators in its bid to become another global player.

The German MNC, in contrast, implemented a negotiated approach based on a decentralised change management strategy, which gave the subsidiary the freedom to find its own solutions after initial brainstorming with a consultant. Although there was some conflict, it was confined to a group of individual local subsidiary managers, who were replaced. The interviewees were a mix of long-standing managers and new managers brought in to implement the changes.

Table 1. Basic data about the companies studied

	MNC "Jukka"	MNC "Karl-Heinz"
Country of origin	Finland	Germany
Total number of employees worldwide	23,000	28,500
Multinationality index • proportion of employees abroad • proportion of sales abroad	• 94 % • 91 %	• 93 % • 89 %
No. of countries with overseas subsidiaries	40	102
No. of overseas manufacturing plants	14	23
Size of German subsidiary: • sales (in Million Euro) • employees	• 243 • 1800	• 421 • 1822
Size of UK subsidiary • Sales (in Million Euro) • Employees	• 205 • 1295	• 120 • 800

Sources: Annual Reports 2001 and interviews by the authors

Case Study Illustrations: Change Management Approaches in the German Subsidiaries of Two MNCs

Critical Incident: Karl-Heinz

Less evidence of global change management approaches -'a plurality of interests'
Karl-Heinz is a 'typical German company'. Its main focus is on heavy engineering, and banks and foundations own 40% of its shareholdings. It is not quoted on the stock market and has pursued a cautious process of internationalisation based on the local responsiveness of its foreign subsidiaries. In its German subsidiaries it operates DQP technology and there is a close integration between R & D, sales and service and manufacturing.

Karl-Heinz has traditionally operated a system of decentralised control over its subsidiaries and is seen by management representatives in the German subsidiary as further reducing headquarter control over its subsidiaries abroad. The foreign subsidiaries are seen as strengthening their position with increased autonomy and initiative taking, which is, however, leading to more conflict. This fact, together with the importance of codetermination in Germany and the European works council at HQ level, leads to a plurality of interests in the MNC. There are no HQ plans for the central co-ordination of manufacturing, although HQ does want a reduction in the number of manufacturing units and has begun this process in Germany and abroad.

Change is a continuous, ongoing process in both the lift and escalator subsidiaries in Germany. Thus, a new IT-system (SAP) has been introduced gradually, first in the escalator unit, then in the lift manufacturer. This has been a painful process, with some resistance, but the views of the subsidiaries are taken into consideration. The introduction of SAP is linked to a major change in the organisational structure of the lift-manufacturing unit, the so-called 'segmentation' process, which has created separate profit centres within the unit based on particular products, such as lift doors. The aim is to generate a sense of 'ownership' of the product and to introduce market pressures as each segment gets to know its competitors and has the autonomy to discuss pricing and so on, with its suppliers direct.

The Position of the German Subsidiary within the MNC

The subsidiary is the only major producer of lifts still manufacturing in Germany and combines manufacturing and R & D in the production of non-standard lifts. It produces all the components for the lifts itself, seeing itself as a 'supplier of systems' to customers in the middle to high market segments, that is, high value administrative buildings and hotel complexes. Lifts are tailor-made to customer specifications (2/3 of sales), supported by a large R & D function. Managers view the unit still as 'craft production' supported by a skilled workforce and flexible engineering solutions. This meets customer expectations of a 'specialist company' and examples are given of customers refusing to talk to the heads of the regional service centres and demanding instead to discuss orders with the technical manager of the production unit.

The system of production is described by this manager as a 'flexible manufacturing system' with a mix of mass production in some areas and customer specific manufacturing in others. Flexibility is created 'mostly via the people' in the unit, but also by the manufacture of all the components on site so customer requirements can be taken into account. The 'British' solution (found in the UK subsidiary of *Karl-Heinz*) of a shift to service provision only is rejected by subsidiary management as leading to the loss of technical competence, even in the service area itself, and hence the loss of competitive advantage.

Approximately 1000 employees are engaged on site with 550 skilled workers, 200 technicians-mainly engineers, and 100 apprentices. The unit also provides technological solutions for foreign subsidiaries of *Karl-Heinz*, many of whom operate in the lower to middle market segments in their respective economies—an area where competition is more intense.

The Sequence of Events in the Negotiated Change Process

The idea for the segmentation of production originally came from a management consultant employed by HQ, and was agreed upon as a project in 1996. For two years the plant management worked with a team of consultants but 'nothing happened' apart from a great many meetings and reports, which were very costly for the plant. Resistance came from the senior management level in the subsidiary in indirect forms they said 'Great… but found 1000s of problems with the idea and nothing changed.'

Current management saw the two-year standoff as illustrative of the fact that consultants can come up with ideas, but cannot affect the internal resolution to implement the ideas. However, although senior management were opposed to the changes, middle management and employees were enthused by them: 'because no one had actually done anything here… for years, the plant had been neglected.'

Then after two years, over a six-month period, a whole hierarchical level of management was replaced—the head of production, head of engineering, head of assembly operations, head of work scheduling and others—through a combination of factors including early retirement, premature death and transfer to areas less critical for the success of the project. In their place, an 'enabler' emerged, the new head of production, who was supported by another enabling manager. He was seen as someone with the necessary technical and human skills and someone willing to take risks as 10m DM was spent on new machinery alone apart from the indirect personnel costs involved in retraining, transfers and early retirements. Headquarters gave him the mandate to push on with segmentation and the introduction of SAP and overcome resistance.

Thus followed two years of constant changes in manufacturing as segmentation led to a complete restructuring of the organisation and its operations. This included the closure of departments such as central production planning and the transfer of its staff to the new segments. A continuous-improvement-process team was established to ensure the ongoing implementation of the project and to secure improvements to the processes over time. There was also a 'mass and continuous retraining programme' as the roles of the skilled workers in the plant changed to accommodate new IT skills and the skills formerly found in specialist departments, which had now closed.

