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RESEARCH ON MANAGEMENT AND ORGANISATIONS

Contemporary Management Concepts
Management Practices in Specific Cultural Contexts
Attributes in the Concept of Strategic Leadership
Evaluating Intellectual and Social Capitals

Estonian Business School

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Editorial

Dear Readers,

EBS Review deals with a variety of topics relevant to our management and organisational lives. Authors for this issue have been asked to submit articles that advance our knowledge of management, business administration and organisations and that have an impact on management, business practices and the organisational field as a whole. We sought scholarly empirical and theoretical research papers that offer original input dealing with the current management situation, and demonstrate originality in terms of theory, practice or as case studies. Any research method was recognised, either quantitative, qualitative or a combination of methods, as long as it effectively addressed the issue at hand and rigorously adhered to the methodology adopted, in cross-cultural survey research or simulation, a local or international case study or a statistical analysis.

Our journal encourages new ideas or new perspectives on existing research, addressing these themes consistently and cogently from different cultural, social, political, theoretical or intellectual perspectives. It intends to act as an arena for scientific debate within and among academic and professional networks of researchers with a strong interest in investigating how knowledge, preferences and practices are formed and how they influence business administration and management performance. In addition to academic merit, novelty and integrity, the criteria for selection are that articles are relevant, concise, practical, informative and useful to our readers.

The members of the editorial board, all well-known and distinguished academics and high-level specialists in their fields, have helped us to review, evaluate and select articles worthy of publication and to find the right people to conduct the double blind review process. Distinguished academics and specialists from different countries have reviewed each paper several times and helped the authors revise their papers, thus extending the publishing process.

In this issue, we have selected six papers submitted to us within the last year, and which have met our goals and have successfully proceeded through the demanding double blind review process. Here we can see studies dealing with contemporary management concepts, management practices developed in specific cultural contexts, strategic leadership, concepts of corporate social responsibility and innovation, intellectual and social capital and one case study reflecting the creation of the company’s strategy in a restructuring and changing environment. Although EBS Review is already an international journal with an international pool of authors and editors as well as reviewers from around the world, our Estonian origin always means that some papers focus on the Estonian context. In the current issue there are two based on doctoral dissertations defended at Estonian Business School this year.

The first article by **Maris Zernand-Vilson** and **Erik Terk** from Estonia discusses indications of various widespread management concepts in Estonian enterprises. The authors believe that by studying the changes that have occurred in management practices and the characteristics of those changes in a specific country and comparing them with solutions provided by international management concepts, it should be possible to obtain more extended generalisations about the dynamics of the organisation and its management to identify the management development needs in that country and also how enterprises in that location attain solutions promoted internationally.

The learning organisation, self-directed work teams, the flexible organisation, employee individuality, supply chain management, quality management, global management and management by objectives were contemporary management concepts selected for the study. The study covered 145 organisations and the questionnaire was answered by a top manager from each company. The authors found that the most common focus in the organisations studied were management by objectives, supply chain management and the learning organisation.

In the next paper, with the intriguing heading 'We're on a Road to Nowhere... New Forms of Work Organisation and National Cultures', **Pedro Ferreira** from Portugal discusses how much the cultural environment is related to the potential that new forms of work organisation, namely autonomy and teamwork, have for success. The author uses two main approaches: the Socio-Technical Systems (STS) approach as the main theoretical background for new forms of work organisation, and Hofstede's Cultural Dimensions as a theoretical model of the concept of national cultures. The study using data from 23 EU countries shows that the correlation between national cultures and new forms of work organisation are significant, although moderate. Moreover, the study identified differences in the impact of cultural dimensions on work design practices. It is argued, that the use of autonomy and teamwork can be insufficient to represent the wide variety of work design practices in STS. The same is also valid for cultural dimensions. The author believes that an understanding of the cultural constraints on work design practices in EU countries can help improve organizational models, further competitiveness, and even more, that we cannot ignore culture as a fundamental factor in the explanation of differences and similarities, and the success and failure of new forms of work organization.

The aim of the next paper written by **Eija Kjelin** from Finland is to identify those attributes in the concept of strategic leadership (SL) that are congruent with emergent leadership approaches, focusing in particular on a systemic view and social constructionism. To address this aim, the article adopts a concept analysis of SL to determine the various ways it is used and to clarify the concept of SL itself.

We can argue that concepts and meanings are useful and necessary in collaboration. For instance, the shared meanings of SL provide a mutual orientation for organizational development in practice. Moreover, as collaboration between academics and practitioners deepens and forms a richer view of SL in action, it is vital to clarify the academic methods of using the concept of SL, eventually benefiting the further collaboration of academic research and practice. This paper proposes that the main attribute is interaction between people and conversations between participants as the most important empirical referents of SL that differentiate the concept from strategic management. It is suggested that an extensive definition of company success is needed when capturing strategic leadership and highlighting how it differs from simple leadership.

The paper by **Ülle Übius** and **Ruth Alas** from Estonia investigates connections between the innovation climate and two facets of corporate social responsibility. A survey was conducted in Estonian, Chinese, German, Finnish, Czech, Slovakian and Japanese electrical-electronic machine, retail and machine-building enterprises. Data about two facets of corporate social responsibility, the innovation climate and seven different countries were compared by means of an ANOVA-test. A linear regression analysis was conducted in order to analyze connections between the innovation climate and corporate social responsibility. The total number of respondents was 5410. The results of this empirical study show that one facet of corporate social responsibility – the firm's performance concerning social issues – predicts the innovation climate in all seven countries. A second facet of corporate social responsibility – the firm's respect for the interests of agents – predicts the innovation climate in Estonian, Czech and Slovakian enterprises. The model subsequently developed explains how two facets of corporate social responsibility predict the innovation climate in Estonian, Chinese, German, Finnish, Czech, Slovakian and Japanese electrical-electronic machine, retail and machine-building enterprises.

Radosław Koszewski from Poland evaluates intellectual and social capital and their influence on the propensity of export consortia members to cooperate. It can be argued that an export consortium is a specific form of strategic alliance formed by small and medium-sized companies in order to increase their stake in foreign markets. Similar to other types of strategic alliances, the consortium's activity is threatened by the risk of dissolution. Therefore, careful selection of potential member companies is of crucial importance. Promoters of export consortia usually take into account first of all the economic and commercial capital of candidates during the selection procedure. To put it simply, these include the company's financial assets, the exportability of its products and its commercial relations. All these criteria determine the alliance's propensity to cooperate. However, they exert influence on only a part of the alliance's activity. There are four decisive criteria that determine the company's capacity to function within the alliance: economic capital, commercial capital, intellectual capital and social capital. The purpose of this article is to describe those types of capital that are the hardest to define, namely intellectual and social capital, and their influence on the evaluation of the company's propensity to cooperate. In order to do so, those methods of evaluating intellectual and social capital currently used are presented and assessed as to their aptitude for use in small and medium-sized companies constituting export consortia.

Finally, the Estonian author, **Sven Heil**, presents a case study of an Estonian fixed telecommunications operator. The case study includes an in-depth analysis of the creation of strategy in an environment that is restructuring by focusing on the period 1993 to 2003. The study is based on institutional, sensemaking and strategic management organizational theories. The study shows how a company's strategy was externally imposed by institutional forces, as institutional forces directed managerial sensemaking; how a technically oriented company gave way to customer-centred logic; and how rapid changes in approach guaranteed the survival of many successful strategic activities on the market. The study explores three periods: the first period characterised by poor infrastructure and an immature telecommunications market; the second period characterised by preparing for competition before the telecommunications market opened; and, the third period characterised by market pressure after the telecommunications market became fully open. Finally, the study shows the key strategic decisions that were made and offers suggestions for other organizations undergoing change across periods that also markedly differ.

