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**ORGANIZATIONAL CHANGE AND DEVELOPMENT
IN TRANSITIONAL COUNTRIES**

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Organizational Change and Development in Transitional Countries

Dear Readers,

This issue of EBS Review primarily consists of carefully selected papers from the EIASM 2nd workshop on organizational change and development in transitional countries in Vilnius, 18 – 19 October 2007. The workshop was hosted by Vilnius Gediminas Technical University and the chairpersons were Ruth Alas and Cristopher Rees.

The conference sought to bring together international scholars and practitioners with a view to exploring perspectives and insights into the management of organizational change and development (OCD). Factors such as societal transformation in East European countries, enlargement in the European Union, globalization, the influence of multinational companies, public sector reform and rapid advances in information communication technology have interacted with global political and societal changes (for example, the demise of the Soviet Union, multiculturalism and the changing role of women in society) to produce extreme volatility and uncertainty in organizational settings. There were 27 participants from the UK, Estonia, Lithuania, Finland, Russia, Malaysia, Belgium, Romania, Slovenia, the USA, France, Denmark and Norway. Even more countries were represented through the research that the participants had conducted.

In the first paper **Melita Rant** from the University of Ljubljana, Slovenia, poses the question of whether cognition shapes industry specific evolutionary paths. The author argues that an understanding of the external environment, interpreting information and seeking solutions is at the core of managerial cognition, which as a consequence is reflected in managerial decisions about a firm's actions, operations, organizational structure and relationships with business partners (network structure). She maintains that an understanding of environmental changes is the entry element for managerial cognition, and decisions about adaptations in the organizational and network structure constitute the exit element in our conceptual model of managerial cognition, and that despite the fact that managerial

cognition as a variable of performance exists at the individual (human) level, we assume that commonalities in perceptions of environmental change and adaptations in organizational and network structure exist across firms operating in the same industries. In order to examine the validity of this premise she investigated 1) whether subjective managerial perceptions of industry and macro environment changes differ from actual changes objectified in indices measured by national bureaus of statistics (in our case the trade margin was used); 2) which of the two, subjective or objective environmental changes, have the greater impact on adaptations in the organizational and network structure; and 3) how environmental change and adaptations in the organizational and network structure simultaneously create industry specific evolutionary paths – whether any industry specific properties can be detected. For the purpose of the study, a complex research methodology applied to a sample of 236 medium and large Slovenian companies was developed over the period 2000 – 2005. The results confirmed that there is a disparity between perception and actual environmental changes, and that the perception of environmental changes has a greater impact on adaptations in the organizational and network structure than actual changes, and subjective managerial cognition significantly shapes industry specific evolutionary paths.

In the second paper **Mirela Xheneti** and **David Smallbone** from Kingston University, UK, discuss the role of public policy in entrepreneurship development in post-socialist countries. The authors argue that research on entrepreneurship development in transition economies has acknowledged the important role that the external environment plays in inducing entrepreneurial behaviour. They claim that entrepreneurship in these contexts can emerge spontaneously and develop despite the absence of formal institutions due to the use of trust and social institutions or repeated behaviours within a small circle of business contacts; however, experience in some of these countries has also shown that entrepreneurship remains fragile and its contributions to economic development rather small. In this respect,

government is one of the main actors in establishing the necessary institutional arrangements for durable development or productive entrepreneurship in post communist economies. Moreover, variations between government policies and actions in different countries contribute to heterogeneous external conditions and variations in patterns of entrepreneurial behaviour and outcomes. Based on institutional theories, they explore the comparative roles of the Estonian and Albanian governments in shaping paths of entrepreneurial development in these two post communist economies. Using a combination of documentary and survey data, the authors show that government can be both an enabling and constraining influence through the establishment of regulatory environments, the increased legitimacy of their policies and also through the role that is placed on entrepreneurship in societies where entrepreneurship has had a short history.

The author of the next paper **Svetlana Serdukov** from Reims Management School in France, argues that even though the subject of business knowledge development in transition economies has attracted growing interest in recent years, many aspects of this process are still overlooked. Her paper investigates how economic, political and social changes, which occurred in a particular transition society are reflected in the minds of company leaders, and how their business knowledge developed over time. Using the theoretical framework of Sensemaking and Social Representation, the paper focuses on the business practices and cognition of business managers and their interactions. The longitudinal study discussed in the paper encompassed a period of 7 years from 1997 to 2004 and consisted of observing a group of young entrepreneurs who started their businesses in the early 1990s in Kazakhstan, and who have become significant actors in the business community today. Empirical results from the study show that business knowledge is constructed through interaction. The role of interaction within the group is not only limited to the way in which it allows members to “make sense” of past actions and events, but it is also a factor in driving future actions among group members. The research contributes to the understanding of business knowledge within a transitional context and has implications for management and business education.

Next, authors **Ruth Alas** and **Tõnu Kaarelson** from Estonian Business School and **Katrin Niglas** from Tallinn University in Estonia, conduct an empirical study of 11 countries. Their paper explores how

human resource management practices in different countries and regions have been influenced by cultural peculiarities. The paper is based on data from the Strategic International Human Resource Management Survey (Cranet) and the GLOBE study. Results indicate connections between human resource practices and cultural dimensions. The authors argue that more advanced human resource practices are more common to countries with higher institutional collectivism, gender egalitarianism, humane orientation, future orientation and uncertainty avoidance, which are considered enabling factors for improving HRM practices. Cultural practices such as assertiveness, power distance and in-group collectivism appeared to play the role of disabling factors in regard to selected HRM practices. Consequently, a model for human resource practices in the cultural context has been developed on the basis of the empirical results of the study.

The next paper discusses the evaluation of human resource development systems in Lithuanian furniture companies and considers the evaluation of human resource development systems based on qualitative methods. The authors **Vilmante Kumpikaite** and **Algimantas Sakalas** from Kaunas University of Technology, Lithuania, provide a qualitative human resource development evaluation model based on the comparison of data from a formal human resource development system. The comparison is made using four criteria: the organization's position on human resource development; the identification of development needs and awards in accordance with merit; the functions of the human development system and human resource development actions and evaluation. The authors suggest that the evaluation of human resource development systems in furniture industry enterprises in Lithuania makes it possible to make the conditional assertion that more enterprises have a low or average rather than a high or very high assessment of their HRD system. Therefore, the need for improvement of the human resource development system has been found to be important for the enterprises to be successful and competitive. The methods of research include the analysis and synthesis of scientific literature, and empirical research of organizations in the Lithuanian furniture industry.

In the final paper a group of authors from former post-socialist countries **József Poór** from Hungary, **Ágnes Szlávicz** from Serbia, **Anton Florian Barisic** from Croatia and **Zoran Vaupot** from

Slovenia deal with job analysis and job evaluation systems in the countries of the former Yugoslavia. According to the authors, human resource management (HRM/HR) is closely connected to the cultural environment in which a given organization or company operates. They find that this might make it interesting for foreign experts to discover the differences and similarities in the application of HRM methods in countries that had been part of some form of federation for a long period of time, and which had then split up. In the paper, the authors present the development and changes in the theories and practice of job analysis and evaluation in selected countries created on the territory of the former Socialist Federal Republic of Yugoslavia: Serbia, Croatia, Bosnia and Herzegovina and Slovenia.

Dear readers, we hope that this brief introduction to the topics of the current volume of EBS Review was able to spark your interest in the topics and articles gathered in this issue. As a common practice all the articles go through a time consuming process of review and evaluation, and the authors often have to rewrite and submit their papers several times before our distinguished editors are satisfied with the results. We consider the topics covered to be important and hope, dear readers, that you can find something interesting to discover. We would also like to show our gratitude to the authors, editors and partners, indeed to everybody who has helped us prepare this issue for our readers.

On behalf of the editorial board

Ruth Alas and Mari Kooskora

Does Cognition Shape Industry Specific Evolutionary Paths?

Melita Rant

Abstract

An understanding of the external environment, interpreting information and seeking solutions is at the core of managerial cognition, which as a consequence is reflected in managerial decisions about a firm's actions, operations, organizational structure and relationships with business partners (network structure). An understanding of environmental changes is the entry element of managerial cognition and decisions about adaptations in the organizational and network structure constitute the exit element in our conceptual model of managerial cognition. Despite the fact that managerial cognition as a variable of performance exists at the individual (human) level, we assume that commonalities in perceptions of environmental change and adaptations in organizational and network structure exist across firms operating in the same industries. In order to examine the validity of this premise we investigated (1) whether subjective managerial perceptions of industry and macro environment changes differ from actual changes objectified in indices measured by national bureaus of statistics (in our case the trade margin was used); (2) which of the two, subjective or objective environmental changes, have the greater impact on adaptations in the organizational and network structure; and (3) how environmental change and adaptations in the organizational and network structure simultaneously create industry specific evolutionary paths – can we detect any industry specific properties emerging. For the purpose of this study, we developed a complex research methodology applied to a sample of 236 medium and large Slovenian companies over the period 2000 – 2005. The results confirmed (1) a disparity between perception and actual environmental changes, (2) that the percep-

tion of environmental changes has a greater impact on adaptations in the organizational and network structure than actual changes, and (3) subjective managerial cognition significantly shapes industry specific evolutionary paths.

Keywords: changes, co-dependency, industry, institutional environment, network structure, organizational structure, performance.

Introduction

Schumpeter (1934) claimed that industrial development is a direct product of the competitive process. It is “a force within” because firms disrupt current methods when they force themselves upon their rivals through innovative and adaptive behaviour. Adaptations in both the organizational and network structure are two fundamental ways of adapting to a competitive environment. The latter causes frequent changes. Environmental changes, changes in the organizational and network structure and changes in performance are strongly co-dependent. Following McKelvey (1997), the evolution of industries/firms mostly exists as coevolution.

The basic assumption of coevolution is that (1) organizations, industries (populations) and environments (institutional and extra-institutional) coevolve; (2) that their rate, pace, and patterns of change are distinct and interdependent, and that (3) the direction of these changes is not unidirectional (Lewin et al., 1999). Environment change and organizational adaptations (changes to the network and organizational structure) are industry specific. Each industry exhibits its own specific organizational adaptations, which construct an industry specific evolution path. This paper investigates the relationship between environmental change, adaptations in firm-level organizational and network structures and competences.

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In the next section we will explore the literature on firm-industry coevolution. Based on coevolution theory and coevolutionary research, we have developed three research hypotheses, which we tested on a sample of medium and large Slovenian companies. We then developed a specific research methodology, and at the end we present methodological deficiencies and discuss our results with emphasis on empirical and theoretical implications.

Coevolution Theory

A theory of organization-environment coevolution attempts to integrate the interplay between the adaptation of individual organizations, industry (population) dynamics and the dynamics of the institutional systems within which firms and industries are embedded (Lewin et al., 1999). The theory assumes that organizations, industries (populations), and environments (institutional and extra-institutional) coevolve, that their rate, pace, and patterns of change are distinct and interdependent and that the direction of these changes is not unidirectional.

Various organizational theories such as complexity science (Anderson, 1999; McKelvey, 1997; Axelrod and Cohen, 1999), computational organization theory (Carley, 1995), neo-contingency theory (Burns and Stalker, 1961; Donaldson, 1999; Volberda, 1999), population ecology (Aldrich, 1999; Amburgery et al., 1994; Baum and Singh, 1994; 1996; Baum and Rao, 2004); evolutionary theory (Nelson and Winter, 1982), cognitive science (Weick, 1995; 2001; Simon, 1990), institutional theory (Davis et al., 1994; Stark, 1996; Rao, 1998), organizational learning theories (Cyert and March, 1963; March, 1991; Levinthal and March, 1993) and social network theory (Baum et al., 2000; Dyer and Nobeoka, 2000; Rowley et al., 2000) are trying to address these issues.

Environmental change forces the mutation (from the evolutionary perspective) or adaptations (from the strategic management perspective) of existing organizational and network structures, which in turn shape the next wave of environmental change. Much of the same environmental change happens at population level; therefore, populations – especially those undergoing discontinuous change – should become the focal object of coevolutionary studies (Lewin and Volberda, 1999). Population is defined as a homogeneous set consisting of all firms of a

specific type of form and activity (Knoke, 2000). Population is frequently simplified as industry.

The behaviour theory of a firm (Cyert and March, 1963) relates to both organizational behaviour and industry level change. It assumes that firms have some degree of control over their market environment, and that they can adapt to their habitat through a learning process known as adaptive search. Adaptive search leads to capability development (Barnett and Hansen, 1996; Stuart and Podolny, 1996), which can be indirectly reflected through changes to organizational and network structures. With these capabilities companies compete with other rivals in a specific industry environment – each of them employing its bundle of capabilities in the competitive process.

Some firms try to create competitive advantages by introducing new capabilities to the industry; in response, others will replicate these capabilities. As more rivals find ways to build the capabilities required for competing under the new rule of the competitive game, the pioneer advantage disappears. Actions taken by one company in search of capabilities have implications for the direction of search behaviour pursued by its rivals. This process presents an endogenous driver of industry evolution (Schumpeter, 1934).

When addressing co-evolutionary issues one should take into consideration:

- Studying organizations over time (McKelvey, 1999) within a historical context (Calori et al., 1997; Kieser, 1994)
- Multidirectional causalities between micro- and macro-coevolution
- Mutual, simultaneous, lagged and nested effects
- Restricting and enabling constraints of organization path dependence
- Contingent effects such as nation-state institutional arrangements
- Extra-institutional influences, such as change in the geopolitical, economic and natural environment as well as social movements that affect the deep structure enveloping enterprise and market competition.

Overview of Coevolutionary Research

Large-scale empirical studies of coevolutionary phenomena are relatively rare. Most coevolutionary properties are studied through case studies.

Many case studies focus on the evolution of organizational structure within the population of firms (Romanelli, 1991). In these case studies, the emergence of new organizational structures equates to the rise and decline of industries. New industries emerge from the entrepreneurial activity of new entrants (Aldrich and Zimmer, 1986), as an outcome of radical socioeconomic changes (Aldrich, 1979; Polos et al., 1998), from technological innovations that lead to the creative destruction of industries (Schumpeter, 1934) or from technological advances that supplant existing competencies (Tushman and Anderson, 1986).

Barnett and Hansen (1996) examined the evolutionary consequences of competitive interaction with learning. Firms facing increased competition engage in a localized search and satisfy that allows adaptation. This adaptive response in turn triggers adaptive responses on the part of competitors, which ultimately increases the competitive pressure on the firm thus producing a self-reinforcing escalation of competitive intensity known as the “Red Queen effect” (Van Valen, 1973). They found that the adaptive strategies that a firm develops under uncertain conditions caused by environmental change posed limited *ex ante* rationality so that the realized strategies emerge over time as an accumulation of incremental adjustments in response to externally triggered shortfalls in performance.

Davis et al. (1994) investigated the process of decomglomeration and the proper placement of organizational boundaries using an institutionalist interpretation. The idea of the proper placement of organizational boundaries has changed through time, although the consistent principle has been growth – the expansion of boundaries. They found that the expansion of boundaries is not an independent goal. It largely depends on the institutional environment and its characteristics. The extent to which a firm and consequently population boundaries change is largely affected by the regulatory regime (i.e. anti-trust policy) and the financial regime (i.e. what affects whether the investors or firms should diversify).

Change in competition causes change in firm-boundaries, which reflects changes in organizational domain and a restructuring of a firm’s niche. The restructuring of organizational niche was studied by Baum and Singh (1996) on 789 daycare centres in Toronto during 1971 – 1989. This study revealed that greater competition (measured using

“overlap density”, the sum of overlaps between each centre’s niche and those of all others) increased the rates of organizational niche expansion. Firms can change their niche (and the structure of external relationships), but when this leads to increased competition, this adaptation does not increase the chances of survival on the long run.

Leblebici et al. (1991) examined how the radio broadcasting industry from 1920 to 1960 – an industry which appears to offer a free product – evolved from its initial pattern of exchange through an intermediate stage into the current pattern where commercial radio stations broadcast advertisements paid for by firms, and where the audience of each radio station is estimated by a ratings agency paid by subscribing stations. Leblebici et al. showed that the early economic arrangements were replaced when innovations by some actors in the industry were imitated.

Sometimes the market structure can evolve, although the production process does not. Lazer-son (1995) showed how textile production by geographically localized networks has emerged in the Italian textile and clothing industry as a result of the economic incentive tax system.

All these empirical studies showed that industry level changes are to a great extent subject to path dependent cumulative firm-level changes, as well as changes in the institutional environment (Greve, 2005). If one wants to understand industry level changes, one needs to relate them to firm-level changes and changes in the institutional environment, as well as changes in performance (Lewin et al., 1999).

Research Hypothesis

The competitive environment in a specific industry shapes the responses of firms. Viewing the industry or population environment as the same for all firms from this population can be misleading when analyzing cumulative firm-level adaptations to environmental changes. The subjective perception of the environment, especially by top management, largely defines these responses (Child, 1972). The subjective perception of the environment is an important determinant of a firm’s behaviour and consequently of the industry’s development.

Daft and Weick (1984) showed in their model of organizations as interpretative systems that (1)

the cognitive systems of organizations transcend those of the individuals that populate the firm, and that (2) top-level managers are the key mechanism in organizational interpretations, which together, cause (3) interpretations of the environment to vary to some extent across organizations (in the same industry). Though the environment in which a firm is embedded matters, it is always to some extent subjectively perceived.

Hypothesis 1: The subjective perception of change in the industry environment is different to the objective change.

The ability to constantly adjust to environmental change is called dynamic capability (Teece et al., 1997; 2000). Dynamic capabilities depend on two main processes: reconfiguration and learning. The reconfiguration process involves the capacity of organizations to transform the structure of the resources and competencies they have access to. This restructuring refers to changes to the organizational structure as well as changes to the structure of networks.

From this perspective firms adapt to environmental change and uncertainty by adapting their organizational structure as well as adapting relationships with business partners (changes in network structure). When the environment becomes more competitive, change is more frequent and the environment is perceived as being more uncertain. In such an environment, firms should introduce a more flexible organizational arrangement (Burns and Stalker, 1961; Volberda, 1999; Donaldson, 1999; Burton and Obel, 2004). The proper response is also to introduce more collaborative, cooperative and controllable relationships with business partners (Pfeffer and Slancik, 1978; Williamson, 1975; 1991). Firms from different industries have a different environment, and therefore, perceive environmental change and uncertainty differently. This creates specific industry level changes in both organizational and network structures.

Hypothesis 2: Subjectively perceived environment changes and uncertainty have an important influence on adaptations in both organizational and network structure.

Hypothesis 3: Adaptations in both organizational and network structure create industry-specific development paths.

Methodology

Measurement Construct

The period for empirical study was carefully selected on the basis of significant institutional change. In Slovenia, such a period existed from January 2000 to January 2005 and was characterized by adapting laws and legislation to the EU and an intensification of capitalistic values like individuality, competition etc. The database is constructed from survey data, combined with data from financial statements from the database of the Agency of the Republic of Slovenia for Public Legal Records and Related Services (AJPES) for 2000 – 2005.

Data about environmental developments and adaptations of organizational and network structures was gathered through a specially constructed questionnaire composed of three parts.

In the first part of the questionnaire we studied 21 developments of environmental change we expected to be perceived by management in period 2000 – 2005: increasing numbers of competitors, narrowing of the product life cycle, intensification of price-cutting wars, improvements in product quality, increasing market power of other market players, development of substitutes, more takeover threats, decreasing purchasing power of clients, changing variety of suppliers, pressure on lowering costs of workforce, technological development and legislation changes.

In the second part of the questionnaire we studied 17 different adaptations of organizational structure leading to greater flexibility and responsiveness to environmental change (Volberda, 1999; Daft, 1998; Daft and Marcic, 2001; Hammer and Champy, 1995; Ashkenas et al., 1995). We were interested in which business functions they were introduced to. We studied investments in the automation of work processes and improvements in information technology, the decentralization of decision-making, especially the decentralization of planning activities, investments in the tacit and explicit knowledge of employees (professionalization), intensive downsizing (a side product of this are dismissals) and a delayering of the hierarchy, more widely defined work place descriptions based on job enlargement, empowerment and rotation and increased project and team work as well as enhanced cooperation among different business fields, the customization of products and services as well as business process, a focus on the value-

added process and outsourcing of non-core activities and the introduction of a more process-based organizational structure.

In the third part of the questionnaire we studied six adaptations of external relationships that facilitate greater controllability over external relationships and their transactions (Jones, 1998; Knoke, 2000). Here we were interested in which collaboration mechanisms were introduced to which specific group of business partners. We studied informal and formal agreements with business partners, clustering, joint venturing, minor or major ownerships swaps, mergers and acquisitions.

Sampling, Grouping Processes and Statistical Method

Questionnaires were sent to all Slovenian companies with more than 50 employees on 1 January 2005. At that time there were 1 370 such companies – 262 questionnaires were sent back, 237 with no missing data. The sample represented 16% of the entire population. The characteristics of the sample in terms of size, income, assets and exports resemble the characteristics of the population.

Companies were grouped into industries according to standard industrial classification – NACE (see Table 1 in the Appendix). We are aware of the fact that some companies could be classified in more than one industry.

To analyse differences between the groups, we used an ANOVA variance analysis and quadratic assignment procedure (QAP) correlations, which uses a permutation-based test of significance, and as such is robust against varying degrees of autocorrelation. We used a correlation matrix for environment, organization and network structure changes in each industry. Characteristics of changes with correlations higher than +/- 0.5 were further explored using social network analysis.

Findings

We formed a sequence of industries on the basis of lowest to highest trade margin growth rates in the period 2000 – 2005. We used the database of the Agency of the Republic of Slovenia for Public Legal Records and Related Services. The trade margin growth rate reflects the struggle between the forces of supply and demand in specific industries, and as such presents the best possible objective measures of actual changes in the industry environment.

We compared the trade margin sequence with a sequence formed on the basis of industry (average) perceptions of environmental change (Table 1). Industries with the highest perception of environmental change (uncertainty) should correspond with industries that have the lowest growth rate of trade margin. The measure of fit between the two sequences is the sum of absolute differences. We can see that the perception of environmental change does not fit well with trade margin growth rates. The sum of absolute differences between perception and actual environmental change is 114, which, compared to a maximum possible difference of 242, is not a negligible difference. We can conclude that the perception of environmental change does not correspond to the actual industry change reflected in changes in market price (trade margin or mark-up) (blue and red bars in Figure 1).

The analysis of variance confirmed that the perception of industry-based environmental change is significantly different across industries. Further analysis has shown that organizational and network structure adaptations correspond much better with the perception of environmental change than with trade margin growth rates (changes). If environmental change was perceived by management as extensive, they conducted more rigorous adaptations to organizational and network structure (Figure 1). If the trade margin is negative or positive, firms implement relatively the same amount of adaptations to their organizational and network structure.

If we compare industry means to grand means we obtain slightly different results (Figure 2). In this case industries that have had means (of trade margin growth rates or perceptions of environmental change) above the grand mean, have conducted at least one of the structural adaptations above the average. In both cases we can conclude that both an actual change in the trade margin and a subjectively perceived environmental change have an important influence on adaptations of organizational and network structure.

Besides that, the ANOVA analysis confirmed that organizational restructuring of business functions differs significantly across industries. Although the greatest organizational restructuring was conducted within production, the organization of the sales function was changed extensively too, especially in agriculture, retail and wholesale, hotels,

restaurants and other service oriented sectors (Figure 3). In the service sectors (industries 19-21), the restructuring of purchasing activities towards greater flexibility was higher on average than in other sectors. These findings are in line with the assumption that organization and network adaptations form industry specific evolutionary paths. For a more in-depth examination of this hypothesis we applied a QAP correlation test, in which we examined the correspondence between the correlation

matrices for environment, organization and network structure changes in each industry. The results are presented in Figure 5. We can see that only a few industries exhibit weak similarities (correlation between matrices of around 0,30). These industries are textiles, wood, paper, chemical, rubber, plastics, machinery, vehicles, construction and wholesale and retail. On the basis of the QAP correlation test we can confirm our third hypothesis and further explore differences in adaptation processes across industries.

Table 1: Sequences of industry for objective and subjective environmental change measures and absolute differences

Growth rate of trade margin	Perc.PEC	Maximum possible difference	ABS (TRAMAR-PEC)	Legend:
2	21	21	19	1 AGRICULTURE, HUNTING AND FORESTRY
4	5	19	1	2 MINING AND QUARRYING
5	18	17	13	3 MANUFACTURE OF FOOD PRODUCTS AND BEVERAGES
9	4	15	5	4 MANUFACTURE OF TEXTILES
15	13	13	2	5 MANUFACTURE OF WOOD & WOOD, CORK, STRAW & PLAITING MATERIALS PRODUCTS
3	6	11	3	6 MANUFACTURE OF PULP, PAPER AND PAPER PRODUCTS
6	12	9	6	7 MANUFACTURE OF CHEMICALS AND CHEMICAL PRODUCTS
7	3	7	4	8 MANUFACTURE OF RUBBER AND PLASTIC PRODUCTS
17	14	5	3	9 MANUFACTURE OF OTHER NON-METALLIC MINERAL PRODUCTS
16	17	3	1	10 MANUFACTURE OF BASIC METALS
18	16	1	2	11 MANUFACTURE OF MACHINERY AND EQUIPMENT NOT ELSEWHERE CLASSIFIED
14	11	1	3	12 MANUFACTURE OF OFFICE MACHINERY AND COMPUTERS
10	10	3	0	13 MANUFACTURE OF MOTOR VEHICLES, TRAILERS AND SEMI-TRAILERS
12	9	5	3	14 MANUFACTURE OF FURNITURE, MANUFACTURING NOT ELSEWHERE CLASSIFIED
19	1	7	18	15 ELECTRICITY, GAS AND WATER SUPPLY
11	7	9	4	16 CONSTRUCTION
13	8	11	5	17 WHOLESALE & RETAIL, MOTOR VEHICLE REPAIR, PERSONAL & HOUSE HOLD GOODS
8	20	13	12	18 HOTELS AND RESTAURANTS
20	19	15	1	19 TRANSPORT, STORAGE AND COMMUNICATION
1	2	17	1	20 REAL ESTATE, RENTAL AND BUSINESS ACTIVITIES
21	22	19	1	21 HEALTH AND SOCIAL WORK
22	15	21	7	22 OTHER COMMUNITY, SOCIAL AND PERSONAL SERVICE ACTIVITIES
		242	114	

Source: Research on adaptation processes of medium and large Slovenian companies, 2005.

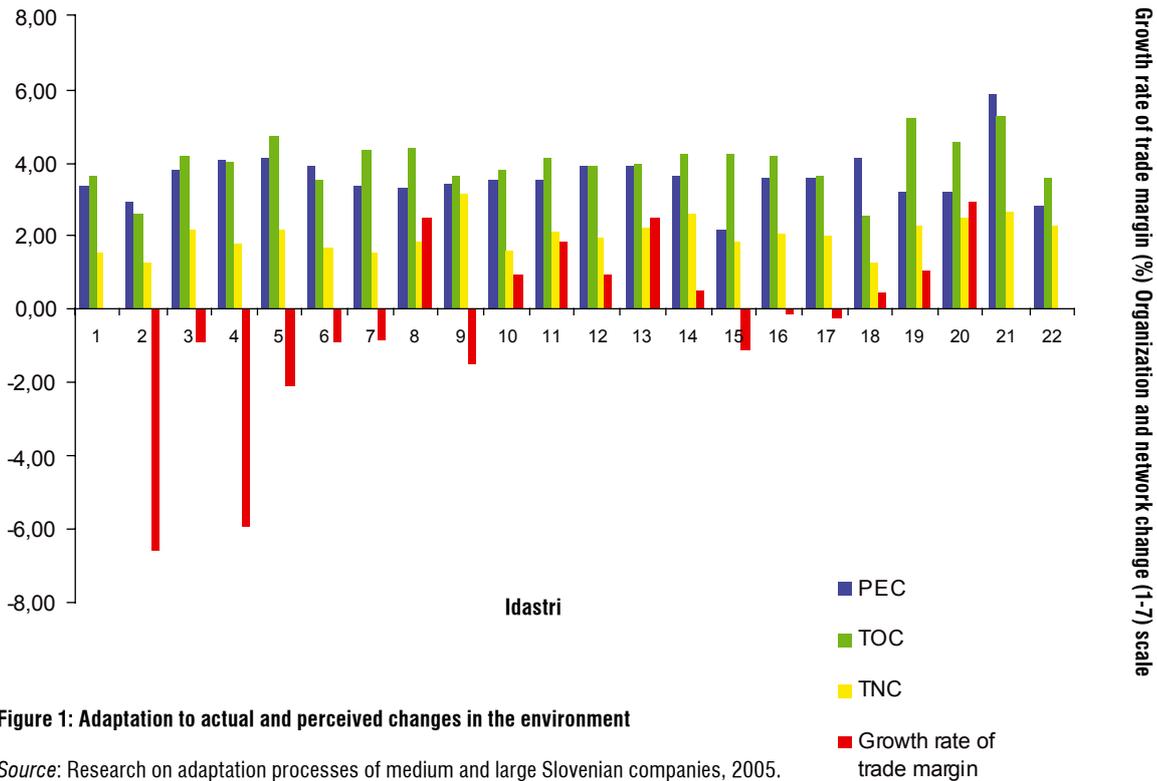


Figure 1: Adaptation to actual and perceived changes in the environment

Source: Research on adaptation processes of medium and large Slovenian companies, 2005.

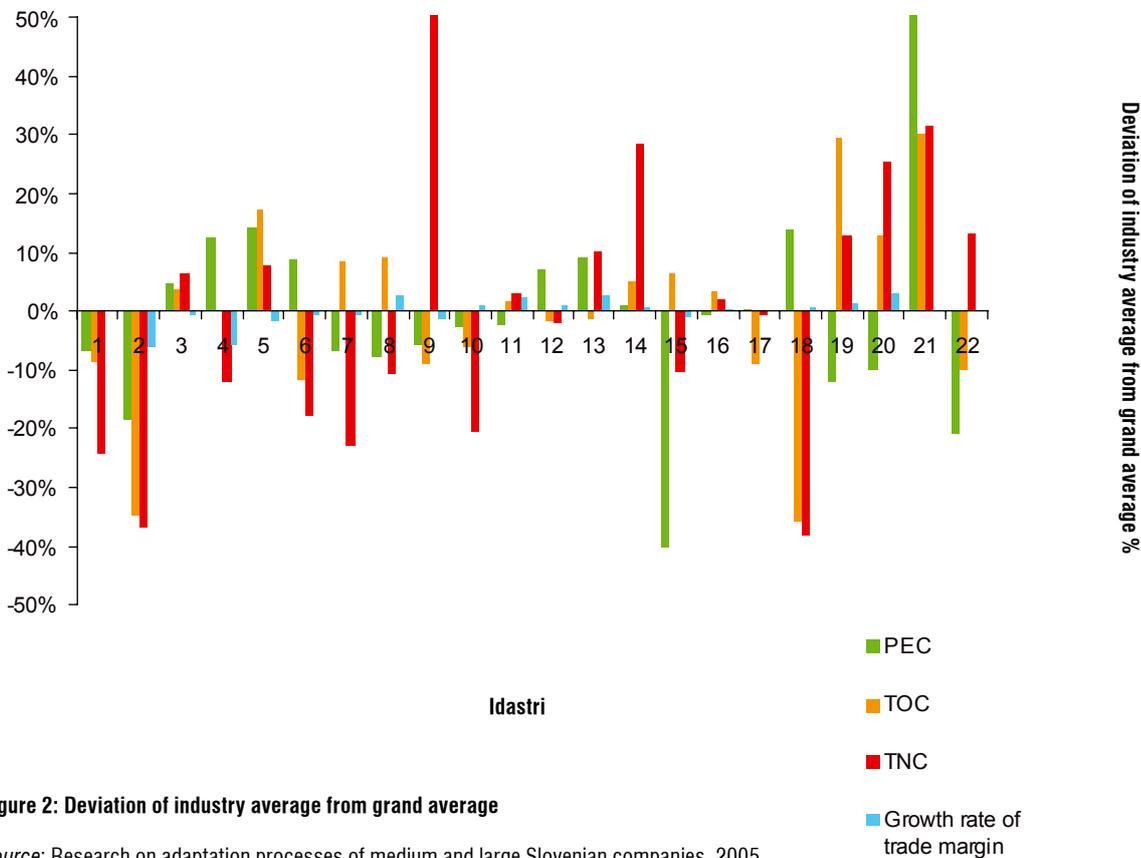


Figure 2: Deviation of industry average from grand average

Source: Research on adaptation processes of medium and large Slovenian companies, 2005.