Management referred to the importance of codetermination- 'a form of ritualised worker representation'- in the process of change. The works council chairman is a member of the Continuous Improvement Committee, so he is integrated into the proj-

ect and bears responsibility for its success together with management. Most of the ensuing problems have been resolved by this committee working with employees on the shop floor and in the offices. As long as there are no redundancies or a huge intensification of work, the works council and employees are supportive of change to secure the future of the plant. Early retirement and transfer are the means used to achieve the necessary staffing changes.

The only area where there have been problems with the works council is in the area of teamwork. There has been a fear of groups developing their own dynamic if they have an elected team leader and of group pressure on individuals leading to greater work intensification. The works council sees its role as protecting individual workers from this. Generally, however, relations with the works council are seen as 'constructive and good'; this is also true of the MNC as a whole. They are given more information than is required by law and are expected to reciprocate and 'not to push for more than it should have or needs'. In management's view, there is no wish for bad relations as the works council can affect overtime working, works agreements, new appointments etc and make life very difficult for management. This is demonstrated in the case of *Jukka* later on.

The managers view the whole process of segmentation as a plant driven project, apart from the initial idea coming from a consultant. The main movers have been 'the technical milieu' and many ideas have arisen from the plant itself. A plant level process for generating new ideas is the work carried out by the Continuous Improvement Committee— the committee itself being another plant initiative. Porsche were invited to conduct some workshops in the plant for key employees from management, technical and shop-floor areas on how they improve their operations. The plant has since adopted their own version and spread it throughout the workforce using workshops as well as taking it to other companies, including a recycling plant. This process of the exchange of information is not centrally determined nor has it a formal structure, but occurs through 'chance meetings'. The Continuous Improvement Committee works with employees in different areas to support the ongoing improvement of operations, spending a week or two in one area. Ideas are encouraged from the workforce and there has been an 'Aufbruchstimmung' (atmosphere of radical departure) among the employees for change.

The committee has secured the implementation of segmentation and its continuing refinement. In this way, the plant level actors have become the owners of the change process, with a genuine and ongoing interest in ensuring they succeed in practice

*The Outcome of the
Negotiated Change Process*

Segmentation of operations in the plant has, after a shaky start, been successfully introduced into the plant and is seen by management as a gamble, which has paid off. Their plant has been re-affirmed as the MNC's key lift manufacturing subsidiary and their largest research and development site. The focus on complex specialist engineering solutions for lift customers in a system of DQP continues to be central to their operations.

Critical Incident: Jukka

A Global Change Management Model

Jukka's operations reflect changes in the Finnish NBS towards the globalisation of large Finnish companies using aggressive acquisition policies to build market power (see Moen & Lilja 2001, 98-99). The decline of earlier state and banking links with companies and an opening up to international ownership is leading to changes in management culture towards an increasing 'Americanisation' of Finnish MNCs (Tainio 2001, 169-70). Despite being a family owned company, *Jukka* has always been highly finance driven.

At the start of 1999, the Finnish MNC launched the '*Jukka* Model', a global company model, as an organisational concept to standardise all business processes throughout the MNC. It was supported by the concurrent implementation of a new IT-system (SAP). *Jukka* Model Mark 1 focused on the measurement of business processes, according to management, whereas the Mark 2 version will focus on the actual standardised implementation of SAP in the subsidiaries. The model will be subject to ongoing changes made at HQ level.

The MNC up to 1998 gave its subsidiaries considerable independence, having grown through the acquisition of independent companies, who were very successful in their respective fields, even market leaders with long manufacturing traditions. After a period of considerable ' financial

turbulence' in the mid 1990s, *Jukka* now seeks to become a 'proper global company', with the headquarters exercising strategic leadership and the subsidiaries merely implementing the central strategy. The aim of HQ is central co-ordination and control of all processes in the subsidiaries, including areas such as industrial relations and HRM. The implementation of SAP and the *Jukka* model are being used to gain better control of the subsidiaries' operations.

The *Jukka* model was developed at HQ level by a 60-man IT team, which included subsidiary experts, who were later used to 'roll out the concept' in the individual manufacturing units. Each unit has been given a time period during which they must comply with the model. In October 2000, the time of the interviews for this study, the MNC was half way through its roll out programme. Although, as mentioned above, subsidiary experts did have some influence during the initial design phase at HQ level, the influence is now declining since the model has been set up. Formal meetings of the managing directors of the MNC's 16 key companies (90% of the MNC's business) do take place in order to share knowledge but these are followed by an edict:
'Once it is designed and frozen, you go and implement it in that country and then they should implement that'.

The aim is to cover 80% of all business processes, including areas such as job descriptions and processes of recruitment. The work of standardisation is ongoing. The HQ view is that lifts and escalators involve the same business processes, which can therefore be standardised. They accept that engineers do not see things this way due to their pride in their product and their job. This has led to high levels of resistance throughout the MNC, particularly in the German manufacturing subsidiary. Within the subsidiaries, members of the HQ project team work together with local staff to adjust the model to local conditions with the company ethos of one brand, one firm, one technology and one set of business processes world wide. The MNC has also introduced a standardised product in both its lift and escalator business, which it will sell internationally.

The Position of the German Subsidiary within the MNC

The German subsidiary was formerly an independent German company, which had grown organically in its own market and had been very successful in the production of custom-built escalators. *Jukka* first took a 26% shareholding in 1987 then a 100% in 1996, buying into its know-how, experience and market position. The subsidiary was largely left to run its own business until the late 1990s; it even kept its former German name until 2000.

As the largest escalator manufacturing plant within the MNC, it is the lead plant and was selected to manufacture *Jukka*'s first global elevator. New lines were built to accommodate this in both the German subsidiary and a US subsidiary. The new global product represents a great challenge for the German subsidiary as it reduces the former focus on customer choice and the need for extensive engineering and customised production.