Dear readers, we hope that this brief introduction to the topics of the current EBS Review sparks your interest in the topics and articles presented in this issue. As usual 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

Mari Kooskora

The State and the Dynamics of Management and Organisational Development Indicators in Estonian Enterprises

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Abstract

The current paper investigates indications of different widespread international management concepts in Estonian enterprises. By studying the changes that have occurred in management practices and the characteristics of those changes in a specific country and comparing them with solutions provided by international management concepts, it should be possible to achieve various kinds of useful results. It is possible to to obtain information about to which extent the given country's enterprises attain solutions promoted internationally as well as to find out which are the emphases and preferences based on the given country's specifics. A number of internationally well-known management concepts were selected for this study based on the frequency of reference to these concepts in the international management literature. These concepts were the following: the learning organisation, self-directed work teams, the flexible organisation, employee individuality, supply chain management, quality manage ment, global management and management by objectives. A special questionnaire was compiled, which contained the indicators typical of these concepts without using the name of the concept. A top manager from each company answered the questionnaire, noting the relevance of the corresponding indicators in the respective enterprise and the dynamics of the indicator. The study covered 145 organisations.

According to the results, the most common focus in the organisations studied were management by objectives, supply chain management and the learning organisation. However, this rating somewhat varied dependent on whether the enterprises were domestic or foreign-owned.

Keywords: Estonia, management, organisational and managerial development, transfer of management concepts

Introduction

Several new ideas about organisational development and management have come into being and been expanded in the last few decades. Numerous books have been published, ideas presented and methods promoted by trainers and consultants. But there is no clear overview of the extent to which the organisational and management reality in different countries corresponds to these ideas and concepts, and in which direction practice is moving. Therefore,

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a study was initiated using indicators derived from different contemporary international management concepts, to find out the intensity and dynamics of these indicators in the practice of Estonian enterprises.

Consequently, the general research task of this paper is to clarify Estonian management practice in terms of contemporary international management concepts. The research tried to find out if and how Estonian enterprises are influenced by these concepts; the authors did not set out to determine how much these concepts have been promoted by consultants and trainers often representing international consulting businesses, but to clarify whether concrete indicators of these concepts become evident or fail to do so.

There are not enough empirical comprehensive studies of Estonian enterprises especially concerning the most recent development period that provide a reliable reflection of the general state of current practice and recent trends. This situation, which is largely characteristic of others Central and Eastern European (CEE) countries' enterprises, complicated the forming of a complex system of hypotheses for the current study. Researchers assert that managerial and organisational practices in the CEE were being brought in line with those of developed Western nations, and although this fact is generally true, it is not to make predictions about the forms and dynamics of this convergence process. Therefore we started with a small number of relatively straightforward hypotheses in an attempt to generate a "big picture" of the overall dynamics of management and organisational development and hope that in the presence of such big picture it would be possible to advance more detailed hypotheses in the future. Initial hypotheses originate mainly not from research literature but from the authors' practical observations about Estonian enterprise management. To start with it was presumed that international concepts and their indicators do exist in Estonian organisations.

Management Concepts

Management theory has developed remarkably, especially in the last 50 years; therefore, it is still quite unsettled and controversial. New "management philosophies" and organisational and management concepts have continued to emerge all the time. Some of them have grown from previous concepts. Sometimes there have been serious paradigmatic shifts, while other times more moderate shifts in emphasis or terminology. These changes were often then sold on partially as a result of substantial alterations in society and the economy that inevitably bring changes to management, but partially also due to new innovative management theorists' or consultants' efforts to present a new concept that is different from the previous, contrasting or even rejecting it, and thereby winning the necessary attention of the audience. Different concepts are quite difficult to compare, because they focus on various instants in management and at the same time try to sell their agenda in the broad context of general management.

Koontz (1961; 1980) started to use the term "management theory jungle". In his article from 1980, Koontz differentiated 11 separate directions[1] in management practice and stated that their numbers had doubled in 20 years. He expressed the prudent hope that developments would move in the direction of convergence. His predicted convergence never materialised. One of the more systematic studies of management tools by Bain & Company involves a summary. In 2009 (Rigby, 2009), 45 management tools were divided into 13 groups – the study did not attempt to capture all existing management concepts.

Many of the new management concepts tend to be guru-centric, and so they lack analytical dialogue. Conducting comparative analyses is quite difficult. They are often talking across each other or discussing the same things using different terms. There is a need to take this discussion to the level of elements of concepts, or the techniques promoted within the framework of such concepts. The presence of these elements and techniques should preferably be discernible and measurable.

There has been extensive critical discussion on the triggers and implications of management tools and techniques as management fashions (Abrahamson and Fairchild, 1999), stressing the need to understand broader priorities and development approaches that lead to implementation, rejection or formal use of specific management tools and techniques.

Transfer of Management Concepts

Management theories and the methods of organisational and management development based on them are increasingly international unless we are discussing some exotic countries and cultures (like the Orient and East-Asia). This internationalisation trend is becoming stronger all the time. For example, it was only a few decades ago that the Finnish management school, which was under the influence of the United States, differed from the Swedish school, which was influenced by Germany. But now the dissimilarities between such locations are already rather insignificant. Comparative studies of organisational cultures in different countries have become a popular branch of research (Kaasa, 2008). In the same conditions it is difficult to find evidence that these kinds of studies are considered for teaching and improving management.

It is mainly international business periodicals, consulting companies, business schools and companies offering training that are responsible for introducing new management theories and improving managerial practice. This is an international industry, which rests upon the same theoretical sources. The sources are primarily Anglo-American. Some other European countries (like Sweden) are infrequently able to succeed in the competition for concepts and gurus.[2] The same consulting and training kits are implemented in different countries, then feedback works as the consultants experiment in their activity then inevitably amend and adapt these instruments based on what does or does not work in a specific country at a certain time. This activity of adapting often remains as tacit knowledge among executives and does not move on to the level of theoretical generalisation.

The transfer of management concepts at the organisational level may operate in different ways. The implementation of new practices can be forced by the manager's conscious choice, there can be a spontaneous organisational adoption of new behaviour or the movement towards new management concepts can be self-regulative.

Consequently, the ability of one management concept, method or technique as opposed to another within in the framework of the situation in a specific country and its stage of economic development comes into question. Investigating the characteristics of actual management practices and changes in them in a specific country, and comparing these with solutions provided in international concepts, should make it possible to draw conclusions about the needs for management development in that country and also about how enterprises in that location access solutions promoted internationally. Considering this, training and consulting in the field of management could potentially be adjusted. Surely to achieve these results, it is not enough to

[1] The analysis by Koontz was made on the basis of quite general, even philosophical, managerial ideas. In current article a list of more concrete organisational and management development concepts were used. However, this does not make much difference, because every specific concept relies on some broader theory.

[2] At this point is important to emphasise that in addition to the cultural and economic peculiarities, the domination of management concept is influenced only but also by the scheme of owner- management relation and practice of corporate governance which is typical in some countries. The management is not influenced by the professional executives only but also by the owners of capital. The models of corporate governance in different countries are quite different. The model from USA which gives remarkably strong independence in CEO is one possible option. (Tafel *et al.*, 2006)

measure the intensity and dynamics of these factors. It is also necessary interpret the results in accordance with the economic and cultural context.