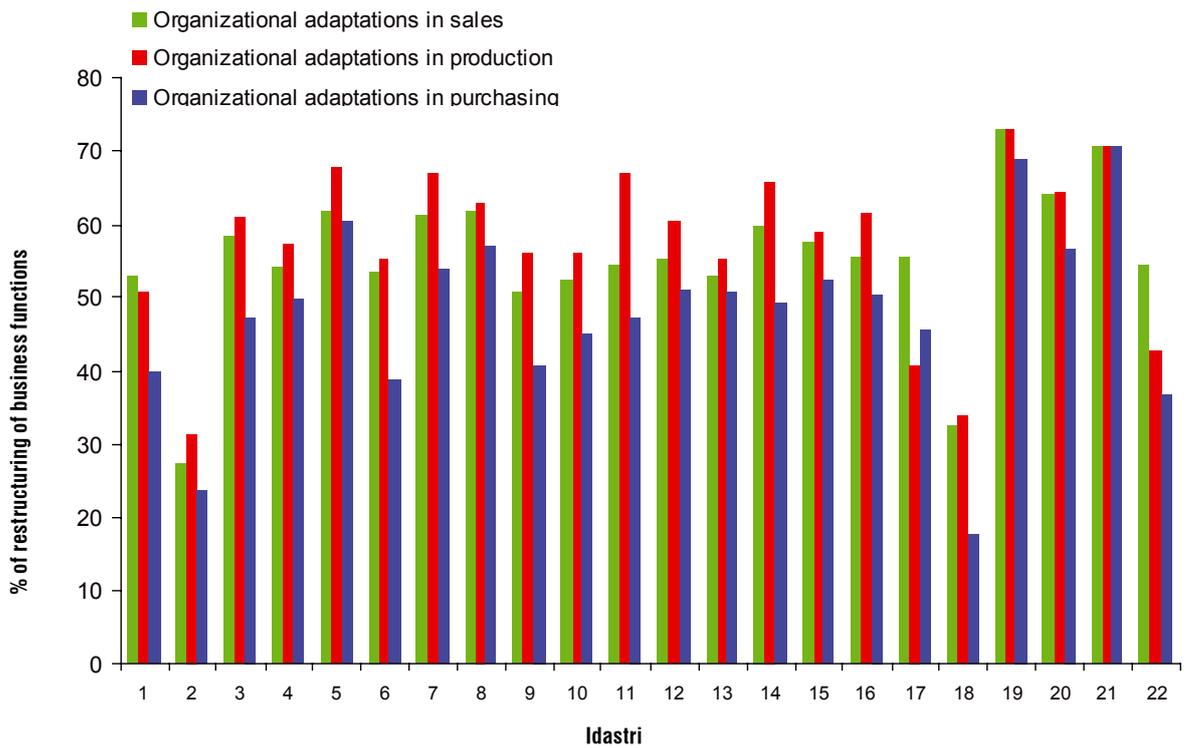


Figure 3: Restructuring of business functions across industries

Source: Research on adaptation processes in medium and large Slovenian companies, 2005.

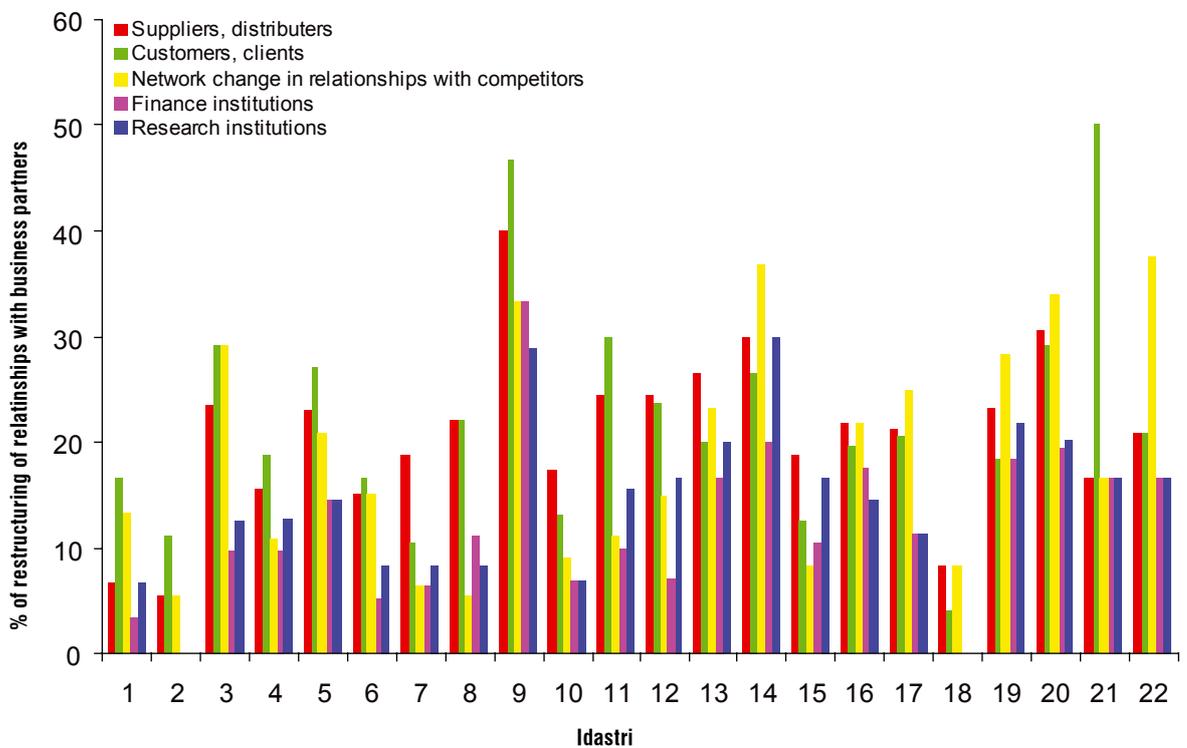


Figure 4: Restructuring of relationships with different groups of business partners

Source: Research on adaptation processes in medium and large Slovenian companies, 2005.

For this purpose we constructed a network of changes which exhibit correlations stronger than 10.5. In order to obtain a more reliable estimation of partial correlation coefficients, we grouped firms into 12 sectors (in Table 1 in the appendix, this grouping is also presented). Results are presented in Figure 6.

Sector 1 (agriculture and mining) showed medium uncertainty (average assessment 3.76), to which firms responded with little adaptation in the organizational or network structure (introducing mostly ownership based relations). There exists a strong negative correlation between the structure of environment changes and adaptations in the organizational structure – the adaptations in the organizational structure in many segments went in the opposite direction; that is, in a mechanistic direction, which is in congruence with Ashby's law of variety. Because of this strong correlation structure, some similarities between responses to environmental changes exist.

Sector 2 (food products and beverages) was quite uncertain (4.0), to which firms responded quite homogeneously (high correlations between environmental change and structural adaptations) through organizational structure, but also at the same time they tried to restructure their organizational domain by facilitating some adaptations in the network structure. Some of the responses in terms of organizational structure to uncertainty in the environment were mechanistic and some organic (positive and negative correlations), which forces us to conclude that they were aiming to be more efficient and flexible at the same time.

Sector 3 (textile, wood and paper industry) was very uncertain (4.8), to which firms responded via adaptations in the organizational structure with the goal of becoming more flexible, and also via adaptations in the network structure with the goal of facilitating more control over their organizational domains. Though firms from these sectors responded extensively with both types of adaptations, there was little homogeneity in the adaptation processes (no strong correlations between the adaptations), which forces us to conclude that firms from this group searched for their own paths. These sectoral adaptations can be explained nicely using Child's (1972) strategic choice theory.

Sector 4 (chemicals, rubber and plastics industry), sector 5 (metals) and 6 (machinery) were quite

uncertain (4.3 – 4.4), to which firms responded with modest adaptations in organizational and network structure, but at the same time exhibited very little homogeneity in the adaptations in organizational structure. In the case of sector 4, there was a strong homogeneity among the adaptations in network structure. These companies largely restructured their organizational domain.

Sector 7 (vehicles and furniture industry) was quite uncertain (4.4), to which firms responded mostly with adaptations in organizational structure and very modestly with adaptations in network structure. There was a strong homogeneity among adaptations in organizational structure – firms mostly carried out organic adaptations and at the same time introduced some mechanistic adaptations (less team work, project work, less cooperation and less flexible reward systems and less dismissals-more employment).

Sector 8 (electricity, gas, water) had medium uncertainty (4.1), to which firms responded very modestly with adaptations in organizational structure, though these modest responses were quite homogeneous across firms (strong correlation structure) involving factors like decentralization, more cooperation, team work and project work, more job rotation and professionalization. There were also some adaptations in network structure – less informal, contractual based networking and more formal, ownership based networking. The main causes for the adaptations were changes in regulation, competition and changes in labour markets.

Sector 9 (construction) was very uncertain in Slovenia in period 2000 – 2005, to which firms responded with intensive networking (they were quite homogeneous in these responses) and little adaptations in organizational structure. These sectoral adaptations can be explained nicely via resource-based theory.

Sector 10 (wholesale, retail, hotels and restaurants) was very uncertain (5.2), to which companies responded mostly with organic adaptations in organizational structure, which allowed them to behave more flexibly. There was no homogeneity among adaptations in organizational structure (a low level of correlation among adaptations). On the other hand, they made very few network changes, which forces us to conclude that they didn't try to restructure their organizational domains. These sectoral adaptations can be explained nicely via contingency theory.

QAP Correlations	HEALTH, SOCIAL SERVICE	AGRICULTURE, MINING	FOOD BEVERAGE	TEXTILES, WOOD, PAPER	CHEMICAL, RUBBER, PLASTICS	METALS	MACHINERY	VEHICLES, FURNITURE	ELECTRICITY, GAS, WATER	CONSTRUCTION	WHOLESALE, RETAIL, HOTEL	TRANSPORT, COMMUNICATION
HEALTH, SOCIAL SERVICE	1	0.27	0.15	0.30	0.31	0.19	0.32	0.28	0.23	0.19	0.29	0.18
AGRICULTURE, MINING	0.27	1	0.29	0.22	0.23	0.25	0.25	0.29	0.17	0.28	0.28	0.28
FOOD PRODUCTS & BEVERAGES	0.15	0.29	1	0.17	0.26	0.12	0.10	0.24	0.17	0.18	0.22	0.24
TEXTILES, WOOD, PAPER	0.30	0.22	0.17	1	0.23	0.08	0.21	0.16	0.15	0.13	0.20	0.20
CHEMICALS, RUBBER, PLASTICS	0.31	0.23	0.26	0.23	1	0.26	0.28	0.17	0.28	0.27	0.19	0.13
METALS	0.19	0.25	0.12	0.08	0.26	1	0.19	0.29	0.12	0.25	0.13	0.20
MACHINERY	0.32	0.25	0.10	0.21	0.28	0.19	1	0.11	0.22	0.30	0.25	0.25
VEHICLES, FURNITURE	0.28	0.29	0.24	0.16	0.17	0.29	0.11	1	0.18	0.18	0.17	0.10
ELECTRICITY, GAS, WATER	0.23	0.17	0.17	0.15	0.28	0.12	0.22	0.18	1	0.19	0.19	0.16
CONSTRUCTION	0.19	0.28	0.18	0.13	0.27	0.25	0.30	0.18	0.19	1	0.14	0.28
WHOLESALE, RETAIL, RESTAURANTS	0.29	0.28	0.22	0.20	0.19	0.13	0.25	0.17	0.19	0.14	1	0.19
TRANSPORT, COMMUNICATION	0.18	0.28	0.24	0.20	0.13	0.20	0.25	0.10	0.16	0.28	0.19	1

Figure 5: Similarities in adaptation responses to environmental change among different industries

Note: All QAP correlations are statistically significant at 0.001.

Source: Research on adaptation processes in medium and large Slovenian companies, 2005.

Sector 11 (transport and communication) was very uncertain (5.0), to which firms responded with intensive organic adaptations in organizational structure, which allowed them to operate more flexibly, and intensive adaptations in network structure – they restructured their organizational domains in such a way as to improve controllability over scarce resources. In general, these sectoral adaptations can be explained nicely via Child's (1972) strategic choice theory.

Sector 12 (health and public service) was perceived as the most uncertain sector in Slovenia in the period 2000 – 2005. Firms responded homogeneously with intensive adaptations in both organizational and network structures. In general, a strong negative correlation exists between these two types of adaptations, and this might exist because companies made either organic adaptations in organizational structure (to become more flexible in an uncertain environment) or more mechanistic adaptations in network structure (more controllability and reduction of environmental uncertainty to previous levels, which lowers the pressure to adapt organizational structures as well).

Conclusion

Before making a final conclusion from the empirical research, we should shift our attention to the validity and reliability of the empirical research. The main source of deficiencies is the use of a single data-gathering technique – a questionnaire. The chief objective in formulating the questionnaire was to make it quick and easy to fill in. This was a logical objective because management cannot dedicate very much time to such activities. Therefore, the questionnaire did not seek much other relevant data, as that would have required more time and concentration. For this reason we listed only the main, most important and most likely adaptations in organizational and network structures suitable for the (uncertain) environment and period we investigated. Even though the attributes of environmental developments and adaptations in both organizational and network structures were carefully selected on the basis of recommendations in contemporary organizational literature, we did not list and study many important changes and adaptations like informal adaptations.

Top management were asked to fill in the questionnaire. We are aware of the problem that we obtained

somewhat subjective answers about the perceptions of environmental developments. In addition, it is possible that the person who filled in the questionnaire did not necessarily have all the relevant information about structural adaptations in the 2000 – 2005 period and/or maybe forgot some. In order to acquire more reliable data, each member of the management team should fill in their own questionnaire. For cross-checking and more in-depth insights we should also conduct some interviews.

The other group of problems relates to the measurement construct. For instance, the way we measured the magnitude of adaptations in organizational structure was not completely reliable. We did not get a measure of the actual extent of a particular adaptation. We were only interested in whether some particular organizational structure adaptation had been introduced in the specific business/support function, without asking about the actual extent of the adaptation. For instance, the automation of work-flows in production can either involve the introduction of a more efficient machine or the complete automaton of production. The way the questionnaire was constructed did not allow us to identify such differences. Besides, the measurement construct did not take into account the importance of the adaptation conducted in one business function or another. For instance, the automation of work-flow is relatively more important and relevant in production than in staff functions. The measurement construct was not able to identify this.

The same deficiencies in the measurement construct apply to network structure adaptations. Our research construct did not detect the differences between changing a specific coordination mechanism (i.e. from a simple contract to joint venturing) to one or 10 distributors or other business partners. Besides, the measurement construct did not differentiate the importance of different groups of business partners. For instance, buying a majority ownership share in a key competitor could be more important than buying the majority ownership in a company from an unrelated business area. Besides, the application of different procedures for assessing adaptations in organizational structure and adaptations in network structure made a direct comparison of these two types of adaptations impossible.

Given all the drawbacks of the empirical research we can conclude that 1) a subjective perception of environmental change is different to the actual (objective) environmental change; that (2) a sub-

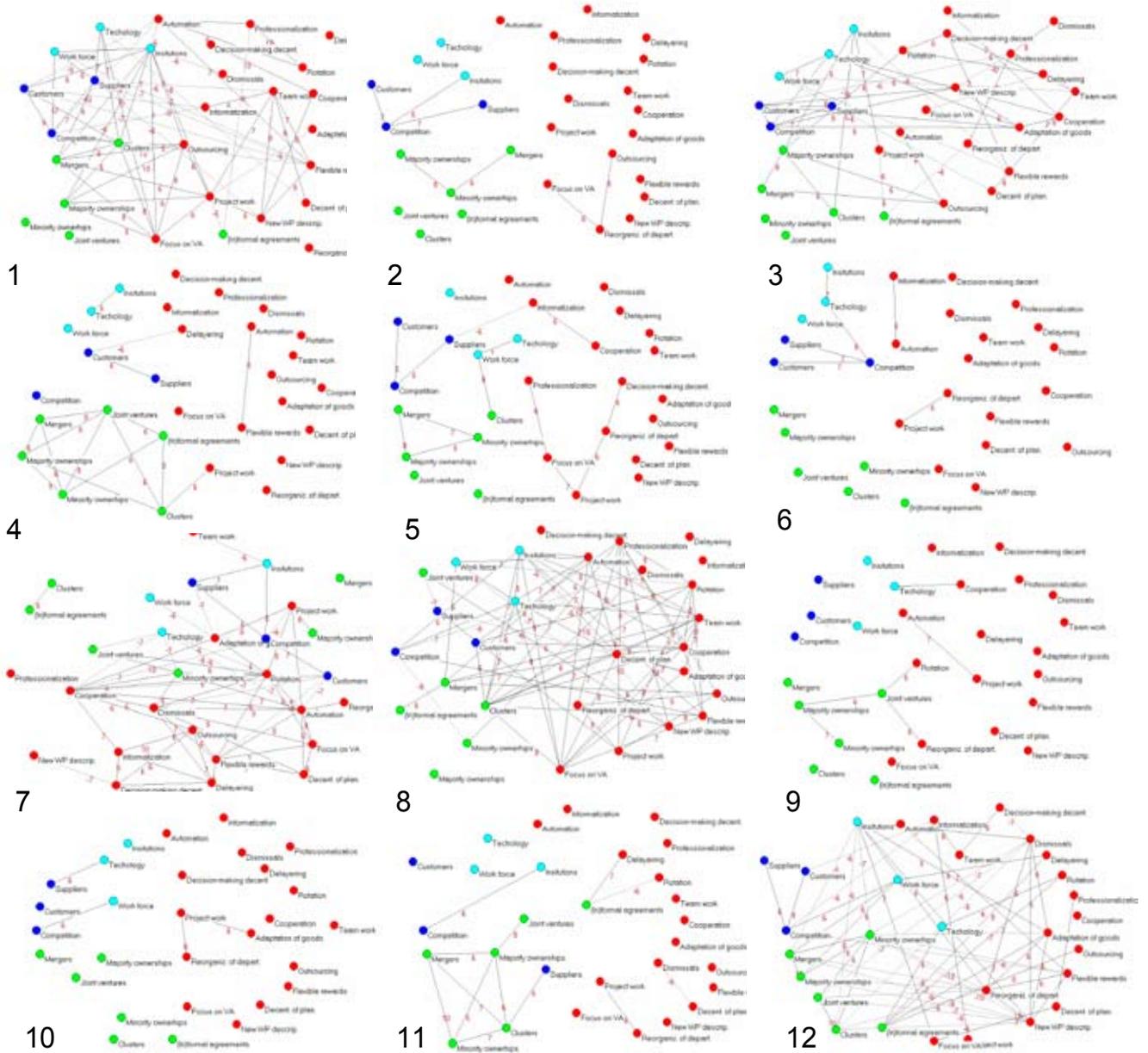


Figure 6: Differences in adaptations in response to environmental change among different industries (correlation at least 0.5)

Source: Research on adaptation processes of medium and large Slovenian companies, 2005.

jectively perceived environmental change has an important influence on adaptations in both organizational and network structures; and (3) that these adaptations in turn shape industry specific development-paths.

We believe that multilevel empirical research makes an important contribution to the development of organizational thought. These findings could lead to the development of more realistic evolutionary simulation models. Besides that, tackling the issues of organizational cognition, when implementing evolutionary empirical research is one important contribution this paper makes. Though organizational cognition related to the human mind is a complex phenomenon per se, we think it cannot be avoided in any serious empirical research investigating the relationship between environmental change and organizational responses to these changes. Doubt regarding whether cognition can be studied in a large scale empirical study is accepted; still, we think that our scientific approach highlights the importance of managerial cognition in organizational adaptation processes.

The impact of cognitive processes on firm and industry transformation is not negligible. The question of whether objective reality exists should always twinkle in every researchers mind. Findings in quantum mechanics place cognitive processes before the materialized world (Zukov, 1979). Studying the relationships between perception, cognition, "objective" reality and the object responses (adaptations) to it should also become an important and exciting direction for organizational design scholars.

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Appendix

Table 2: Grouping companies in sectors and macro sectors

Descriptor	Code	Number of comp.	Grouping 1	Number of comp.	Grouping 2
AGRICULTURE, HUNTING AND FORESTRY	A	5	1	8	1.
MINING AND QUARRYING	C	3	2		
MANUFACTURE OF FOOD PRODUCTS AND BEVERAGES	DA15	11	3	11	2.
MANUFACTURE OF TEXTILES	DB17	17	4	33	3.
MANUFACTURE OF WOOD & WOOD, CORK, STRAW & PLAITING MATERIALS PRODUCTS	DD20	6	5		
MANUFACTURE OF PULP, PAPER AND PAPER PRODUCTS	DE21	10	6		
MANUFACTURE OF CHEMICALS AND CHEMICAL PRODUCTS	DG24	8	7	22	4.
MANUFACTURE OF RUBBER AND PLASTIC PRODUCTS	DH25	6	8		
MANUFACTURE OF OTHER NON-METALLIC MINERAL PRODUCTS	DI26	8	9		
MANUFACTURE OF BASIC METALS	DJ27	24	10	24	5.
MANUFACTURE OF MACHINERY AND EQUIPMENT NOT ELSEWHERE CLASSIFIED	DK29	13	11	32	6.
MANUFACTURE OF OFFICE MACHINERY AND COMPUTERS	DL30	19	12		
MANUFACTURE OF MOTOR VEHICLES, TRAILERS AND SEMI-TRAILERS	DM34	5	13	10	7.
MANUFACTURE OF FURNITURE, MANUFACTURING NOT ELSEWHERE CLASSIFIED	DN36	5	14		
ELECTRICITY, GAS AND WATER SUPPLY	E	8	15	8	8.
CONSTRUCTION	F	23	16	23	9.
WHOLESALE & RETAIL, MOTOR VEHICLE REPAIR, PERSONAL & HOUSEHOLD GOODS	G	22	17	26	10.
HOTELS AND RESTAURANTS	H	4	18		
TRANSPORT, STORAGE AND COMMUNICATION	I	10	19	21	11.
REAL ESTATE, RENTING AND BUSINESS ACTIVITIES	K	11	20		
HEALTH AND SOCIAL WORK	N	7	21	11	12.
OTHER COMMUNITY, SOCIAL AND PERSONAL SERVICE ACTIVITIES	O	4	22		

The Role of Public Policy in Entrepreneurship Development in Post-Socialist Countries: A Comparison of Albania and Estonia

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UK

Abstract

Research on entrepreneurship development in transition economies has acknowledged the important role that the external environment plays in inducing entrepreneurial behaviour. Research has also shown that entrepreneurship in these contexts can emerge spontaneously and develop despite the absence of formal institutions due to the use of trust and social institutions or repeated behaviours within a small circle of business contacts (Smallbone and Welter, 2001a; McMillan and Woodroff, 2002). However, the experience in some of these countries has also shown that entrepreneurship in these contexts remains fragile and its contributions to economic development rather small.

In this respect, government is one of the main actors in establishing the necessary institutional arrangements for durable development or productive entrepreneurship in post communist economies. Moreover, variations between countries in government policies and actions contribute to heterogeneous external conditions and variations in patterns of entrepreneurial behaviour and outcomes.

Based on institutional theories, we explore the comparative roles of the Estonian and Albanian governments in shaping paths of entrepreneurial development in these two post communist economies. Using a combination of documentary and survey data we show that government can be both an enabling and constraining influence through

the establishment of regulatory environments, the increased legitimacy of their policies and also through the role that is placed on entrepreneurship in societies where entrepreneurship has had a short history.

Keywords: Albania, entrepreneurship, Estonia, government, policy

Introduction

Entrepreneurship has been identified as one of the main driving forces of economic development (Wennekers and Thurik, 1999). This paper looks at the role of the government in relation to entrepreneurship and small business development in two different post-socialist economies. It is argued that entrepreneurship is a consequence of economic development as well as a contributory cause, particularly in societies that have well defined rules of the game that allow for channeling entrepreneurial acts towards productive uses, which will in turn have positive impacts on economic development.

For many years, entrepreneurship has been commonly presented by theorists as the act of a constructive individual who contributes to economic development through his actions of innovation (Schumpeter, 1947), arbitrage (Kirzner, 1973; 1999) and accumulation of knowledge (Mantzavinos, 2001) as a result of learning histories and problem solving by entrepreneurs. However, these theories lack consideration of entrepreneurial acts that positively affect the entrepreneur him or herself and not the society. In contrast, Baumol (1990) was amongst the first to make a distinction between productive, unproductive and destructive forms of entrepreneurship, pointing out that

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policy has an important role to play by altering the structure of payoffs under the framework of social norms and attitudes in a particular context.

The literature about post communist economies has often pointed out the existence of these different forms of entrepreneurship and the (in)efficiency of governments in channelling resources into productive applications through the creation of basic framework conditions required for private business development. The OECD (1998) refers to 'basic framework conditions' as the creation of initial legislation and regulations allowing private businesses to legally exist, the establishment of private property rights, market-based institutions, a commercial banking system, company and business law, a code of business ethics, a liberal trade regime and market based pricing for inputs, goods and services. Certain framework conditions are particularly relevant to entrepreneurship development, such as simple and inexpensive procedures for licensing and regulation; a non-prohibitive and transparent tax system; stable legislation and regulations; and access to capital.

In this paper, evidence is presented with respect to the role of the state in two post communist countries. On the one hand, Albania, which is one of the Western Balkan countries that aspires to future membership in the EU. On the other hand, Estonia, which is already an EU member and its road to accession, has been marked by important policy developments, which have acted as an enabling factor with respect to the development of the small business sector. Analysis of the government's role is considered in an institutionalist perspective, which argues the role of polity in the creation and enforcement of formal institutions. Qualitative and quantitative data from research the authors have been involved in is used to explore the role of public policy in the development of entrepreneurship in these two countries.

In the first section of the paper, an outline of institutional theories is presented together with the role of public policy with regard to entrepreneurship and small business development. In the second and third sections, the cases of Albania and Estonia are explored. In the fourth section, we discuss the main features of public policy influencing the development of entrepreneurship in both these contexts, followed by some general conclusions and implications for entrepreneurship theories.

Institutional Theories

At the beginning of the transition period, the phrase "transition to a market economy" was widely used in references to the post communist transformation, by regarding it as a passage from central planning to a market-based economy. Nevertheless, it was soon understood that these countries were experiencing a multi dimensional transformation that encompassed the economy, polity and most importantly the entire society.

In this respect, institutions have attracted increasing attention from those seeking to understand the features of the post communist transformation and entrepreneurial behaviour in particular. According to institutional theory, institutions are constraints that guide human interaction (North, 1990). They not only provide a framework for human interaction, but also define what kind of behaviour is acceptable. According to North (1990; 1997), institutions are made up of formal constraints, such as rules, laws and constitutions, whose aim is to facilitate political or economic exchange, but also informal constraints, such as norms of behaviour, conventions, and self-imposed codes of conduct. These "*come from the socially transmitted information and are part of the heritage we call culture*" (p. 37) and their enforcement characteristics. *Informal rules underlie and sometimes complement or substitute the formal ones* (North, 1994); and they reflect the *old ethos, the hand of the past or the carriers of history* (Pejovich, 1999).

Institutional theories view the state as a third, coercive party, since it is the polity that specifies and enforces the formal rules in a society. In North's theory of the state, there is evidence of some duality of its role. On the one hand, the state is an important agent in specifying the rules of the game, in terms of the extent of competition or co-operation in a society, in order to increase economic efficiency and welfare but, on the other hand, the state can specify property rights that are not necessarily based on its needs as a ruler, such as fiscal needs.

One prominent example of formal institutions through which the government influences entrepreneurship is property rights and the rule of law. The most important function of systems of property rights is to implement the optimal combinations between productive and unproductive

entrepreneurial activities that translate into positive sum-games in a country (Baumol, 1990; Foss and Foss, 2000). Also, while entrepreneurship is associated with the creativity and commitment of individuals, an efficient system of property rights ensures that the economic actors possessing these qualities feel they can enter certain transactions. In addition, the rule of law provides entrepreneurs a certain security that their business activity will not be stolen, extorted or damaged. The state can also influence entrepreneurial behaviour through the creation of an efficient business regulatory framework and consistent policies that will lower barriers to entry into business (administrative procedures), leaving less scope for the discretionary use of policies by public administrators, which has been a problem in many post communist economies, such as South East European countries and Russia (See for example, Broadman et al., 2004; Bartlett et al., 2002).

Sometimes, informal institutions are adopted because the formal rules are inefficient and individuals find it is less costly to make informal arrangements than depend on the formal rules (Feige, 1997; Pejovich, 1999; Smallbone and Welter, 2003). A history of use of discretionary power, and inconsistencies in formal rules and policies after the collapse of communism has contributed to the prevailing features of exchange in many of these countries: namely, corruption and the emergence of shadow economies (Karklins, 2005; Broadman et al., 2004; Clague, 1997). At the same time, Feige (1997) refers to informal norms, such as corruption or personal networks, as being beneficial in countries where compliance with formal rules is very costly. However, he argues that while this activity may reduce transaction costs, it can also harm the social fabric by jeopardising the principle of the rule of law, making long-term change even more difficult (p. 26).

The inefficiency of formal institutions may discourage some entrepreneurs from pursuing their ideas in the market and also lead to adverse selection by entrepreneurs in the market. According to Chilosi (2001), because of the above-mentioned difficulties in conducting business in such conditions, the most successful entrepreneurs are those that are more effective in bribing and/or getting along with politicians and bureaucrats. This situation creates rent-seeking entrepreneurship, which may harm forms of productive entrepreneurship that will contribute more to economic growth.

Furthermore, as entrepreneurs spend time dealing with the inefficiencies of the system, in such conditions, resources that could be utilised for productive uses are diverted into unproductive uses, thus harming sustainable entrepreneurship in contexts where entrepreneurship is already fragile and not well accepted in society (Smallbone and Welter, 2006b).

Whilst formal institutions are the outcome of designated policies, informal emerge spontaneously through a process of problem solving (Mantzavinos, 2001). Informal institutions are embedded in a web of social norms, networks and trust in society and are informally enforced as a by-product of ongoing social relationships. Whether a combination of formal and informal institutions create a framework for productive entrepreneurship in society can be very much dependent on the credibility of the government, in terms of the design and operation of institutions, since this will affect their legitimacy and increase the rate of their adoption in post communist economies.

A multi-level institutional analysis is used, based on the framework used by Smallbone and Welter (2001b), who argue that SME development depends upon the creation of institutions and organisations at three levels: macro, meso and micro. The macro level is concerned with the design and creation of national institutions and organisations that are responsible for SME policy. The meso level concentrates on the efforts that governments undertake to create *firstly*, a financial infrastructure that is supportive and facilitates the development of the small business sector; and *secondly*, a legal and regulatory framework that is conducive to business growth. At the micro level, the role of the state is first, to create the conditions in which a network of business support organisations can develop; and second, to develop a governance framework which enables policy actions to be shaped by regional needs. From this perspective, the main policy concern at this level should be the ability of the state to design a business support and governance system that will effectively meet the needs of businesses at local and national levels. Such a multilevel analysis is needed to provide a complete picture of the design and implementation of SME policy, based on the view that SME development requires an appropriate set of institutions and organisations, with effective cross-linkages between the different levels of policy-making.

The Role of Government in Post Communist Albania

After 17 years of transition, Albania is still struggling to establish itself as a democracy where the rule of law and law enforcement are the norm rather than the exception. Important reforms have been undertaken in the country, including the reform of public administration, the signing of various initiatives such as the Stability Pact for South Eastern Europe (SEE) in 1999, which aimed to encourage co-operation in the region and membership of the World Trade Organisation (WTO), which occurred in 2000, Free Trade Agreements (FTA) with other countries in the SEE region, and more importantly, the initiation of negotiations for the Stabilisation and Association Agreement (SAA) in 2003, which was subsequently signed at the beginning of 2006.