DQP is seen by current management as 'spoiling the customers' and they see the need to 're-educate the customers' to change their excessive expectations, particularly in the German market, so that they accept the new (cheaper) pre-engineered solutions on offer. A further challenge for the subsidiary is the implementation of SAP. Up to the German implementation, the MNC tended to customise SAP to meet the requirements in each plant. Now, a standardised system is being introduced. The HQ management view of German culture is that if you can convince the managing director of a subsidiary of the need to change, the rest of the employees will follow his lead. The implications of this view are explored in the next section.

The new strategy of the HQ assuming strategic leadership, and the subsequent loss of the plants' role in strategic decision making as they become mere operating units, is particularly problematic for the German subsidiary. It is the lead manufacturing and R & D unit of the MNC after winning out over the US subsidiary—a fact, which has led to very sour relations between the two subsidiaries. The reasons given for its success are its greater number of experts, its factory strengths and greater manufacturing tradition compared to the US, local management initiatives in strongly presenting the German case to the MNC and the close link

between R & D and manufacturing, supported by strong university links in the area. All these factors make acceptance of centrally promulgated edicts a tension fraught process.

The Sequence of Events in the Unilaterally imposed Change Process

The first attempt to implement the *Jukka* model in the German subsidiary in October 1999 failed. HQ management, however, is now determined to harmonise and globalise. It is now 'more of a 'you will' rather than 'maybe you can'- there is now more force behind the HQ edict and deviation will be difficult in the future. This creates resistance since 'each managing director (of each subsidiary) has been his own power base…that was one of the difficulties here (in the German subsidiary)'.

The collapse of the first implementation was traced by HQ management to a failure to concentrate on the former MD of the subsidiary and convince him of the need for change. In retrospective the new Finnish managing director labels the previous MD as 'an old style manager', who had built up the company and knew all his staff and every detail of the organisation. It is further argued that all subsidiary processes were under his control and he had the trust of the workforce after running the company successfully for 20 years. Finally, interviewees underline the fact that the MNC needed his help to be able to implement change, but that he himself wanted no changes and middle management would do nothing unless he gave the go-ahead.

The changes mean a reversal of the subsidiary's previously strong market position for highly engineered tailor-made products and the new focus on a standard product. The former management and technical staff were very resistant to this shift. The HQ manager sent to roll out the programme in the second phase pointed out that the MNC had heard all the arguments before in other subsidiaries and had already had success with the standard product elsewhere so it is determined to push this change through in its German subsidiary.

The second attempt at implementation was ongoing when the interviews were being carried out and was more forceful than the first attempt. Some engineers have been taken out of the R & D area because 'their national interests were too strong and this was hindering the MNC's aim of

international development not German development' i.e. standardised products not customised. A large number of Finnish managers and HQ staff were also brought in to ensure conformity with the *Jukka* model. There has been 'a very direct intervention in the organisation of the plant'. Both the MD and the technical director have retired and there have since been 'improvements to the culture of the plant'.

Direct intervention is seen as necessary as the German subsidiary is at the centre of standard product development and manufacture and the German MD is responsible for all the other manufacturing subsidiaries in the MNC. The plant was singled out to run the pilot project for globalisation within the MNC and success here was critical for the MNC as a whole.

The managers interviewed accept they still have 'a hell of a lot of problems' in the subsidiary and employees still tend to see the changes as 'all bad'. Some of the genuine problem areas in the managers' view include people not sticking to the new processes, not putting data into SAP properly or at all and therefore the reporting of information is left to untrustworthy-staff that 'do not live up to the system'. This, they argue, will be resolved by tightening up the audit. Examples were given of ongoing resistance to changes in manufacturing processes and product structure. The content of existing agreements with the works council make many processes impossible to change as the works council is resisting all changes to the system of wage/work organisation, thus preventing the introduction of the *Jukka* standard model. Referring to the production system, the manager in charge of the roll out of the *Jukka* model stated:
'Yes, we wanted to make a lot of changes, but in actual fact we've changed relatively little'.

The works council is also resisting the transfer of personal data under the Federal Data Protection Act and this is preventing management from measuring productivity levels:
'It's normal for the works council to be very obstructive' so that 'certain things planned for in the *Jukka* model could therefore not be introduced here…we have to look for new solutions'.

In the MNC's new factories in China, the implementation of SAP has been easy, elsewhere they anticipate two years to introduce a change manage-

ment process, but in Germany it will take much longer since:

'The longer an old system has been in place and the better it is, the harder it is to implement the process'.

So, contrary to the globalising ethos of the MNC, management will be forced to implement local solutions in many areas in the German subsidiary. They accept that existing agreements with the works council 'are hard to change' so they will have to think of another solution. It is little wonder that one manager talks about the 'Scheissbetriebsrat' ('bloody works council') as a thorn in the flesh of management and a serious obstacle to the implementation of the *Jukka* model. Management baulks at the fact that they have to constantly go running to the works council to seek their permission to change things.

The Outcome of the Unilaterally imposed Change Process

As shown above, management in the German subsidiary is still in the middle of the implementation phase and is facing serious problems in adjusting the *Jukka* model to circumstances in the plant despite the management changes so far undertaken. The manager responsible for the implementation, who has been sent to the plant from HQ, points out one of the key problems affecting him and the Finnish managers:

'As a central team-player you do not necessarily know all the intricacies and details of what is going on in a particular country and all the internal politics…you can only just keep your eyes open. I can't actually make anything happen in a particular way.'

In the view of the head of engineering, it is very difficult to forge a company with just one central policy line from a series of formerly independent units, particularly if they are all different nationalities. His first visit to the management board at HQ level illustrated the extent of the divisions between management at that level - despite all the talk of globality; he saw little evidence of it even there.