Estonian Context

The Estonian economy grew rapidly from the beginning of 2000 until the current economic crisis. This was supported by general economic growth, good availability of credit and also in some ways by accession to the European Union.

Conscious research and development in the management field commenced in the 1960s when the first educational institutions in the management field were established in Estonia. Ten years later, in the 1970s, executive training facilities existed that enabled managers of business entities at this time to acquire broad management knowledge (Graf, 1986). We can consider that a connection with organisational and management development concepts existed in Estonian organisations from that time. The main source of US based concepts came through Finland (Gillies *et al.*, 2002).

According to descriptions by Estonian management experts (2005), management developments influenced organisations in spite of the lack of any real economic relations. Differences between organisational culture, work quality, attitudes toward employees and the external environment appeared. The emergence of free market management thinking also brought several foreign experts and theorists to short seminars.

As a result of economic reconstruction and privatisation, the entrepreneurial structure changed fundamentally (Teder and Terk, 1998). The number of managers changed, and the new managers were largely young people. Also, local consulting companies were augmented with the newcomers in the management field. Therefore, it is quite difficult to estimate the continuity of management development concepts in Estonia.

International accounting and consulting companies and Finnish training centres, which primarily established branches in Estonia, started experimenting by selling the same courses and approaches to consulting as existed in other counties (Enterprise Estonia, 2005). New consulting and training companies also appeared, and business schools in Estonia started to copy popular western methods without any deeper investigation of the actual needs of local enterprises at their particular developmental stage.

In terms of organisational culture, Estonian enterprises are partly similar to Finnish and partly similar to eastern European enterprises (Vadi and Türk, 2009). Compared to other Central and Eastern European countries, a large number of Estonian enterprises are foreign owned and the majority of these were established appreciably earlier than 2004, when Estonia joined the European Union.

The current study covers a period when the Estonian economy was not yet in the present crisis. This was a period of clear growth, but in some ways this was a period of stagnant growth because the economy was not restructuring as fast as prices rose. Also, the business models in use did not develop fast enough, new markets were not pursued and managements were quite conservative (Varblane *et al.*, 2008).

Research Description

In order to study the practical use of management and organisational development concepts, the research process was carried out in three main stages. The steps were: defining the research object, creating the measurement tool and finally collecting and analysing the data.

The first task in selecting a study object was to formulate a shortlist of contemporary directions. It was essential to select general directions and avoid specific tools, but also management philosophies that were too broad. The first selection was made on the basis of the frequency of the keywords related to organisation and management development directions and their representatives in the Harvard Business Review, Fortune magazine and the ProQuest database. The results of the frequency analysis are presented in Appendix 1. The period from 1985 to 2005 was chosen in order to match two decades of economic transition in Estonia, assuming that some years existed as a time lag between introducing new management ideas in journals and their possible introduction in management practice. The final choice from the shortlist was made during discussion seminars with local management experts[3] that validated the relevance of directions for the Estonian context. The experts were from research institutes, business schools and state institutions responsible for the development of the economy. The following concepts were selected: learning organisation, self-directed work teams, flexible (shamrock) organisation, employee individuality and personality, supply chain management, total quality management, global management and management by objectives. A short overview of the selected management and organisational development concepts is presented in Appendix 2.

The next step in the study was to compile the measurement tool. What managers of enterprises understand about different organisational and management development concepts in terms of the actual names of these concepts and the practice of their techniques or tools in everyday use can vary considerably. Therefore, the questionnaire for the current study did not focus on management concepts as a whole, but on specific solutions in management practice that could potentially be measured. The presence or absence as well as the dynamics of different solutions were investigated. Although the specified practices of enterprises were handled under the general management concept as an indicator, the questions were presented separately from the concepts and without referring directly to them. The ranking list of concepts emerged by summing up single indicators. One has to consider here that a high score cannot be interpreted as the conscious implementation of that management concept. The practice of some solutions could be achieved through imitating other enterprises. An overview of the management directions and related indicators is also presented in Appendix 1. An overview of the methods for selecting the management concepts for the current study is described in an article handling the differences between indicators in domestic and foreign companies (Zernand-Vilson and Elenurm, 2009).

The main questions were built up using three sub-questions. The first sub-question checked the existence of the management concept indicators, the second specified if this direction is practiced rarely or on a regular basis and the third asked respondents to describe the dynamics in the last three years. The list of the first questions is presented in Appendix 3.

The purpose of the background questions was to find out the features of the sample and the opinions of the respondents about management and organisational success factors. Open questions on recent and future improvements in the studied organisations were also asked among the background questions. A pilot study was implemented first to ensure that the questionnaire was understandable. After that, the initial questionnaire was corrected and a final version completed. The final questionnaire consisted of 59 questions.

The third step was to determine the sample and implement the questionnaire. Suitable organisations for the sample were those enterprises with at least three years experience of operating in Estonia. Companies with at least 50 employees were also preferred. Enterprises with less than 10 employees were left out, as many sophisticated management practices are not relevant for such micro-enterprises.

The data was collected by the main research group and also using the support of Estonian

[3] The experts were Ruth Alas, Tiit Elenurm, Tõnu Kaarelson, Jaana Liigand and Rünno Lumiste. Annika Tallo contributed to the construction of the measurement tool.

Business School students. The questionnaire was implemented in the period from March to June 2007. Top managers from the selected companies answered the questions. The questionnaires on paper were completed partially by the respondents and partially by the representatives of Estonian Business School that interviewed the top managers.

The questionnaire was sent to 160 enterprises. Two of them refused to participate, and thirteen companies offered incomplete questionnaires, which was a negligible failure rate, and so the number of complete responses was 145.

The representation of enterprises in the study sample reflects the structure of the Estonian economy at the time. The service sector is represented by 74% (107) of the respondents and the remaining 26% (38) are industrial enterprises. The size of the enterprises is defined by the number of employees and they can be divided into three groups: small enterprises (10–49 employees) 28% (40), medium enterprises (50–249 employees) 47% (68) and large enterprises (250 or more employees) 26% (37). In the sample, 55% (79) were local companies, 15% (22) were companies with both local and foreign investors (mixed companies) and 46% (44) belonged to foreign capital.

The results of the questionnaires were initially transferred to MS Excel and later to the analytical software SPSS. Both tools were used for statistical analysis. The former was used to identify the frequency of the indicators of concepts in terms of current use and the dynamics over the last three years. This was analysed by finding the percentage of respondents who gave a positive answer. The latter was used to compare the samples.

Study results

The most frequently followed management and organisational development directions according to the indicators in the sample were:

1) management by objectives;
2) supply chain management;
3) quality management.

The main indicators that resulted in management by objectives getting such a high score were setting specific and measurable goals for managers and specialists (85%), having evaluation interviews between managers and specialists (84%) and the use of performance pay (83%). Fixed relations with business partners was an extremely popular indicator of supply chain management (96%), and analysing and improving working processes was high for quality management (87%).

The next most often followed indicators were from the flexible organisation and employee individuality/personality concepts. From the flexible organisation concept, flexibility appeared more as a result of outsourcing and temporary positions in the company than the organisation's internal arrangements or intrapreneurship. Finally, global management and self-directed work teams were rather modestly represented. By analysing the dynamics of management directions over the last three years before answering the questionnaire (2004–2007), it is possible to observe a clear positive tendency towards using indicators of quality management, learning organisation, management by objectives and global management. The use of supply chain management remains stable. Self-directed work teams, flexible organisation and employee individuality showed a negative trend. A summary of general usage indicators and positive dynamics of exploitation are presented in Figure 1.