Despite these reforms, the political leadership in Albania failed to establish full respect for the rule of law, fight organised crime and corruption, establish a well functioning judicial system and a modern and efficient public administration, improve institutional capacity at central and local levels and encourage civil society, which has a very important role to play in a country, such as Albania, where it was non-existent during the communist period (CEC; 2004; OECD, 2004a).

The difficulties facing the fragile Albanian democracy in establishing and enforcing the rule of law, and in the full implementation of reforms, reflect the legacy of a short tradition of statehood. These difficulties have also been a burden to the private sector, which has shown great flexibility throughout the transition period, but could have contributed more to the economic and social development of the country in more stable conditions. It is important to remember that the private sector was non-existent during the communist period in Albania. It was subsequently created by a combination of the entry of new firms after the liberalisation of entry conditions and privatisation of state owned enterprises. In practice, the privatisation of services and small shops was rapid and had a positive effect in supplying the population with goods and services. This opened the way for the privatisation of large enterprises, which continued until early 2000. The result was that by 2006, the private sector in Albania accounted for 75% of GDP and 71% of employment (EBRD, 2007). A characteristic of Albania throughout the years of transition has been the creation of very small businesses, mostly in the trade and services sector, reflecting relatively low barriers to entry in these sectors.

Macro level

The contribution of SMEs to economic growth in Albania has been mainly a result of the spontaneous efforts of people to create enterprises in order to escape unemployment. In policy terms, the main responsibility for SME development is assumed by the Ministry of Economy, Trade and Energy, and for the first time, in 2001, a Medium Term Strategy was formulated for the development of the SME sector. Although much delayed as a step towards supporting SMEs, this strategy put forward a number of objectives and the means to achieve them. Under this strategy, the SME Law No 8957 of October 2002 was adopted to regulate the definition of SMEs, providing the legal framework for SME government support and the creation of a development agency for SMEs. The contents of the strategy spelt out the commitment of the state toward start-ups and existing businesses in manufacturing. At the same time, the government did not assign any budget for the implementation of the strategy until early 2007. During interviews with officials of the SME Agency, undertaken in 2004, it was reported that the “*strategy is not an operational programme where the activities are expressed in financial terms*”. As a result, the Agency itself, which had a very small budget and not enough staff, needed first, to design action plans and second, make them known to the donor community.

It can be argued that good practice public policy should be both evidence based, drawing on informed research, and also involve businesses at different stages of the policy process. In this context, the Business Advisory Council (BAC) was created in 2002 to facilitate dialogue between business and government. However, this structure has proved to be another in the range of *buzz* initiatives, *giving voice to businesses or making them heard* since it included mainly ministerial staff and representatives of structures that did not really represent the business community. In this respect, one interviewee reported that:

The government drafts laws and the Council just comments on them. I think this is a deficient process...the voice of the businesses is not really heard in the form this is operating right now. This initiative was one of the many formalities (Donor programme).

In other words, the creation of the BAC enabled government officials to ‘tick a box’, but the measure did little to really involve business owners in

the policy process. The problem is that such initiatives not only reduce the credibility of government actions, which is crucial to the successful implementation of reforms, but worse, they increase the extant distrust on the part of the business community in formal institutions, including support structures or business associations that represent businesses in the BAC. Another issue concerns the level of awareness of government initiatives in the business community. In this regard, interviews with entrepreneurs in 2004 showed that several years after the SME strategy was formulated, and after the government passed the Law on SMEs, the majority of businesses were still not properly informed about the Law and what the strategy offered to specific groups of businesses.

This lack of awareness was also reported in the OECD Enterprise Performance Policy Assessment (EPPA) reports of 2004, according to which the majority of businesses did not even know about the existence of such documents and initiatives, and were ignorant of their entitlement within the law. Interviews with public officials showed that the government's attitude was to be the initiator and designer of strategies and policies, but not the *awareness engineer*. This position makes the government a mere *producer* of nicely written documents with little interest in their implementation and even less in the fulfilment of the stated objectives and targets. From an institutional perspective, it has been suggested that the process of learning in transformation societies tends to be slower the longer a country was under the previous regime (Kolodko, 2000), which makes learning more difficult in the Albanian context than in some other transition economies. This means that the actions of governments to build the credibility of reforms, and an awareness of the rights and obligations of individual citizens and government officials are essential and cannot be left to spontaneous activities, as often happens in Albania.

In such conditions, businesses will follow familiar norms of behaviour with little reference to a set of laws and other formal institutions that in the first place, they do not consider legitimate and in the second, do not understand or know much about. This can only be overcome through effective education and dialogue between the government and business community. In this respect, initiatives like BAC, although positive in terms of initiating some dialogue between the business community and the government, need to be developed further

in institutions that are both more broadly spread geographically (OECD, 2005) and where businesses sit as partners in the process, rather than just as accepters and executors of (biased) political agendas. The same applies to intermediate institutions that have often been excluded from these processes. As a representative from the Regional Development Agency (RDA) mentioned:

In order for the public administration to play an important role it is necessary that it considers the intermediate structures as partners in its job and not just giving them ready made policies and directives. In order to include the voice of businesses in the policies that will affect them, a real representation of businesses (RDA) is required.

A striking element in the government's policy objectives, as outlined in the SME strategy is that no reference is made to an entrepreneurship policy specifically, which implies either that entrepreneurship or business policy are considered to be interchangeable, or that a specific policy for entrepreneurship is not recognised. However, since one objective of the SME strategy is an increase in the number of business start-ups, this implies the intention to promote entrepreneurship, even if the discourse of entrepreneurship is not used. In an Albanian context, prejudices about entrepreneurship being associated with activities that were illegal under communism are still present, and this is reflected in the attitudes of many state officials toward small businesses. It may be argued, however, that this prejudice is one reason why government should consider a policy on entrepreneurship as a matter of priority.

In terms of entrepreneurship education and training, the provision of some training programmes for business start-ups are mentioned in the SME Strategy. However, analysis of the contents of the policy documents and results of interviews with key informants indicate that the government is little concerned with entrepreneurship education. The attention devoted to entrepreneurship education was insignificant until the OECD EPPA 2004 report on SME development in Albania, which paid significant attention to the role of education and vocational training. A turning point in this respect was the EU Charter for SMEs that the government adopted in September 2003. This is in line with the EU agenda on the need for the owners of SMEs to acquire entrepreneurial attitudes and skills for cre-

ating a business (CEC, 1999). However, the 2004 EU SME Charter for Albania does not mention the need for a change in attitudes toward entrepreneurship in society. Reference to entrepreneurial culture appears only once in the entire document concerned with the National Training Program for SMEs, whose aim is to improve the competitiveness of Albanian SMEs. Thus, there is a need for a balance between entrepreneurship and small business policies, which do not always lead to the same outcomes that the government seems to expect.

Meso level

From an enterprise perspective, finance has never been one of the most severe obstacles to business start-up in Albania, since informal sources, such as friends and relatives or remittances from emigrants have always been available. Nevertheless, the reform of the financial system has been slow. The EBRD financial sector reform score (EBRD, 2006) for Albania is only 2+, which ranks it among countries with a poorly developed financial sector (EBRD, 2007). However, in recent years significant improvements have taken place, including an increase in the number of banks operating in the country, the successful privatisation of the National Commercial Bank in 2000 and the privatisation of the largest bank in Albania, the Savings Bank, in December 2003. Over the years, the banking system has gradually passed through many changes in its ownership structure (from state dominated to a more balanced structure); as well as increased geographical spread (from being mainly concentrated in Tirana and some major cities to other cities); and an increase in the number and range of services available to clients.

At the same time, the lack of instruments protecting against risk and the lack of collateral available for small businesses has complicated the borrowing procedure in Albania, contributing to the fact that in 2002, the level of bank lending to private businesses was just 4.7% of GDP. The bank funds used to offer credit to SMEs represent just 10 – 30% of the money the banks have available and these are short-term loans due to the high risk that banks perceive to be associated with SME lending. Although these figures have improved, they still compare poorly to an average of 27% of GDP lending to the private sector in the EU accession countries and 10% in the rest of the SEE countries (OECD, 2003a).

Micro-credit institutions have been promoted as part of a social policy to create self-employment and the fight against poverty, rather than as part of an economic policy. Nevertheless, their role is important in contributing to the development of entrepreneurship in the country, considering the fact that most Albanian businesses are micro businesses. Moreover, they operate in areas where the banking system is still not available and/or in rural areas. Nevertheless, what the SME strategy refers to as *long-term development finance*, to address the needs of entrepreneurs seeking to introduce new technologies and/or are committed to the long-term growth of their enterprises, is still missing. Moreover, the financial system is not facilitating such developments, since loans are normally repayable within one year. In one of the interviews conducted with an employee of the Credit Department in the NCB of Albania, strong reference was made to the need for the bank to be cautious. In this respect, the following quote gives an explanation regarding the policy of this bank toward business credit:

While there is stability of macroeconomic indicators there are many microeconomic issues that make the process difficult. Unfair competition and the fiscal evasion make the game difficult, especially for those enterprises that try to play by the rules of the game. In these cases a business that not only has to face these issues, but also has to repay a loan is in very serious difficulties. We take these into account in our projections of a business's future from the moment it applies for a loan and further on assuming the effects of these hypothetical expenses on that business (NCB).

Whilst the explicit aims of government policy for SMEs is typically to increase the competitiveness of the business sector, in order for it to prosper and contribute to employment growth, achieving this requires a regulatory framework that will enable businesses to feel confident about investing and developing their business ideas. The design of regulations in Albania has for many years been a monopoly of government structures with no or little inclusion of other actors in the process. Since this process has suffered from a lack of knowledge about SME concerns, they have not been taken into account in the regulatory and legal framework. Moreover, together with the tenuous rule of law, an inadequate regulatory framework has influenced the decisions of many entrepreneurs to enter

the informal economy, which is one of the most developed forms of unproductive entrepreneurial activity in Albania. Although the reliability of data on Albania has always been an issue, a study was published by the OECD Investment Compact in December 2004 (OECD, 2004b) on the informal economy in the country. The study estimated that, excluding agricultural activities, the size of the informal economy represented 23.4% of GDP at market prices in 2002. In general, the high levels of informality were attributed to the tax regime and a VAT threshold of 8 million Lek turnover, which increases the incentives for businesses to underreport their turnover. In this regard, the report cited that:

The two-tier VAT regime results in a break in the valued added chain that, in turn, facilitates turnover under-reporting, VAT and CIT evasion. Dysfunctions in the operations of the customs administration create an additional channel for turnover under-reporting, increasing the pressure from unfair competition through parallel imports (p. 13).

Another widespread form of informal activity is non-compliance with social security contributions. Businesses under-pay social contributions by abusing the minimum wage provisions and/or by under-reporting the size of their labour force, which according to some estimates from the Department of Social Administration is approximately 30%. As a consequence, the informal economy has a substantial impact on competition in the market, putting those enterprises that operate in the formal economy and respecting the rules of the game, at a significant competitive disadvantage. This chaotic situation with regard to Competition Policy is supported by EBRD indicators, which in 2006, recorded a low score of 2 to Albania for Competition Policy, indicating that the legislation and institutions to secure effective competition were not yet in place.

Another problem, shared with other 'early stage' transition economies is that the legal and regulatory framework has been continually changing, as well as often being unclear in its aims, making it hard for enterprises to perform their activities. This unpredictability and instability of regulations are characteristic of a low-quality regulatory framework that fails to encourage compliant behaviour, thereby affecting the credibility of the government, which is important if institutional change is to be

achieved. In addition, poor specification of regulations has created space for corruption because regulations can be interpreted subjectively and implemented to favour or penalise certain groups.

The most significant step in this direction in terms of policy measures has been the action plan that the government formulated based on the recommendations of a study conducted by FIAS on 'Removing Administrative Barriers to Investment' – tax and customs administration were the main areas to be improved. There is concern about the way the Administration operates, as well as the reported hostility between the business community and the public administration. This study suggested that the major concern for the Customs and Tax Administration is the achievement of their revenue plans, rather than an increase in the tax base of the economy. The emphasis on revenue plans has been a concern for many years now, which top government officials acknowledge, although little has been done in terms of implementation and developing awareness, as mentioned previously.

The OECD EPPA report (2004) showed a lack of awareness of this initiative among small businesses and about the measures that the government has undertaken to reduce administrative barriers. However, since this exercise will be repeated it means that the government will be able to map out any positive or negative outcomes as a result of the introduction of new measures.

Entrepreneurs' Real Life Experiences

A beverage manufacturer told this story:

'The fiscal inspector found some alcoholic drinks that I had produced without the excise stamp. This was a good reason for both of us to compromise on the issue. So, we agreed that I (the producer) would pay him 10 000 Lek a month in order for the tax inspector not to be a burden for my activity and to sell my alcoholic drinks without the excise stamp.

However the story became complicated when another tax inspector that had a similar deal with another beverage producer, a competitor of mine, put pressure on the inspector I had a deal with, about the producer he had "under protection". Since the situation was very difficult I found myself taking the decision to go to court. I had some witnesses that had seen the tax inspector getting money from me, so I won the court case. However, since that time I am being subject

to continuous tax inspections, which have made my activity even more difficult than before.

It is impossible to survive in this environment if you do not try to avoid certain business obligations because there are many other producers that do the same or falsify their products'.

Mantzavinos (2001) argued that competition is determined by rules and regulations, formal or informal, which set what is allowed in terms of market activities and the kind of knowledge that is being transmitted in a society. The above discussion shows that the regulatory framework in Albania is characterised by various deficiencies in terms of both content and enforcement of regulations. It is clear that the behaviour that such regulatory frameworks induce is non-compliant, unproductive behaviour that could be characteristic of zero or negative sum games in the Albanian economy. It is a common view in Albania that market competition is based on good connections with political actors rather than on creativity, innovativeness, boldness and alertness to productive opportunities that characterise productive entrepreneurs. In one interview with a business association it was mentioned rather pessimistically that:

I don't think the ability to compete in the market is important because the market does not have any rules. To the contrary there is no need for any specialisation apart from having good connections with politicians of high levels in order not to have difficulties with the customs. However good you are in a field you can't compete or manufacture in Albania. This is a problem that all businesses are facing (Business Association).

Micro level

At the micro level, an SME Foundation and seven Regional Business Agencies were created in 1992, with the assistance of the EU PHARE programme. There are now ten of them, and they have been renamed Regional Development Agencies (RDAs), in order to create a regional network of business support organisations (GoA, 2001). The aim was to assist SMEs and provide training necessary for enterprises to operate in a market economy. However, the 1997 crisis and the ending of PHARE funds led to the closure of this foundation. During the period up to 2000, a number of ad hoc SME measures or programmes were developed, which created numerous problems in the coordination

of SME policy actions. Assistance to Albanian businesses is mainly achieved through donor programmes, which for many years have operated in their micro worlds that are part of a wider system about which they have limited knowledge (Perren et al., 2001). Recently, SMEDA (now directory for Small Business Growth in Albinvest¹) has been involved in bridging these micro worlds. Moreover, as noticed in Xheneti (2005), business providers in Albania have suffered from weak capacities and skills that have also been reflected in the kinds of assistance offered to businesses.

The Role of Government and Entrepreneurship Development in Estonia

In contrast to Albania, Estonia started institutional reforms much earlier and has created a more positive environment for the sustainable growth of the SME sector. Recent EBRD reports note that real GDP growth accelerated to 11.4 per cent in 2006 with private consumption, net exports and investment as the main drivers of growth. Strong growth was recorded across the economy, most notably in construction, financial intermediation, manufacturing and the real estate sector (EBRD, 2007).

Following independence in 1991, economic policy in Estonia was underpinned by a free market philosophy and a commitment to the institutionalisation of private ownership and market reforms. Rapid privatisation meant that by the end of 1996, most large enterprises had been sold, with attention then turning to utilities, such as energy, telecommunications, railways and ports. Changes in the economic and legislative environment in the early 1990s led to a rapid increase in the number of private enterprises, encouraged by the relatively simple conditions for establishing enterprises. At the same time, this led to the registration of a large number of enterprises that either never started trading, or commenced trading, but were unable to survive in the market. A relatively successful privatisation model also contributed to the initial increase in the number of private enterprises, so that by 1995, 90% of all Estonian enterprises were in private ownership and by 2005, 80% of GDP was contributed by the private sector (EBRD, 2007).

¹Albinvest was created in 2005 by the merging of three separate agencies: Small Business Development Agency, Export Promotion Agency and Foreign Direct Investment Agency. It was based on a decision to restructure the ministerial structures, taken by the new government that came in power in 2005

During the initial phase of transition, government was responsible for administrative and legal reforms, which made it possible for privately owned enterprises to develop, although for a time the continuous nature of these changes contributed to an unstable and uncertain business environment. It also took some time to completely revise the tax system, which meant that the development of small private enterprises was initially constrained by the remains of a tax regime inherited from the Soviet period. At this time, direct support measures to promote SME development in the country were noticeable by their absence, with the role of government best characterised as one of limited intervention. Although market and trade liberalisation has not been specifically aimed at SMEs, it has contributed to increased opportunities for them to develop and sell in foreign markets, as well as making them more attractive to foreign partners.

Although government did not pay special attention to SME development throughout most of the 1990s, foreign aid programmes (supported by donors such as the EU through its Phare programme and NUTEK) contributed to the establishment of business support centres. This led to the development of a number of programmes for SME support being approved by government in 1996/97, offering credits, the development of training and consultancy programmes, financial support for the existing business advisory and entrepreneurship development centres, as well as some export support and support for innovation. In contrast to the initial stages of transition, by the late 1990s, government policy was beginning to place more explicit emphasis on encouraging and supporting SME development, although its impact on the ground appears to have been limited, with surveys showing the numbers of firms benefiting or even aware of these programmes to be very small (Smallbone et al, 1999).

Macro level

Responsibility for enterprise support in Estonia was rationalised in 2000 under the Ministry of Economic Affairs with the aim of making more effective use of the resources available for enterprise support. This contrasts with the situation prior to 2000, when a total of five ministries were involved in enterprise support, either directly or indirectly. Impending accession to the EU contributed to a more active policy with respect to entrepreneurship by the government. This is reflected in the national

business policy or development plan for the period 2002 – 2006, which recognised that SMEs have the potential to contribute to job generation and regional development, but also that SMEs may suffer from size-related market failures in comparison with larger firms. The stated aims of Estonian enterprise policy are: to promote entrepreneurship, to create new jobs and to improve the competitiveness of Estonian businesses (Estonian Ministry of Economic Affairs, 2002). In order to achieve this, the main priority activities for SME policy at the time of Estonia's accession to the EU were: the development of human resources, improved access to finance, the development of the business support infrastructure, improved access to business information and a reduction in administrative burdens on businesses.

The design of this national policy may be considered as a positive development in the policy process since it represented a significant step forward in strategic thinking, with related measures and responsibilities allocated for implementation. A particularly significant step was linking strategic policy objectives to specific action plans, tied into the budgetary process, since this helps in overcoming the implementation gap, which has been identified in the Albanian case.

Currently, a new document – “The Estonian Entrepreneurship Policy for 2007 – 2013” – has been adopted which incorporates four key aims: the development of a strong enterprise culture, a legal environment that favours entrepreneurship, improved access to finance for SMEs and improved capability for SME growth and exporting which are in tune with broader EU objectives towards a more competitive and entrepreneurial Europe. The latest policy documents incorporate an increased emphasis on new venture creation and entrepreneurship, rather than on SME development per se, which is still the emphasis in Albanian policy documents. More specifically, the main targets to be achieved by 2013 are: to provide graduates with basic knowledge of entrepreneurship, increase the number of businesses established, decrease company registration procedures, support enterprise use of consultants and train their employees and increase enterprises export activity. Against the background of the new entrepreneurship policy, the increasing role of the educational system should be emphasised, particularly that of universities, in creating an entrepreneurship culture and particularly in providing high-quality entrepreneurship education at

all levels of education. Other related educational priorities include the development of advanced education, and raising awareness of entrepreneurship and innovation among enterprise managers, opinion leaders in the society as well as among the public at large.

Meso level

Considerable progress has also been made in developing the institutional framework for enterprise development at the *meso* level. This includes the banking system, which is now largely under foreign ownership and has developed a range of financial products similar to those available to enterprises in a mature market economy. It also includes a number of unions, associations and chambers, established by special interest groups, mainly on the basis of voluntary membership. Some of these, such as the Chamber of Trade and Commerce and specialised sector-based organisations have been the main source of support for businesses, particularly with regard to the process of exploiting foreign markets. In 2000, the public business support infrastructure in Estonia was rationalised into two organisations, in an attempt to make it more efficient, transparent and accessible: Kredex, the Credit and Export Guarantee Fund, and Enterprise Estonia, which has responsibility for implementing public business support measures.

During the last decade, the management of regulation has become a priority for EU institutions across the EU reflected in the drive for better regulation, which involves impact assessment, consultation, and ex-post evaluation of regulatory tools and institutions. The key underlying aim has been to improve the quality of legislation and make governance more transparent, responsive and accountable. One of the main innovations during this period has been the use of Regulatory Impact Assessment (RIA), which involves an explicit commitment to systematic, ex-ante assessment of the possible implications of proposed new regulations, combined with ex-post monitoring and review of regulations introduced, reflecting the wider objectives of better law making and better regulation. At the same time, Metcalf (2003) has emphasised that the value added from impact assessments depends not just on their intellectual elegance and completeness, but also on how they actually work in practice, emphasising the importance of management quality in this regard.

The issue of 'better regulation' is especially important in the case of the EU's new member countries. This has been recognised by the European Commission in its CC BEST initiative, which shows that although the regulatory and administrative framework in these countries has improved significantly, progress varies between countries. Nevertheless, administrative simplification is a priority in all of them, as it is in some of the more established EU countries. Governments sometimes fail to acknowledge that heavy administrative procedures hit smaller companies disproportionately, which can provoke their flight into the informal sector. A particular challenge in this regard has been the need to simplify legislation, whilst, at the same time, adopting the 'acquis communautaire', as a condition of EU membership. The main focus of the simplification process is the reduction of the time and cost of registration and licensing, with 'one-stop shops' for administrative procedures a welcome development' (SEC, 2001: 23). At the same time, there are still unresolved questions, such as the specific consultation mechanisms that could help governments to 'think small first'; and also the most cost-effective ways of informing the business community of changes in legislation.

Evidence drawn from a large-scale survey of SMEs in Estonia undertaken in 2002, shows that although Estonia is significantly better than Albania in terms of regulatory improvements, it still has some way to go to achieve the standards of mature market economies in Europe. For example, in the survey, businesses set up during or after 2000 were asked to assess how long the initial registration and licensing procedures had taken. In the majority of cases (55%), these procedures were reported to have taken less than 1 month, with a further 31% reporting the process took between 1-2 months. However, in 9% of cases, respondents reported experiencing delays of more than 2 months. The speedy and efficient registration of new businesses is a current priority for enterprise policy in the EU. In this regard, a recent study reported that the average time for completing the administration of new business start-ups in the EU was 12 days for individual enterprises (highest 35 days; lowest 1 day) and 24 days for private limited companies (from 35 days maximum to 7 days minimum) (Centre for Strategy and Evaluation Services, 2002).

Micro level

At the *micro-level*, institutional development in Estonia has focused on the development of a net-

work of business development centres. The starting point for coordinated public sector support was in 1997 when the Regional Development Agency was established to strengthen the support network for SMEs in the counties, and also to provide credit for firms and arrange the realisation of regional programmes. This was followed by the introduction of several other enterprise support schemes with support from the EU Phare Programme (e.g. loan scheme, export support), which several ministries had responsibility for (5 ministries in total). However, not all measures were specifically targeted at SMEs, but rather at internationalisation, technological development and innovation in Estonian enterprises, although SMEs could participate.

A previous evaluation had identified a number of weaknesses in the donor-financed network, including poor relationships with local authorities and other relevant institutions (such as banks), and a lack of engagement with local business networks. Other problems identified include the ongoing dependence of these centres on subsidies, the poor advertising of their services, and the fact that their activities during this period were mainly limited to dealing with start-ups (European Commission, 2000). As a result, the business support network

has subsequently been the subject of reform, both to improve the quality and effectiveness of services delivered to SMEs, but also to improve the administration, management and cost effectiveness of the support institutions.

Policy Features and Conclusions

Adapting the role of the state in the economy (and society) has been a major part of the challenge facing post communist economies, since the process of market reform requires a fundamental change in the role, type and behaviour of public institutions, as well as new forms of governance to be established. This reflects a need for a more fundamental shift in the role of the state in the economy, as government replaces its role as a planner of resource allocation, price setter, owner and financier of enterprise activity through subsidies and transfers, with the role of regulator and facilitator of private enterprise activity, with all that involves. Not surprisingly, despite the shared common socialist heritage, experience in this regard has varied considerably between countries, as the contrasting cases of Albania and Estonia demonstrate.

Table 1: Main policy features in Albania and Estonia

Government role in entrepreneurship and SME development	Albania	Estonia
Macro level		
1. Responsibilities for SME Policy	Ministry of Economy, Trade and Energy	Ministry of Economic Affairs
2. National SME policy	Designed but no evidence of components of the strategy being achieved. No allocation of time and budget for different objectives.	Strategic, with time and budget allocated for each objective.
3. Policy Implementation Agency	Existent but no records of implementation in place. Its role in policy is not clear either.	Enterprise Estonia and Kredex have clear responsibilities for implementation.
Meso level		
1. Financial infrastructure	Improved but not yet very supportive of the small business sector	Developed to standards of mature market economies.
2. Regulatory Framework	Lack of coherence, consistency, predictability and transparency. Not easy to manage.	Well developed but still problems with the establishment of dialogue between the government and the businesses community.
Micro level		
1. Network of business support organisations	Developed but in need of reform and capacity building.	Well developed and geographically spread
2. Clear responsibilities	Lack of clear responsibilities and involvement in the policy process.	Responsibilities well defined, though increased awareness amongst businesses is needed

The comparison has shown that whilst Albania has a policy framework at a national or macro level with the relevant laws and regulations in place, it suffers from insufficient cooperation between the formal organisations responsible for SME development and the business community, together with an implementation gap, which reflects a lack of institutional capacity (Table 1). At the meso level, the Albanian regulatory framework suffers from unpredictability and instability, a lack of ease of management and also inconsistency and unfairness of implementation, which are further exacerbated by poor administrative capacities and lack of motivation among public officials and administrators. In addition, the implementation and establishment of business support organisations at the local level is rather weak, which emphasises the importance of government strengthening local and regional institutional capacities and also the local support infrastructure.

The Estonian case shows that the institutional infrastructure for entrepreneurship is much more developed at all levels of policy, reflecting the country's commitment to preparing itself for EU membership and the potential this offered for attracting the resources (technical as well as financial) to facilitate the required restructuring. Estonia has a relatively strong policy framework provided by the central government to support SME development. It also has a well-developed financial and regulatory infrastructure and a diversified set of support institutions at the local level. However, increasing awareness of the support on offer is still a priority, based on recent survey evidence (Smallbone and Venesaar, 2004), provided this is necessary for the broader benefit of the SME sector. Moreover, it was shown that policy makers in Estonia have been influenced by policy trends in other countries in favour of a longer term emphasis on increasing the supply of and quality of entrepreneurs through increasing the priority given to entrepreneurship education, with entrepreneurship rather than SMEs being at the forefront in recent policy documents.

Fundamentally, it might be suggested that alongside differences in the influence of the EU on the policy process, the differences emerging from this comparison of Albania and Estonia also reflect the differences in the level of commitment to market reforms, as well as in the knowledge and resources available to the state to implement what is required. The process of accession (which began

several years before accession itself in 2004) gave added impetus to the ongoing process of market reform in Estonia, including access to funds to assist with the ongoing restructuring, during both the pre- and post-accession periods (Smallbone and Rogut, 2005), but also increased access to technical assistance.

Moreover, the evidence presented suggests the need for post socialist governments to strengthen their capacities at different levels of governance, which will enable the needs of enterprises to be better addressed. At a cultural level, the paper shows that despite the social and economic transformation they have been going through, both countries still have difficulties in overcoming the legacy of hierarchical vertical structures and in involving all the stakeholders (enterprises included) in the policy process.

The paper also has important implications for entrepreneurship theory, reinforcing the need to recognise the important role of the state in entrepreneurship development. From an institutional perspective, entrepreneurship is very much dependent on the social, legal and economic institutional structures operating in a specific social context. As the designer and enforcer of formal institutions, the state has a key role to play in influencing the extent to which entrepreneurship develops, the forms that it takes and specifically the relative scope for productive or unproductive entrepreneurial activities. These features support those who emphasise the embeddedness of entrepreneurship behaviour in a specific social context (Smallbone and Welter, 2006a; Baker et al., 2005; Davidsson, 2003). Moreover, the evidence presented with respect to the regulatory and financial infrastructures in these countries further supports the arguments with respect to the role of national structures in influencing the range of opportunities and also in the evaluation of these entrepreneurial opportunities (Baker, 2005) through its influence on the types of costs and benefits related to them.

Finally, apart from emphasising the role of the government in shaping entrepreneurial opportunities and behaviour, the analysis points to the need for further research in different post-communist contexts, which looks in detail at the processes of institutional transformation and their influence on the changing features of entrepreneurship.

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Development of Company Managers' Business Knowledge in a Transition Economy: Sensemaking and Social Representation Theory Perspectives

Svetlana Serdukov

Abstract

Even though the subject of **business knowledge** development in **transition economies** has attracted growing interest in recent years, many aspects of this process are still overlooked. This paper aims to investigate how economic, political and social changes, which occurred in a particular transition society, reflected in the minds of **company leaders**, and how their business knowledge developed over time. Using the theoretical framework of Sensemaking (Weick, 1995; 2005) and Social Representation (Moscovici, 1961; 1984), this article focuses on the business practices and cognition of business managers and their interactions. This **longitudinal** study encompassed a period of 7 years from 1997 to 2004 and consisted of observing a group of young entrepreneurs who started their businesses in the early 1990s in Kazakhstan, and who have become significant actors in the business community today. Empirical results show that business knowledge is constructed through **interaction**. The role of interaction within the group is not only limited to the way in which it allows members to "make sense" of past actions and events, but it is also a factor in driving future actions of group members. This research contributes to the understanding of business knowledge within a transitional context and has implications for management and business education.

Keywords: business knowledge, company leaders, longitudinal study, sensemaking, transition economy.

Introduction

The aim of the study reported here comes within the framework of a broad exploration of the relationship between **managerial knowledge** and **practices**, a

field of study which has become increasingly prominent in recent years. A discussion of managerial knowledge and practices involves linking the **content** of a manager's work and the **process** by which a manager *enacts* (Weick, 1995; Weick et al., 2005) his environment, how they understand and interpret it in order to take appropriate action in a specific **context**. This paper investigates how company leaders construct an appropriate scope of business knowledge in a transition economy; how they represent their profession; how and why this representation changes over time.

This threefold change which occurred in post-soviet countries (economic reform, political reform and reform of the State) has been, for the last decade, a popular research subject in organizational literature. In the studies on Eastern European transition economies and post-Soviet countries, four main approaches have been distinguished (Matonyte, 1998): *the functionalist approach to stratification*, *the approach by social project*, *the structuralist approach* and *the approach by social players*.

The main interest of the functionalist approach to stratification, whose founder is Pitirim Sorokin (1927), concerns the radical changes of the social order in the post-Soviet political systems, where the new dimensions of social position were introduced after decades of Marxist egalitarian ideology. This is a rather holistic and quantitative approach. Alternatively, the approach by social project favours qualitative explanations. These studies are centred on the following questions: how do groups and social players emerge; how do "groups in themselves" transform themselves into "groups for themselves"; what is the reaction of the population to the collapse of egalitarian values and to the emergence of private property

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owners? The structuralist approach is based on the hypothesis of a latent order of the social structure. The researchers are not interested in studying manager's personalities, because for structuralists, structural logic dominates society, and personal success appears as a simple consequence of social organization. The approach by social players, such as was elaborated by Touraine (1973), takes into account notions of historicity, systems of historic action, ethical models, etc. This approach is based on empirical studies, involving the observation of focus groups formed for the specific needs of the research and are therefore difficult to validate.