Comparative Discussion

Table 2. Key Differences between the Negotiated Approach and the Unilaterally-imposed Approach to Change Management in the 2 Subsidiaries

	Negotiated Approach	Unilaterally-imposed
Authority sharing	High	Low
Employee Involvement	High	Low
Subsidiary Process Ownership	High	Low
Reliance on subsidiary capabilities	High	Medium-low
Employee Relations	Cooperative	Conflict based
Conflict Levels	Medium-low	High

Table 2 overleaf illustrates some of the key effects of the two change management approaches. The case studies show that the negotiated approach to change management, where the German subsidiary was given the autonomy to develop their own initiatives to respond to the exigencies of new market conditions, was the most successful strategy in terms of the effective implementation of change to consolidate its position as a 'supplier of systems' to the upper market niche. This approach involved all the stakeholders in the subsidiary, including management, works council and employees, and led to process ownership of the radical changes to manufacturing processes and plant organisation.

Conflict, albeit indirect, was concentrated at subsidiary management-HQ level, with the old guard of subsidiary level managers, who had led the subsidiary successfully in the past, disputing the need for change. Apart from this, however, there was a groundswell of support for change amongst the workforce, middle management and some plant managers. This led to support for the new management team. Longstanding cooperative relations with the works council could be built upon and the integration of the works council chairman into the committee responsible for the implementation and ongoing improvements to the new system reinforced the sense of process ownership of the changes.

The close integration of R & D, manufacturing and IT functions was evident in the problem solving process. This was made easier by the close proximity of R & D and key HQ staff offices in the subsidiary itself. A possible area of conflict was seen in the relationship between the manufacturing plant

and the new regional sales and service centres. The latter were viewed by subsidiary management as neither possessing the technical expertise to sell the product successfully nor having the interests of the German production site in mind—being, for example, too ready to sell the more standard products from the French site rather than the higher value products made in Germany. In their criticism of the sales and service centres, the local managers showed their ongoing commitment to the traditional German forms of DQP, in which manufacturing is closely linked with R &D and sales and services.

The unilaterally imposed change management model in *Jukka* forms a direct contrast to the *Karl-Heinz* example. It involved HQ management taking over the direct running of the subsidiary with subsequent limited authority sharing and limited involvement of both German management and employees in the implementation of the *Jukka* model. There was a sense of traditional skills and expertise no longer being valued in the drive for a global standardised product. Conflict based relations existed at all levels-between HQ and subsidiary managers, between Finnish expatriates and the works council and employees. Process ownership is concentrated at HQ level among the 60-man team of IT experts. This illustrates the top down and rather technocratic development and implementation of change management strategies in the Finnish case, compared to the negotiated and, thus, far more bottom-up approach of *Karl-Heinz* based on authority sharing, employee involvement and a higher reliance on subsidiary capabilities and skills.

In summary, the German MNC has implemented and further developed a negotiated change management approach by means of a bottom-up process based on greater employee involvement, more participative forms of learning and knowledge sharing. Thus, employee relations seem to be closely linked to the overall orientation of the MNC towards a 'focused differentiation' (Porter 1985) or DQP (Sorge 1995) strategy for the upper market segment. However, the strategic shift of technology and organisational design within *Jukka*'s German subsidiary from DQP towards more standardised global products, as part of a competitive strategy based on scale economies and 'focused low cost leadership' (Porter 1985), challenged the established system of employee relations. This unilateralist, rather top-down, change management

approach led to severe conflicts between so- called 'old' managers representing the 'old' German model and HQ management.

These conflicts did not just appear because former German managers had lost power, but also because the competencies of highly-skilled employees were devalued under the newly enforced production regime. Ferner has pointed out that 'non-negotiated attempts at imposition of systems' often end in frustration (2000, 529). *Jukka* is a good example of this type of scenario. It illustrates some of the problems of imposing a system of work organisation, which runs directly contrary to key features of the German NBS. *Karl-Heinz*, as a German MNC operating in its home country, has been more successful with its approach because it consolidates these features, reaffirming the competitive focus on DQP, which is seen as typical for key segments of the German manufacturing sector (Sorge 1991).

Conclusions and Implications for Further Research

The case study material reaffirms the importance of the close links between the NBS and aspects of subsidiary operations such as work and wage systems and interest representation. This affects the transfer of management practices and restricts, in Whitley's words, the 'standardisation of work systems around a single model of efficient production' (2000, 114). *Jukka*'s attempt to do just this has led to a high level of conflict within the subsidiary and between the subsidiary and HQ.

The Finnish MNC acquired the German subsidiary in order to learn from its expertise and benefit from the skills of its employees as well as to obtain its market share. The subsidiary, as we have already indicated, is its lead manufacturing plant and the centre for international R & D in the MNC. However, the imposition of mass production of a standardised product, supported by uniform business processes throughout the MNC, puts enormous strain on the German subsidiary, which has traditionally been tightly integrated into the German system of DQP.

Since *Jukka* has also set up production lines to manufacture the new global product in the USA and China, ongoing problems with the German subsidiary could lead to the transfer of manufacture to a more amenable location-probably China,

since the company is having considerable problems implementing the *Jukka* model in the US subsidiary too. However, it will wish to retain the R & D expertise of the German site—this is problematic since the development of new ideas in Germany is closely linked to the cross-fertilisation process between R & D and manufacturing.

This was very evident in the *Karl-Heinz* case study material (see also Geppert 2002; Matten and Geppert 2002). *Jukka*'s HQ management has employed a variety of control mechanisms to bring the German site into line, but is still grappling with how to 'enforce the integrity of their systems in foreign subsidiaries' (Ferner 2000, 537). The German subsidiary will be one of the most problematic due to its traditional orientation to its national environment and to supplying the national market, which, according to Ferner (2000), will give it a high local leverage vis-à-vis the MNC.

Schultz-Wild's study of ABB (1999) illustrates a similar case in ABB's German subsidiary, where, however, the German plant was a reference model plant for the whole MNC and did not have to undergo extensive changes. Despite this, the plant's innovative capability was being put at risk by the standardisation process within the MNC and it was debatable whether this strategy would leave sufficient scope for the continued use of the strengths of the established German production system (Schultz-Wild 1999, 196). Outsourcing endangered their flexibility and the entire production system built on 'stability, commitment and high trust' was in danger of collapse (ibid). This is certainly a possible scenario for *Jukka*'s German subsidiary if the *Jukka* model continues to be unilaterally imposed.