After comparing the results for different groups, it appeared that the essential differences were not so large. One interesting outcome resulted from comparing industrial and other organisations. The comparison of the presence of indicators of management concepts in industrial and other organisations is presented in Figure 2.

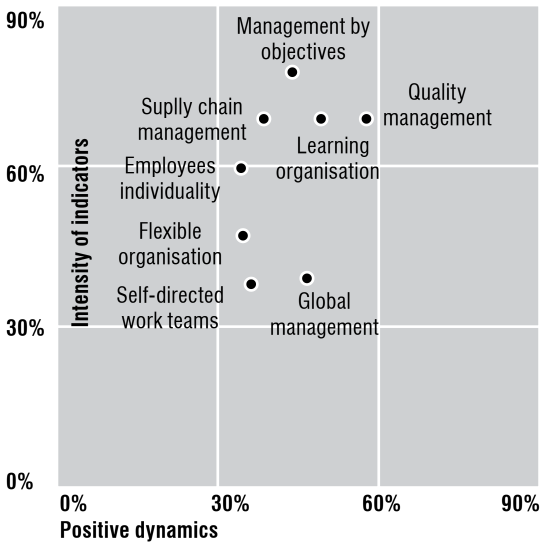

Figure 1: Intensity and dynamics of indicators of international management concepts in Estonian organisations (percentage of respondents who responded positively to the presence and positive dynamics of the indicators)

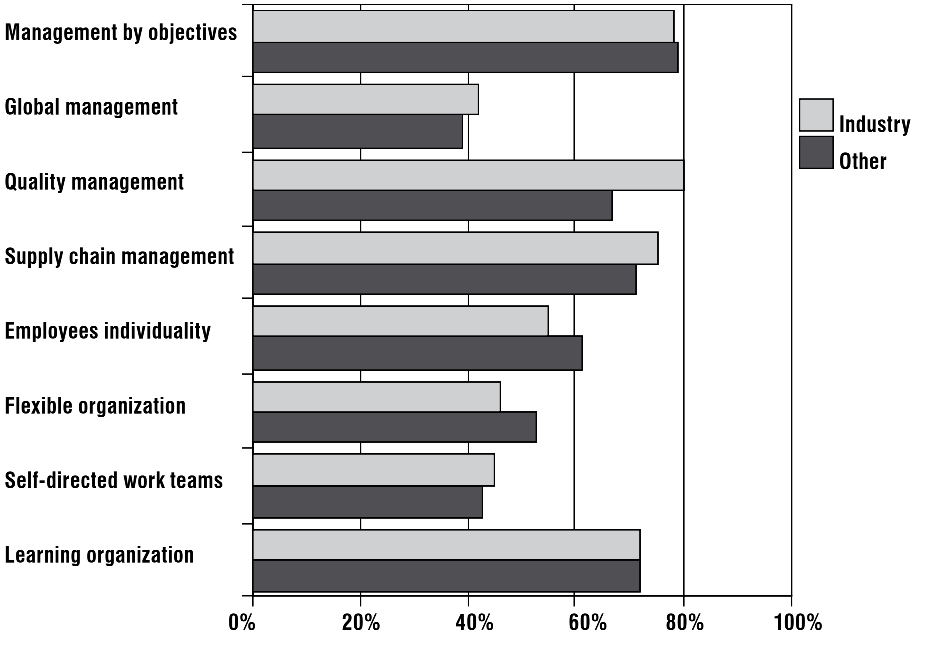

Figure 2: Practice of indicators of international management concepts in Estonian industrial and other organisations (percentage of respondents who responded positively about the presence of indicators)

Generally, it is possible to state that Estonian business organisations have been able to acquire a comprehensive approach to implementing contemporary principles and techniques for goal-setting activities and adapting to a changing environment, as well as establishing a stable cooperation network. At the same time, we have to recognise that more elementary transposable management concepts from among those mentioned above have already become exhausted. The elements of concepts that are principally essential, but assume more profound changes in organisational culture and managerial style, are being used less. In that way, for example, organising different seminars about goal-setting and the application of information technology are being used from the learning organisation, but the documentation of the organisations activities in order to learn from mistakes is being used less. From managing by objectives, the setting of objectives and systematic examinations are being exploited, but without involving organisational members in goal-setting. In supply chain management, establishing stable relations with partners is being attempted. But the kinds of relations that facilitate innovations are used less, and the costs of manufacturing are not revealed to partners. Therefore, we can consider that Estonian business organisations are conservative when it comes to taking over international management concepts. Such modest radicalism is also indicated by the modest use of valuing employee individuality, self-directed work teams and the tools of global management.

As expected, Estonian industrial and service organisations are at a rather similar level. To some extent the greater existence of total quality management and supply chain management indicators in industrial organisations was anticipated. In contrast to general results in several other countries, organisations from the service sector exploit management development tools more or even substantially more. This result is confirmed also by the Estonian Community Innovation Survey (Viia *et al.*, 2007), where results present a higher general intensity of innovation in Estonian organisations from the service sector.

By analysing the results on the basis of ownership, it was possible to observe slightly more inactivity in domestic enterprises than in those based on foreign capital. The use of such indicators was lower and also this trend was not so noticeable in companies with foreign capital. The reason for this could be differences in corporate governance. As Elenurm *et al.* (2007) point out, the separation of the role of owner and manager in organisations based on Estonian capital is still underway. At the moment, owners are to a large extent managing their own organisations, and their ability to exploit the tools of international management concepts is not high.

When comparing organisations that export with those that only supply the local market, the differences were modest. Although a greater intensity in the enterprises dealing with exports could be expected, we have to consider that we are mainly dealing with subcontractors. As they do not have immediate contact with the end user, they do not feel more pressure to use international management tools than organisations operating locally. Only global management indicators differed by 10%, which is completely understandable.

Discussion and Implications

Estonian enterprises in the period of economic growth between 2003 and 2007 commonly expanded upon “soft” and “hard” international management concepts. Popular practices included setting measurable goals and assuring their execution, starting from the company’s aims and rationalising the production process and reinforcing working processes by, for instance, having fixed relations with business partners and maintaining a stable network of business partners. In terms of organisational development, collective training and discussions of work related problems were popular. Managerial communication and discussions in a free and open atmosphere and the use of mentors and/or supervisors for new employees were also adopted in order to consider employee individuality.

Most of the previously mentioned indicators are common to local and also foreign owned companies. It is still possible to observe a clearer strengthening of the elements of “hard” concepts in the three years before the implementation of the questionnaire. “Soft” concepts were similarly exploited three years earlier. Efforts to create self-directed work teams are noticeable in only a small number of enterprises.

Irrespective of management concept, it is possible to perceive that easier approaches to management or organisational solutions are applied, rather than solutions that require radical rearrangements or greater effort to implement.

On the basis of the above, we can generalise about enterprises' inclination to develop incremental management practices like the rationalisation of business processes and strengthening cooperation with partners during the period of economic growth. The management methods that need more complicated changes and the use of organisational development are ignored.

It is common in Nordic countries that in addition to the "hard" management tools, "soft" management concepts are also practiced. Although enterprises operating in Estonia do follow Nordic management practices such as management by objectives, “softer” Nordic management practices, such as focusing on employee individuality and personality or self-directed work teams do not appear to be growing directions.

Management by objectives and the concepts of the learning organisation are used more in larger organisations, as well as those where foreign capital is involved. Such differences are not so obvious when considering supply chain management principles and tools.