Thus, despite the large number of research studies conducted on the transition process there is very limited literature investigating company leaders and managers cognition and the business knowledge building process. This research focused on the emergence of and change in private company manager practices during the transition process from planned to market economy in Kazakhstan. It aimed to investigate how economic, political and social changes which occurred within society were reflected in the minds of entrepreneurs, identified as key-figures of this transformation process. The empirical study is focussed on a group of 12 entrepreneurs who started their businesses from scratch in the early 1990s and who were recognized ten years later as representatives of the business elite. The group, named "New Generation" by the mass media, has been an outstanding and complex phenomenon in the social and economic life of Kazakhstan. This exploratory research came to several conclusions:

- in post-soviet countries managerial practices emerged through social interaction within different types of social groups;
- business knowledge was very much task oriented and rooted in a idiosyncratic transitional context;
- within the rapidly changing environment of this transition economy, managerial knowledge and practices were in a process of constant evolution and co-creation.

This paper is divided into three sections. The conceptual framework will be presented in the first section. The empirical research was guided by two major perspectives in studying managerial cognition: the Sensemaking Theory of Karl Weick and the Social Representation Theory of Serge Mos-

covici; their respective value for this study will be discussed in section one. The empirical study will be presented in section two: its methodology, research design and results. Only the most important empirical results briefly reported in this paper focus on the interplay between business knowledge and managerial practices. Finally, the article will conclude with a reflection on some theoretical implications for management and business education.

Conceptual Framework

In this research, **sensemaking** is understood as a **process** of denotation building. In the next subsection the concept of sensemaking will be briefly introduced. This will be followed by a more detailed evaluation of recent developments in the understanding of the social basis underpinning managerial sensemaking of actions. Particular focus is placed on the way managers interpret and enact the changing environment during their interaction and conversations (Johnson et al., 2003; Samra-Fredericks, 2003), and how this process is anchored in managers' tacit knowledge and embedded in a broader social context. (Rouleau, 2005) The idea that a manager's tacit knowledge is embedded in a social context will be explored in conjunction with the theory of social representation developed in the following sub-section. **Representation** can be viewed as a **process** similar to sensemaking and as a **product** of this process materialized into images, schema or cognitive frameworks organizing our thinking and action. In this sub-section, the ideological and cultural dimensions of appearance and evolution of managerial representations, as well as the dimension of economic and social instability will be discussed.

Sensemaking Perspective

The first perspective involves a large literature output on *sensemaking*, (Weick et al., 2005; Gioia and Mehra, 1996; Weick, 1995; Gioia et al. 1994; Thomas et al. 1993). This perspective is appropriate for the study of managerial knowledge and practices in post-soviet countries because sensemaking starts "*with chaos*" (Weick et al., 2005), when previous understanding, representations and schemas no longer match current events and cannot be used to take appropriate action. This statement truly describes the situation in Kazakhstan in the early nineties, after the break down of the Soviet Union

and perestroika. Sensemaking is seen as a process of making sense of equivocal inputs in order to make the world more orderly (idem), which involves the reciprocal interaction of information seeking, meaning ascription, and action (Gioia and Chitpeddi, 1991).

Sensemaking involves the process of understanding and interpreting the contextual signals by individuals in interaction, creating meaning of the world, of their activity and of themselves, which is expressed in words and/or in actions. Sensemaking occurs when the current state of the world is perceived to be different from the expected one (Weick et al., 2005). Thus, people search for a meaning of what is happening, state their explanations verbally, and exchange their views with others in order to find the most plausible sense in the process of communication and interaction. *“As this occurs, situation is talked into existence and the basis is laid for action to deal with it”* (Taylor and Van Every, 2000).

This research followed the perspective in which *“Sensemaking [...] involves not only “pure” cognitive interpretation processes, but interpretation in conjunction with action”* (Gioia et al., 1994: 365). This is a process where meaning created by individuals and groups will be materialized into practices and knowledge. Sensemaking is an issue of language, dialogue, and communication, where situations and environments are *“talked into existence”* (Weick et al., 2005). Newly emerged company owners or managers need not only to quickly make sense of the changing and uncertain environment in a transition economy and act accordingly, but also to convey this meaning to their employees. Moreover, this meaning has to be shared and legitimized in the whole society undergoing a transformation process from the old soviet system to the new market economy. Therefore new economic players are not only *“sense makers”* but also *“sense givers”* especially during the period of transformation and rapid change.

The construction of meaning and knowledge building, being social, also involve an unconscious processes related to the actors' practical experience (Gioia and Mehra, 1996). This paper argues that the unconscious aspect of this process is better highlighted by the social representation perspective which will be discussed in the following sub-section.

Social Representations Perspective

The second perspective is rooted in French social psychology and based on the theory of social representations (Moscovici, 1961; Jodelet, 1989; 1997). During the second half of 20th century, a growing number of studies were conducted on the emergence, nature and structure of social representations. According to Jodelet (1989), social representation is *“a form of socially developed and shared knowledge, with practical implications, which contributes to the construction of a common reality for a social group”*. Representations consequently play a decisive role in the management of social relations, in terms of both behavior and communication. The traditional definitions formulated by social psychologists emphasize three interdependent characteristics of representations: they are developed **in** and **through communication**, they **(re) construct reality** and they **shape** the surrounding **environment** through its organization.

Representations are the products of an individual and collective system of thinking. They play a mediating role between the perceptual and the conceptual. In this way, they are both processes (the forming of ideas) and products (ideas). They are confirmed, set up and transformed via interactions between thought and action. Social representations are systems of interpretation which *“guide and organise behaviour and social communications”* (translated by author, Jodelet, 1997: 53). As a product, social representations consist of concepts, sets of properties, beliefs and attitudes, knowledge, competence and know-how which have been interactively acquired and selected by experience. As a process, social representation is an activity in which an individual player acquires and shapes knowledge, competences and know-how while interacting with their environment with a view to acting on it, using it or transforming it. This form of knowledge, which has also been called *“common sense knowledge”* or *naive or natural knowledge*, differs from knowledge of other kinds, such as scientific knowledge, in particular.

The main function of representations is to give meaning to situations for practical ends. They therefore cannot be reduced to simply perceiving the world, processing information and learning about the world. Representations prepare individuals for action and elicit a whole set of normative expectations because they are based on knowledge which will impose specific kinds of behaviour in line with social norms. In other words, these social norms are

behaviour expected by society from the individual. The theory of representations *anchoring* (Grize, Silem and Verges 1982; 1984) themselves in a **cultural, ideological** and **practical** context, provides important insight to the origin of managers' business knowledge.

Literature Implications for the Research

We strongly believe that the Social Representation approach complements our research and enriches the sensemaking perspective by explaining the social origin of sensemaking and the mechanism of social representation formation. Indeed, the concepts of sensemaking and representations provide a conceptual bridge for studying the links between knowledge and action, which should help to understand how the members of the "New Generation" group learned the underlying principles of their strategic activities. "*Sensemaking starts with immediate actions, local context, and concrete cues...*" (Weick et al. 2005: 412). Representations, built into the process of sensemaking, prepare individuals for actions and elicit a whole set of normative expectations because they are based on knowledge which will impose specific kinds of behaviour in keeping with the social norms; in other words, the behaviour that society expects of the individual.

The research aimed to answer the following questions: How do the members of the "New Generation" group make sense of the transition context? How do they acquire appropriate business knowledge necessary for conducting relevant activities in this particular context? Why and how does this knowledge change during the study period?

Empirical Study

This longitudinal study embraces a period of 7 years from 1997 to 2004. The data was collected mainly through annual semi-directive interviews with 12 members of the "New Generation" and their colleagues. Once a year, the members of "New Generation" were interviewed during the authors two week visit to Kazakhstan. The interviewing process took the form of free conversation turning around the following questions: "*What is the essence of managerial work for you? What were the most important actions undertaken by you last year? Why? What actions will you undertake in the future? Why?*" The following year more specific questions were asked

about reported strategic action taken during the past year. The interviews were structured in exactly the same way each year and covered the same questions with each respondent.

The research was conceived in three distinct stages, the preliminary stage being used to justify the sample choice and to describe the chosen group and the transition context. The first stage of the research involved the collection of interviews, of internal and external documents concerning the members of "New Generation" and observation. 62 semi-directive interviews with members of the focus group and 88 interviews with their colleagues were held during the period of study. Colleagues of those involved in the focus group were interviewed for triangulation purposes. They reported on the strategic events mentioned by their respective superiors, and therefore provided an external description of relevant events. Transcripts of the interviews were analysed using open coding procedures to develop conceptual labels for categories of interest. The second stage was focused on data interpretation, period by period, in order to identify the content of respondents' representations and resulting effect on the social context. Data was interpreted according to the categories identified in the first stage of the analysis. The interviews of all of the "New Generation" members' were summarized in order to derive the general content of managerial discourse shaped by this group. Following the Social Representation theory and more precisely the *anchorage* theory (Grize, Silem and Verges 1982; 1984) an analytical framework was elaborated to make connections between categories identified in the managerial discourse of the group and the social contexts. This framework was designed to explain how managerial discourse is rooted in the local culture, dominant ideology and social practices of the group.

The third stage represented a transversal content analysis of all data collected through the entire observation period (1997-2004): interview summaries, company documents, mass media articles related to the focus group and its members individually. In total around 280 internal documents and 81 press articles were analysed. The use of the framework elaborated in the previous stage made it possible to elucidate the process of meaning production used by the group members in relation with their strategic actions and the social context.

This research did not follow a linear process. Moving backwards and forwards between theory and the

empirical data ensured the relevance of the data collected and the validity of explanations. Several different sources of information were used and several methods of empirical data collection and analysis were adopted. The methods of content and discourse analysis seemed to be the most appropriate for analyzing a large body of qualitative data: transcribed interviews, written documents and press articles.

The aim is to determine, first of all, how changes in the context are translated by the respondents into coherent knowledge, and how this knowledge is expressed in specific actions; and, secondly, to observe how the respondents make sense of their actions and whether they have changed the way they conduct their managerial activities.

“New Generation” Group

The “New Generation” is a group of young company directors and owners who started up their businesses in the early 90s in the commercial sector. The members of this group all belong to the same generation: they were 24 to 30 years old when their career as entrepreneurs began. Later on they organized a movement in opposition to the old administration, the so-called “red directors”, civil servants and politicians inherited from the time of the Soviet Union. The consolidating idea of this group was motivating and powerful: *“To contribute to the prosperity of Kazakhstan by promoting democracy and the market economy”*.¹ Officially this movement did not exist for a long time, crushed under the weight of criticism from the “old elite” and the contradictions inside the group. A lack of political experience and organization within the group, a perception of members as “climbers” and “sharks” within Kazakh society, as well as their illegitimate position in the eyes of the old elite contributed to the defeat of this movement. On the other hand, the core of this group has been changing continuously ever since. Young businessmen and entrepreneurs have identified themselves as part of a new generation of managers and leaders. They gather in professional clubs and associations, bringing together people with similar professions and the same ideas on the future of their country, on business meth-

ods and objectives without pursuing any political or economic goal. In 1998, the general attitude the press towards the “New Generation” changed completely: the picture of young and ambitious managers greedy for power and money was replaced by the image of *“young patriots, willing to serve their country”*, and of *“highly professional managers, well educated, very efficient - the future of the nation”*².

Within a period of only ten years, the group members had developed their firms into large holdings³, thanks to the massive privatization, which took place from 1992 to 1996. Some of the members of this group have held office as ministers, deputy-ministers, political party leaders and heads of influential associations. They are now recognized by society as a whole as belonging to Kazakhstan’s new elite class. They know each other well, spend a great deal of time together, support each other, join together in political actions, and belong to the same associations and clubs. In 2003, the most politically active members of “New Generation” attempted a second uprising, by organizing a new anti-presidential political party called the DVK (Democratic Choice of Kazakhstan). All members of the “New Generation” supported them either explicitly or implicitly. This attempt had no more success than the first one. The party folded for an insignificant reason. Two organizers were imprisoned a short time afterwards for reasons unrelated to their political activities. Another opposition party with a more moderate program was created. After this incident, all the other members of the “New Generation” focused on their businesses and limited their outside activities to participation in professional associations, charities and cultural events.

Summary of Empirical Results

The strategic actions reported by respondents reflected the dominant features of each period of the transitional process. Initially the entrepreneurs’ approach to business was very opportunistic. They got involved in every business that was likely to be profitable. By the year 1997 the “New Generation” members decided to change their strategy. The most important decision of this period was the restructuring of companies, which had become highly diversified businesses without synergy between them, and were increasingly in competition with the businesses of other members of the “New Generation”.

¹ Quotes from interviews

² Idem

³ In Kazakhstan, which has a population of 15 million inhabitants, small firms have 5 to 50 employees, medium size firms 50 to 100 employees, and large companies are taken to be those with more than 100 employees. The holdings mentioned here had more than 1000 employees in 1997.

In the next period the vulnerability of new businesses, their dependent and unstable character, and a lack of secure private property rights pushed the new business elites to penetrate the legislative and government structures. Two of the respondents became members of Parliament, two took Ministerial posts, one became a Vice-Minister, while three of them were designated as Executive Directors of large public companies. Others remained at the head of their own companies. Their tenure in these posts did not last long and was not always successful, but as the respondents recognized themselves, such management experience was worthwhile in that it provided an understanding of power distribution at the State level. The most recent step of the focus group has been to concentrate efforts on the development of private business and participation in different business and professional associations, such as the Kazakh Congress of Entrepreneurs and the Kazakh Forum of Employers among others.

Four Periods in the Business Knowledge Building Process

The analysis of the "New Generation" members' interviews revealed an apparent change in the mean-

ing attached to their businesses and to their roles and functions inside and outside their companies. The table below shows the changes in content of respondents' representations of the roles, functions, identities, proclaimed objectives and implicit objectives visible through the content analysis of their interviews. The interview content analysis revealed that the overall period of observation could be divided into four periods within which the respondents' ideas, opinions and attitudes were homogeneous.

This table indicates that although the content of self-representations varies from one period to another, some elements remain stable and evolve in a cyclic way. This table is based on the summary of the content (category) analysis⁴ not only of the focus group members' interviews, but also of the interviews of their colleagues as well as on the newspapers and journals articles and internal documents analysis.

The respondents described the transition environment as being characterized by fast changes, blurred rules of the game, the destruction of old economic and social frameworks and the emergence of a new one. In the first period of the study, they assigned themselves the role of "*pioneers*", of "*creators*" and of "*challengers*". They were not clear about their

Table 1: Evolution of the "New Generation" members' representations

Periods	1997-1998	1999-2001	2002-2003	2004
Categories				
Expressed Objectives	To optimize the company structure	To create favourable conditions for company development	To improve economic conditions in the country	To ensure the sustainability of the company
Hidden objectives	To legitimize the new position of "company owner"	To project a positive self-image in society To find a unique identity and style of management	To influence decision making processes at the State level to the respondents advantage and to gain power	To preserve private property, to reinforce social status
Functions	-strategic decision making -control -day-to-day management	-restructuring -company promotion -company development	(vague definitions by respondents) -lobbying	-ensuring group cohesion -searching for synergies
Roles	Interface between the company and the outside world	Company "protector"	"Promoter" of ideas	The "face" of his company
Competences	On the intellectual level	On the communication level	On the political level	On the social level
Self-image	"the company's brain"	"strong leader"	"responsible citizen"	"balanced person" "respectful businessman"
Place	In the centre of his company	At the top of his company	Outside his company, in the groups of influence	Within his company and within his networks

⁴Two examples of semantic analysis summary tables are available in the annex

actions, but all wanted “to take quick actions”, “to grab all opportunities”, “to take advantage of the absence or irrelevance of certain laws and rules”, “create new possibilities for business development”. Having neither knowledge nor experience in management and business, these entrepreneurs had to create their managerial practices from scratch. Moreover, they had to legitimize their actions in society, where the majority of the population still believed in the old soviet type values and were hostile to newly emerging capitalistic relationships.

This is the reason for speaking not only about sensemaking but also about sensegiving. But in this paper the sense is given not only at the organizational level, it is communicated throughout the whole society.

Discussion and Theoretical Implications

Current research focuses upon strategic-level knowledge – that is, the understanding of environment, organisation, business processes and other domains which, when combined together, constitute “business knowledge”. This paper argues that this aspect of knowledge has not been properly addressed by theoretical perspectives or empirical works in knowledge management and strategic management literature. Empirical results confirm the idea that the ways managers create and maintain business knowledge is associated with their micro and macro responses to the different challenges in their particular context. The key aspect of the sensemaking and social representation approach lies in recognising that managers’ actions do not necessarily follow logically from their assumptions and knowledge. Instead this approach investigates the complex, reciprocal and subtle ways in which managers use ideas and knowledge to make sense of changes in their environment, as well as in their own objectives. A primary factor in considering knowledge-as-knowing within a transitional context is its relationship to practice, and the way it is placed within the scope of a social construct.

Group interactions and practices in the business knowledge building

The process of sensemaking by “New Generation” members and the production of a meaningful explanation of their actions mobilized different kinds of resources at various stages of their evolu-

tion. At the time of the emergence of this group, during the most uncertain and turbulent period, their practical experience, interactions, and communications within the group were reported to have had the greatest impact on their practices. Clearly there were no other explicative elements: the old soviet ideology had already been rejected, and insufficient time had passed for new ideology to become established. Western management theory, explaining the essence of managerial practices, was not yet accessible. The previous common knowledge contained in the collective memory of Kazakh society could not give a pertinent explanation to “what was happening at that period” or “what to do” in this new situation. In addition, Perestroika brought freedom of expression, stimulated the development of mass media and encouraged individual mobility. These factors created favourable conditions not only for the creation of a new economic system, but also for a complete change in Kazakh citizens’ values, aspirations and practices.

In this environment exchanges within the group allowed the “New Generation” managers to form a plausible and coherent understanding of the situation and enabled them to act accordingly in the most relevant way. All respondents’ opinions converge in assigning a capital role to their membership in the “New Generation”. This membership was considered as a valuable resource and an undeniable force against political uncertainty, economic chaos, and institutional insufficiency. For them provided the possibility for the co-creation of appropriate knowledge and managerial practices.

The Role of Sensemaking and Sensegiving in the Process of Business Knowledge Development

Interactions between individuals and with the environment are a dynamic process, where representations, strategic practices and actions are co-developed, forming an intricately woven system of social regulation. One of the main implications to be drawn from this thesis, in comparison to currently available literature on directors, is that studies along these lines should not be restricted to examining managers’ occupational roles and functions within the firms where they work. Company managers are above all active social players with their own personal ambitions, passions and

projects. Each has their own representations about ethics, as well as the feasibility and the scope of their actions. The strategies and representations formed during interactions between a director and his environment only exist because of the consistency of the internal processes orientating and constraining their social conduct and their actions.

Empirical study has shown that business knowledge is built up by the focus group in a contingent and singular context, which includes the country's authorities, cultural and ideological factors as well as the actions and meaning of the other social actors. The members of the «New Generation» perceive this context subjectively; they enact it in group verbal interactions in order to make it more orderly, coherent and understandable. The role of social practices is to keep their representations in line with the context reality and therefore to assure the relevance of their actions.

Indeed, for each new "socially significant" object, group consensus produces a "referential representation" integrated in the common cognitive system. The representation can be acquired and espoused by a group when the object already exists, or be built, elaborated and constructed if the object is completely new. This "referential representation" provides an internal source of coherence to the group members and, at the same time, plays the role of constraints for their social behaviour. The "referential representation" provides a kind of grid for making sense of ambiguous situations reflected by individual mental images and consequently makes adequate action possible.

Lastly, this study highlighted the role of social frameworks in creating meaning for managerial practices and the strategic actions of company managers. The nonlinear aspect of sensemaking is further evidenced in the revealing observation that in the practices of those involved in the focus group, **sensemaking is a double direction activity**. When the respondent spoke about their prior actions, they explained their purpose and motivation, in order to justify their results. But at same time respondents present and justify their past actions with their intentions for future actions firmly in their minds. In other words, **individuals give sense to their prior actions with regard to their future actions**. An attentive listener can often presume the direction of the future projects of a speaker by the manner in which they explain and justify previous actions.

Conclusion

The theoretical framework as well as the empirical study emphasizes the conclusion that a social block must be penetrated by group consciousness rooted in a common culture and ideology. The block has to rely on connections and political and economic alliances, and at the same time should benefit from the coherent structure of its social network.

The knowledge content of the twelve leaders resulted from their practical activities, was enacted and produced in daily routine social interactions, and embodied power relations inside and outside their social group. Their managerial practices, business knowledge and strategic actions were formed within a **co-production relationship**. The tight interactions between the members of the group, their identification to the "New Generation", their mutual trust as well as the convergence of their interests participated in the construction of **group cohesion**, well **orchestrated strategic actions**, **shared representations** and **common practices**. The meaning was built by the group in a contingent and singular context, which included the country's authorities, cultural and ideological factors as well as the actions and meanings of the other social actors. Managerial understanding and actions are intimately related and managers engage in *thinking/acting cycles* (Isenberg, 1986) and this process takes place in a specific environment.

So, this study contributes to understanding the role of the group in interpreting ambiguous information and ascribing it relevant meaning, used in the strategizing of the group members. The sensemaking perspective was enriched by social representation theory methodologies enabling the researcher to understand the origin of the individuals' cognitive frameworks rooted in their cultural and historical context, in the dominant ideology and in their social practices.

Another major contribution of this research consists in the effort of studying company directors as "socially competent players" (Rouleau, 2005), whose sensemaking activities are not limited by organizational frontiers or their managerial roles and functions. This paper makes a distinctive contribution by outlining an innovative approach for the study of managerial practices development. This approach views it as a process of sensemaking and talk-based interaction and related managerial representations, rooted in a social context and man-

agerial discourse as a function of situation-based expressed identity.

This paper contributed to fill the gap in existing knowledge by examining how entrepreneurs and businessmen acquired and developed the necessary business knowledge in a transition economy, where neither business education nor literature was available. The article's distinctive contribution is the representation of business education as a practice-based and performance-driven process. This aspect must be taken into consideration by business education especially at the executive level. Concepts and theories should provide a coherent structure for practice based business education which is tightly linked with the relevant context, immediate challenges and preoccupations.

Limitations

Although this study provides significant empirical and theoretical insights, there are several limitations worth addressing here. The processes observed in this study are rather more complex, fragile and dynamic than revealed in this paper. In everyday managerial practices, company managers deal with complexities, uncertainties and ambiguities which demand a great deal of improvisation, decisions at a micro level and choices. Despite an attempt to show the subtlety of the process of emergency and change in managerial practices in a particular context, not all the elements of this process have received sufficient attention in order to create a comprehensive and dynamic description of this process.

Implications and Directions for Future Research

The results of this study have several implications for organizational theory and practice. Our understanding of the process of managerial practices development will remain incomplete until we better understand how tacit knowledge or practical wisdom gained from social interactions between individuals and groups translates into managerial discourse. The intersection between sensemaking and social representation theory has significant but yet largely unexplored potential for our understanding of managerial thinking and acting. This paper has tried to energize this potential by describing various speculations, based on empirical research, and some propositions that can act as a framework for future research.

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Annex 1: Semantic coverage and frequency of utilization in the interviews of ten members of the “New Generation” in 1997.

Words & expressions	Respondents									
	A	B	C	D	E	F	G	H	I	J
business, industry, market	7	14	13	12	15	18	8	10	14	13
product, products' names, goods, services	10	22	25	24	27	29	9	21	32	30
investment, financing, bank loan	18	24	23	22	24	22	21	23	25	21
company, companies' names, firm, enterprise	12	18	24	13	12	19	18	11	26	21
democracy, transparency, political party, social justice, people, society	5	2	1	3	0	0	5	2	1	0
disorder, deficiency, chaos	7	3	2	3	2	1	3	1	2	2
holding, group of company	17	26	28	18	26	22	7	7	19	25
reorganization	12	16	18	14	17	16	8	18	15	18
shareholders, partners, foreign partners	18	19	17	18	25	22	19	18	17	14
to serve, to be useful, public office, civil service, ministry, public company, contribution	3	1	0	4	5	0	4	4	0	0
consumer needs, clients, customers	2	3	4	2	0	4	1	2	5	3
strategy, strategic vision, plan, development	28	32	25	29	33	30	27	27	29	28
control	16	14	12	10	13	14	11	15	15	13
organization, organizational culture,	4	7	13	9	7	13	10	9	12	10
effectiveness, profitability, equipment, buildings, renovation, technology	10	19	21	20	19	17	16	21	25	21
innovation, creativity	8	1	1	1	1	1	9	1	1	15
		2	2	3	6	7		2	7	
power, influence, lobbying	5	3	2	3	4	1	3	4	1	0
taxes	4	6	4	7	5	5	4	6	3	5
profit, sales turnover, benefit	8	7	9	10	8	9	5	7	11	13
employees, human resources, motivation	11	25	23	26	19	28	18	22	29	25
standards, rules, company's structure	6	11	12	11	16	18	9	18	18	16
loyalty, confidence, trust	2	1	2	3	0	0	4	2	0	0
future of Kazakh people, future of the country	4	2	1	4	2	1	2	3	3	1
“black market”, “shadow economy”	4	2	0	5	7	2	3	0	3	5
Corruption, tribalism, nepotism	0	1	1	2	3	1	4	1	1	0
image, public relations, audience, communication, newspaper articles	5	2	1	3	2	1	21*	4	1	0
Kazakh traditions, habits, history, national roots, family, national culture, Kazakh language, ancestors	4	2	3	2	1	1	4	8	2	3
country, Kazakhstan, economy, State, government, politics	8	5	4	6	7	8	5	4	2	1

Annex 2: Semantic coverage and frequency of utilization in the interviews of ten members of the "New Generation" in 2002.

Words & expressions	Respondents	A	B	C	D	E	F	G	H	I	J
business, industry, market		3	5	6	4	7	8	3	4	7	8
product, products' names, goods, services		0	6	7	8	2	8	2	3	9	8
investment, financing, bank loan		6	9	8	5	6	8	4	3	5	7
company, companies' names, firm, enterprise		0	6	4	3	2	6	4	2	10	8
democracy, transparency, political party, social justice, people, society		38	22	19	18	31	18	29	19	17	24
disorder, deficiency, chaos		25	12	9	17	29	14	22	18	16	12
holding, group of company		0	5	3	2	3	6	2	0	3	2
reorganization		0	1	2	3	5	2	0	2	0	0
shareholders, partners, foreign partners		1	4	3	3	6	10	4	0	3	2
to serve, to be useful, public office, civil service, ministry, public company, contribution		41	19	14	18	21	13	14	18	9	13
consumer needs, clients, customers		0	2	1	1	0	3	0	0	4	3
strategy, strategic vision, plan, development		5	7	4	3	2	7	6	3	4	2
control		2	4	3	5	2	4	2	3	5	2
organization, organizational culture		0	2	4	3	2	4	0	1	2	0
effectiveness, profitability, equipment, buildings, renovation, technology		0	1	4	2	3	4	1	2	4	2
innovation, creativity		1	4	12	3	4	5	3	2	2	0
power, influence, lobbying		16	12	10	11	17	8	12	10	7	9
taxes		2	3	1	5	7	3	1	2	2	1
profit, sales turnover, benefit		0	3	2	2	3	7	2	1	2	3
employees, human resources, motivation		0	4	6	4	2	3	4	2	4	1
standards, rules, company's structure		1	3	2	3	1	5	3	4	5	3
loyalty, confidence, trust		9	8	8	7	8	7	11	6	5	6
future of Kazakh people, future of the country		14	9	9	12	14	7	11	9	8	9
"black market", "shadow economy"		5	9	5	10	12	11	12	11	8	12
Corruption, tribalism, nepotism		17	7	5	8	12	5	13	12	7	9
image, public relations, audience, communication, newspaper articles		26	19	17	15	16	14	27	21	14	12
Kazakh traditions, habits, history, national roots, family, national culture, Kazakh language, ancestors		12	9	8	11	13	5	11	12	9	7
country, Kazakhstan, economy, State, government, politics		23	16	14	17	18	16	17	18	13	15

Human Resource Management in Cultural Context: Empirical Study of 11 Countries

Ruth Alas, Tõnu Kaarelson, Katrin Niglas

Abstract

This paper attempts to explore how human resource management practices in different countries and regions have been influenced by cultural peculiarities. The current article is based on data from the Strategic International Human Resource Management Survey (Cranet) and the Globe study. Results indicate connections between human resource practices and cultural dimensions. More advanced human resource practices are more common to countries with higher institutional collectivism, gender egalitarianism, humane orientation, future orientation and uncertainty avoidance, which are considered as enabling factors for improving the HRM practices. Cultural practices such as assertiveness, power distance and in-group collectivism appeared to play the role of disabling factors in regard to selected HRM practices. The model for human resource practices in the cultural context has been developed on the basis of the empirical results of the study.

Keywords: human resource management practices, cultural dimensions, cultural practices, Cranet survey, GLOBE survey

Introduction

The idea that approaches to management and related practices in organisations are culture-bound is widespread and broadly discussed (Hofstede, 1980, 1993; Trompenaars, 1993).

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Firms operate in their local environment, which includes specific economic, social and cultural contexts (Moattar-Husseini and O'Brien, 2004). The increasing internationalization and globalization of business makes it more pressing than ever to understand how to establish HRM procedures that can deal with considerable cultural and national differences. Underlying all of this is the question of which elements of HRM are or are not culture-sensitive (Easterby-Smith et al, 1995).

This paper attempts to explore how cultural practices in society are connected to human resource management practices in organizations. The research question therefore is, how are cultural practices connected with the 4 selected groups of HRM practices important for organisations. The article is based on data from the Cranfield Network of surveys on Comparative Human Resource Management (Cranet) (Brewster et al., 2004) and the Globe study (House et al., 2004). The paper starts with the theoretical framework for this study – connecting human resource practices with culture. This is followed by an analysis of the empirical results of the Cranet survey and the GLOBE study. Based on this analysis, the model of human resource management practices in the cultural context has been developed.

The Research Framework

Cultural Context

Culture represents the culmination of a range of historical experiences that have shaped an existing pattern (Forbes and Wield, 2002). The deepest level of culture is values (McEwan, 2001). Values are broad feelings present in most members of a culture often unconscious and not discussible (Pucik et al., 1993: 141). Rokeach (1973) defines an individual value system as an enduring organisa-

tion of beliefs concerning preferable modes of conduct or end-states of existence along a continuum of relative importance. There is no universally agreed-upon definition among social scientists for the term culture. For the GLOBE Project, which has been considered one of the most comprehensive studies on national cultures, culture is defined as the shared motives, values, beliefs, identities and interpretations or meanings for significant events that result from the common experience of the members of collectives that are transmitted across generations (House and Javidan, 2004: 15). The simplest expressions of societal culture consist of commonly experienced languages, ideological belief systems (including religion and political belief systems), ethnic heritage and history.

Culture matters because it is a powerful, latent, and often unconscious set of forces that determine both our individual and collective behaviour, perception, thought patterns and values. Globalization opens up many opportunities for business, but it also creates many challenges. One of the most important challenges is to acknowledge and appreciate cultural values, practices and subtleties in different parts of the world. All experts in international business agree that to succeed in global business, managers need the flexibility to respond positively and effectively to practices and values that may be drastically different from what they are accustomed to (House et al., 2004).

The GLOBE Project has studied diverse dimensions of societal and organizational cultures. To address this issue, 735 questionnaire items have been developed on the basis of prior literature and the theories of the GLOBE Project. Responses to these questions by middle managers in two pilot studies were analyzed using conventional psychometric procedures. These analyses resulted in the identification of nine major attributes of culture (House and Javidan, 2004: 11):

- *Institutional Collectivism*, or Collectivism I, is the degree to which organizational and societal institutional practices encourage and reward collective distribution of resources and collective action.
- *Gender Egalitarianism* is the degree to which an organization or a society minimizes gender role differences while promoting gender equality.
- *Future Orientation* is the degree to which individuals in organizations or societies engage in

future-oriented behaviours such as planning, investing in the future and delaying individual or collective gratification.