Karl-Heinz's strategy of negotiated change management takes advantage of the strengths of the German NBS outlined earlier and permitted the stakeholders within the plant to use their skills and experience to take initiatives to improve the product and processes. The role of the works council in facilitating the implementation of changes on the shop floor reinforced cooperative processes of problem resolution and mutual learning.

Thus, the 'German model' is placed under severe pressure by centrally imposed global strategies for change based on mass production of a standardised product or service. Such strategies will fail to exploit the traditional advantages of the German NBS but

rather see them as disadvantages. In this sense, the German business system does not support global manufacturing strategies focused on standardised mass production and low-cost leadership.

However, international product and market strategies based on local differentiation manufacturing processes will allow German subsidiaries to play to their strengths as well as support other subsidiaries with their R & D and technical expertise. The challenges to the German system from mass production strategies are especially evident in the fast food sector. McDonalds, for example, applies a radical low-cost leadership strategy combined with a non-union/non-works council system of employment relations in their German restaurants, a strategy clearly linked to the home country business system (Royle 2002). Employee relations within restaurants in this low-skill segment in Germany have become increasingly contradictory; the conflict over the existence and operation of German works councils in McDonalds is still ongoing (ibid, 196).

Apart from sector specific differences, a major transformation of the German model will only take place if the 'rules of the game' and the organisational interest groups themselves change. However, there will also need to be changes in corporate governance, external labour markets and the institutional context in which the German companies operate (Whitley 2000, 114). This could lead to a change in the traditional 'industrially coordinated model of authority sharing' towards the more authoritative coordination found in Anglo-Saxon business systems (Whitley 2001, 7-8), as has been, to some extent, the case in the Finnish business system, where changes in the financial system in particular have led to a shift in performance management practices[4].

However, most of the German managers we interviewed continue to be aware of the risks of losing the German competitive advantage based on DQP. This was true not only of management in *Karl-Heinz* and *Jukka*, but also in the American MNC's (*Amy's*) German subsidiary in our sample. In *Amy*, change management approaches were heavily focused on the rationalisation of global manufacturing units which led to the closure of about 1/3 of plants worldwide, for example in the UK, where local management decided to close all manufacturing facilities. However, *Amy*'s German subsidiaries again focused change management activities

very much on securing the strategic advantages of its DQP model. Local management developed, through a process of conflict and negotiation with the work council, a compromise based on outsourcing low-skilled work tasks to plants in Central and Eastern Europe in order to maintain and even increase the high-skilled engineering, development, production and service tasks in Germany itself (see Matten and Geppert 2002).

The sector we investigated, heavy engineering, is traditionally seen as an area of competitive advantage in the German NBS and it is to be expected that attempts to unilaterally impose changes, which shift production away from DQP, will be hotly resisted by subsidiary actors. Research in other sectors, where the advantages of the German NBS are less evident, such as high technology, finance and banking, may provide a more varied picture, as local actors are more open to the need for radical changes to remain competitive. This is also reflected in Schmidt and Williams' (2002) differentiation of 'remodelling strategies' where, for example, the most radical changes to eliminate the 'old model' are expected in knowledge based German MNCs such as SAP.

Our case study MNCs all pursued very different change management strategies despite operating in the same, highly internationalised, market sector. We have been able to trace the origins of these strategies to strong home country influences on the MNCs. It would be useful to extend these studies to cover other nationalities apart from Finnish, German and US MNCs to investigate whether the home country effect remains strong in other globalising industry sectors.

Notes

[1] The focus of this paper is on empirical evidence, a more detailed theoretical discussion of the relevant literature can be found in Geppert *et al* (2002c).

[2] The names of the companies have been changed to guarantee the anonymity of data.

[3] We have shown elsewhere that the change management strategies of the US-American MNC lie somewhere in between the rather universalistic approach of the Finnish MNC and the rather decentralised and highly locally responsive approach of the German MNC (see e.g. Geppert 2002; Geppert *et al.* 2002a, Geppert *et al* forthcoming; Matten and Geppert 2002)

[4] However, a recent paper by Tainio and Puputti (2002) confirms the results of our study and shows that even in the most internationalised Finnish MNC, Nokia, home country effects are still important.

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No One Can Serve Two Masters – Not Even HRM! About the Relationship between Talking Business and Being Human Friendly

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Introduction

The core contribution that human resource management (HRM) has made to organisational performance is twofold. First, HRM has to provide adequate manpower for the organisational processes leading to performance. This contains four dimensions: quantitative, i.e., adequate numbers of people, qualitative, i.e., people with adequate qualifications, temporal, i.e., people at the right point or period of time and spatial, i.e., people in the right place. Second, in doing so, HRM has to take into account the demands of its various stakeholders (for a stakeholder perspective, see, e.g., Freeman 1984; Mitroff 1983; Jones 1995; Donaldson & Preston 1995). Among the most prominent stakeholders are the management of the organisation, its employees and their private social network such as families, local authorities, the public, trade unions and professional colleagues.

While the first contribution provides a number of serious, yet basically technical difficulties like the prognosis of future capacity, the integration of HRM into the strategic and operative processes of the organisation, coping with selection and development uncertainties, or the synchronisation of different career paths, the second contribution leads to more basic and value laden questions. At the heart of this issue lies the tension between different positions of interest held by various stakeholders. The basic argument of this paper is the following:

- HRM cannot fulfil the demands of all stakeholders because partly these demands are conflicting and contradictory – therefore, HRM has to take sides
- For HRM, the most important stakeholders are those internal actors that follow the economic logic dominating the economic system – therefore, this is the primary language HRM has to speak
- Acting according to the economic logic makes HRM a respected contributor within the organisation and puts it into a position of bridging and translating demands of various stakeholders into the economic language – therefore, paradoxically, being human friendly requires being able to talk business

After identifying the stakeholders of HRM and their different and partly contradictory demands and basic assumptions (chapter 2), this paper will discuss the issue of HRM taking sides as well as being responsible for taking into account different viewpoints of various stakeholders and the importance of fulfilling a bridging and translator's function (chapter 3). In a final step, future developments that make these functions more difficult will be addressed (chapter 4).