As we can see in Figure 1, the indicators related to global management have not been expanded upon so much in Estonian enterprises, but their frequency has increased considerably in the three years (2004–2007) preceding the questionnaire. Compared to other concepts, those that focus on human capital activation like employee individuality, flexible organisation and self-directed work teams, have exhibited relatively slow growth. It is possible to conclude that a modest actualisation of radical forms of human capital activation exists in Estonian enterprises.

To some extent, a speculative explanation of the information in the figures could focus on enterprise development. Most of the organisations investigated were new comers in the 1990s, and they were aggressive enough and flexible in their early years. These enterprises left the period of “push and rush” in the middle of the current decade, at the latest, and entered a stage of stable development. The economy was still growing and credit was easily accessible. The enterprises were able to improve their financial ratios and continue their former activity at the same time without finding new markets or business models. Defining and rationalising their activities was a key issue. This affected relations with stakeholders (e.g. suppliers, customers) as well as the enterprises' internal working arrangements and the management. The extensive existence of features of concepts like management by objectives, supply chain management and quality management proceeds from that. Therefore, it may be assumed that a fall in international markets can fundamentally change the management practices of Estonian enterprises.

Conclusion

On the basis of organisational and management development concepts, the study showed a greater incidence of management by objectives, supply chain management, quality management and learning organisation indicators. At a more modest level, indicators of global management and self-directed work teams were also evident.

Following the dynamics of management practice in the study, positive movement was evaluated by all of them between 2003 and 2007. The highest positive trend was observed in the use of quality management, learning organisation and also management by objectives.

The hypothesis concerning the more extensive existence of indicators of management concepts among larger enterprises was found to be true. The results also showed that the service sector is comparable with industrial enterprises in this sense. The expected greater use of international management concepts in companies based on foreign capital was not confirmed. It also appeared that there was a prevalence of concepts based on formal structures compared to those based on behavioural science.

Future research could make an in depth investigation of consulting companies – their activity and influence on enterprises could clarify the process of how managers consciously choose organisational and management development instruments.

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Appendix 1: Studied management and organisation development directions, their representatives and indicators in publications and in the ProQuest data base 1985–2005

Development directions and their main representatives	Frequency in publications and database			Indicators of directions
	HBR	Fortune	ProQuest	
Organisational learning	69	10	4278	Formal rules of monitoring and sharing information Compiling and using electronic information packets Discussions and seminars for creating commonvision and strategy Recording lessons from experience Virtual cooperation“carbon copy” culture Common training for employees Increasing employees initiative to provide ideas
Chris Argyris (1996)	14	1	62	
Peter Senge (1997)	6	13	142	
Flexible organisation	6	8	116	Use of self-deciding production units Interchange of roles and replacement of each other Movement of the role of the leader depending on the task
Charles Margerison (1991)	0	0	39	
Dick McCann (2006)	0	0	5	
Self-Directed Work Teams	4	9	503	Use of self-deciding production units Interchange of roles and replacement of each other Movement of the role of the leader depending on the task
Charles Handy (1984)	8	15	232	
Personality of employees	0 (164)	0	1713	Increasing employees initiative in creative and personal solutions Employees decide themselves how to perform a task Specific procedures to perceive, introduce and develop organisational culture Creating patterns of roles and models Use of mentors and supervisors for new employees Finding competent and innovative new employees Discussion with managers in a free atmosphere Evaluating managers by employees
Tom Peters	17	80	436	
Robert Waterman (1989)	1	12	39	
Rosabeth Moss Kanter (1989)	16	17	284	
Supply Chain Management	24	69	5181	Outsourcing services Stable network of business partners Fixed relations with business partners Partners are making discounts and abatements to each other Tight cooperation with partners in change management Concentration on core competencies Revealing own costs to business partners
Quality management	62	91	10056	Use of ISO standards Thought over activity in analysing and improving working processes Conducting customer satisfaction research Conducting employee satisfaction research
Philip Crosby	1	11	101	
Edwards Deming (1994)	16	33	443	
Joseph Juran (2000)	3	5	44	
Global management	13	30	323	Multilingual meetings and other arrangements Using specialists from abroad Courses that handle cooperation with different cultures Difficulties in relations because of partners from different cultures
Christopher Bartlett (2002)	1	1	39	
Sumantra Ghoshal (2002)*	11	2	116	
Management by objectives	1(94)	4 (4)	429 (980)	Specific measurable purposes Use of evaluation interviews Performance pay Employee participation in setting purposes Motivation system linked to business strategy
Robert S. Kaplan (1996)	24	9	103	
David P. Norton (1996)*	8	2	59	

Appendix 2: Overview of selected management and organisation development concepts

The following brief overview of the selected concepts presents their main essence.

Learning organisation The learning process involved in overcoming the differences between the values and basic assumptions inherent in a centrally planned economy and those in a market economy is time consuming, and often leads to fundamental changes in organisational culture, leadership style and strategy. To increase the organisation's ability to adapt to such fundamental change, authors that represent this direction (Garvin, 1993; Senge, 1997) have developed a concept of the learning organisation. According to Senge (1997), learning organisations are organisations where people continually expand their capacity to create the results they truly desire where new expansive patterns of thinking are nurtured, where collective aspiration is set free, and where people are continually learning how to learn together.

Self-directed work teams represent an approach to organisational design that goes beyond quality circles or ad hoc problem-solving teams. These teams are natural work groups that work together to perform a function or produce a product or service. They not only do the work, but also take on the management of that work – functions formerly performed by supervisors and managers. Self-directed work teams, also known as self-managing teams, represent a revolutionary approach to the way work is organised and performed. Designing the work system with the full participation of the people doing the work has been a popular direction leading to productivity breakthroughs in advanced market economies in the 1990s. Companies were redistributing power, authority and responsibility so that the people closest to the customer and the end product or result have a decision-making capability (Williams, 1995).

Flexible organisation provides an organisational and management development principle to meet the needs of innovative business initiatives. It is a form of organisational structure with three modes in which people can be employed, and on which organisations can be linked to each other. It is named also as shamrock organisation and was identified by Charles Handy (1984).

Handling of ***employee individuality and personality*** means an organisation where talented people are expected to have a good environment for self-actualisation. There should be an exciting and supportive organisational climate and cooperation with customers. An enjoyable working environment enables one to reach excellent results. Nobody has power or control over others and the relationships are horizontal. The contribution of all individuals is essential because it comes from their unique abilities (Rice, 1977).

Supply chain management is the management of a network of interconnected businesses involved in the ultimate provision of product and service packages required by end customers (Harland, 1996). Supply chain management spans all movement and storage of raw materials, work-in-process inventory, and finished goods from the point-of-origin to the point-of-consumption.

Global management reflects business operations and a competitive environment that is more international than ever before. The 1990s saw the rise of the truly global organisation. Globalisation is all-embracing – even for smaller organisations, which are not global in their own operations. National organisations are likely to be fighting off competitive threats from companies that are organised on a global scale. (Crainer, 1996).

Quality management in production process rationalisation (here quality management) is a systematic way of guaranteeing that all activities within an organization happen the way they have been planned in order to meet the defined needs of customers and clients. The emphasis is on involving everyone in the organisation of activities, which provide for continuous improvement and for achieving sustained high levels of quality performance (Armstrong, 1993).

Management by objectives. One concept under that, the balanced scorecard complements financial measures of past performance with measures of the drivers of future performance. The objectives and measures are derived from an organization's vision and strategy. The objectives and measures view organisational performance from four perspectives: financial, customer, internal business processes, and learning and growth (Kaplan, 1996).