- *Performance Orientation* is the degree to which an organization or society encourages and rewards group members for performance improvement and excellence.
- *Humane Orientation* is the degree to which an organization or society encourages and rewards individuals for being fair, altruistic, generous, caring and kind to others.
- *Uncertainty Avoidance* is the extent to which members of an organization or society strive to avoid uncertainty by relying on established social norms, rituals, and bureaucratic practices. People in high uncertainty avoidance cultures actively seek to decrease the probability of unpredictable future events that could adversely affect the operation of an organization or society and remedy the success of such adverse effects.
- *Power Distance* is the degree to which members of an organization or society expect and agree that power should be stratified and concentrated at higher levels of an organization or government.
- *Assertiveness* is the degree to which individuals in organizations or societies are assertive, confrontational and aggressive in social relationships.
- *In-Group Collectivism*, or Collectivism II, is the degree to which individuals express pride, loyalty and cohesiveness in their organizations or families.

Human Resource Management Practices

The research question in the present article deals with the relationships between cultural practices in society and HRM practices in organisations. Therefore, in the authors' opinion, relevant HRM areas having great importance in organisations have been pointed out. There are certain aspects particularly emphasized in the literature concerning human resource management. One aspect considered to be crucial to HRM is the strategic orientation of all activities in organisations related to human resources (Jackson, 2004; Mayrhofer and

Larsen 2006; Sheehan, 2005). The basic assumption is that human resource management practices should support the achievement of business goals. This link between HRM practices and business effectiveness has been emphasized since the concept of human resource management was introduced. Schuler and Jackson (2005) claim that effective human resource management requires an understanding of and integration with an organization's strategic objectives.

The resulting question, after having established a link between business strategies and human resource management practices, is how to implement these practices. There are several options. The HRM department could centralize all the decisions in the HR field or delegate some of responsibilities related to HR management, such as selection and recruitment of employees, making decisions about compensation and training issues, etc to the line managers. The role of line managers in the implementing process has been widely discussed (Larsen and Brewster, 2003; Valverde et al., 2006). Line managers are responsible for the operational output, therefore, they are supposed to perform HR activities by using human resource practices (Nehles et al., 2006). This is the devolution process – giving more authority to line managers in organisations (Mesner, Andolšek and Štebe, 2006; Larsen and Brewster, 2003). There is evidence available to suggest that the human resource function in organisations could be outsourced either completely or partly (Mayrhofer and Larsen, 2006) and HR departments are getting smaller. This is a complementary factor increasing the line managers' responsibilities at the expense of HRM professionals.

Issues to do with the diversity of the workforce are becoming increasingly important in HRM (Mayrhofer and Larsen, 2006; Choy, 2007). The issues at the societal level specifically relate to the changing nature of the workforce. Increasing numbers of women are entering the labour market, ethnic minorities will be forming an increasing part of the workforce and the working population is aging (Linehan and Hanappi-Egger, 2006). The relevance of diversity management programmes has grown due to EU enlargement and globalisation in economic relations. This is an extremely challenging area in HRM in order to enhance human capital capacities for better performance in organisations. There are noticeable changes in industrial relations towards more employee-oriented relations

or employment relations (Mayrhofer and Larsen, 2006). The question here is how to find room for the coexistence of HRM and industrial relations practices (Abbot, 2007). This is crucial for finding a reasonable balance between the practices of collective bargaining and concrete employee centred employment relations. HRM ideology stands for unitary values and practices in employment relations (Geare et al, 2006).

In order to conduct the present study, four relevant aspects reflecting HRM practices were highlighted. Strategic orientation and HRM devolution processes show how HRM activities are integrated into business processes in organisations. Diversity management issues refer to the better use of human capital in society and organisations. Industrial relations is about how the management-employee relationship affects organisations.

Human Resource Management Practices and Culture

Inherent to different countries and nations, cultural values and attitudes influence HRM practices in organisations (Tayeb, 2005; Sparrow and Wu, 1998). National culture is deeply entrenched in everyday life and is relatively resistant to change. As such, these deeply entrenched values that people hold will subconsciously affect how they structure and carry out management practices (Chew and Sharma, 2005). Sparrow and Hiltrop (1994) noted that differences between societies can be explained by cultural factors (a form of cultural reductionism), and must be modified to consider interactions between cultural norms, legal institutions and underlying economic factors. Therefore, differences in approaches to HRM would most likely be the result of the interconnection between the culture and structure of a particular society (Claus, 2003).

In the context of human resource management practices one can find convergent and divergent areas. The changes exemplified by Europeanisation have brought about opportunities for re-evaluating human resource management in a broader, regional rather than national context. Several authors (Brewster and Tyson, 1991; Brewster et al., 1993) claim that even though countries within Europe can be rather distinct in their approach to the management of their human resources, one can distinguish three different models: the Latin Model, the Northern European/Nordic Model and

the Anglo-Irish Model of HRM (Nikandrou et al, 2005).

Ignjatovic and Svetlik (2002) have focused on the similarities and differences between European countries in regard to HRM. Using 51 indicators taken from Cranet data, they grouped 24 European countries into four distinctive clusters each with different HRM strategies and practices and positioning of HRM within the organization. They also identified four different HRM models: the Central Southern cluster with its management supportive model, the Eastern cluster with its management focused model, the Nordic cluster with its employee focused model, and the Western cluster with its professional model.

Papalexandris and Panayotopoulou (2004) attempted to interpret the HRM practices studied through the CRANET research in the light of general tendencies within societal culture as revealed by the GLOBE study. The results of their study supported the notion that HRM is culturally bound and show certain cultural dimensions that are correlated to specific HRM practices. This study contributes to a better explanation of HRM in an international environment. On a practical basis, the present findings could serve as a guide in transferring HRM policies within the MNCs, as they provide an indication of the most culture-sensitive practices and the way they relate to the characteristics of societal culture (ibid.).

In the present study, the most recent CRANET survey data from 2003/2005 are used and the research question and the tools used in data processing are different in comparison with the previous research.

Empirical Studies

Methodology

One of the surveys that has contributed the most to the study of human resource management in different countries using the same questionnaire is the Strategic International Human Resource Management Survey initiated by Chris Brewster and coordinated by Cranfield University (Tregaskis et al., 2004). Independent country-based research teams performed the surveys in each country from 2003 to 2005. In the current article only organisations with more than 200 employees are included from 11 European countries.

The primary method for gathering data was via a questionnaire (Cranet Questionnaire), which was translated from English into the local-languages and retranslated to English in order to be sure that the translation was accurate. The questionnaire was completed by the human resource managers in organisations. The data were collected from 3011 organisations in 11 countries.

The data about cultural dimensions listed in Appendix 1 is taken from the Globe study (House et al., 2004; Alas, 2006; Papalexandris, 2006). The cultural practices were measured using responses from middle managers to questionnaire items concerning "What Is," or "What Are," common behaviours, institutional practices, proscriptions, and prescriptions. A 7-point scale was used, where '1' indicated 'strongly disagree' and '7' 'strongly agree'.

The authors of the current paper conducted both studies in one country: Estonia.

In order to group the variables, a principal component analysis and exploratory factor analysis using varimax rotation were completed. To group countries hierarchically as well, a k-means cluster analysis was also undertaken.

Subscales for Human Resource Management Practices

In order to reduce the number of variables and obtain more reliable indicators, a principal component analysis followed by an exploratory factor analysis using varimax rotation was completed for the variables describing different aspects of human resource practices. Some of the original variables were excluded from the analysis due to a bad fit with the resulting factor model. In the final model, 4 factors explain 55,7% of the total variance of the initial variables (Table 1). The subscales for each factor were computed with the aid of a regression algorithm built into the factor analysis tool in the SPSS software. The internal reliability of our four subscales was confirmed by the theoretical fit and also by the fact that the factor loadings of every initial variable were very high for one factor and a relatively high proportion of the initial variance is described by the model.

The first factor, where the following items have the highest factor loading: Line management responsibility for recruitment and selection, for pay and

Table 1: Factors of human resource management practices

Components	Factors			
	1	2	3	4
Responsibility for recruitment and selection	,772			
Responsibility for pay and benefits	,771			
Responsibility for training and development	,746			
Responsibility for workforce expansion/reduction	,730			
Responsibility for industrial relations	,724			
Disabled - action programmes		,788		
Ethnics minority - action programmes		,744		
Women - action programmes		,727		
Older workers - action programmes		,718		
Business strategy			,739	
Mission statement			,703	
Personnel/HRM strategy			,689	
Corporate values statement			,688	
Proportion of employees who are members of a trade union				-,783
Member of an employers' association?				,705

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization. The rotation converged in 4 iterations.

benefits, for training and development, for workforce expansion/reduction and for industrial relations can be referred to as the devolution factor (F1-D). Organizations ranking highly in this factor have given a lot of responsibility for personnel issues to their line managers.

The second factor could be called workforce diversity factor (F2-WD). The organizations ranking highly in this factor have developed special action programmes for disabled people, minority ethnic groups, women and older people.

The third factor with the highest factor loadings on items about the existence of business strategy, the mission statement, values and HRM strategy can be referred to as the strategic orientation of HRM (F3-SO). The existence of business strategy, wording the mission statement and shaping the value system form the necessary assumptions for creating the HR strategy, and driven by this strategically oriented actions. The organizations ranking highly in this factor have developed all these strategic management tools. The fourth factor is connected with employees and employers organizations and could be called the industrial relations factor (F4-IR). Organizations with high ranking here have fewer

employees in trade unions and more of them are members of employers' associations.

The authors of this paper connected previously discussed HRM practices into a complete scheme, forming a HRM rhomb or diamond (Figure 1)

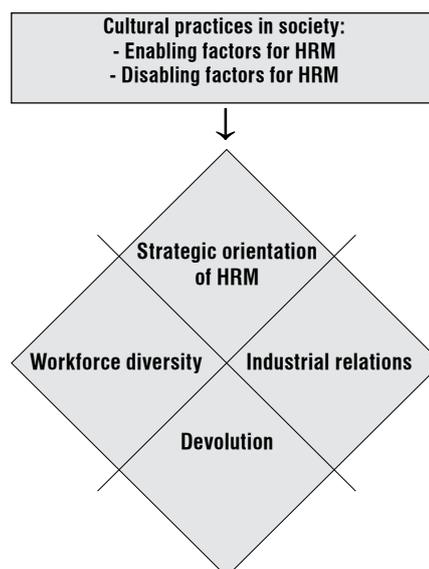


Figure 1: The diamond of human resource management

The values for factor variables for each country are given in Table 2. The number of companies participating in the survey from each country can also be found in this table.

Connections between HRM and Cultural Practices and Related Clusters in Countries

In order to find out the character of connections between cultural and HRM practices, a correlation analysis was carried out. The results of the correlation analysis in Tables 3 indicate how cultural practices and values are connected with the four factors of human resource management practices. All correlations noted in the table are significant at the 0.01 level (2-tailed) or at the 0.05 level (2-tailed). In accordance with the results, connections were considered either positive or negative. These connections are taken as the basis for developing the model of human resource practices in the cultural context.

A hierarchical cluster analysis using Average Linkage Between Groups indicated 3 clusters of countries (Figure 2).

Table 4 lists the cluster centres, which are the mean values for every cluster. Geographically, the first cluster consists of 3 Central-European countries along with 2 former socialist countries. The second

cluster includes 3 Scandinavian countries and the third cluster consists mainly of countries from the southern region.

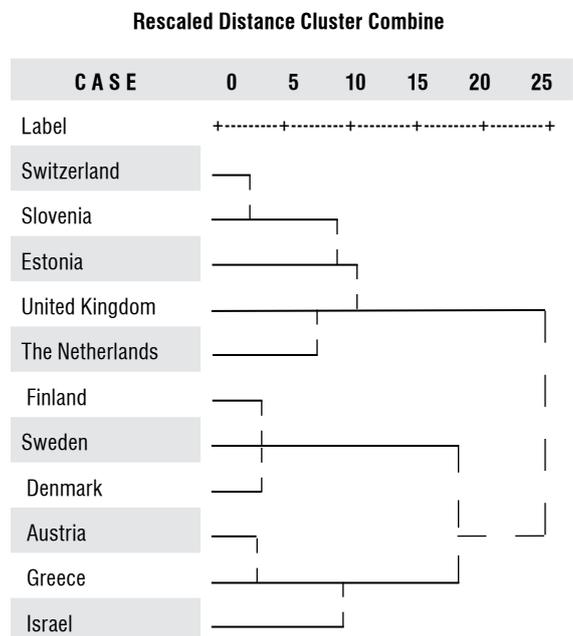


Figure 2: Clusters of countries on the basis of four human resource management factors

The mean values marked in bold in table 4 indicate the highest levels when comparing the clusters. The values for the factors of HRM practices have been

Table 2: Values for 4 human resource management factors in different countries

Country	N	F1	F2	F3	F4
Austria	237	0,06	-0,28	0,48	-0,09
Denmark	303	-0,36	-0,01	-0,21	-0,45
Estonia	56	-0,34	-0,73	-0,38	0,84
Finland	278	-0,38	-0,40	-0,14	-0,86
Greece	165	0,64	-0,40	0,14	-0,29
Israel	140	0,99	-0,34	0,71	0,02
Slovenia	154	-0,19	-0,42	-0,26	0,11
Sweden	370	-0,18	0,05	-0,31	-0,97
Switzerland	189	-0,18	-0,33	0,09	0,52
The Netherlands	272	-0,13	0,23	-0,07	0,11
United Kingdom	847	0,46	-0,12	0,03	0,53
Total	3011	0,06	-0,18	0,00	-0,02

Notes: F1 - Devolution factor (F1-D), F2 - Workforce diversity factor (F2-WD), F3 - Strategic orientation factor (F3-SO), F4 - Industrial relations factor (F4-IR).

Table 3: Connections between human resource management practices and cultural practices

	F1 - Devolution	F2 - Workforce diversity	F3 - Strategic orientation	F4 - Industrial relations
Assertiveness	,152(**) negative	-,055(*) negative	,166(**) negative	,377(**) negative
Group Collectivism	,113(**) negative	-,175(**) negative	,103(**) negative	,169(**) negative
Power Distance	,184(**) negative	-,127(**) negative	,033	,195(**) negative
Institutional Collectivism	-,230(**) positive	,133(**) positive	-,114(**) positive	-,414(**) positive
Uncertainty Avoidance	-,227(**) positive	,112(**) positive	-,071(**) positive	-,258(**) positive
Gender Egalitarianism	-,136(**) positive	,090(**) positive	-,191(**) positive	-,106(**) positive
Humane Orientation	-,239(**) positive	,089(**) positive	-,084(**) positive	-,367(**) positive
Future Orientation	-,178(**) positive	,128(**) positive	-,035	-,042
Performance Orientation	-,051(*) positive	,052(*) positive	,078(**) negative	,229(**) negative

Table 4: Final Cluster Centres and means for Cultural variables

	Clusters			
	1 N=5	2 N=3	3 N=3	Total
F1 Responsibilities of line managers	,0976	-,2800	,4085	,0567
F2 Minority Action Programmes	-,1562	-,1126	-,3242	-,1798
F3 Strategic orientation	-,0238	-,2116	,3599	,0050
F4 Industrial relations	,4832	-,7781	-,1837	-,0188
Assertiveness	4,2855	3,7978	4,4745	4,1655
Institutional collectivism	4,3074	5,0116	4,0724	4,4875
Group Collectivism	4,1923	3,7393	4,9416	4,1841
Future Orientation	4,3643	4,4459	4,0159	4,3274
Gender egalitarianism	3,6072	3,7659	3,2943	3,6010
Humane Orientation	3,7770	4,3040	3,7470	3,9381
Performance Orientation	4,2578	4,0049	4,0123	4,1338
Power Distance	5,0678	4,7260	5,0316	4,9534
Uncertainty Avoidance	4,6885	5,2742	4,3271	4,8084

interpreted in accordance with the scales for these factors.

The first cluster exhibits average values for the first, second and third HRM factors. The highest value for the fourth factor indicates weak trade unions and relatively stronger employers' organizations compared to the other clusters. This cluster has the highest values for Power Distance and Performance Orientation.

The second cluster has the highest values for the three factors of HRM practices. This indicates the existence of more minority programmes and trade union membership, more decentralized human resource management functions and higher strategic orientation of HRM activities in organisations. Very low value for the industrial relations factor shows high union density rate. This cluster has the highest values for Institutional collectivism, Future Orientation, Gender Egalitarianism, Humane Orientation and Uncertainty Avoidance. The mean values for Performance Orientation, Power Distance, Assertiveness and Group Collectivism are ranked as the lowest among the clusters.

The third cluster has the lowest value for the first, second and third factors. This means that less human resource management responsibilities have been given to line managers, organisations lack minority programmes and a strategic orientation of the HRM function. This cluster has the highest values for Assertiveness and Group Collectivism, and the lowest for Institutional Collectivism, Future Orientation, Gender Egalitarianism and Uncertainty Avoidance.

Conclusions and Discussion

Although firms invariably operate in their local environment with its specific cultural contexts (Moattar-Husseini and O'Brien, 2004), there have not been sufficient articles exploring the connection between human resource management practices and culture. This paper attempts to fill this gap. Based on data from the Strategic Human Resource Management Survey (Cranet) and the Globe study, the authors have explored how cultural practices in society are connected with human resource management practices.

Data from the Cranet survey enabled the authors to filter out four dominant factors in HRM practices.

Devolution indicates that more responsibilities for HRM decisions have been given to line managers. This could be considered the next developmental stage after centralizing HR activities to HRM department. In this new more advanced devolution stage, the HR department is responsible for training line managers in HR issues so they can fulfil these functions to a high level of quality. The devolution or decentralization means that there is a noticeable relocation of HRM tasks from the central HRM departments to the managers themselves (Mesner Andolšek and Štebe, 2006; Cascón-Pereira et al., 2006).

The workforce diversity factor is about whether special programmes for the disabled, ethnic minorities, women and older people exist, and if so how well developed they are. The existence of these programmes is usually common in more developed societies. Diversity initiatives are now being integrated into human resource management policies and procedures because of the potential net benefits (Linehan and Hanappi-Egger, 2006).

The strategic orientation of HRM, indicates the existence in organizations of such strategic management tools as an explicitly formulated business strategy, mission statement, values statement and HRM strategy.

The fourth factor is by nature related to industrial relations. The union density rate and company affiliation with employer associations are the variables this factor consists of. Countries with a high score have weaker trade unions and stronger employer associations. One concern that arose from our analysis was that different opinions exist about industrial relations and the role of trade unions. Practices in the area of industrial relations differ significantly from country to country throughout Europe (Morley et al, 2000). Union density is highest in North-European countries compared with the other countries (ibid, Rasmussen and Andersen, 2006). The unions in Scandinavia and in some other parts of Europe have retained a high level of influence in the field of employment relations. Some of the reasons for this lie in the union renewal process, including what has come to be known as the partnership approach, particularly among Scandinavian unions (Rasmussen and Andersen, 2006). However, in some Anglo-American countries unionism and collective bargaining were seen as obstacles to more efficient labour markets (ibid).

Cluster analysis grouped countries into 3 clusters according to human resource practices and cultural practices. Scandinavian countries form a separate cluster, with more minority programmes and trade union members than other countries. They exhibit a more decentralized human resource management function and HRM practices tend to be more connected to business strategies.

The cluster of countries from the southern region has less minority programmes and the strategic orientation of HRM seems to be weaker than in the other clusters. In this group HRM has retained its more centralized character in comparison with other clusters.

The cluster from Central-European and Eastern-European countries has weak trade unions and stronger employer organizations compared to the other clusters.

These results are somewhat consistent with previous results from Ignjatovic and Svetlik (2002). The Nordic model in their study is similar to the Scandinavian cluster in the current paper, and their Central Southern is similar to Southern-European in the current study. The Eastern model and Western model in the study by Ignjatovic and Svetlik (2002) are grouped in one cluster in the current study: the cluster consisting of Central-European countries and Eastern-European countries. This indicates, that post-socialist countries are moving towards a professional model of HRM.

The current paper indicates connections between human resource management practices and cultural orientations from the GLOBE study. Based on empirical data, the authors have developed a model of human resource practices in the cultural context (Figure 3).

Based on connections between human resource management practices and cultural practices, two relevant groups of cultural dimensions could be differentiated.

The first group consists of Assertiveness, Group Collectivism and Power Distance. In the countries with higher Assertiveness, Group Collectivism and Power Distance, the strategic orientation of HRM is at lower level than in the other countries. Fewer responsibilities for the human resource management area have been given to line managers, who are not engaged in people management to the extent inherent in the other clusters. In these countries, organizations have less minority action programmes. Analysis shows a negative correlation between the three mentioned cultural practices and HRM practices considered in this paper. Therefore, the three abovementioned cultural practices are seen as disabling factors or obstacles for developing HRM practices.

The second group consists of Institutional Collectivism, Gender Egalitarianism, Human Orientation and Uncertainty Avoidance. In countries with high values for these orienta-

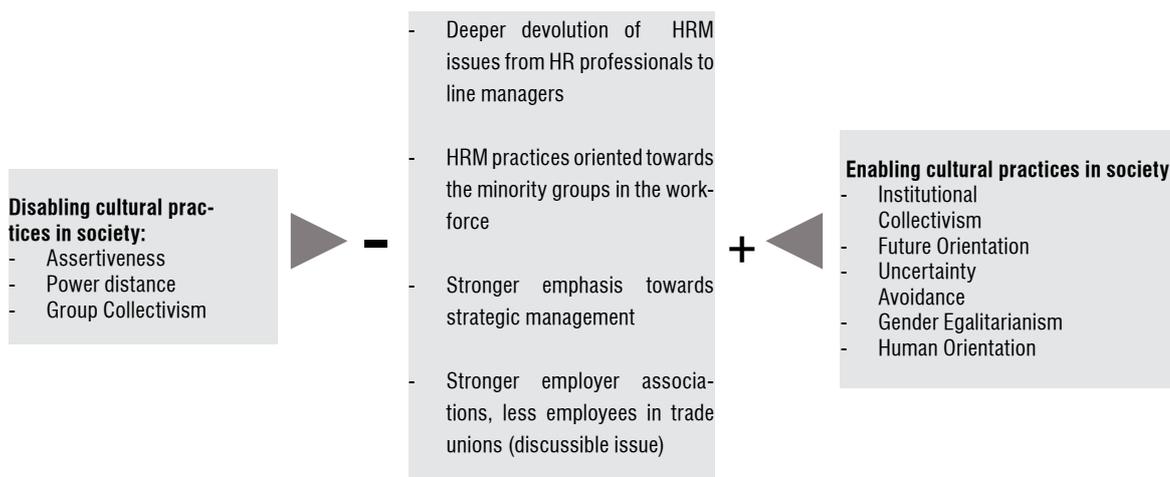


Figure 3: Model of human resource management practices in the cultural context

tions, the strategic orientation of HRM is at a higher level, responsibilities for HRM decisions lay more on line managers, organisations have more programmes for minority groups than in the other countries and union density rate is very high. We could consider these HRM practices more advanced and worth developing. Therefore, these cultural practices are considered as enabling factors related to HRM practices.

Future Orientation has a positive correlation with devolution and workforce diversity factors. Therefore, this cultural dimension could also be seen as an enabling factor for HRM. Other HRM factors have no statistically significant connections with Future Orientation.

There are also authors (Cabrera and Carretero, 2005) who suggest that the cultural variables of low future orientation, high power distance, and low institutional collectivism may exert continuing pressures that will hinder the adoption of certain global HRM practices. This conclusion is based on the recent empirical evidence regarding HRM practices in Spanish organisations.

To summarize, in order to achieve higher-level developments in organizations, changes in cultural practices at the societal level should take place in order to develop certain practices that in turn influence practices in organizations.

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Appendix 1: Values for cultural practices dimensions according to GLOBE study

Country	1	2	3	4	5	6	7	8	9
Austria	4,59	4,34	4,89	4,47	3,18	3,77	4,47	5,00	5,10
Denmark	4,04	4,93	3,63	4,59	4,02	4,67	4,40	4,14	5,32
Estonia	4,04	3,71	4,79	4,20	3,60	3,39	3,87	5,16	4,01
Finland	4,05	4,77	4,23	4,39	3,55	4,19	4,02	5,08	5,11
Greece	4,55	3,41	5,28	3,53	3,53	3,44	3,34	5,35	3,52
Israel	4,19	4,40	4,63	3,82	3,21	4,07	4,03	4,71	3,97
Slovenia	4,01	4,09	5,49	3,56	3,84	3,75	3,62	5,32	3,76
Sweden	3,41	5,26	3,46	4,37	3,72	4,09	3,67	4,94	5,36
Switzerland	4,58	4,20	4,04	4,80	3,12	3,73	5,04	5,05	5,42
The Netherlands	4,46	4,62	3,79	4,72	3,62	4,02	4,46	4,32	4,81
United Kingdom	4,23	4,31	4,08	4,31	3,67	3,74	4,16	5,26	4,70
Total	4,17	4,49	4,18	4,33	3,60	3,94	4,13	4,95	4,81

Notes:

- 1 – Assertiveness
- 2 – Institutional collectivism
- 3 - Group Collectivism
- 4 - Future Orientation
- 5 - Gender egalitarianism
- 6 - Humane Orientation
- 7 - Performance Orientation
- 8 - Power Distance
- 9 - Uncertainty Avoidance

Human Resource Development System Evaluation in Companies in the Furniture Trade in Lithuania

Vilmante Kumpikaite, Algimantas Sakalas

Abstract

This paper deals with the evaluation of human resource development systems based on qualitative methods. The authors provide a qualitative human resource development evaluation model based on the comparison of data from the formal human resource development system and the employees' approach to that system. The comparison is made using four criteria: the organization's position on human resource development; the identification of development needs and awards in accordance with merit; the functions of the human development system and human resource development actions and evaluation.

The evaluation of the human resource development systems in furniture industry enterprises in Lithuania makes it possible to make the conditional assertion that more enterprises have a low or average rather than a high or very high assessment of their HRD system. Therefore, the need for improvement of the human resource development system has been found to be important for the enterprises to be successful and competitive.

The methods of research include the analysis and synthesis of scientific literature, and empirical research of organizations in the Lithuanian furniture industry.

Keywords: human resource development, human resource development evaluation, Lithuanian furniture companies

Introduction

Human resource development (HRD) is significant within the scope of this study, and thus it assists in the intentional cultivation of enterprises and their employees, the organization of objective-driven personnel selection, personnel placement and work with employees involved in the organiza-

tion's strategic and human resource development plans. Human resource development plays a very important role in human resource management. Dessler (1994), Odegov and Zhuravliov (1997), Sakalas (1996) and other authors distinguish HRD as one of the activities of human resource management. Despite this, certain differences exist in how this is approached.

Human resource development is not only a theoretical issue. Today, it is also topical for developing organizations, which, at their current stage of growth, have felt that it is necessary to establish a permanent human resource development system. The globalization process is relevant for human resource management because it means remarkably increased competition. Hence, now, the control of globalization becomes the primary challenge – starting with the use of global labour resources and ending with recruiting, training and development and salary formation with a strong focus on other EU countries and “knowledge-based economy” employees in the organizations of those countries.

Having conducted a general examination of the literature (Bristow et al., 1999; Russ-Eft, 1997; Mathis, 1982; Kane, Crawford and Grant, 1999; Leah, 1999; Houtson, 1999; Hume, 1995; Gibb, 2000; Weightman, 1999; Armstrong, 1999; Harrison, 1999; Dainty, Bagilhole and Neale, 2000; Leach, 1999; Marguardt et al., 2004; Noe, 2005) the following HRD system evaluation criteria have been distinguished in this study:

- The level of the organization and its HRD compatibility, meaning the level of develop-

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ment and business compatibility, the level of focus on the requirements assigned to modern organizations;

- The level of the performance of the main contemporary HRD functions: the level of human resources planning, education, professional development, career development, adaptation, the promotion system, work and employee evaluation.

The aim of the research, taking into account what is required of human resource development, is to prepare a model for evaluating human resource development systems, focusing on qualitative evaluation methods, and then review it in an industry in Lithuania.

While investigating the problem of evaluating human resource development systems with the research goals and tasks in mind, the following methods have been applied:

- *Scientific literature* analysis in Lithuanian, English, Russian and German with the aim to specify the human resource development system concept, human resource development system content and tasks, factors influencing human resource development systems, and human resource development evaluation methods.
- *Logical analysis* by generalising theoretical and practical scientific research.
- *Modelling* by designing a model for problem solving and generalising the results of logical analysis and practical research;
- *Questionnaires* by carrying out an analysis of human resource development systems in Lithuanian furniture enterprises;
- *Mathematical / statistical methods*, by validating statistical selection methods, conduct an analysis of the validity and representativeness of our tools, and processing our research results.

Theoretical Background

Training and development has a positive impact on the individual, the organization and the nation (Smith, 1992). Human resource evaluation is defined as the “systematic collection of descriptive and judgmental information necessary to make effective training decisions related to the selection, adoption, value and modification of

various instructional activities” (DeSimone et al., 2003). This definition highlights several important points:

- First, when conducting an evaluation, both descriptive and judgmental information may be collected. Both types of information are needed in a human resource development evaluation.
- Second, evaluation also involves the systematic collection of information according to a predetermined plan or method to ensure that the information is appropriate and useful.
- Finally, evaluation is conducted to help managers, employees and HRD professionals in making informed decisions about particular programs and methods. For example, if part of a program is ineffective, it may need to be changed or discarded. Or, if a certain program is valuable, it may be replicated in other parts of the organization.

Evaluation begins with a clear identification of the purpose or results expected from the training programs. Furthermore, it would be expected that the training programs be based on important organizational goals and improvement efforts. However, that connection must directly guide the train efforts if training results are to be linked to organizational measures (Burrow and Berardinelli, 2003).

Evaluation can serve a number of purposes within the organization. According to Philips (1983) evaluation can help in the following:

- Determining whether a HRD program is accomplishing its objectives;
- Identifying its strengths and weaknesses;
- Determining its cost-benefit ratio;
- Deciding who should participate in future HRD programs;
- Identifying which participants benefited the most or least from the program;
- Reinforcing major points to be made to the participants;
- Gathering data to assist in marketing the future programs;
- Determining if the program was appropriate;
- Establishing a database to assist management in making decisions.

The Changing Role of Human Resource Development Systems

While the significance of human resource development increases, the role of human resource development within the organisation decreases, because a part of the work is transferred to specialized organizations, managers and colleagues participating more actively in the human resource development work. In general, the structure of the human resource development service is improved.

The organizational variety of solutions is shown in figure 1, and here it is emphasized that training and development problems are mainly considered with respect to enterprise management because their training and development in that case are the most sophisticated and reflect the peculiarities of the training and development of other human resource category employees.

It is thought that when implementing a systematic approach to the organisation of the human resource development, it is necessary to distinguish the individual sub-systems of human resource development according to the human resource categories, and further differentiate them according to development level, terms, etc.

Figure 1 discloses only the organizational variety of solutions, and emphasizes that training and development problems are mainly considered with respect to enterprise management because their training and development in this view is the most sophisticated and reflects the peculiarities of the training and development of other human resource category employees well. In addition, it is focused on the most topical tasks solved in short and average-term periods. Thus, a portion of the *terms* is distinguished in the personnel training and development system circle, where the short, average and long term are classified, and are selected depending on the solved tasks and the performed work focusing on the organization's tasks and needs during the defined period. Besides, parts of the work are distinguished in the circle, where authors outline such key types of HRD work as career forming, reserve forming, training new employees, professional development and re-skilling. The last part of the circle is *methods*. We can find a lot of human resource development and training methods in the scientific literature. Any enterprise can select them itself, to be more exact, the performers do that, depending on the organization HRD policy and strategy. The methods depend directly on the necessity to perform the HRD work.