Stakeholders of HRM and their Relationship

All actors who have an interest in the HR processes and outcomes can be regarded as potential stakeholders of HRM (stakeholders and HRM are addressed in Garavan 1995b; Garavan 1995a). Two more specifications are needed. First, these actors can either be single or collective (Coleman 1990). Single actors are individuals who have a stake in

HRM. For example, the CEO of a company might be regarded as such a single actor. Collective actors, on the other hand, are groups of persons acting together because of specific institutional arrangements or other organisations. For example, the mentioned CEO usually is also member of a board acting as the highest governing body of a company. This board, which normally also has a major interest in the result as well as processes of HRM, can be regarded as a collective actor stakeholder. Second, not all actors that have a stake in HRM have the same centrality. Obviously, they are of differing importance, thus having a different ,voice' (Hirschman, 1970) in HRM decision processes.

Actors inevitably belong to one or several societal subsystems (for a more comprehensive discussion of a systemic view on society and its subsystems see Luhmann 1984). Typical subsystems are, for example, economy, science, law, art or politics. Among others, these subsystems are characterised by a unique code that ultimately determines their communication. In other words: this basic code is the final measure against which all communication and action is evaluated or which creates them. Although sub-codes can exist within a system, they are subordinate to the primary code.

For example, in the societal subsystem, science, the differentiation of the primary code is true/false. Science ultimately has to come up with judgements about the (degree of) truth of certain phenomena. The quality of science in the end is measured by its ability to explain reality (to be sure, different basic constructions about how reality can be perceived and, hence, scientific evidence can be gathered and different conclusions made about the concept of truth and insight into reality, see, e.g., Friedrichs 1973; Lamnek 1988; Popper 1972; Spöhring 1989; Soeffner 1989). Nevertheless, a number of additional codes are relevant within the subsystem of science. For example, from the economic system the importance of thinking in ,payments', i.e., the measurement of all activities in terms of cost and revenues, has its place in science. This becomes evident when funding agencies require exact budget plans when one applies for grants. Nevertheless, ,payment' does not become the primary code: Good science is not characterised by being cheap or cost-efficient, but by providing insight into reality, in other words: by describing, explaining and forecasting reality, thus revealing truth by applying specific methods.

Basically, one can distinguish between three different types of stakeholders in HRM when using their affiliation to different societal subsystems as a criterion for differentiation.

First, there are those individual or collective actors who in terms of their role in the organisation belong to the economic subsystem. Examples could be the owners, the members of management or the shareholders. In their respective roles, the economic logic dominates as the organisation is embedded in the economic system, thus ultimately relying on the basic rules of the game: in the long run, revenues have to be higher than costs. Consequently, these stakeholders evaluate organisational activities against the measure that dominates the subsystem: the economic logic. To be sure, this does not mean that it is only the economic logic and that each and every communication/action/decision is seen only in this perspective. Nevertheless, the economic logic provides the constant and unmoveable background that provides the final ground. Stakeholders of this realm formulate their demands for HRM in terms of its contribution to the short- and/or long-term economic success of the organisation.

Second, there are actors that are members of the familial and social network of society. To mention but the most prominent, one can name the employees and their families. In their role as employees, they not only think in economic terms about organisational results and processes, but also in terms of the consequences of different activities for their ,private' life. The dominant code is here love, affection and pursuing one's own purposes in life. Consequently, organisational activities are evaluated according to their impact on these issues. For example, the effects of new compensation systems, work time arrangements or contractual settings for the family system, or the consequences of new ways of working for the development of unique competencies, can be mentioned here. These types of stakeholders formulate their demands for HRM not in the economic language but in the language typical for their subsystem: love, affection and self-development.

A third type of stakeholder belongs to the political subsystem. Examples for HRM stakeholders

belonging to that subsystem are local authorities like mayors, political parties, local, regional or federal governments or trade unions. The primary code of that system is power. Ultimately, in this subsystem communications, actions and decisions are evaluated in terms of their contribution to enhancing or diminishing the chances of realising specific goals. Again, these are not the only measures and, for instance, economic considerations also have a place – what does it cost, do we have a budget for this etc. Nevertheless, the language of power is the bottom line.

As the stakeholders of HR belong to different societal subsystems and these subsystems work with different core codes, the question of compatibility of these different codes arises. Given the basic options in terms of compatibility of demands, the following spectrum arises (see Figure 1).

Figure 1. Compatibility of demands - the spectrum

Looking at the varying demands of HRM's stakeholders, neither of the two extremes seems to be most likely. A complete polarisation, where none of the stakeholders' demands is likely to be compatible with any of the others and where there is complete antagonism, does not match reality. In the same way, the idea of being one family, everybody sitting in the same boat where differences are not real differences, but only nuances of the same essential view, may frequently be part of organisational rhetoric, but also fails to match reality. More likely, a picture emerges that contains compatible as well as contradictory elements (see Figure 2).
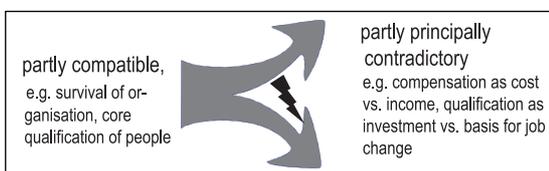
Figure 2. Realistic view of stakeholders' demands

Such a view contains at least two messages. First, some of the demands (e.g. the survival of the organisation or providing a context where people can gain and retain core qualifications) are common ground for most if not all HRM stakeholders. Therefore,

in this area little conflict can be expected. Second, however, there are areas in HRM where various stakeholders hold quite different expectations. These expectations are not only different, but at least partly contradictory. They can be dealt with, but cannot be consoled. An example could be the whole issue of compensation. What constitutes cost for the organisation represents income and often the only basis for survival for the individual. Cutting down on wages to reduce personnel cost – possibly a major demand from shareholders – goes squarely against the interest of employees to increase their income. Thus, in this area, stakeholders own contradictory views that ultimately cannot be reconciled.