Appendix 3: Summary of the questionnaire

First subquestions:
The numbers at the end of questions are indicating the concepts as follows:

(1) learning organisation;
(2) self-directed work teams;
(3) flexible organisation;
(4) employees' individuality and personality;
(5) supply chain management;
(6) quality management;
(7) global management;
(8) management by objectives

1. *Does your enterprise have formal rules for monitoring and sharing information with colleagues about business environment, competitors, and customers? (1)*
2. *Do you practice compiling and using electronic information packets (e.q. memos, intranet, extranet, references etc.) in your company? (1)*
3. *Is there common in your enterprise to discuss work related perspective problems, and to have discussions and seminars for creating common vision and strategy? (1)*
4. *Do you record in your enterprise lessons that you have got from implemented projects incl. made mistakes? (1)*
5. *Do you practice special virtual cooperation by use of internet or/and intranet, in your enterprise? (1)*
6. *Is the so called cc culture (e-mails are sent not only to addressee, but as copy (cc) to everyone who can use the information in the mail in their work) expanded in your organisation? (1)*
7. *Are the employees' collective trainings popular in your enterprise? (1)*
8. *Is there attempted to increase employees' initiative to provide new ideas and proposals by stimulating them? (1)*
9. *Some enterprises use in their main activity so called self-deciding production units which have full power to solve their problems of work. Does your company have these kind of self-deciding production units? (2)*
10. *Some enterprises use the interchange of roles and replacement of each other as rotation. Does your company have this kind of experience? (2)*
11. *Does your company have any experience in movement of the role of the leader depending from the task? (2)*
12. *Are you trying to use part-time job in your enterprise? (3)*
13. *Do you use temporary employment in your enterprise? (3)*
14. *Does your enterprise use teleworking? (working away from the place of work by the support of Internet and telecommunication) (3)*
15. *Does your enterprise use flexible arrangements of working time? (3)*
16. *Does your enterprise use the contracts of services instead of the contracts of employment? (3)*
17. *Are there some internal working processes replaced with the outsourcing in your enterprise? (3, 4)*
18. *Have there been any cases in your enterprise where the employee or the group of employees started providing you service as independent entrepreneurs? (3)*
19. *Are you trying to increase employees' initiative in creative and personal solutions by stimulating it? (4)*
20. *Is it usual in your enterprise that the employee decide themselves how to perform a task? (4)*

21. *Some enterprises have specific procedures or/and people which/whose task is to perceive, introduce and develop organization culture. Do you have this kind of practice? (4)*
22. *Some enterprises have been creating patterns of roles and models (e.g. modern salesman or someone's working practice in communication with customers) Do you have this kind of practice? (4)*
23. *Do you use mentors and/or supervisors for new employees? (4)*
24. *Does your enterprise find competent and innovative new employees (even there are no vacancies)? (4)*
25. *Is it common that your managers communicate and have discussions in free atmosphere? (4)*
26. *Have there been managers' appraisals by employees? (4)*
27. *Is your enterprise trying to keep stabile network of business partners? (5)*
28. *Does your enterprise have fixed relations with business partners? (5)*
29. *Do your partners discounts and abatements to each other? (5)*
30. *Does your enterprise tight cooperation with partners in change management? (5)*
31. *Does your enterprise concentrate more on core competencies or expand to different areas? (5)*
32. *Does your enterprise reveal its costs to business partners? (5)*
33. *Do you use the ISO 9000 or ISO 14 000 quality systems? (6)*
34. *Does your enterprise have the thought over activity in analysing and improving working processes? (6)*
35. *Do you analyse and improve production processes in the level of operations? (6)*
36. *Has your enterprise done cooperation with the partners to improve production processes? (6)*
37. *Have you practicing customers' satisfaction surveys? (6)*
38. *Have you practicing employees' satisfaction surveys? (6)*
39. *Do you have multilingual meetings and/or other arrangements? (7)*
40. *Do you have some specialists who have education or working experience from western countries? (7)*
41. *Dou you have had trainings that handle cooperation between the people from different cultures? (7)*
42. *Dou you have had any difficulties in relations because of foreign partners from different cultures? (7)*
43. *Do you set specific and measurable purposes for managers and specialists? (8)*
44. *Do you have evaluation interviews between managers and subordinates? (8)*
45. *Do you implement performance pay for managers and specialists? (8)*
46. *Do your employees participate in setting purposes? (8)*
47. *Is your motivation system linked with the business strategy? (8)*

Second subquestion:

X2 This kind of practice/rules are in our enterprise

1) rather exception
2) broadly extended

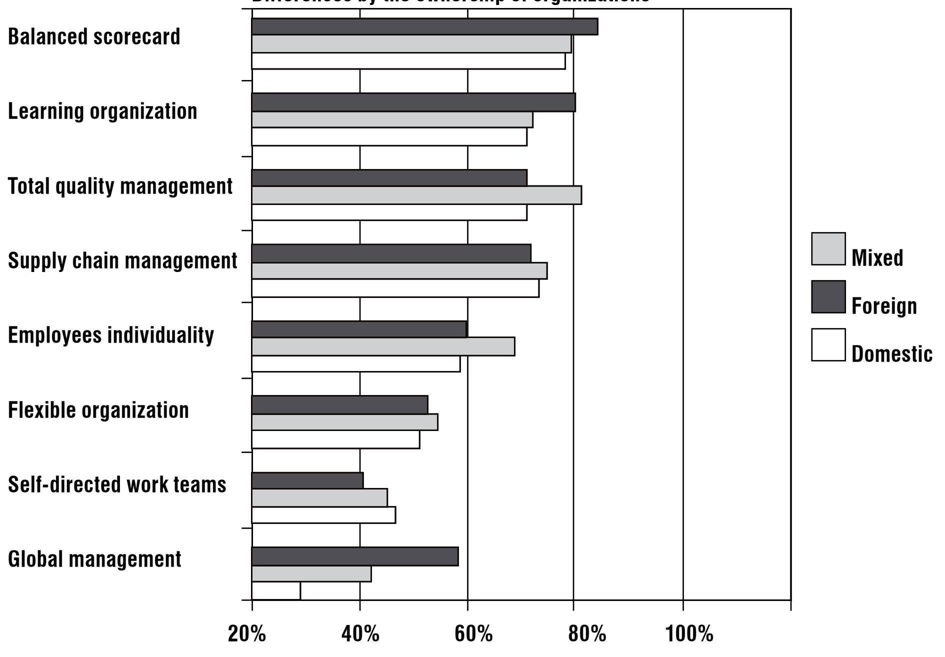
Third subquestion:

X3 This kind of practice is during last 3 years

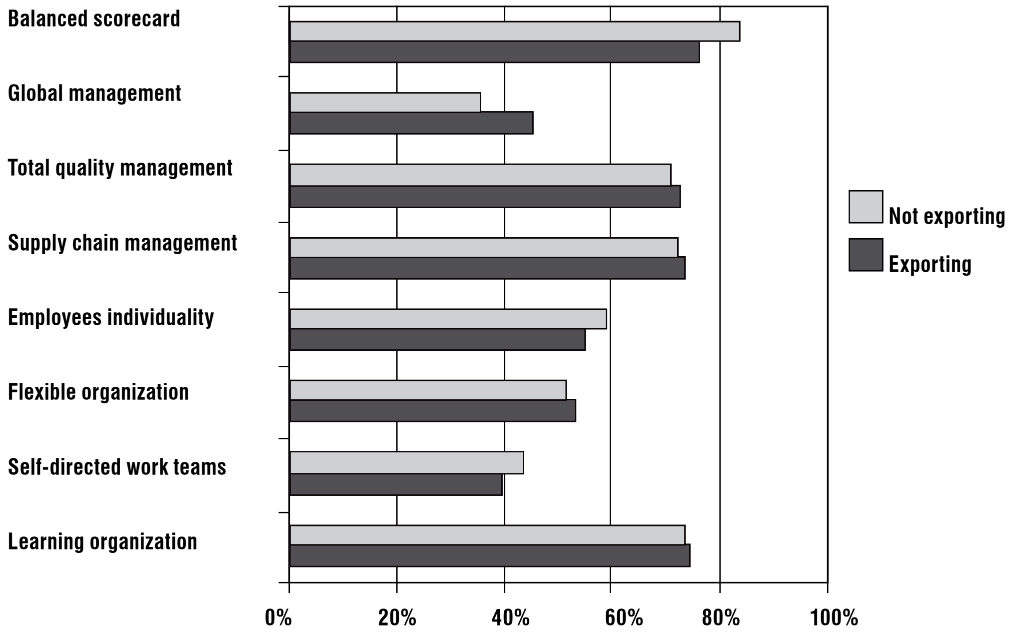
1) has rather bated
2) has not changed essentially
3) has increased

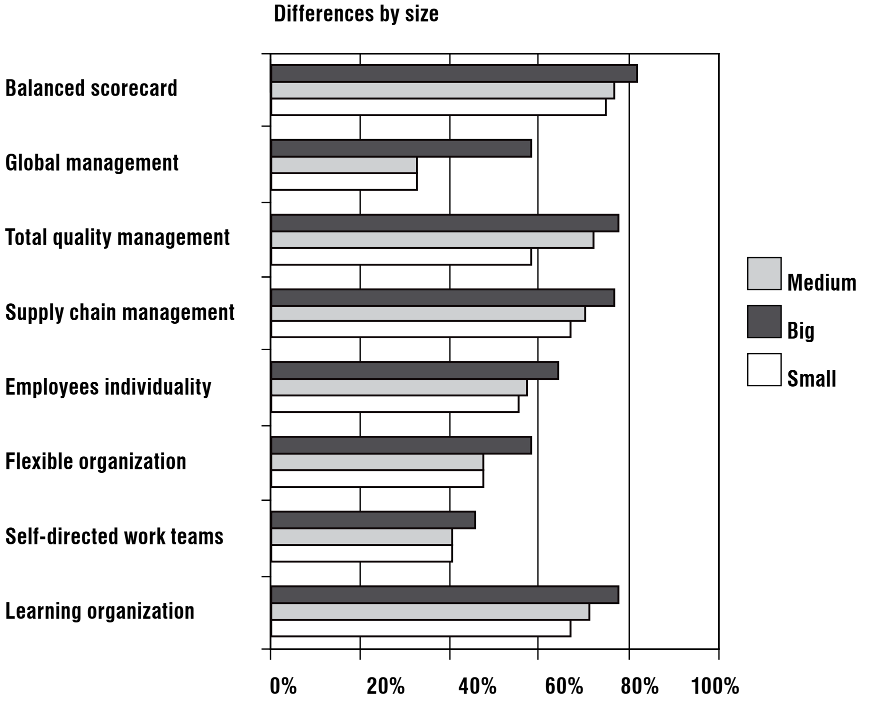
Appendix 4: Survey results by different samples (percent of respondents who gave positive answer about presence of indicators)

Differences by the ownership of organizations



Differences of exporting and locally supplying enterprises




Differences by size
Balanced scorecard
Global management
Total quality management
Supply chain management
Employees individuality
Flexible organization
Self-directed work teams
Learning organization
0%
20%
40%
60%
80%
100%
Medium
Big
Small

We're on a Road to Nowhere... New Forms of Work Organization and National Cultures

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Abstract

The main objective of this paper is to discuss how far the cultural environment is related to the potential that new forms of work organization, namely autonomy and teamwork, have for success. To accomplish this objective two main approaches will be used: on the one hand, the Socio-Technical Systems (STS) approach, as the main theoretical background for new forms of work organization; and on the other hand, Hofstede's Cultural Dimensions as the theoretical model to frame the concept of national cultures. The study was developed using data from 23 EU countries. The study showed that the correlation between national cultures and new forms of work organization are significant, yet moderate. Moreover, differences in the impact of cultural dimensions on work design practices were found. The use of autonomy and teamwork can be insufficient to represent the wide variety of work design practices in STS. The same is also valid for cultural dimensions. An understanding of the cultural constraints on work design practices in EU countries can help improve organization models, furthering competitiveness.

Keywords: culture, work organization, autonomy, teamwork, Europe, Hofstede

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Introduction

It is not new to say that market economies are different – more globalized, more competitive and presenting new characteristics that were unknown until half a century ago. In the business world this is a universal truth. Another universal truth that came with the revolution of market economies is change. Change became one of the most used words in business practices and studies because the pace of events is, nowadays, so demanding that it is necessary to be in a state of constant change. This reality poses a difficult task for organizations because they need to adapt constantly without loosing competitiveness. Facing this reality, the management is now under more pressure than ever before.

One of the concerns in management today is the optimization of internal resources. Several tools and techniques can be used to achieve this goal. Among them is work design, which can be defined as a system of procedures, activities and tasks undertaken to develop, produce and deliver a product or service (Sinha and Van der Ven, 2005). The challenges posed by today's economy, namely mass customization, short delivery deadlines, but also new technologies and resources not available until 30 or 40 years ago, have pushed organizations to find new solutions for work design. Thus, new forms of work organization have emerged, new solutions have been tried, but with different results, some successful, some unsuccessful.

The relative success (or failure) of some solutions is well documented in the literature.

Since the famous book by Womack, Jones and Roos (1991), "The Machine that changed the world", several models were questioned and critically evaluated. There was so much enthusiasm among managers that they saw the Japanese model as a "one fits all" model. However, the results were not so exciting and much criticism was directed at Japanese practices (see Cooney, 2002; Kovács, 1998a). One aspect that is present in the potential success of work organization models is linked to the local constraints that companies have to cope with.

The main objective of this paper is to discuss how far culture is related to the implementation of different forms of work organization. That is, can the cultural environment be related to the potential that new forms of work organization have for success? This is a relevant question in so far as new forms of work organization can be seen as a set of management practices that are developed in a specific cultural context, and this context can enhance or inhibit the success of work design practices.

This paper starts by discussing new forms of work organization in two opposing paradigms. It follows on to describe the socio-technique systems (STS) approach, which represents the main theoretical background of the more humanist forms of work organization. The second part introduces the concept of culture in management studies, and in particular Hofstede's model of cultural dimensions. Then after some methodological considerations, the results are presented and some conclusions drawn.

Work Organization Models

The debate around work organization models has been framed by two paradigms that present opposing perspectives and solutions. The models attached to each of the paradigms emphasize different dimensions and solutions. Work organization models can be classified in numerous ways. However, for the purpose of this paper, a classification adapted from Kovacs (1998b) will be used (Table 1).