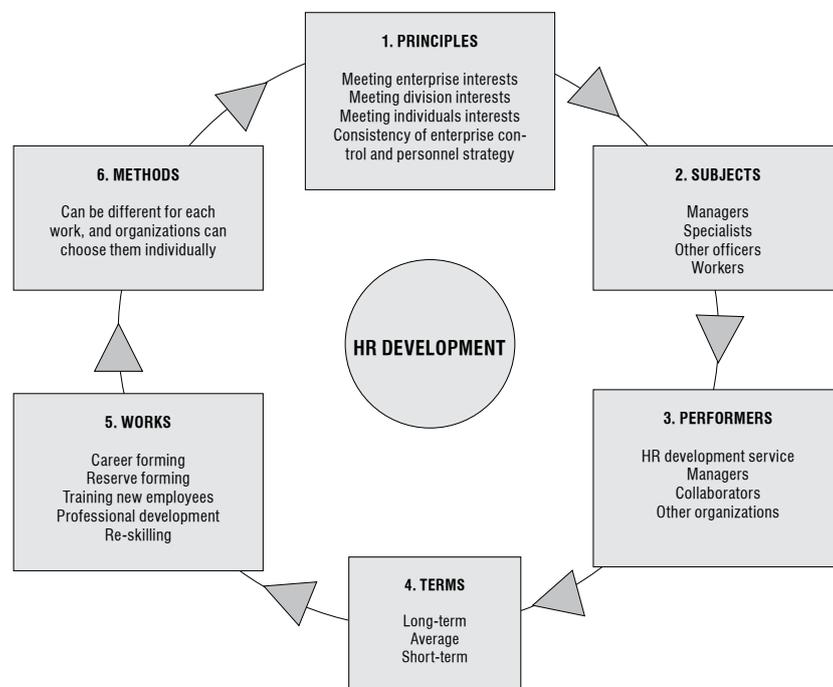


Figure 1: Organizational circle of Human Resource Development System (Sakalas, Kumpikaite, 2004)

Models for Evaluating Human Resource Development

A model for evaluating HRD outlines the criteria and focuses on the evaluation effort. Because an HRD program can be examined from a number of perspectives, it is important to specify which perspectives should be considered.

Table 1 lists seven frameworks of the HRD evaluation that have been suggested by DeSimone et al. (2003). By far, the most widely used evaluation approach to date has been the framework laid out by Kirkpatrick (1994); (DeSimone et al., 2003; Elwood 1996).

In the human resource department we try to be efficient and productive while designing and delivering quality products and services.

Many HR programs are designed to improve productivity or performance. Training, compensation, motivation programs, employee relations practices and organizational development usually focus on performance improvement. A combined strategy must coordinate all the elements of human resource management.

One of the more important issues to be examined is the effect of the HRD program on the organization's effectiveness. It is noted that it is not very difficult to analyse human resource development work, but its performance results and efficiency are expressed more heavily. This assessment can be done using a variety of performance indexes such as productivity and timeliness, but money is the most common language understood by managers in the most functional areas of an organization. It is important to demonstrate the effectiveness of the reaction, learning, and job behaviour levels, but HR managers and HRD professionals may be at a disadvantage when their results are compared to the other divisions that can express their results in monetary terms.

It is noted that human resource development work is not difficult to analyse; however, its performance results and efficiency are more difficult to grasp. It is quite difficult to assess them using quantitative indicators (time, minutes, quantitative units). Human resource development undoubtedly influences general financial results, whereas, its effect is expressed not so much through economical, but

more through social efficiency, in which two main measures are distinguished: *work focus and focus on relations with other people* (Hentze et al., 1997; Witte et al., 1995). In addition, the reform going on in the world and the country, and the changes in value priorities, form new orientations, new needs and the new potential for meeting them. This fact even further impedes the reliable forecast of the expected activity results, and, in its turn, affects the evaluation of the human resource development system.

The authors share the Drucker's opinion (1999) that financial methods in the field of the human development system evaluation are difficult to apply and, therefore, much more attention should be paid to qualitative evaluation methods.

Table 1: Human resource development evaluation models

Model/ Framework	Development evaluation criteria
1. Kirkpatrick (1994)	Four levels: Reaction, Learning, Job Behaviour and Results
2. Brinkerhoff (1987)	Six stages: Goal Setting, Program Design, Program Implementation, Immediate Outcomes, Intermediate or Usage Outcomes, and Impacts and Worth
3. Systems approach (Bushnell, 1990)	Four sets of activities: Inputs, Process, Outputs and Outcomes
4. Kraiger, Ford and Salas (1993)	A classification scheme that specifies three categories of learning outcomes (cognitive, skill-based, affective) suggested by the literature and proposes evaluation measures appropriate for each category of outcomes
5. Kaufman and Keller (1994)	Five levels: Enabling and Reaction, Acquisition, Application, Organizational Outputs and Societal Outcomes
6. Holton (1996)	Identifies five categories of variables and the relationships among them: Secondary Influences, Motivation Elements, Environmental Elements, Outcomes, Ability/ Enabling Elements
7. Phillips (1996)	Five levels: Reaction and Planned Action, Learning, Applied Learning on the Job, Business Results, Return on Investment
8. Kumpikaite and Sakalas (2003)	Four levels: Organization's Position on HRD; Identification of Development Needs and Awards in Accordance with Merit; the Functions of HRD; HRD Actions and Evaluation.

Human Resource Development Evaluation Directions

HRD is not an issue of regulation, but rather an issue of approach. Having analysed the opinions of various authors (Drucker, 2001; Shekshnia, 2000; Storey, 1995; Garavan, 1998; Robinson, 1999; Houtson, 1999; Garvin, 1993; Senge, 1994; Kochetkova, 1999; Weighman, 1999; Armstrong 1999; Soliman and Spooner, 2000; Thormhill and Saunders, 1998; Ulrich, 1998; Harrison, 1999; Phelps, 1999; Kumpikaite and Sakalas, 2003; 2004; Bertell, 1992 etc.) and formulated the requirements for HRD, the authors distinguish the following directions for evaluating human resource development systems:

- ***The approach of the organization to human resource development***

In order for the human resource development system to be effective, the approach of the organization to HRD should be positive (i.e. there should be a climate of learning). The strategies of the organization and its HRD should be in accord. The organization should focus on continuous changes and continuous learning, and should employ teamwork methods (Barham, 1999; Soliman and Spooner, 2000; Thormhill and Saunders, 1998; Senge, 1994, Kumpikaite, Sakalas and Silingiene, 2004).

- ***Identification of development needs and awards in accordance with merit***

The HRD system will be effective only when the needs for development are properly identified (Drucker, 2001; Sakalas, 1996; Shekshnia, 2000; Phelps, 1999; Armstrong, 1999 etc.). Furthermore, it is important that employees be rewarded (Armstrong, 1999; Barham, 1999; Phelps, 1999), this will be revealed by the human resource assessment as soon as the employees develop.

- ***The functions of human resource development (work of HRD service employees (performers))***

The concept of the "HRD function" covers HRD activity and processes, no matter who performs them (Harrison, 1999). The success of a human resource development system activity depends on the employees in the HRD department and their approach (Shekshnia, 2000; Harrison, 1999; Ulrich, 1998).

- ***Human resource development actions and their evaluation***

When evaluating any HRD system, it is necessary to elucidate the type of action carried out by the organization. It is necessary to look at whether the training of new employees, organizing of career and reserves, professional development and re-skilling are carried out and whether there is an adaptation system in the organization. However, desiring the effective operation of the system does not suffice; it is necessary to perform an evaluation of the HRD process and to clarify whether employees have progressed and are accordingly promoted (Kochetkova, 1999; Weighman, 1999; Garavan, 1998; Robinson, 1999 etc.). The processes of training new employees, professional development, re-skilling and adaptation are very important in human resource development. Therefore, more sophisticated processes are needed in evaluating career organization and reserves. The two processes are parallel, but as it is impossible to evaluate them precisely, we can only state whether the system does or does not work, and whether or not the employees and the organization are satisfied with it. Thus, according to the opinion of the authors, when evaluating the HRD system, it is practical to distinguish these two processes.

Methodology of Evaluating Human Resource Development Systems

Human Resource Development Evaluation Model

Having generalized evaluation methods and distinguished human resource development evaluation directions, the authors provide a human resource development evaluation model based on qualitative evaluation methods (see Figure 2). The main idea and novelty of this model is to evaluate human resource development by comparing it with the employees' approach. No model provided in the literature has looked at the differences between formal data and employee opinion of human resource development before.

In Table 2, the qualitative human resource development evaluation criteria, options of criteria evaluation and possible results are depicted, according to the provided human resource development system evaluation model (see Figure 2).

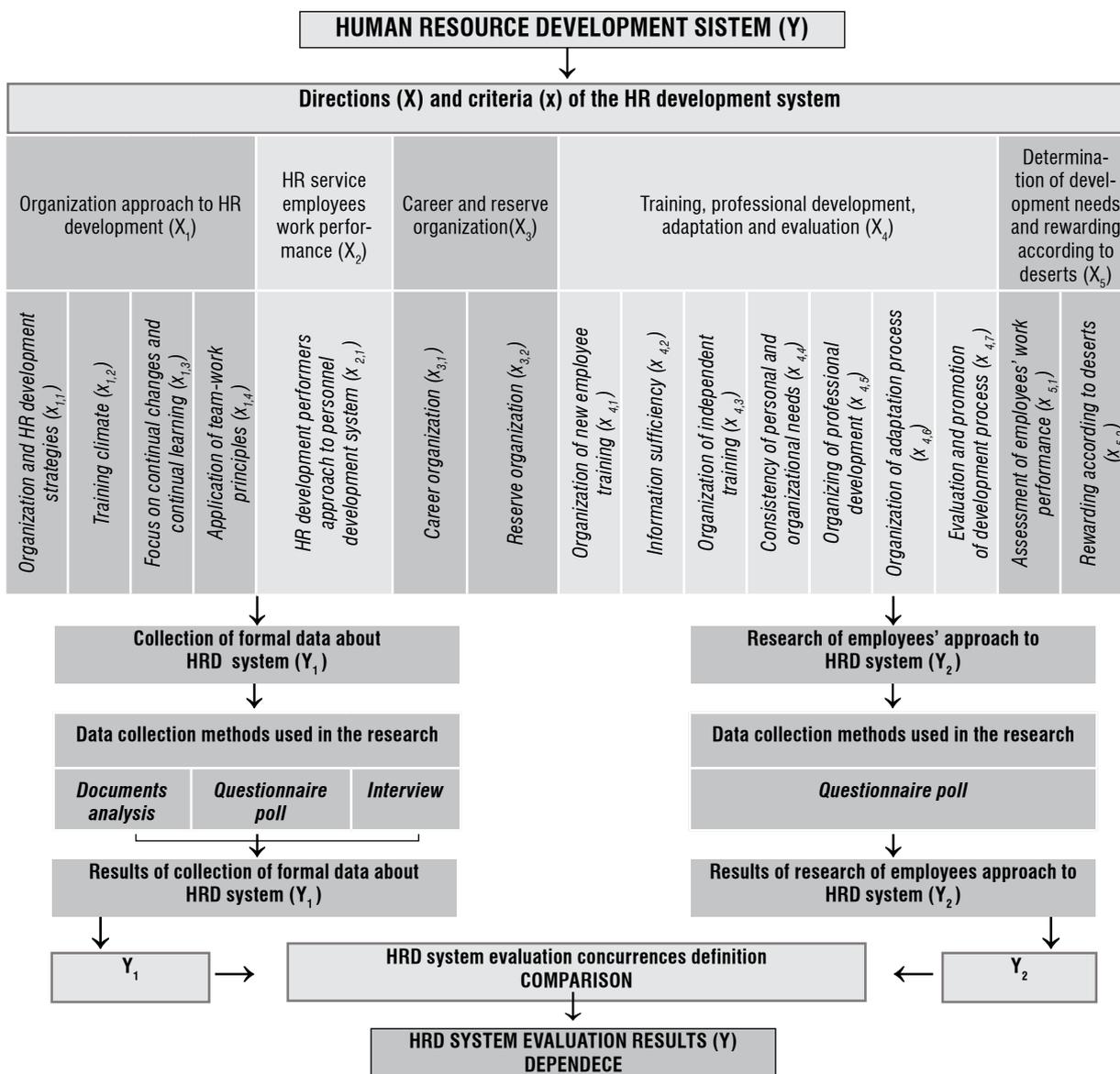


Figure 2: Human resource development system evaluation model

After determining the human resource development system evaluation directions and criteria, in the next section, the authors will proceed with human resource development system assessment options in the Lithuanian furniture industry.

Description of Human Resource Development Evaluation in Lithuanian Furniture Companies

The purpose of the research was to assess human resource development systems in one industry,

and Lithuanian furniture trade companies were selected for this survey. Furniture enterprises were selected for the research due to the large number of this type of enterprise with a headcount of at least 10 employees and that they are located in all regions (Lithuanian regions: economic and social development, 2001; Lithuanian small and medium business status and development).

Taking into account the distribution of Lithuanian furniture enterprises and potential financial and time costs, it was decided to simplify the research by evaluating human resource development systems only according to real human resource development system indicators. Therefore, the employees' opin-

Table 2: Criteria defining effective human resource development system under determined directions of evaluation

Evaluation directions	Criteria defining effective human resource development system	Possible evaluation criteria	Result when the response is positive
I. Organization approach to human resource development	1. There is training climate in organization 2. Organization and human resource development strategies are coordinated 3. Organization is directed to continuous change and continuous learning 4. Principles of team work are applied in organization	Present / absent Coordinated/ uncoordinated Directed / undirected Are applied/ are not applied	Organization approach to human resource development is positive
II. Work of human resource development performers	1. Human resource development performers' approach to human resource development system is positive	Positive / negative	Human resource development performers' approach to human resource development system is positive
III. Organization of career and reserve	1. Career organization exists in the organization 2. Reserve organization exists in the organization	Exists /does not exist Exists /does not exist	Career and reserve organization exists in the organization
IV. Training, professional development and adaptation, and assessment of actions	1. Training of new employees exists in organization 2. Employees receive sufficient information on human resource development issues 3. Organization focuses on individual learning 4. Personal and organization needs are coordinated 5. Continuous professional development exists in organization 6. The adaptation system is organized in organization 7. Development process evaluation and promotion exist in organization	Exists /does not exist Receive/ do not receive Directed / undirected Coordinated/ uncoordinated Exists /does not exist Present/ absent Exists /does not exist	Training, professional development and adaptation and assessment of these works exists in organization
V. Development needs definition and reimbursement according to merit	1. Employee work assessment is made in organization 2. Reimbursement according to merit is organized in organization	Exists /does not exist Is organized/ is not organized	Development needs are properly defined, and they are reimbursed according to merit in organization

Table 3: Structure of the Lithuanian furniture trade enterprises

Enterprises	HEADCOUNT									Total
	0	1-9	10-19	20-49	50-99	100-249	250-499	500-999	1000 and more	
Joint stock companies, cooperative companies	-	159	46	58	18	20	6	2	0	309
Private companies	173	159	26	13	1	0	0	0	0	372

Compiled according to the main indicators for small, medium and large enterprises. Vilnius: Statistics department, 2000.

ion of the human resource development system was not conducted in this study. A method of survey by mail was chosen for the collection of data. The decision was made to collect data by sending one questionnaire to every company addressed to human resource service employees, asking the person who is responsible for human resource development in that enterprise to complete it in person. There had been no human resource evaluation research conducted in the Lithuanian furniture industry before. The authors then decided which and how many furniture enterprises would be analyzed. Table 3 discloses the distribution of the furniture production enterprises according to their headcount.

Enterprises with a headcount of at least 9 comprised the largest portion of furniture trade enterprises (among private enterprises, a headcount of more than 10 comprise only 10.7%). As a result, those enterprises carry out only the most necessary human resource development work; they are rather informal – thus, it is rather difficult to find a formalized human resource development system in them. Therefore, it was decided to select only joint-stock companies producing furniture for research. According to the catalogue “Entire Lithuania 2003” at the beginning of 2003, there were 273 joint-stock companies producing furniture. Enterprises addresses were revised using the “Entire Lithuania 2003” publication and the online catalogue of Lithuanian enterprises. Having rejected enterprises with a headcount of at least 10 from which the authors did not expect any response, 103 furniture enterprises remained, which formed the sample for the study and to which questionnaires were sent.

In Table 4, methods used for data collection in this study are shown.

Table 4: Methods used for collecting research data

Name of research	Collected data	Methods of research
HR development system (HR service)	Human resource development service staff answer about human resource development in organization	Written interview (questionnaire)
	Formal data about human resource development in organization	

There are 55 questions in the questionnaire (see Appendix 1). For each criterion (see Figure 2 and

Table 2), depending on its nature and volume, an unequal number of questions were chosen. The questions were conditionally divided into 5 groups. Open and closed questions were used in the questionnaire.

Analysis of The Results of The Evaluation of Human Resource Development Systems in the Lithuanian Furniture Industry

Analysis in the furniture industry enterprises was carried out by post. Enterprises were selected in accordance with the data of THE catalogue „Visa Lietuva 2003” and the Lithuanian statistical year-book 2002. There were 103 responses in the sample, and 34 questionnaires were suitable for analysis, so that made 33% of the questionnaires sent out.

Figure 3 depicts the histogram and the normal curve of received evaluation results on human resource services.

From the data above, we can see that the asymmetry of the histogram is negative; the mean is 42. This shows us that the average percentage of positive answers in most of the enterprises was less than 50. Therefore, in Table 5, the planned enterprise distribution according to the human resource development system evaluation was verified using the cluster analysis method.

On the basis of the Ward method for cluster analysis, enterprises were divided into five groups according to the received human resource development system evaluation. Table 5 describes the distribution of enterprises according to the assessment of the human resource development system and defined groups in different regions.

From 34 furniture enterprises that participated in the research, the human resource development system assessment in 9 enterprises returned up to 25% positive responses (1st group), in 10 enterprises – 26-40% positive responses (2nd group), in 9 enterprises – 41-55% (3rd group), in 4 enterprises – 56-70% (4th group), and in 3 enterprises – 71% and higher (5th group). The fifth group of enterprises received the best results and 2 of these companies are in the Kaunas region and 1 in the Klaipėda region. The largest number of enterprises that participated in the research was from the Kaunas (10) and Vilnius (9) regions, while there were no enterprises from the Tauragė, Telšiai and Utena regions.

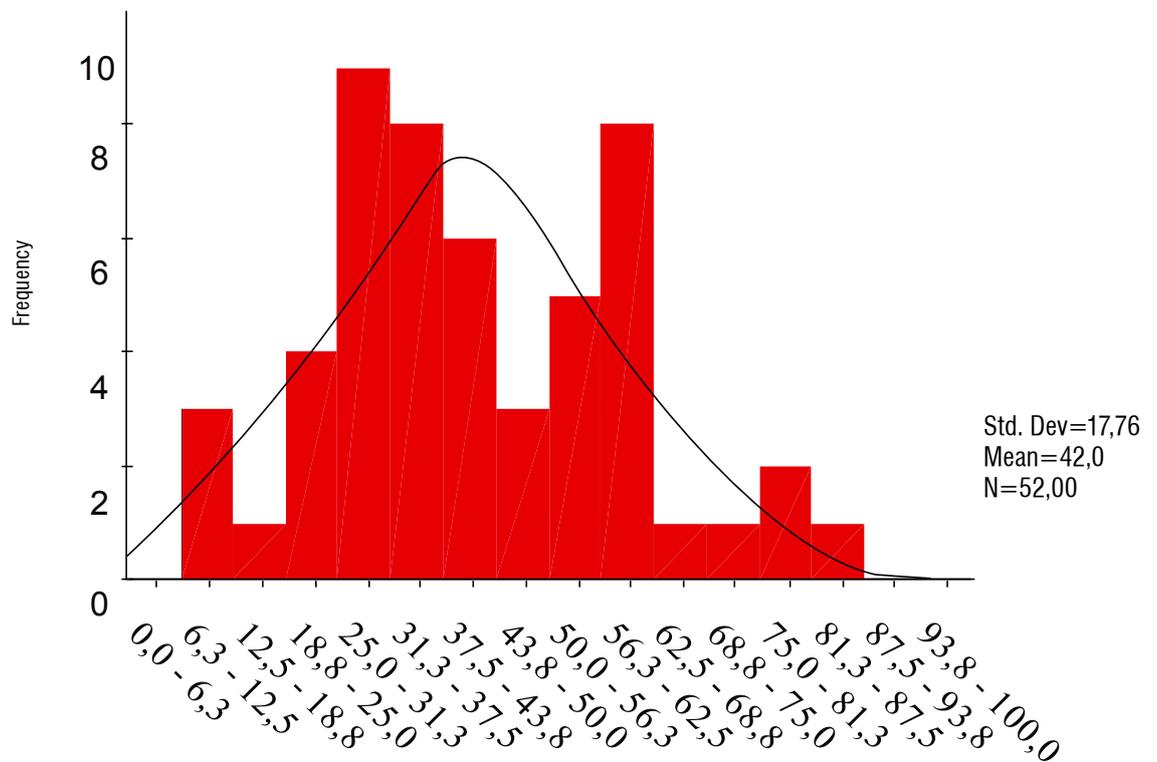


Figure 3: Histogram and normal curve of research results

Evaluation percent

Table 5: Distribution of enterprises according to the HRD evaluation in the regions

Region	Human resource development system evaluation					Total number of enterprises
	Up to 25%	26-40%	41-55%	56-70%	71% and more	
Alytus	-	-	1 (100.0%)	-	-	1
Kaunas	2 (20%)	2 (20%)	2 (20%)	2 (20%)	2 (20%)	10
Klaipeda	1 (20.0%)	2 (40.0%)	1 (20.0%)	-	1 (20.0%)	5
Marijampolė	1 (100.0%)	-	-	-	-	1
Panevėžys	1 (50.0%)	-	-	1 (50.0%)	-	2
Šiauliai	3 (60.0%)	2 (40.0%)	-	-	-	5
Tauragė	-	-	1 (100.0%)	-	-	1
Telšiai	-	-	-	-	-	0
Utena	-	-	-	-	-	0
Vilnius	1 (11.1%)	3 (33.3%)	4 (44.4%)	1 (11.1%)	-	9
Total:	9 (26.5%)	9 (26.5%)	9 (26.5%)	4 (11.8%)	3 (8.8%)	34

In order to make the analysis more comprehensive, enterprises were grouped into three regions: 1. Klaipėda, Telšiai, Tauragė and Šiauliai regions (11 enterprises), 2. Kaunas, Marijampolė and Alytus regions (12 enterprises) and 3. Panevėžys, Utena and Vilnius regions (11 enterprises).

Table 6 discloses the enterprise distribution by region. Cluster analysis was used for grouping. Three groups of enterprises were defined: enterprises with up to 25 employees (11 enterprises), enterprises with 26 to 100 employees (11) and enterprises with more than 100 employees (12).

A statistically weak relationship between enterprise size and region was defined (*Spearman* correlation coefficient¹– 0,354, when significance level $p=0.05$).

Having calculated the general statistical indicators for Lithuanian furniture enterprises, the average arrived at was 40.63%. This means that the general evaluation of Lithuanian furniture trade enterprises is lower than the average among the enterprises analyzed and differs from between 6.56% and 81.97% (the calculated median is equal to 38.52 and the mode 19.67). This shows a very different level among enterprises. Therefore, it was decided to analyze how much the human resource development system evaluation depended on the number of employees.

Table 6: Distribution of analyzed furniture trade enterprises according to their size

Region	Enterprise size		
	Up to 25 employees	26-100 employees	101 and more employees
1.Klaipėda, Telšiai, Tauragė and Šiauliai regions	1 9,1%	4 36,4%	6 50%
2.Kaunas, Marijampolė and Alytus regions	4 36,4%	5 45,5%	3 25%
3.Panevėžys, Utena and Vilnius regions	6 54,5%	2 18,2%	3 25%

¹ Spearman's rank correlation coefficient is a non-parametric measure of correlation – that is, it assesses how well an arbitrary monotonic function could describe the relationship between two variables, without making any assumptions about the frequency distribution of the variables. Unlike the Pearson product-moment correlation coefficient, Spearman's rank correlation coefficient does not require the assumption that the relationship between the variables is linear, nor does it require the variables to be measured on interval scales; it can be used for variables measured at the ordinal level.

The most illustrative results are expected when analyzing enterprises according to the evaluation of the human resource development system received depending on the number of employees (see Table 7).

During the research, several hypotheses were examined and the following results were received:

- *The more employees work in a furniture industry enterprise, the higher the assessment of the human resource development system at the enterprise. The data confirms this hypothesis. The average ($r=0.475$) linear relationship between variables is defined, when the magnitude is $p=0.01$;*
- *The older the enterprise, the greater the number of employees. The data confirms this hypothesis: the average strength (0.444) of the linear relationship between variables is defined, when the magnitude is $p=0.01$. This shows the level of continuity in work traditions;*
- *The more days allotted for the development of one employee, the higher the assessment of the human resource development system in the enterprise. The data confirms this hypothesis: the average strength (0.454) of the linear relationship between variables is defined, when the magnitude is ($p=0.05$). This shows that time allocated for employee development influences and improves the human resource development system in the organization in general;*
- *The more money allotted for the development of one employee, the higher the assessment of the human resource development system in the enterprise. The data confirms this hypothesis: the average (0.422) linear relationship between variables was defined, when the magnitude is ($p=0.05$). It means that money helps improve employee knowledge and the entire human resource development system;*
- *The higher the average salary in the enterprise, the higher the assessment of the human resource development system in the enterprise. The data does not confirm this hypothesis: The last result allows us to say that attention paid to human resource development does not always depend on the success of enterprise activity (higher or lower salary reflects this indicator); however, the management approach*

Table 7: Distribution of the number of Lithuanian furniture industry enterprises in the study according to distinct groups in terms of the evaluation of their human resource development system

Enter-prise size	Achieved evaluation of human resource development system					Total:
	Up to 25%	26-40%	41-55%	56-70%	71% and more	
Up to 25 employees	5	2	2	0	1	10 enterprises 29.4%
26-100 employees	2	5	3	2	1	13 enterprises 38.2%
101 and more employees	2	2	4	1	2	11 enterprises 32.4%
Total:	9 26.5%	9 26.5%	9 26.5%	3 8.8%	4 11.7%	34 enterprises 100%

to human resource development stipulates this more.

Discussion and Conclusions

This paper has dealt with different methods of evaluating human resource development. Human resource development is one of the solutions to organizational and individual performance problems. Whether development is the right solution depends on the cause of the problem and the cost/benefit ratios. However, financial methods in the field of the human resource development evaluation are difficult to apply and, therefore, much more attention should be paid to qualitative evaluation methods. The authors of this paper suggested a model for evaluating human resource development based on qualitative criteria. They offered a new evaluation model

The authors started their research with the goal of checking the model and evaluating the human resource development system in the Lithuanian furniture industry. The research, which has not been presented in this paper, showed that the model created is suitable for the evaluation of the human resource development system in different enterprises and organizations.

Based on the survey, the authors evaluated human resource development in the Lithuanian furniture industry. According to a cluster analysis, the authors identified five groups of HRD systems in the Lithuanian furniture industry. The equal number of researched companies demonstrated very low (the first group: only up to 26 percent of positive answers), low (the second group: 26-40

percent of positive answers), and average (the third group: 41-55 percent of positive answers) evaluations of the HRD system. As much as 11.6 percent of the enterprises in the study belonged to the group with a highly evaluated HRD (56-70 percent positive answers), whereas, 8.8 percent of enterprises showed very high human resource development evaluation results (the fifth group: 71 percent or more positive answers). As a result, the evaluation of human resource development systems in Lithuanian furniture industry enterprises allows us to presume that more enterprises have a low-average rather than high or very high assessment of their HRD system. One can say that the evaluation is lower than 50 percent (40.63 percent) of the positive answers per questionnaire in the organization. Less than half of the answers received to the questions provided were positive. Therefore, the authors state that evaluations of human resource development systems according to the provided criteria are mostly weak in the Lithuanian furniture industry companies in this study.

With the rapid globalization and new information processes gaining pace in the 21st century, the challenges of enabling people everywhere on the planet to learn and work effectively in a changing environment and constantly changing organizations has become more critical to the survival and success of organizations and nations than ever before. Today, the chaos of a highly competitive marketplace impels all people to become better informed and educated, more flexible and continuously updated. Human resources must be better prepared for the enormous transformations that are taking place in the social, political, economic and educational institutions around the world. It is important to remake all organizations, rendering

them more responsive to the rapid revolutionary changes of the world.

Limitations of the Research

Only 33% of the questionnaires sent were returned. Obviously, this allows us presume that the data collected does not disclose the real status of Lithuanian furniture companies. Taking into account all possible financial and time costs, it was decided to simplify the research by not testing employee opinions of the human resource development system. Hence, the authors could not compare formal data about the human resource development system with employee opinions.

The scientific and practical research conducted and the results received allow us to formulate *further scientific empirical research directions*:

1. Using the model proposed in this paper to evaluate the HRD system in enterprises of different industries and activities. This will help us discover which industries the human resource development activity is better developed.
2. To formulate practical recommendations for the improvement of human resource development.
3. To carry out evaluations of human resource development systems with respect to time; to observe and analyse its dynamics.
4. To develop the evaluation of human resource development systems based on the evaluation of financial factors (value management).

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Appendices

HUMAN RESOURCE DEVELOPMENT SYSTEM EVALUATION

Today activity of organization under sophisticated, continually changing conditions, requires to adapt constantly to the changes or even get ahead of them, so ensuring long-lived organization life. Modern organization is the organization following the total quality management principles, continually changing, learning, the activity of which is determined not by material resources, but mostly by the human resource use level.

The goal of this questionnaire is to clarify the approach of managing human resource organization of human resource use and human resource development level at your organization. Questionnaire survey covers limited number of employees, however, able to describe competitively and exhaustingly organizational and methodological level of personnel development system.

We swear that the received data will be represented without publishing of the person name without your agreement.

We will be very grateful if you will allow performing the survey in your organization. We hope that this will add to the human resource management science and practice development in Lithuania organizations.

When describing the particular human resource development system, we rely on the opinion of your top management, staff of human resource service and linear managers. Part of answers is objective – statistical, and, if you allow using them, we will be very grateful.

We once again engage to not breach your interests when publishing your data.

We kindly ask you to answer the given questions objectively. Please mark your answer by or write it where it is indicated. Please assess the actual situation in organization, but not statement correctness.

I. ORGANIZATION APPROACH TO HUMAN RESOURCE DEVELOPMENT

1. **Organization's vision and goals are very well defined in my organization.**
 strongly agree agree disagree strongly disagree
2. **My organization has clear development strategy.**
 strongly agree agree disagree strongly disagree
3. **Organization's human resource development strategy is coordinated with the organization development strategy.**
 strongly agree agree disagree strongly disagree
 - 3.1. Human resource development strategy is integrated with the organization development strategy from the beginning of the strategy formation.
 strongly agree agree disagree strongly disagree
 - 3.2. Human resource development strategy is focused only on deficits elimination.
 strongly agree agree disagree strongly disagree
4. **Team work principles are applied in my organization strategy formation.**
 yes no
5. **If 'Yes' to question 4, are the representatives of human resource service in this team?**
 yes no
6. **Attention to human resource development and refresher training is the most important task of ensuring success of my organization.**
 strongly agree agree disagree strongly disagree
7. **The self-development and professional development is the responsibility of the employees in my organization.**
 strongly agree agree disagree strongly disagree
8. **My organization**
 - 8.1. has all features of continually changing organization.
 strongly agree agree disagree strongly disagree
 - 8.2. has all features of continually learning organization.
 strongly agree agree disagree strongly disagree
 - 8.3. has all features of organization seeking for continual perfection.
 strongly agree agree disagree strongly disagree
9. **My organization**
 - 9.1. follows only the economy principle yes no
 - 9.2. seeks loyalty to long serving employees yes no

II. HUMAN RESOURCE SERVICE STAFF WORK PERFORMANCE**10. Please write human resource development functions of the best level and requiring most attention:**

Human resource development functions performed best in the organization	Human resource development functions requiring the most attention
1.	1.
2.	2.

11. Please write your code (see annex) beside your carried out works (number of works is unlimited)

Function	Level of participation		
	I make decisions	Methodology and work organization	I carry out routine works
1. Human resource strategy, policy formation			
2. Human resource statistics			
3. Human resource state analysis			
4. Conducting of hiring, dismissal, transfer and other human resource accounting documents			
5. Planning of employees number and structure			
6. External search for new employees, their recruitment and evaluation			
7. New employees adaptation process organization			
8. Official growth reserve planning and organizing of work with it			
9. Career planning			
10. Planning of employees professional development and re-skilling			
11. Organizing of employees professional development and re-skilling			
12. Employees assessment and certification.			
13. Salary system improvement			
14. Work stimulation improvement			
15. Employees assessment system improvement			
16. Work assessment			
17. Social expenses planning and use			
18. Social studies (please list):			
•			
•			
19. Other (please, write)			
•			
•			

III. CAREER AND RESERVE ORGANIZING

12. Does human resource department plan employees' need and make lists of positions?
 yes no

13. Do you know changes, which can in future influence number and structure of employees?
 yes no

14. If 'Yes' to question 13, please characterize them shortly:

.....
.....
.....