In such a situation, HRM is put in a delicate situation. While those issues with little conflict about the basic goals between various stakeholders usually demand some effort to agree on measures, the situation changes completely in those areas where the basic goals and assumptions are contradictory. Taking the middle ground, looking for compromise does rarely help as a starting point in such a constellation. Since various stakeholders belong to different societal subsystems with different criteria for 'successful HRM', they will regard different and often opposite measures as the 'right' way. Therefore, HRM is challenged to take a position.

Talking Business – a Prerequisite for Being Human Friendly

HRM is a crucial management function: roughly nine out of ten organisations with more than 200 employees in Europe have a personnel or HR department (92.8 per cent) and nearly 6 out of 10 HR managers (58.3 per cent) are members of the top board in those organisations. Although the situation varies considerably between European countries (see Figure 3), the message is very clear: HRM has become an integral part of the management of organisations.

Organisations within the currently dominant market economy framework have to follow economic logic, which is the founding principle of this system. In a nutshell, in the long run revenues have to be higher than the cost, otherwise the organisation will not be able to survive. This leads to economic logic being the primary as well as ultimate measure for activities in organisations. As Milton Friedman, the famous economist, is said
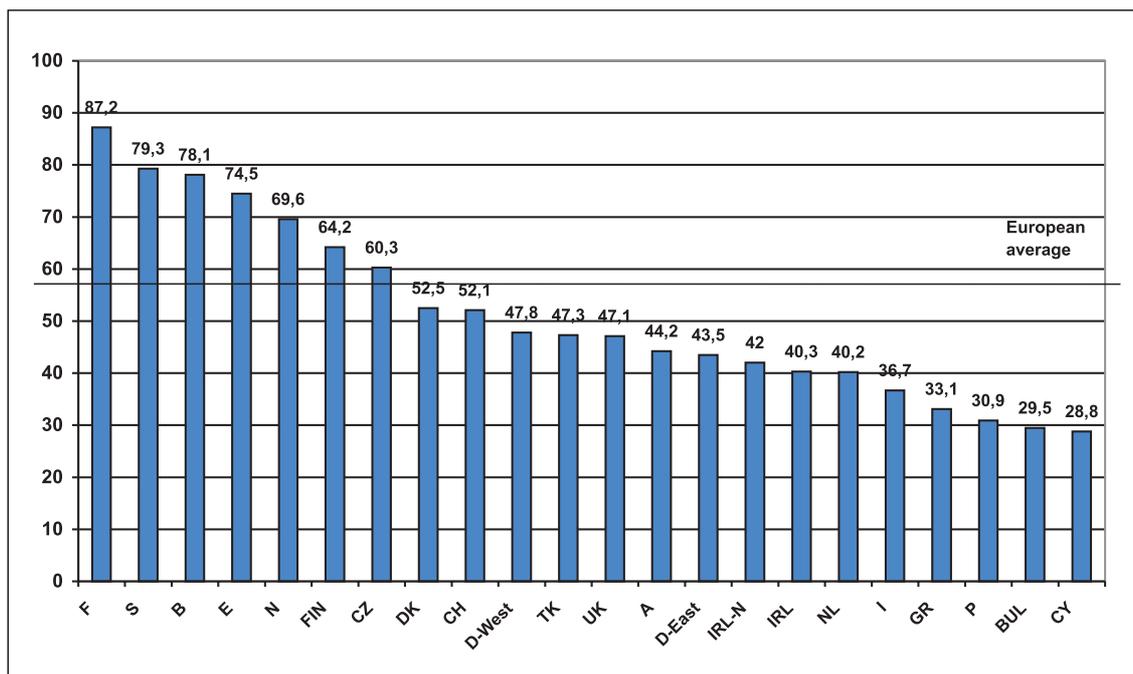
Figure 3. Head of HR on top management boards – European countries (Source: Cranet-Survey 1999, official data)

to have put it: "The business of business is business." Likewise, Niklas Luhmann, the late German sociologist, formulated: "Economy is a sum of necessary/unnecessary payments." (Luhmann 1989, translation W.M.).

In order to be a respected player within the management team and to contribute successfully to long-term development, HRM has to align itself with the given economic requirements. There are a number of arguments for the primacy of economic rationality. Table 1 gives an overview of the basic positions.

Table 1. Arguments for the primacy of economic rationality in HRM

Level	Kind of argument	
	Empirical	**Normative**
personal, action oriented	subjective tendency towards profit ('motive')	moral duty ('ethos of the entrepreneur')
systemic mechanism	objective necessity ('forced by the rules of the cause')	rule of governance ('profit principle')

Distinguishing between two types of arguments – empirical ones (i.e. looking at actual behaviour in reality) and normative ones (i.e. formulating desirable future states) – one can formulate four ideal/typical arguments for the primacy of economic rationality in HRM (Ulrich 1998, 399; for

the issue of HRM and ethics in general see Greenwood, 2002).

- At the personal, action oriented level one can empirically observe a subjective tendency of people towards profit, i.e., towards gaining an advantage over others, the system, etc. Like motive, this is a 'built-in' tendency within human beings.

- At the same level, but from a normative position, it is the moral duty of individuals working under the market economy framework to follow economic logic and pursue profit. An example for this could be the ethos of the entrepreneur.

- At the systemic level and from an empirical point of view, following economic logic is an objective necessity. It is forced by the rules of the game and cannot be avoided.

- Again at the systemic level, the profit principle is and should be the dominant rule of governance because it is the best mechanism for allocating resources and creating common welfare in the long run.