15. Is it thought about the prospective human resource need of organization already today?
 yes no

16. Is the position reserve of employees planned?
 yes no

17. If 'Yes' to question 16, what reserve formation methodology do you use?
 the long-term plan of employees disengage and substitution is made
 reserve is formed by involving all employees having official growth capabilities

18. Are plans of employees' career made?
 yes no

19. If PLANS ARE MADE, what methodology of career formation is applied?
(several marks are possible)
 employees know requirements for taking the particular position
 the priority in career organization is given to the enterprise's needs meeting
 it is tried to coordinate the interests of enterprise and employees in the career planning

20. To what sources the priority is given, when forming the positions of different levels:

- 20.1. Top level management internal outside, i.e. for universities
- 20.2. Middle level management internal outside, i.e. for universities
- 20.3. The lowest level management internal outside, i.e. for colleges
- 20.4. Technical specialists internal outside, i.e. for universities for colleges
- 20.5. Social specialists internal outside, i.e. for universities for colleges
- 20.6. Workers internal outside, i.e. for vocational schools

21. At what level and why do you face with problems, when meeting organization need for employees?

Position groups	We have problems	Problem's characteristic
Top level management		
Middle level management		
The lowest level management		
Technical specialists		
Social specialists		
Workers		

IV. TRAINING, REFRESHER TRAINING AND ADAPTATION, AND WORKPLACES ASSESSMENT

22. Is the concept of continually learning organization implemented in your organization?

- yes no

23. If 'Yes' to question 22, what is already done (please name main achievements)

24. Training and development in your organization is:

- irregular;
 regular;
 continual and recognized.

25. Training and development in your organization is:

- not related with the organization goals and strategy;
 related with employees needs and needed features;
 related with goals of organization and individuals.

26. Training and development in your organization is:

- treated as expenses, instead of investment;
 treated as investment;
 treated as competitive weapon.

27. Training and development in your organization is:

- going only at human resource service;
 going at work place, on-the-job;
 going during the work and become continual process.

28. Training and development in your organization is:

- focused only the knowledge receiving;
 pay attention to deepening of knowledge, but also includes and skills development program;
 the individual can choose the learning directions.

29. Training and development in your organization is:

- controlled by human resource service specialists;
 include managers as well (as assessors);
 controlled by direct manager.

30. How is organization focused to employees training and professional development?

30.1. it pays constant attention and money for current employees

- yes no

30.2. it provides by qualified employees from outside

- yes no

31. Are professional development plans made at organization scale?

- yes no

32. If 'Yes' to question 31, it is taken into account the organization needs and deficiencies of employees competence?

- yes no

33. Are individual professional development plans made for each employee?

- 33.1. top level management yes no
- 33.2. middle level management yes no
- 33.3. the lowest level management yes no
- 33.4. specialists yes no
- 33.5. officers yes no
- 33.6. for workers yes no

34. What forms of training and professional development are applied in the organization?

- 34.1. it is tried to use inside reserves for training yes no
- 34.2. employees raised their skills communicate their knowledge to colleagues yes no
- 34.3. employees are sent for professional development into
foreign education institutions yes no
- 34.4. employees are sent to probations in foreign enterprises and organizations yes no
- 34.5. employees' studies in universities and colleges are financed yes no
- 34.6. other (please, write) yes no

35. How training of workers is organized?

- 35.1. the refresher courses are organized in organization yes no
- 35.2. the curators – high qualification workers are appointed yes no
- 35.3. employees are involved into rationalization work yes no
- 35.4. the quality bunches, problem solving groups are in organization yes no
- 35.5. the system of workers qualification – tariff is in organization yes no
- 35.6. organization has own training centre yes no
- yes no

36. How is self-education organized?

- 36.1. Annual plans of self-instruction are made yes no
- 36.2. Ways to use internet free of charge are created yes no
- 36.3. A system of accounting for self-education is established yes no
- 36.4. A technical-scientific library is available for everybody in organization yes no
- 36.5. The newest information is collected and provided to the employees yes no

37. How employees' learning is assessed in career and salaries organizing?

- 37.1. it increases possibilities of official growth yes no
- 37.2. bonuses to salary are planned yes no
- 37.3. the lump sums are planned yes no
- 37.4. learning expenses are covered yes no
- 37.5. the possibilities to coordinate work and learning are created yes no

38. Is the new hired employees' adaptation system established in your company? yes no

39. If 'Yes' to question 38, please describe it shortly:

40. Is the learning assessment system in your organization? yes no

41. If 'Yes' to question 40, please describe it shortly: .

.....

V. DETERMINATION OF DEVELOPMENT NEEDS AND REMUNERATION ACCORDING TO THE MERITS

42. Is clear system of employees’ level classification?

- 42.1. of managing human resource yes no
- 42.2. of workers yes no

43. Are job descriptions, work role descriptions in your organization?

- 43.1. for managing human resource yes no
- 43.2. for workers yes no

44. Are profiles of positions requirements (for professional, personal and other competences) formed? yes no

45. Is employees’ job performance regularly evaluated? yes no

46. If ‘Yes’ to question 45, how often?

Of workers		Of managing human resource	
On the monthly basis		On the monthly basis	
On the quarter basis		On the quarter basis	
Once a half year		Once a half year	
Once a year		Once a year	
Rare than once a year		Rare than once a year	

47. What method of employees’ evaluation is used?

- 47.1. according to work tasks and their fulfillment for workers for managing human resource
- 47.2. in special evaluation commissions for workers for managing human resource
- 47.3. special tests are applied for workers for managing human resource
- 47.4. specialized recruiting firm are invoked for workers for managing human resource
- 47.5. other (please, write)..... for workers for managing human resource

48. Does managing human resource make written work plans?

- 48.1. for week yes no
- 48.2. for month yes no

49. Is the evaluation of workplaces carried out in your company? yes no

50. If ‘Yes’ to question 49, what evaluation method is applied:

- 50.1. points method, using special evaluation techniques yes no
- 50.2. ranging method yes no
- 50.3. other (please, write).....

51. What strong and weak sides of the human resource service staff do you distinguish
(please list no more than by three):

Strong sides		Weak sides	
1.		1.	
2.		2.	
3.		3.	

52. Salary of company employees is determined by taking into account

- 52.1. results of performed work yes no
 52.2. employees competence (professional, social and so on) level yes no
 52.3. employees seniority in the enterprise and loyalty yes no
 52.4. exclusive results yes no
 52.5. other (please, write).....

VI. PERSONAL INFORMATION

53. Your sex:

- Male;
 Female

54. Your age:

- under 30 years;
 31-40 years;
 41-50;
 51 and more.

55. Your seniority in this organization:

less than 1 year;

- 1 - 3 years;
 4 – 5 years;
 6 – 10 years;
 11 - 15 years;
 16 -20 years;
 over 20 years.

Thank you for your answers!

Since the human resource development topic is very wide, it can be that we do not highlight some problems topical problems of your company. We will be grateful if you describe them shortly:

.....

Job Analysis and Job Evaluation Systems in the Countries of the Former Yugoslavia

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Abstract

Human resource management (HRM/HR) is closely connected to the cultural environment in which a given organization or company operates. That is why it may be interesting for foreign experts to discover the differences and similarities in the application of HRM methods in countries which had been part of some form of federation for a long period of time, and which had then split up. In this paper the authors try to present the development and changes in the theories and practice of job analysis and evaluation in selected countries created on the territory of the former Socialist Federal Republic of Yugoslavia: Serbia, Croatia, Bosnia and Herzegovina and Slovenia.

Background

The 'job' is the smallest identifiable unit of organization which has an aim, its own dynamics and becomes the responsibility of the person it is delegated to. Job analysis is the systematic method by which we can define crucial information related to performing the job: job identifiers, tasks and responsibilities, job requirements, organizational relationships, etc. Generally, the result of a job analysis is a written job description, which has had, and still has, numerous forms. A job description contains the job's identifiers, aims, tasks, requirements, organizational position as well as the quantitative and qualitative dimensions of the job in the prescribed form of the given organization.

Job descriptions are more or less widespread and are implemented differently in different regions of the world. Critics of job descriptions believe them to be unnecessary and time-consuming from the point of view of creativity and productivity. Supporters, however, find them valuable from both the skills and effectiveness points of view. They consider the job description a benchmark, or even a starting point. When job descriptions fail, supporters argue that the reasons for failure are to be found in managerial mistakes and not in the system. History and culture are the two factors which have the greatest influence on the different views of organizations of different regions. (Carrell et al., 2000)

Siddique (2004) believes that in companies operating in a Central or Eastern European environment, job analysis is likely to be an efficient HR tool, as it helps to clarify job responsibilities, as well as to set adequate requirements, and due to these advantages, companies from this region recognize it as a useful tool, which is confirmed by Siddique's research.

In the spirit of these times numerous authors (Hingyi, et al., 1995; Milkovich - Newman, 1996; Gomez - Mejía, et al., 1998; Tóthné, 2004) are of the opinion that modern job analysis has a strategic role to play within the human resource management of a company. In recent years it has become common practice within the business world for job requirements to include the behavioral requirements connected to a specific job. It is important to emphasize that job analysis does not have a globally applicable or uniform methodology (Poór, 1996; Carell et al., 2000). There are many internationally recognized job analysis methods, developed and owned by the following companies: Hay Group (Bábosik, 2003), KPMG, Mercer, PA Consulting, REFA (Nemeskéri-Fruttus, 2001), SHL (Klein et al., 1998), Towers Perrin and Watson Wyatt (Armstrong, 1999).

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Job evaluation is a process of evaluating the relative value or contribution of different jobs to an organization. Another important aspect is that for those participating in evaluation work the results should be transparent and well-documented (Poór, 1992). Job descriptions are convenient for determining the job's relative value, as these descriptions enable one to establish various job comparison factors. In job evaluation there are two major directions. One is the so-called synthetic (holistic) direction, which focuses on the entire job, while the other direction, the so-called analytic (atomic) approach tries to seize the crucial factors from a multitude of components which make up a job.

The Past

The Situation in the Former Yugoslavia

The Socialist Federal Republic of Yugoslavia was founded in 1943 at the AVNOJ conference in Jajce. Its charismatic leader till 1980 was Josip Broz Tito. After the political and economic crises following Tito's death, the federation split into its components. Slovenia, Croatia and Macedonia declared their independence in 1991. The status of Bosnia and Herzegovina was settled by the Dayton Agreement in 1995. There remained two countries: Serbia and Montenegro created the Federal Republic of Yugoslavia which lasted till 2003. Then it was reconstituted as a State Union of Serbia and Montenegro. Montenegro declared its independence in 2006. Serbia has two autonomous provinces: Vojvodina in the north, and Kosovo in the south of the country. Kosovo has been under United Nations administration since 1999. Its final status is the subject of long-running, political and territorial negotiations.

The practice of human resource management in the former Yugoslavian countries has been greatly influenced by the system of self-government, developed in the second half of the 20th century. The system, which put executive decision making into the hands of the workers, was not much concerned with motivating employees, thus productivity dropped to an extremely low level, leading eventually to the fall of the political and economic system (Szlávicz, 2006). Both labor registry and job categorization was under central control.

In Yugoslavia the basic unit of self-government was the Basic Organization of Associated Labor (BOAL). Within companies these BOALs were

determined by the number of workers. The aspect of technological unity was often disregarded, causing countless problems. The number of administrative and executive jobs would rise, as would the costs, accompanied by ever-increasing fluctuations. The efficiency of companies was also significantly decreased by the doubling up of jobs, since certain positions were present both in the organizational units as well as at the top level of the company. In a self-governing system the authority and the salary of immediate production workers rose to a great extent. The system instilled in workers the notion that those working in production were supporting those working in development, design, market research and other non-production jobs. The role of decision makers focused on power-related, rather than professional issues.

The concept of self-governance was doomed due to the many mistakes made in the course of its realization. The system failed to find an efficient way of motivating employees. Motivation methods used in developed market economies were not applicable in Yugoslavia, as the country did not have developed methods for rewarding creativity and success, paying more to employees with outstanding and highly-efficient skills, nor for transferring or dismissing workers who did not perform adequately. Problems arising from motivating workers affected the companies' effectiveness and competitiveness (Šušnjar, 1995).

Yugoslavia's national and organizational culture will be introduced based on Hofstede's data from research on analysis of national cultures. According to a 1980 survey, Yugoslavia's four cultural indexes are as follows:

Dimensions of national culture	Index
Uncertainty avoidance	88
Power distance	76
Individualism – collectivism	27
Masculine – feminine values	21

Exhibit 1: Hofstede's indexes of Yugoslavia's national culture – 1980

Source: Štangl Š.G.-Zimanji V. 2005. Human Resource Management. (Menadžment ljudskih resursa). Faculty of Economics, Subotica, p.14.

Based on the data presented, it can be stated that Yugoslavia's organizational culture is typified by a great degree of uncertainty avoidance and power

distance, as well as collectivism and respect for feminine values. Yugoslavian organizational culture was also characterized by immense resistance to change and low adaptability, which made reactions towards changes in the environment rather difficult. It took a long time for stubborn and obstinate company leaders to reach a decision. Party politics played a significant role in both business and private life (Sevic, 2003). Yugoslavian businessmen tended not to believe in compromise, they considered it as a form of putting off the real decision, while being extremely distrustful of the State.

Following Yugoslavia's split, the question arises as to whether there has ever been a uniform Yugoslavian national and organizational culture, since the former Yugoslavia was a country full of differences, national idiosyncrasies and antagonism.

According to Janićijević (2003), taking into consideration the common Slavic origin of the nations constituting the country, and the independent countries' similar geographic positions and histories, it can be assumed that the culture of Yugoslavia's nations ought to have similar deep-running roots. This assumption can be traced in Hofstede's 2001 research results when Serbia, Croatia and Slovenia were analyzed and the cultural indexes of the three former Yugoslav republics showed a high degree of similarity.

On the other hand, Trompenaars' research work reached a different conclusion. Basing his findings on different religions and the historically opposed political and cultural "east-west" orientation of these countries, Trompenaars states that there was no uniform Yugoslav culture and that the national cultures of the aforementioned countries are significantly different (Hampden and Trompenaars, 2000).

Job Analysis and Evaluation in the Former Yugoslavia

In the past, job analysis in Yugoslavia was based on a points system. The job's degree of difficulty and its value were determined based on an analysis of the following four factors: skills, responsibility, effort, and work conditions. According to experts, all elements of the work process could be expressed using these four factors. This, of course, was only possible if the above-mentioned factors were further divided into sub-factors. The number of sub-factors depended on the job to be evaluated. The result of this analytic evaluation was a points value showing

a job's degree of difficulty, which made it easier to make a comparison of different types of jobs.

Because a job's relative difficulty was determined objectively, this made it possible to create a just compensation policy. This has also contributed to the creation of adequate personnel policies, as there were exact data on what sort of skills were needed for performing specific jobs. Thus the planning and hiring process became easier. Job analysis was based on detailed job descriptions and close observation of specific jobs.

In Yugoslavia the factors used in job evaluation carried the following meaning: (Šušnjar, 1995)

- **A – Skill** – This category involved the analysis of what knowledge and skills the workers had to possess in order to successfully perform the job.
- **B – Responsibility** – This category involved the evaluation of what sort of responsibility the worker had to take on when executing the job. The worker was expected to do his job decently and reliably, to take care of his co-workers' safety and health, and to avoid causing damage to raw materials, tools, and products.
- **C – Effort** – This category involved the evaluation of what physical and mental effort was required from the workers to do their jobs successfully. According to the developers of this job evaluation method physical effort ought to be related to certain time periods.
- **D – Work conditions** - This category involved the evaluation of job conditions, as well as dangers that the workers were exposed to when doing their jobs. It must be stressed that the aim was not to compensate workers for a lack of adequate job conditions but to motivate employers to constantly improve job conditions. All possible dangers and harmful consequences were taken into account which might befall the workers, even if all health regulations were precisely followed.

Since the four criteria mentioned affect the general complexity of work in different ratios, they are expressed in various percentages, which make up the job evaluation's total possible number of points.

The following table shows the system developed for industry based on the analytical system used in Yugoslavian job evaluation. This system was developed in 1958 by the Federal Executive Council and enacted via Decree number 22/58 (*Savezno izvršno veće 22/58*).

Factors	Levels and number of points										Total	Division in %
	1	1/2	2	2/3	3	3/4	4	4/5	5			
A – Knowledge and skills											400	40
A1 – School (theoretical) knowledge	0	1	22	8	13	24	35	53	70			
A2 – Professional (practical) knowledge	0	15	30	60	90	125	160	205	250			
A3 – Skillfulness	0	1	2	5	7	12	17	24	30			
A4 – Leadership	0	3	5	10	15	23	30	40	50			
B- Responsibility											190	19
B1 – Responsibility to perform the job adequately	0	24	32	49	65	81	97	114	130			
B2 – Responsibility towards work tools	0	1	2	5	7	10	13	17	20			
B3- Responsibility towards the safety of the work process and other workers	0	80	90	100	110	120	130	140	150			
B4 – Responsibility towards tasks serving the general interest of the company	0	110	120	130	140	153	166	178	190			
C – Effort											230	23
C1 – Mental effort	0	4	8	13	19	29	39	50	60			
C2 – Effort of the senses	0	1	2	6	10	16	22	31	40			
C3 – Physical effort	0	3	6	16	25	41	56	78	100			
C4- Effort due to working with people	0	1	2	5	7	12	17	24	30			
D - Work conditions											180	18
D1 – Danger of catching a cold due to working outdoors	0	1	2	5	7	10	13	17	20			
D2 – Danger of accidents	0	1	2	5	7	10	13	17	20			
D3 – Temperature	0	1	2	5	7	12	17	24	30			
D4 – Water, moisture, acids	0	1	2	5	7	10	13	17	20			
D5 – Dirt, dust	0	1	2	5	7	10	13	17	20			
D6 – Gases, steam, bad smells	0	1	2	5	7	10	13	17	20			
D6 – Noise and judder	0	1	2	5	7	10	17	24	30			
D7 – Blinding or inadequate light	0	1	2	5	7	10	13	17	20			
Total											1000	100

Exhibit 2: Analytical system of the Yugoslavian job evaluation system

Source: Šušnjar G. 1995. Work and Organization Management (Nauka o radu i organizaciji), Faculty of Economics, Subotica, p.75.

As can be seen from Exhibit 2, the job evaluation point system defined a so-called ‘zero-level’ for each factor which was not given any points in the whole evaluation. The progress of specific factors can be linear, square or even inverse progressive. This is defined by the type of work.

In order for the people performing the job evaluation to be able to determine the difficulty of a job as precisely as possible, the creators of this system developed a textual explanation, i.e. definitions of specific factors and sub-factors (Šušnjar, 1995). The levels of leadership skills are presented here as an illustration.

A 4 – Leadership skills

1. This job involves supervising a small group. The following expectations are to be stressed:
 - responsibility for working with people – co-operation within the group
 - responsibility for inter-personal relationships
 - responsibility for development and cultivation of creation
 - responsibility for constant improvement of income distribution system
 - responsibility for making housing policies.
2. A job involving supervising a small group where the group comprises a technological unit. At this level of responsibility the following have to be stressed:
 - Responsibility for working with people – co-operation within the group and between work groups
 - Otherwise the items are similar to the responsibilities described under Level 1
3. Job involving supervising the work of an organizational unit. The following factors are important at this level of responsibility:
 - Responsibility for the organizational unit’s personnel policy
 - Responsibility for interpersonal relationships and co-operation within an organizational unit.
4. Job involving supervising the work of several organizational units. The following factor is important at this level of responsibility:

- Responsibility for relationships and co-operation among organizational units.

5. Job involving supervising the work of a company consisting of several organizational units.

Classification of Occupations in the former Yugoslavia

In addition to the established methodology of job analysis, in 1990 the Parliament for the Socialist Federal Republic of Yugoslavia (SFRY) developed the Standard Classification of Occupations (*Jedinstvena nomenklatura zanimanja u SFRJ*). The classification of occupations was based on these two aspects:

- a. the type of job – according to which 19 fields of work were defined, with 74 groups of occupations and
- b. the complexity of the job – according to which the jobs were classified into 8 groups by complexity.

Three two-digit numbers were used to define the jobs. The first two-digit number showed the complexity of the job in relation to the following levels of qualification.

Level of complexity of job	Level of qualification Ordinal number	Meaning of level of qualification
10.	I	Without qualification
20.	II	Partly qualified
30.	III	Qualified
40.	IV	Qualified, with secondary school education
50.	V	Highly qualified
61.	VI-1	College education
62.	VI-2	College education
71.	VII-1	University education
72.	VII-2	Master’s degree
80.	VIII	Doctoral degree

Exhibit 3: Relationship between the levels of complexity and qualification in the standard classification of occupations

Source: JNZ 1990. Jedinstvena Nomenklatura Zanimanja (Standard Classification of Occupations in SFRY), Službeni list SFRJ (Official Journal of SFRY) 31/1990, Beograd, p.1057.

The second pair of numbers refers to the occupational group and has values 01–99. The third pair of numbers indicates the ordinal number within the group of occupations and groups of complexity.

The main groups of occupations are the following:

1. Agriculture, food production and processing
2. Forestry and woodworking
3. Geology, mining and quarrying
4. Mechanical engineering and metallurgy
5. Electrical engineering
6. Chemicals and graphic / printing industry
7. Textile industry
8. Public and decorating services
9. Geodesy and construction
10. Transportation
11. Commerce, catering, and tourism
12. Economy, law and administration
13. Education
14. Field of social sciences and humanities
15. Field of mathematics and natural sciences
16. Culture, art and public information
17. Health and social work
18. Physical education and sport
19. Other

Thus the code, for example, for a consultant working in the field of economics was 72.67.92., while the number for someone responsible for training of employees was 71.70.02.

The classification of occupations as defined by the central powers has survived the transition. In many of the countries of the former Yugoslavia this classification is still in use. The following sections will introduce the current situation in each country.

Serbia

Serbia had a decisive political role among the republics of the former Yugoslavia. Following the disintegration of the country the Federation of Serbia and Montenegro took over as the legal successor of the State's rights and obligations. Since 2006, and the secession of Montenegro, Serbia constitutes a separate state. The country occupies a territory of 88 361 km², which is inhabited by approximately 7.5 million people. The country is made up of Serbia, occupying the central part, and two autonomous provinces, Vojvodina and Kosovo. The economic difficulties of the region could be

felt since the beginning of the 1980s, but after disintegration, Serbia faced a deep political and economic crisis. The economy and infrastructure first suffered economic sanctions imposed by the UN, then the NATO bombings in 1999. Inflation skyrocketed, reaching several billion percent in 1993. In January 1994 financial reforms were started, but were not followed by the stimulation of economic activities. Losing the markets of the former Yugoslavia was also painful. Unemployment posed a grave problem, for example, in 1997 the number of people registered as unemployed constituted almost 30% of the entire working age population. This rate was only increased by the hundreds of thousands of people who were either laid-off workers or refugees.

At the end of the year 2000, after the Milosevic-era, a reform- and European-oriented Serbian government was formed which saw its central task as the enactment of economic reforms. Since this move Serbia's economy has been characterized by relatively fast economic growth. In 2004, the increase in GDP was 9.3%, which propelled Serbia into the set of countries developing most dynamically. However, the subsequent years have seen a slowing down of GDP growth, until in 2006 it was down to 5.8%. This economic growth can well be illustrated by the per capita GDP value too, since in 2001 it was \$1445, then in 2005 it reached the level of \$3183. In 2007 the expected GDP is \$54.3 billion, while the per capita GDP is predicted to be \$7234. In recent years inflation has been successfully restrained, thus while in 2001 the rate of inflation was 40%, in 2006 it was kept under 10%.

Characteristics of Serbian Organizational Culture

The influence of culture on economic activities has been explored since the beginning of the 20th century. Hofstede defines culture as "the collective programming of the mind, which distinguishes the members of one human group from another". Inglehard (2000) found evidence that economic differences are linked with large and pervasive cultural differences.

The sections referring to Serbia in Hofstede's analysis will assist the introduction of the characteristics of Serbian national and organizational culture. In 2001 Hofstede broke down the national culture indexes for the former Yugoslavia into specific data

for Serbia, Croatia and Slovenia. (Janićijević, 2003) The positioning of these three countries, however, is rather similar. Moreover, Hofstede used data from 1980 referring to Yugoslavia in defining Serbian cultural characteristics. The explanation for this may be that in the years of political and economic turmoil Serbian culture showed the least change and was the most similar to the original conditions of around 1980. Expressed in numbers, the characteristics of Serbian national culture reveal the following picture.

Dimensions of national culture	Index
Uncertainty avoidance	88
Power distance	76
Individualism / collectivism	27
masculinity / femininity	21

Exhibit 4: Hofstede's indexes for Serbian national culture

Source: Janićijević N. 2003. Effect of National Culture on Organizational Structures of Companies in Serbia (Uticaj nacionalne kulture na organizacionu strukturu preduzeća u Srbiji). Economic Annals (Ekonomski Anali), Beograd. p.54.

Based on these numbers, Serbia is a highly power distant, collectivistic, feminine, highly uncertainty avoiding country. According to these characteristics the country shows most similarities with South American and Mediterranean countries. We find the greatest dissimilarities when comparing Serbia with Anglo-Saxon societies. It is important to point out that according to Hofstede high power distance refers to a great degree of centralization, while strong uncertainty avoidance points towards significant formalization. These cultures are characterized by pyramid-type organizations. According to research done by Janićijević, however, Serbian companies show signs of family-type organizations. Namely, Serbian company culture is characterized by low-level formalization and bureaucracy, as well as the respect of informal and unwritten laws and regulations. There is also significant social control, as proven by the extreme importance of roles and norms at work. The leader of the company is respected as an omnipotent leader by the workers, implying significant personification. The authority of Serbian company leaders is expressed in the accepted social belief that they are the ones protecting employees from insecurity; therefore they are the ones with the right to make decisions.

The origin of Serbian companies' characteristics is to be found in Serbian national history. During the

time of Turkish rule (14th – 19th c.) the region was defined by agriculture, the population lived in villages which were difficult to reach, and mostly in extended family groups. These cooperatives were made up of 20 to 100 members, who were connected by both blood relations and the concepts of patriarch and egalitarianism (Janićijević, 2003). After industrialization, Serbs projected the principle of extended families onto their companies, too. The leader of the company – a father-like leader figure – controlled the company in an autocratic style. If he was wrong, it was not to be admitted publicly, because that would decrease his authority, so even his failures would have to be presented as victories. The concept of equity was introduced in the distribution of produced goods, based on the concepts of communism and socialism. Serbian organizational culture was also characterized by a strong resistance to change.

The Faculty of Economics of Ljubljana supervised a survey conducted in 2001 which analyzed business-to-business relationships between Serbian and Croatian companies. 216 Serbian and 204 Croatian companies participated in the survey (Zabkar-Brenčič, 2004). According to the results of that research, the following Serbian organizational characteristics can be stressed: Serbian culture is characterized more by co-operation than competition, connections are extremely important, as are human relationships and friendships. The behavior of an individual is affected by belonging to the group and the interest of the group. Serbian businesses find reliability, keeping promises, honesty, loyalty and openness quite important. Friendship, spending time together informally and giving presents takes an important role in the creation and cultivation of business relations. Information flow often happens through informal channels, which only underlines the importance of connections.

The characteristics of Serbian national culture as mentioned above imply that management methods and human resource management practices prevalent in market economies (especially based on the Anglo-Saxon experiences) are rather difficult to apply in this environment.

Current Serbian Practice of Job Classification and Evaluation

Serbian economic actors are currently facing a serious dilemma. According to the Labor Law on

Regulations of 1996 (*Official Bulletin RS 55/96 - Službeni glasnik RS 55/96*) the Statute on Job Classification (*Akt o sistematizaciji poslova*) is classified as a general legal document, and can be drawn up by the manager of the company. However, the new 2001 Labor Law (*Official Bulletin RS 70/01 - Službeni glasnik RS 70/01*) does not specify this. During the period of 1996 to 2001 jurisdiction considered the Statute on Job Classification to be a general legal document and the Constitutional Court examined statutes of several companies as to whether or not they were legal or constitutional. The Labor Law of 2001 does not define this document's legal status, so it becomes questionable whether or not it is within the jurisdiction of the Constitutional Court, or as a matter of fact, under whose jurisdiction drawing up a job classification document falls within the company (*Legal Informator, 2007 - Pravni informator, 2007*).

Due to this unclear legal situation, there are currently two opposing views concerning job classification.

According to one view, despite the contents of the new Labor Law, the document regulating job classification is still a general legal document. This is supported by the fact that the document defines relationships within the company in a general impersonal manner – such as jobs, qualifications needed for performing the job, and those other conditions which have to be met by every current and future employee of the company. Based on all these, the supporters of this view believe that the Statute on Job Classification can be subject to constitutional and legal examination, because of not only its legal status, but its content, as well.

According to the other view which is based on Labor Law, the Regulation of Job Classification is not a general legal document. Supporters of this view believe that this document does not regulate the rights and obligations of workers, since those are, according to the Labor Law, regulated exclusively by law, the Collective Bargaining Agreement on sector level and the Regulation on Labor (*Pravilnik o radu*), as sole general legal documents, in addition to the individual labor contracts. It is believed that the document regulating job classification does not regulate work-related conditions, but just states certain facts such as the job description, job specification and the structure of workers. According to the supporters of this view a document regulating job classification

is an internal one, under the authority of a single economic actor – the employer. Therefore, this internal, regulative document is a type of offer towards a third party and special conditions will be clarified by the labor contract. Based on all these, the question of constitutionality or legality does not even arise, since the Regulation of Job classification is not a general legal document.

Because of the general dilemma described above, the Constitutional Court has suspended all its examinations of constitutionality and legality of documents regulating the job classifications of various companies until a general consensus can be reached (*Legal Informator, 2007 - Pravni informator, 2007*). Due to the current situation employers do not follow any legal instructions; they compose and alter workers' job descriptions and job classifications at will. They argue that because it is a company's internal affair, other people or institutions should not interfere. Employees are now in a much worse position than were employees in the former Yugoslavia.

For the regulation of the classification of occupations the previously described Classification of Occupations is in use in Serbia, and so far no new system of classification has been introduced. This system, developed in 1990, has been functioning as a tool for statistical administration rather than a system helping personnel administration. The examples provided by the other member states of the former Yugoslavia show that a system harmonized with the international ISCO- 88 - system has to be developed, but this has not been carried out in Serbia yet.

The current situation of job analysis is not satisfactory. In many places the points system developed in 1960 is still in use, specific jobs are evaluated based on this system, moreover, the norms and wages are also based on it. Unfortunately, in most cases only the radical change in technology has brought a change in the point system, thus it is extremely obsolete. Due to changes in the HR environment the job evaluation system is in need of reform, but since the development of a new system for job evaluation takes a great amount of time, expertise and investment, employers keep putting it off. The Collective Bargaining Agreement on sector levels could contain the basic principles of job evaluation, but for more than a year now there has been no Collective Bargaining Agreement on sector or general level in force.

The Role of Foreign Firms

In Serbia foreign direct investment (FDI) amounted to \$4 billion between 2001 and 2004, while in 2006 it reached a record value of \$2 billion. The biggest investors have been from Greece (Coca Cola Hellenic), Germany (Metro Cash & Carry) and Slovenia (Mercator). Further, the company Phillip Morris, in the tobacco industry, the oil processing company Lukoil and the cement producing company Lafarge are also among the significant foreign investors. In addition, it has to be mentioned that there are numerous foreign banks operating in Serbia.

Based on the sources available the appearance of foreign-owned companies is an important step in terms of spreading modern HR practice. In foreign-owned companies we find the application of highly developed HR methods, especially in the fields of recruiting, selection and evaluation. Hopefully, the results of effective personnel management will motivate Serbian companies too. In time the job analysis and evaluation methods will probably change and not just foreign but local company leaders too, will realize the strategic importance of what now seems to be only an administrative task.

Croatia

Croatia was one of the most economically developed regions of the six republics of the former Yugoslavia. At the end of the 1980s an estimated 25% of the Yugoslavian Gross National Product originated from Croatia. Currently it occupies a territory of 87 661 km² and has almost 4.5 million inhabitants. The drastic decrease of Croatian economic success came with the outbreak of the Yugoslav Civil War, which brought a series of bitter conflicts on the territory of Croatia. The social and economic infrastructure, as a consequence of the war, was heavily damaged or destroyed.

In 1990 more than 500 state-owned companies went bankrupt, in 1991 production saw a fall of 12% compared to the previous year, in 1995 public debt was \$3 662 million - not counting the debt of the former Yugoslavia. The financial cost of the Balkan War in Croatia was estimated at more than \$20 billion. Unemployment was at a rate of 20%. Recent years, however, have brought a boost to the Croatian economy. In 2005 Croatia signed the

Stabilization and Association Agreement with the European Union.

The Croatian economy is today a stable market economy. For the year 2007, the predicted GDP per capita is \$15 355, which amounts to 48% of the average in the EU. 67% of the GDP comes from the field of services, 27% from industry, while 6% comes from agriculture. Tourism is a notable source of income, generating revenue of over \$10 billion. The unemployment rate has steadily decreased (by 5%) over the last 7 years, but there are some economic problems connected with slow reform processes, an inefficient administrative and judiciary system and corruption.

Croatian Organizational Culture

Croatia has a long tradition of Catholic Christianity, and thus to pointing out the inherent weakness of human beings and concerns for the collective good. This valuation of collective over individual values was enhanced during the communist regime. In that sense the dependence on the hierarchy instead of on rationality has prevented the development of an entrepreneurial spirit in the society. All the above-mentioned factors, when combined with Hofstede's cultural factors of entrepreneurial behavior, evidence that entrepreneurship in Croatia is a time consuming and difficult activity, although critics of Hofstede's model suggest that cultural homogeneity is not to be taken for granted in countries having a number of cultural groups, which is the case for Croatia and as well as for the remainder of the former Yugoslavia.

According to the reanalysis of the Hofstede's model of national culture for Yugoslavia based on IBM survey data, the Croatian national culture dimensions are calculated, as is shown in Exhibit 5 below:

Dimensions of national culture	Croatia
Power Distance (PDI)	73
Individualism (IDV)	33
Masculinity (MAS)	40
Uncertainty Avoidance (UAI)	80

Exhibit 5: Hofstede's indexes for Croatian national culture

Source: Hofstede G. 2001. Cultures Consequences, Comparing Values, Behaviors, Institutions and Organizations Across Nations, Sage Publication, Thousand Oaks. p. 501

The Long Term Orientation index (LTO) was not calculated due to a lack of data. Hofstede writes (1983) "Organizations serve two main functions: *distribution of power, and control of uncertainty*" (p.64). According to his findings about national cultural dimensions, a Croatian organization's governance structure is affected by society's culture in the sense that large power distance (PDI) and strong uncertainty avoidance (UAI) dimensions form so called pyramidal organizational models. All countries of the former Yugoslavia together with France, the Czech Republic and Poland share the same organizational model (Burcik- Kohun- Morris, 2007).

The characteristics of such a pyramid-like organization (large PDI and strong UAI) are centralization, authority-concentration and highly structured work flows. Such an organizational structure represents a hierarchical organization with built-in rigidity and a reliance on policy. The multiple levels of an organization's bureaucracy slow down information exchange and decision-making processes. Managerial style is analytical and directive, and managers with an analytical approach like to structure and organize situations to deal with complex situations, sort things out in a logical way and solve complex problems in creative ways.

The Hofstede power distance indexes are 86 for Serbia and 73 for Croatia. These indicate that in both economies personal relationships, experience and judgment are of great importance. Personal acquaintances and joint business relations play key roles in creating business relationships. (Zabkar-Brencic, 2004) However, in Croatia both the formal and informal ways of sustaining business relationships bear greater resemblance to western- European practices. This is supported by the fact that business relationships have a legal basis and the information system is transparent. Conversely, Croatian companies are rather weak on keeping promises made to business partners, even when there is long-term planning in the business relationship. This paradoxical behavioral pattern makes it quite difficult to co-operate with Croatian companies, as long-term commitment does not always go hand in hand with a loyal, reliable and respectful business relationship. Since competition in Croatia is much fiercer than in Serbia, business ethics are somewhat objectionable, especially as far as relationships with domestic business

partners, employees and the government is concerned. This is due to the deficiencies of the legal system, low creditability of the economy, a highly political background of economic decisions, and the short-term strategies of certain businesses. Based on the survey it can be stated that Croatian business relationships are more complex and need a high-level integration process to make them successful.

The Faculty of Economics of Ljubljana supervised a survey conducted in 2001 which analyzed business-to-business relationships between Serbian and Croatian companies, with the participation of 204 Croatian companies. (Zabkar-Brencic, 2004) Based on the results of this survey there are significant differences between the national cultures of Serbia and Croatia. Despite the fact that Hofstede's research shows collectivistic values in both countries, the Croatians are more of an individualistic nation. Croatian culture is competitive, action-oriented and stresses self-actualization.

Current Practice of Job Evaluation and Classification in Croatia

In Croatia the National Classification of Occupations (*Nacionalna klasifikacija zanimanja*) -as a national statistical standard- published in the National Bulletin 111/98 (*Narodne novine 111/98*) has been in effect since 1998. It was developed by the Croatian Bureau of Statistics based on the ISCO – 88 and its European counterpart ISCO – 88 COM. The basic element of the classification system is the occupation defined by name, code and job / task description of the group to which the occupation belongs. ISCO – 88 classifications contain only the sub-major groups occupation code, due to the fact that international comparisons are made on the basis of major sub-groups data.

The Croatian classification system contains not only data on the classification of occupations but also on their complexity, as defined by how complex the task is that the worker performs. The Croatian classification system takes into account any education program needed to perform the given occupation. Since the work tasks of specific occupations are not equally complex, the complexity of the job is defined based on the task requiring the highest level of qualification.

Complexity Level of job	Level of qualification	Meaning of level of qualification
1	Ordinal number	Without qualification
2.	I	Partly qualified
3	II	Qualified
4	III	Qualified, with secondary school education
5	IV	Highly qualified
6	V	College education
7	VI-1 and VI 2	University education
8	VII-1	Master's degree
9	VII-2	Doctoral degree

Exhibit 6: Relationship between the complexity level of the job and level of qualifications based on the Croatian National Classification of Occupations

Source: NKZ 1998. National Classification of Occupations (Nacionalna klasifikacija zanimanja), National Journal (Narodne novine), 111/98, Zagreb.

The classification system contains five types of elements, distributed in the following way:

- 10 major groups (rod) (0-9)
- 28 sub major groups (vrsta) (01-99)
- 15 sub groups (podvrsta) (011-991)
- 400 unit groups (skupina) (0110-9911)-
3861 occupations (pojedinačna zanimanja) (0110.11.0 – 9911.11.1)

The 10 major groups include the following types of occupations:

1. Legislators, senior officials and managers (Čelnici i članovi zakonodavnih tijela, čelnici i dužnosnici državnih tijela, direktori)
2. Professionals (Stručnjaci i znanstvenici)
3. Technicians and associate professionals (Inženjeri, tehničari i srodna zanimanja)
4. Clerks (Uredski i šalterski službenici)
5. Service workers and shop and market sales workers (Uslužna i trgovačka zanimanja)
6. Skilled agricultural and fishery workers (Poljoprivredni, lovno-uzgojni, šumski i ribarski radnici)
7. Craft and related trades workers (Zanimanja u obrtu i pojedinačnoj proizvodnji)
8. Plant and machine operators and assemblers (Rukovatelji strojevima, vozilima i sastavljači proizvoda)

9. Elementary occupations (Jednostavna zanimanja)
10. Armed forces (Vojna zanimanja)

The occupation code within the Croatian classification system is defined as a 7-digit number. For example, the occupation of carpenter has the code 7422.12.3. The first digit is for the seventh major group (Craft and related trades workers), first two digits combined indicate type of occupation (74. workers in leather, wood, food and textile processing), and the first three digits together 742 are for the subgroup of occupation (wood processing). It may be concluded that the abovementioned occupation belongs to the 7th major group and within that group to the sub-major group 7422 (Carpenters for furniture, wood processing workers). Within that group, there are many occupations, but the mark 12 represents a carpenter. The last digit indicates the complexity of the occupation and 3 signifies that the qualification level for the job may be met with high school education (for this case in duration of three years).

Despite the fact that the Croatian job classification system is based on the ISCO-88, there are still several differences in comparison to the international system. The number of sub-major groups is the same, both systems distinguish 28 sub-major groups, yet the difference lies in the fact that the Croatian system contains 2 agricultural and 3 elementary occupations, while the international system uses 1 agricultural and 4 elementary occupational sub-major group. The numbers of subgroups also shows minor variations, since the Croatian system consists of 115, while the ISCO-88 version defines 116 subgroups. The number of unit groups varies too, with 400 unit groups in the Croatian against 390 in the international system.

The differences between this classification system and the ISCO- 88 occur only where the Croatian Education and Qualification Framework differs from the definition of occupation complexity within the ISCO – 88 and ISCO–88 COM classifications. The Croatian Qualification Framework (CROQF) - *Hrvatski kvalifikacijski okvir* (HKO), prepared and published by the Ministry of Science and Education in January 2007, is based on recommendations of the European Qualification Framework (EQF). It was prepared to satisfy the needs of the labor market, enhance social cohesion, develop competence mobility concept and ensure its recognition among the European states

providing also a comparison with ISCO – 88 classification.

The Croatian Bureau of Statistics has adopted a document known as the Methodology of National Standard Classification of Occupations (NSCO), (National Journal (*Narodne novine*), 105/01, Zagreb), for statistical processing of the data in the field of education according to the ISCED – 97 (International standard classification of education). The Croatian Qualification Framework structure has 7 reference levels of education as shown in Exhibit 7 below:

Levels of education	Educational system
0	Pre- school education
1	Primary education (lower classes)
2	Primary education (upper classes)
3	Secondary school education
4	Education after secondary but not higher or university
5	Higher and university education, postgraduate education
6	Doctoral education

Exhibit 7: Structure of education by NSCO

Source: Croatian Qualification Framework, Croatian Bureau of Statistics, 2006.

One of the officially acknowledged disadvantages of ISCED 97 influencing the quality of NSCO, is the inadequate description of lower reference levels of education.

For public sector employees, the Government of Croatia in 2007 adopted a classification of jobs of civil servants (*Uredba o klasifikaciji radnih mjesta u državnoj službi*). The jobs within each category of state employees are classified according to standard measures applied to all state bodies as shown in Exhibit 8 below:

The structure, classification and number of the jobs of civil servants are shown in the following:
Exhibit 9:

Criteria	Description
Knowledge	Education, knowledge, working experience, skills and competences
Complexity	Complexity of task, complexity of procedures, level of personal contribution required, extent of work place tasks
Work independence	Extent of work according the guidelines and recommendations, degree of supervision of the work required
Degree of cooperation	Frequency of the contacts and its importance in the efficiency of state body
Degree of responsibility	Influence of results achieved on the effectiveness of the objectives of the state body program, personal responsibility for work done, responsibility of delegating and supervising work of others

Exhibit 8: Criteria for defining the standard measure for job classification

Source: Uredba o klasifikaciji radnih mjesta u državnoj službi, Vlada RH, 2007, prepared by AFB.

Group	Subgroup	Category		
		I	II	III
Managing state employees	Chief manager	8		
	Head manager	19	19	
	Manager	22	22	
	Lower manager	5	10	12
Higher state employees	Principal adviser	6	9	
	Higher adviser-specialist	10	9	
	Higher adviser	15	15	
Lower state employees	Adviser	8		
	Higher associate	4		
	Associate	11		
	Higher assistant	18		
	Assistant	10		

Exhibit 9: Number of positions/jobs in the state service job classification

Source: Uredba o klasifikaciji radnih mjesta u državnoj službi, Vlada RH, 2007, prepared by AFB.

The Croatian compensation system is based on job evaluation and varies according to the complexity of jobs, and is then further moderated by use of a points system. The established points value is increased at a rate of 0.5% for each year of work. The monetary value of points is variable; it depends on the company's performance in the

given month. The sum meant for wages amounts to a certain percentage of the company's total income. This sum is then divided by the employees' points. The points of individual employees are altered on a monthly basis, depending on their monthly performance. The basis for this performance measuring is group performance, but individual performance is also taken into account. The amount of the wages determined by group performance can be increased or decreased by a total of 50% according to the individual performance of the employee (CHV, 2004).

The Role of Foreign Firms

Croatia has a well-established institutional and legal framework, which is currently being harmonized with European standards, and the Government is maintaining macroeconomic stability, so accelerating integration into western institutions and increasing the prospects of regional political stability. The Croatian government actively encourages foreign direct investment to stimulate the economy, and a number of multinationals are already established in the Croatian market. Investment models in the Croatian economy have also been adapted to the interests of potential investors. Foreign investors have the same legal status rights, and obligations as domestic investors, but they are entitled to special tax exemptions depending on the nature of the investment and the activities they carry out in Croatia. Croatia also offers an industrial tradition, a highly educated work force, and a modern transport infrastructure and communication system.

Of all the republics of the former Yugoslavia, Croatia has seen the greatest level of foreign direct investment (FDI), and the privatization of government-owned assets has been the main source of FDI. Since 1993 the total value of foreign direct investment amounts to 14.2 billion Euros. The steady increase of investment mirrors the trust foreign investors have placed in the country. While in 2005 FDI was \$1.846 billion, the following year it rose to \$3.679 billion. The most significant investors are from the Netherlands, Austria, Germany, and France. The most attractive Croatian branches are banking, the chemical industry and telecommunications. The most notable businesses already involved in Croatia are Barr Pharmaceuticals with investment of \$2.3 billion (Croatian company: Pliva), Deutsche Telecom (Germany) in the telecommunications sector (Value: \$1.272 billion),

MOL (Hungary) in the Oil Industry Sector (Value: \$505 million) then Interbrew brewery, Ericson, dealing with communication systems, Societe Suisse de Cement Portland, the cement producing company, Messer Grelshiem, the chemical factory, Tuborg Carlsberg, the brewery, IBM, Siemens, and Unilever.

Foreign-owned companies have greatly contributed to the widespread use of modern human resource management practices. Based on the data available, recruitment and selection processes are the most developed in Croatia of the former Yugoslav territories. Most companies apply a multi-step selection process in order to select the most suitable employee. They have also introduced a concept of outsourcing some of HR functions, especially these of recruitment and selection, and as well development and training. The spread of HR and the realization of how important HR functions are can be seen in the rise of training programs. It is important to note the quality of these, as most were developed in great detail and based on performance evaluation. (Szlávicz, 2007) Because the Croatian HR practice of personal performance evaluation and incentives has gained an important role, it can be expected that in the near future the modernization of job analysis and evaluation processes – the focal topic of this paper – will also be carried out.

Applying an international system of compensations and benefits, foreign organizations operating on the Croatian market have introduced an appropriate compensation system. It assigns to employees salaries which are internally comparable and competitive within the marketplace.

Remuneration policy has a crucial role to play in acquiring new employees and is important for both employees and employers. Remuneration and benefits are closely tied to local labor market conditions, even when an organization takes an ethnocentric or geocentric approach. The availability of qualified local people to fill positions, prevailing wage rates, the use of expatriates, and local laws interact to influence the level of remuneration and benefits. (Treven, 2007)

Bosnia and Herzegovina

Bosnia Herzegovina consists of two regions, Bosnia and Herzegovina which together occupy about 51000 km². Bosnia Herzegovina (or Bosnia for short) sepa-

rated from Federal Yugoslavia in 1992. Before the outbreak of the Balkan War, based on the census of 1991 it had a population of 4.3 million, while in 2007 the population decreased to 3.9 million people. Bosnia is made up of three defining ethnic minorities: an estimated 40% of the inhabitants are Muslim, 31% Serbian and about 15% Croatian.

The years of war in the 1990s had a drastic impact on the economy of Bosnia and Herzegovina. The GDP fell by 75%, while the destruction of the physical infrastructure caused immense trauma. Bosnia's economy has been facing serious problems even after the end of its political turmoil. Between 2003 and 2004 the GDP per capita rose only by 10%, while the high rate of unemployment and foreign trade deficit still pose a great problem. However, inflation was the lowest in the entire region, in 2004 it was only 1.9%. The estimated GDP per capita for 2007 is \$9 168.

Job Evaluation and Classification Practice in Bosnia and Herzegovina

The Law on Classification of Occupations (*Zakon o standardnoj klasifikaciji zanimanja*) published in the Bosnia and Herzegovina Official Bulletin, 22/04 (*Službene novine BiH 22/04*) was passed in 2004, it is based on the ISCO-88, and since January 1, 2005 all statistics have to be compiled based on this law and system.

The job classification system defines the complexity of jobs, in addition to classifying occupations. The Bosnian system uses four levels to define the complexity of jobs. The classification system distinguishes between two kinds of complexities: complexity level and specialization complexity. The complexity level is defined by the amount and complexity of the tasks, while the specialization complexity refers to the necessary level of knowledge to carry out the tasks.

	Major groups	Skill level	Necessary qualifications
1	Legislators, senior officials and managers (Funkcioneri i članovi zakonodavnih tijela, funkcioneri državnih tijela, direktori)	-	Not defined
2	Professionals (Stručnjaci i naučnici)	4	University and postgraduate degree
3	Technicians and associate professionals (Tehničari i druga stručna zanimanja)	3	Secondary and further, non-university degree
4	Clerks (Uredski i šalterski službenici)	2	Secondary school qualifications
5	Service workers and shop and market sales workers (Uslužna i trgovačka zanimanja)	2	Secondary school qualifications
6	Skilled agricultural and fishery workers (Poljoprivredni, lovno-uzgojni, šumski i ribarski radnici)	2	Secondary school qualifications
7	Non-industrial occupations in production (Zanimanja za neindustrijski način rada u proizvodnji)	2	Secondary school qualifications
8	Plant and machine operators and assemblers (Rukovaoci mašinama, vozilima i sastavljači proizvoda)	2	Secondary school qualifications
9	Elementary occupations (Jednostavna zanimanja)	1	Primary school qualifications
0	Armed forces (Vojna zanimanja)	-	Not defined

Exhibit 10: Main elements of the classification system in Bosnia and Herzegovina Source: *Standard Classification of Occupations*

(*Standardna klasifikacija zanimanja*) Bosnia and Herzegovina Official Bulletin, 22/04 (*Službene novine BiH 22/04*), Sarajevo.

In Bosnia and Herzegovina the classification of occupations is made up of the following elements:

- 10 major groups (rod)
- 28 sub-major groups (vrsta)
- 116 subgroups (podvrsta)
- 401 unit groups (skupina)
- 3 762 occupations (zanimanja)

Exhibit 10 shows the ten major groups of occupation, their skill and qualification levels.

Though the Bosnian system is based on the international ISCO-88 system, there are minor differences in the method of classification.

According to the Classification System of Occupations currently in effect in Bosnia and Herzegovina, specific occupations have a six number code. The first number refers to the major group, the second number refers to the sub-major group, whereas the first three numbers mark the subgroup. Thus the code of a baker, for example, is 7412.02. According to this code this occupation belongs to the 7th major group, the 74th sub-major group and within this, it belongs to the 74.1 subgroup. The group numbered 74.12 contains the occupations of bakers, confectioners and similar. Within this classification bakers have the number 02.

The Role of Foreign Firms

Of the analyzed countries, Bosnia and Herzegovina is the one with the least foreign capital input, but the value of foreign direct investment is steadily increasing every year. While in 1999 the value of FDI was 166 million euros, by 2004 it reached the 500 million euros mark, and in 2006 it was 556 million euros. In the first half of 2007 the value of FDI amounted to more than 1.2 billion euros. Between 1994 and 2007 4.05 billion euros of foreign capital was invested in Bosnia. The most significant investments came from Austria, Serbia, Croatia, Slovenia, Switzerland, Germany and Italy. The majority of foreign investments were made into industry, but also into banking and commerce. Among the most notable foreign-owned companies present are British American Tobacco, Coca Cola, Ericson, Volkswagen, and Siemens.

Based on the sources available, foreign-owned companies have contributed greatly to the estab-

lishment of professional HR practices. With the rise in the number of foreign-owned businesses, with the development of local businesses (and their following suit) presumably the practice of professional HR management will spread. Thus the prevailing view on employment policies will hopefully alter, and human resource management will cease to be seen as a secondary, administrative function. Apart from the methods of recruitment, selection and evaluation further development is highly recommended in the procedures of job analysis.

Slovenia

Slovenia, the smallest of the former Yugoslav countries, was the first to become independent, in 1991. The country with a population of two million became a member of the EU in 2004, and then in January 2007 a member of the euro-zone. Slovenia can be seen as a developed country now, since its GDP per capita is \$25 000 which amounts to 86% of the average in EU countries. The Slovenian economy has also successfully fought inflation, as its rate of inflation for the year 2006 was a mere 2.3%. Economic growth is also significant; in the first quarter of 2007 it was 7.2%. The dispersal of the 920 000 employees is: 56% work in the services field, 40% in industry, and less than 5 % work in agriculture. The unemployment rate at the end of 2007 was estimated to be 5.2 %. In 2007 Slovenia had to deal with inflation (of around 4 %), because of the post euro-introduction effect and worldwide inflation. The strong investment activity resulted in BDP growth but also inflation.

During the economic transition of the 1990s there was fairly little change in the way of company management. In the first years of the 2000s the less effective Slovenian companies were replaced by more effective and competitive companies. (Biloslavo-Lynn, 2007) Economic development has been quite stable, and since the transition effects of joining the EU in 2004 passed the Slovenian economy has faced different, post-transitional challenges in the course of catching up with its European and global partners.

Similar to other new EU states, Slovenia's modernization process has been delayed. The reasons for this lie in 20th century history. During the existence of the Kingdom of Serbs, Croats, and Slovenes, there was barely any technological inno-

vation in Slovenia. During the SFR of Yugoslavia the situation was even worse. In Tito's country solidarity was the most important principle, and accordingly, Slovenia was obliged to help and 'wait for' the other, less developed republics.

After Slovenia became independent in 1991, entrepreneurs found themselves in a completely different situation. Since 1989, when private firms were allowed, and following the disintegration of several giant companies, by 2003 there were about 140 000 registered companies in Slovenia. (Ursic-Mulej, 2005). However, about 94% of these operated with less than 10 employees, and the percentage of large companies was only 0.3%. The new company owners and managers had to face the fact that the old, socialist economic principles were no longer applicable, and they, conversely, did not possess adequate skills, and nor did they immediately recognize the role and importance of innovation. One of the unique characteristics of the Slovenian economy is that 63% of the companies are in the hands of internal shareholders, so the majority of the employees are also the owners. Due to this fact, Slovenian managers have to create a special, long-term relationship with their employees.

Based on the 2005 international comparative HR survey carried out by Cranet, human resource management is in a favorable situation in Slovenia. In 70% of the 161 analyzed companies HR managers were also members of the top management group, and in almost 60% of the companies HR functions had been included from the initial phases of developing business strategies, furthermore, there was also a separate HR strategy. In more than half of the analyzed companies there were individual performance management programs in effect, and more than 85% of the companies carried out performance evaluation encompassing all categories of employees. Approximately 2.2% of income was spent on training employees (Cranet, 2006).

Slovenian national culture is, according to Hofstede's 2001 survey, characterized by the following: Slovenia is a highly collectivistic society showing feminine values, characterized by a high level of uncertainty avoidance and power distance. (Zagorsek- Jaklic- Stough, 2004) Expressed in numbers, the situation is the following: the value of power distance is 71, uncertainty avoidance is 88, individualism 27, and masculine values 19.

The behavior of Slovenian managers was analyzed by Hugo Zagorsek and Marko Jaklic in 2004. The authors analyzed the presence of five successful management practices as defined by Kouzes and Posner among Slovenian, Nigerian and American managers. The five practices are as follows:

- Challenging the Process – finding challenging opportunities, questioning the status quo, taking risks
- Inspiring a Shared Vision – envisaging an exciting future, drawing others' attention to the vision
- Enabling Others to Act – stimulating cooperation, authorization and strengthening others
- Modeling the Way – follow the accepted values consistently
- Encouraging the Hearth – giving positive feedback, acknowledging personal progress, celebrating group success.

The authors analyzed the opinions of 134 MBA students and drew the following conclusions: The management practices listed above were ordered as follows in Slovenia:

1. "Enabling Others to Act"
2. "Encouraging the Hearth"
3. "Modeling the Way"
4. "Challenging the Process"
5. "Inspiring a Shared Vision".

The authors analyzed the difference in opinions and practices of male and female managers. Based on the data received, it was established that in Slovenia there is no particular difference in the practices of male and female managers. The only exception being the practice of "Challenging the Process", which male managers saw as more important than the females. While a Slovenian male leader sees challenging the process, modeling the way, and enabling others to act as being of greater importance than their American counterparts, the behavior and opinion of Slovenian female managers does not differ much from that of American female leaders. However, Slovenian participants put greater emphasis on finding challenging opportunities than did their American or Nigerian colleagues.

The results of the survey show that cultural difference has a much lesser impact on managerial practices and leadership styles than might be expected. (Zagorsek-Jaklic-Stough, 2004)

Nonetheless, it has to be stated that the MBA students involved in this survey were more educated, more widely traveled, and better acquainted with Anglo-Saxon management theory and practice than average managers, thus their opinion cannot be taken to be representative. Besides that, MBA programs mostly present global management principles without deep cross-cultural analysis. On the other hand, the behavior of Slovenian MBA students is in many respects uniform, as they are more exposed to global effects than the average manager. The majority of managers in Slovenia are so called “older local, successful post-socialist transition self-made men”.

Slovenian Classification System of Occupations

In Slovenia the Standard Classification System of Occupations was adopted in February 2000 (*Standardna klasifikacija poklicev SKP-V2, Uradni list RS, št. 16/2000*). The system follows the structure of the ISCO-88. The Slovenian classification of occupations consists of the following elements:

- 10 major groups (Glavna skupina poklicev)
- 29 sub-major groups (Število podskupin)
- 112 subgroups (Število področnih skupin)
- 371 unit groups (Število enot področnih)
- 1729 occupations (Število poklicev)

The 10 major groups are the following:

0. Army forces (Vojaški poklici)
1. Legislators, senior officials and managers (Zakonodajalci/zakonodajalke, visoki uradniki/visoke uradnice, menadžerji/menadžerke)
2. Professionals (Strokovnjaki/strokovnjakinje)
3. Technicians and associate professionals (Tehniki/tehnice in drugi strokovni sodelavci/druge strokovne sodelavke)
4. Clerks (Uradniki/uradnice)
5. Service workers and shop and market sales workers (Poklici za storitve, prodajalci/prodajalke)
6. Skilled agricultural and fishery workers (Kmetovalci/kmetovalke, gozdarji/gozdarke, ribiči/ribičke, lovci/lovke)
7. Craft workers (Poklici za neindustrijski način dela)
8. Plant and machine operators and assemblers (Upravljalci/upravljalke strojev in naprav,

industrijski izdelovalci /industrijske izdelovalke in sestavljalci/sestovljalke)

9. Elementary occupations (Poklici za preprosta dela).

The code of the HR managers, for example, is 5.1232.01.

The Role of Foreign Firms

Slovenia has the most developed and stable economy of all the members of the former Yugoslavia. Slovenia with its 8% of the population of the former Yugoslavia created about 40% of western currency inflow and was the only Yugoslav republic which had a positive balance of trade (exports to imports) with western economies. Based on that statement, one could assume that now foreign direct investment would be flowing into the country at a steady pace. Yet this has not been the case so far. Between 2002 and 2006 the values of FDI were extremely variable: while in 2002 it was 1.7 billion euros, the period between 2003 and 2006 shows FDI values between 300 and 665 million euros, except for the year 2005, which saw a total of 6.89 billion euros of foreign direct investment. The majority of foreign investment comes from Austria, Switzerland, the Netherlands, France and Germany. Despite the fact that FDI in Slovenia is not limited to one or two industries, the amount of investment into banking, chemical industry and commerce is conspicuously large. The most notable foreign businesses include the Swiss pharmaceutical company Novartis, the Belgian bank KBC, and the American company Goodyear. In spite of significant foreign investments in Slovenia there are still a large number of state-owned companies, therefore Slovenia has the lowest FDI per capita value among EU countries. However, it has to be emphasized that a very important process of privatization is still ongoing. The second largest bank – NKBM has already been privatized and a telecommunications company - Telekom Slovenije is in the process of privatization. Therefore, the FDI situation is expected to change dramatically in the next years.

Foreign businesses coming to Slovenia have done a great deal in terms of spreading modern HR practices. Undoubtedly, the views on HR practices that multinational companies have brought along largely contribute to the fact that currently in the majority of Slovenian businesses, the HR function is now treated with the importance it deserves. Since HR

experts have become real partners to company managers, and human resource management has been advanced into the circle of central issues affecting companies, the HR methodology widely used in market economies is expected to become extensively used in Slovenia as well. By following the practices of foreign companies, recruitment, selection, training, and performance evaluation methods are now commonly used, though as the focal topic of this article, further development is expected in the fields of job analysis and evaluation processes. Moreover, considering that Slovenian companies are important investors in other countries of the former Yugoslavia, Slovenia is likely to indirectly contribute to the spread of highly developed HR practices across the entire region.

Conclusions

In most of the countries born after the disintegration of Yugoslavia, and the political and economic transitional period, new systems of classification of occupations were developed.

In **Serbia** because of a long political crisis and economic transition there was a failure to develop a new system of classification of occupations, thus the almost 20-year-old Standard Classification of Occupations remains in effect. The points system for job analysis, created several decades ago, is still used, and was only altered after the radical change of technology. Modernization of this obsolete job analysis system is one of the most pressing tasks of both HR experts and lawmakers. In Serbia there are also serious doubts concerning the legal status of the document regulating job classification within individual businesses. The present legal gap gives the employers a free hand to arbitrarily construct the job classification system. Apart from this the job classification and evaluation documents of businesses do not contain the national standard codes and the justice of these systems is also often questionable.

In **Croatia** the National classification of occupations has been in effect since 1998, and was developed based on the international ISCO-88 system. Besides classification of occupations, this system also provides data for defining the complexity of jobs. The Croatian system defines complexity based on the necessary qualifications for a certain job. Since job analysis is taken as a basis for performance measurement and the compensation system,

it is very important for the job evaluation and classification system to be comparable and transparent on both the national and international levels. However, the practice in Croatian businesses shows a different picture: the companies often do not use the national classification codes in their job classification, nor the suggested levels of complexity.

In **Bosnia and Herzegovina** the Standard Classification of Occupations was introduced in 2004. Two types of parameters are used to determine complexity: complexity level and specialization complexity. On this basis, occupations can be classified at four different levels. Despite the fact that the Bosnian system takes the ISCO-88 system as its basis, it is not fully endorsed in practice, given that the companies' documents do not include the national classification codes, or the skills levels.

Among the countries of the former Yugoslavia, **Slovenia** has the most developed company HR practice, and it is in Slovenia that human resource management has best attained the strategic role it deserves. In spite of the fact that the Law on Standard Classification of Occupations was passed in the year 2000, the processes of job evaluation and classification still show a number of deficiencies.

We can conclude this article by stating that in each country of the former Yugoslavia analyzed there is a state-level job classification system, but their use in practice is not suitable. Job evaluation is mostly based on the point systems developed in the second half of the 20th century. The job analysis processes of the region's businesses are not completely transparent and are in several cases obsolete.

Multinational companies that introduce internationally accepted and standardized management methods into the Balkan regions will significantly improve the current situation of job classification and evaluation available to the countries of the former Yugoslavia. It is the task of managers and HR experts to enforce the national classification systems and to evaluate each job objectively and transparently; since this is the precondition of a just compensation policy and successful HR practice.

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