Using these positions as a rationale for firmly grounding itself in economic logic, HRM is not only in line with individual and/or systemic conditions and requirements, but also seen as competent in business terms. The language of the organisation and the management is ultimately the language of business. If you cannot argue within economic

logic, your position is not very strong in the organisation's internal and external struggles.

However, this does not mean that HRM has to or should look only at issues that can be seen within the framework of economic logic. On the contrary, it is probably a crucial task for HRM at the strategic level to feed issues into the organisational communication system that do not appear on a monitor solely shaped by economic logic.

From an empirical point of view, there are many examples that HRM as well as organisations as a whole do take into account issues beyond mere economic logic. Examples can be found in social activities, in special hardship funds for relatives of employees, etc.

From a normative perspective, one can differentiate between three positions that provide arguments for organisations in general and HRM in particular to include non-economic considerations when handling the tension between different stakeholders' demands: instrumentalist, caritative and corrective.

- The instrumentalist approach basically argues that including non-economic factors into the economic equation is a crucial success factor. In other words: sound ethics is sound business in the long run. This position reflects the experience that taking into account issues outside the immediate sphere of business often has a positive impact on business activities because of the indirect effects. For example, if you provide day care centres for employees' children and your competitors do not, this might lead to an advantageous position when recruiting scarce labour.
- The caritative approach proposes that only through making money in line with the economic principle one can satisfy at a second stage the other demands and needs of different types of stakeholders. In this sense, it is only by making profits that you can spend money for a good cause (Schneider 1990). Examples of such an approach are widespread in HRM. Hardship bonuses for expatriates sent to locations, that are less desirable than the country of origin or attractive places, follow this logic. Similarly, additional payments for loud or dirty work conditions can be mentioned here.
- The corrective approach frames the integration of non-economic aspects into economic logic

within the relationship of rule and exception. Under specific circumstances, measures that do not strictly follow the economic principle can be justified (Steinmann & Oppenrieder 1985). For example, employing people with specific types of handicaps may involve additional costs compared to 'normal' employees without getting more output. Because of additional considerations, e.g., integration of otherwise marginalised groups, a deviation from the pure economic principle is justified.

Given the situation outlined above, a seemingly paradoxical constellation occurs. For HRM to be human friendly, it has to take sides and opt for the primacy of the economic logic. Only if HRM is a respected player in the organisational team, if it contributes efficiently to the overall organisational performance, can it introduce arguments and demands from stakeholders outside the primary economic logic into the picture. Thus, the translation and bridge building function of HRM becomes crucial. Although oriented towards the dominant stakeholders from the economic subsystem and acting according to economic logic, HRM picks up demands from stakeholders from other subsystems expressed in a different language and making sense within a different code and translates them into the primary economic code.

Such a position is not unproblematic and could raise some critique. First, there is the point of euphemism and 'newspeak'. When lay-offs turn into developmental opportunities that 'set people free' or when compensation cuts are labelled as measures making the organisation – Do employees not belong to the organisation, too? – lean and fit, then scepticism is justified. Second, handling the demands of various stakeholders in the way outlined above could provoke criticism because such a strategy prevents a more fundamental critique and change of an economic system that does different stakeholders more justice. Again, this critique is justified. The outlined approach lacks every radical chic and tries to balance and oscillate between different poles of demands without aiming at a second- or third-order change modifying the rules of the game or the game itself. It takes a very pragmatic position trying to cope with what is available and regards 'muddling through' as a legitimate and sensible way of coping with contradictory demands of various HRM-stakeholders.

Threat to Muddling through – the Sole Primacy of Economic Logic

The pragmatic position outlined above, fragile even under the current circumstances, is increasingly threatened. Two major sources can be identified.

First, within economic logic the demands of stakeholders from the economic subsystem increase. Factors like globalisation, increasing cost pressure, shortening product life cycles and fierce competition – to mention just a few of the change drivers often mentioned – have a number of consequences on organisations and their management. Most prominent is the reduction of organisational slack (Cyert, Feigenbau & March 1990; Staehle 1991; similar, but from a different theoretical background Luhmann 1988). Essentially, organisational slack provides organisations with reserves. Slack is not needed during 'business as usual' but can be used if special situations arise. Although the effects of slack are controversial (e.g., Nohria & Gulati 1996), one thing seems clear: having no slack at all is risky: if the environmental configuration changes, a perfect fit for a specific environmental constellation may endanger the survival of the organisation because the organisation does not have any additional resources to make the necessary changes.

Second, the relationship between different societal subsystems and, hence, different logic and codes change. There seems to be a tendency of the growing importance of the economic subsystem compared to the other subsystems: „The economy no longer is embedded in social relationships, but social relationships are embedded in the economic system." (Polanyi 1978, 88 f.). At the same time, economic logic and its code are integrated into other systems. Two examples can illustrate the issue. The discussion about the role of costs in the health system makes it clear that there seems to be a swing in many European countries from a client oriented view to a more cost oriented view.

Originally there was – and in some countries like, for example, Austria, there still is – the doctrine that you get medical treatment according to your health needs regardless of age and overall health status. In recent times, however, the situation has started to change. In some countries, for example, in the UK, medical treatment is set in relationship to age, future life expectancy, and so on,

thus clearly indicating an application of economic logic: Does the investment of medical treatment pay off, given the conditions that the client lives in? Another example from management research shows how economic logic penetrates the areas of private life. A qualitative study of managers and their families shows how family life is described and analysed in economic terms and with an economic framework, heavily using concepts like efficiency and effectiveness (Kasper, Scheer & Schmidt 2002). This seems to be an indicator of an increasing hegemony of economic logic.

Both developments have, among others, consequences relevant in the context of this paper. For HRM, the room to manoeuvre gets smaller; it is increasingly forced to take into account economic logic more strictly. Thus, building bridges and integrating other stakeholders' interests become increasingly difficult and the contradictions between economic demands and Christian, ethical or human aspects become more visible and sharp. Overall, it becomes more difficult for HRM to introduce non-economic aspects into the organisational system of communications, actions and decisions, thus threatening a crucial strategic function of HRM.

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