Table 1: Two paradigms of work organization models

Technocentric Paradigm	Anthropocentric Paradigm
Introduction of new technologies in order to concentrate the potential control over production	Introduction of new technologies in order to obtain functional and organizational flexibility
Rigid working practices	Flexible working practices
Centralization and specialization	Decentralization and polyvalence
Vertical and horizontal division of work, strong hierarchical and professional divisions	Vertical and horizontal integration of work, unclear division between workers' tasks
Centralized technical solutions	Decentralized technical solutions

Source: adapted from Kovacs, 1998b

Work organization models based on the technocentric paradigm assume that the solution to challenges presented by the new economic context is using high technology, which is believed to guarantee competitiveness offering quality and flexibility. High technology will allow a higher centralization and automation of mechanisms and processes and, at the same time, allows diversification of the production process. Software can incorporate human knowledge and skills in a formalized and regular fashion.

The work organization model that better illustrates this perspective is known as neotaylorism, which can be defined as an update of Taylor's classic work organization model with the incorporation of high technology. The principles of Taylor's work organization model are well known. The introduction of high technology makes it possible to expand these principles reinforcing its rigid, centralised and controlling approach. The present control strategies are substituted by absent control strategies (Kovács *et al.*, 1994).

Alternatively, the work organization framed by the anthropocentric paradigm argues that the best way to face a segmented and demanding market is with the ability to quickly change and adapt. In this way, high technology is not sufficient to guarantee that competitive advantage. It should also be followed by flexible human resources and organization models.

Taking the opposite approach to technocentrism, the anthropocentric paradigm stresses the importance of human resources to promote a flexible organization capable of changing and adapting to market contingencies. This perspective can be seen in the adoption of participative approaches, decentralization of the decision-making process and information and cooperation among workers through the implementation of working teams.

Technology in this scenario looses its deterministic status and becomes an important backup for human skills, allowing individual and collective creativity. This principle reverses the classic thinking because it becomes necessary to develop technological systems capable of adapting to people and not vice versa. This is the basis of the development of anthropocentric technological systems, built on information, decision and control transparency and user friendly interfaces able to facilitate learning (Wobbe, 1991).

Although work organization models within the anthropocentric paradigm have been called "new organization models" (European Foundation for the Improvement of Living and Working Conditions, 2007), in fact their principles and ideas may be considered an update of several models and theories developed since the 1950s, and widely applied by companies since the 1970s, such as the Volvo car manufacturer. One of the theoretical frameworks that have contributed heavily to the development of these "new organization models" is the socio-technique systems (STS) approach (Kovacs and Moniz, 1994).

This approach is based on the work of Eric Trust developed at the Tavistock Institute for Human Relations (Torraco, 2005). Following the general theory of systems developed by Ludwig von Bertalanffy (Carvalho Ferreira *et al.*, 2001), organizations are seen by the STS approach as open systems "made of people using tools, techniques and knowledge to produce goods or services valued by customers" (Liu, Shah and Schroeder, 2006). The transformation of inputs into outputs is done by people using technology, and the outputs are delivered to the market. Thus, according to the STS approach, organizations are built on three main subsystems: the technical, social and environmental.

The technical or technological subsystem is composed not only of tools and machinery, but also of knowledge and techniques. Thus, the term technology in the STS approach assumes a wider definition, incorporating everything that can be handled by people or is the result of human intervention. The introduction of Information and Communications Technology (ICT) in the management and production processes, with the capacity to store, process and relay information and also to improve quality by self-monitoring, self-regulation and self-correction raises the debate around how these new technologies should be incorporated in the management and production processes. According to the STS approach, the compatibility and integration between the three subsystems is the key to the success of an organization's design. Thus, the introduction of new technologies should be made in a way that takes into account the characteristics of the other subsystems, namely the social and the environmental.

The social subsystem is considered to be of utmost importance for an STS design, because it is the only subsystem that has the ability to introduce changes, namely conceive and implement improvements in organizational processes. It includes not only people who work at the organization, but also every aspect that is correlated with each individual alone and the interaction between individuals. Thus, it includes social and individual attributes of each individual, their attitudes, beliefs, relationships (formal and informal, vertical and lateral), and finally the influence of traditions and cultures (Shani *et al.*, 1992).

Finally, the environmental subsystem is defined as the set of exogenous players that, in some way, affect the purposes of the organization, and its technological and social subsystems. Among these exogenous players, customers and competitors are seen as the most important, whose demands and strategic actions can influence the decisions and actions of organizations. The nature of the environment can have a substantial influence on the technological and social subsystems, especially its complexity and degree of stability. With an increasing degree of competitiveness among competitors and the sophistication of customers' demands it is more likely to expect much more complex and less stable environments, which can influence the way technology is used, but also the characteristics of the social subsystem (Shani *et al.*, 1992).

Along with organizational structure and strategy, one of the most emphasized dimensions of the STS approach is work design. This can be defined as "the system of arrangements and procedures for organizing work… [which comprise] the set of activities that are undertaken to develop, produce and deliver a product – a physical and/or informational good or service" (Sinha and Van de Ven, 2005). From this definition we can understand how the technological and social subsystems of an organization must be interconnected in order to meet the demands and requirements of the external environmental subsystem (Shani *et al.*, 1992). In fact, one of the principles of the STS approach claims that organizational objectives are best met by the joint optimization of the technological and social aspects of an organization (Liu, Shah and Schroeder, 2006).

Following the main premises of STS approach, Cherns (1976; 1987) presented the nine STS work-design principles summarised below (Table 2).

Table 2: Work-design principles of the STS approach

Principle	What it means…	What implies for work design…
Compatibility	System design must be compatible with organization's long-term objectives	Employees involvement and empowerment
Minimal critical specification	State as little as possible about how jobs are performed	Creativity, autonomy, adaptation
Socio-technical criterion	Control should be local and given to the work team	Autonomy, teamwork, decision-making authority
Multi-function	Workers should be capable of performing a diverse range of jobs	Multifunctional employees with a high degree of versatility
Boundary location	Organization boundaries should be drawn so as to facilitate the sharing of information, knowledge and learning	Cellular setup, combining interdependent jobs and employees from several specialized skill areas
Information flow	The organization should provide workers with the right feedback	Communication flows, feedback to employees, autonomous maintenance
Support congruence	The system of social support should be designed in a way to reinforce the desired behaviours	Task-related training, reward and incentive systems and other HR support mechanisms
Design and human values	In organization design the quality of working life should be an important consideration	Worker responsibility, variety, growth, involvement, security
Incompletion	Organization design is a continuous process	Continuous improvement and learning

Source: adapted from Cherns (1976; 1987) and Liu, Shah and Schroeder (2006)

These principles have some consequences in work design and in the needs workers must meet to successfully perform their job. First, teamwork is a practice that underpins all the principles; the characteristics and dynamics of teamwork enhance the probability of the success of each principle. Principles such as multi-function, socio-technique criterion, boundary location or even support congruence are better transposed to practice in a team context.

Another underlying consequence of these principles is autonomy. The ability to decide about certain aspects of how work is planned and performed is of utmost importance for the success of STS. In fact, the lack of autonomy is incompatible with some principles such as socio-technical criterion or information flow, to name a few. Without autonomy it is impossible to decide on how work should be done (minimal critical specification) or to decide on the planning of tasks (multi-function), or even to give control to local teams. Thus, the STS approach should be supported by a social subsystem well prepared to embed autonomy as an underlying value.

Although the STS approach presents a flexible and modern view of work design, suited to the new constraints of market economies, it is not immune to criticisms. In a review of several theories on work design, Torraco (2005) points out some of the most common criticisms. The STS approach is history bound; that is, its main ideas were developed in a specific socio-historic context as a response to the concerns about the effects of advancements in manufacturing technologies on people and productivity. Because the major concern of the STS approach is the compatibility of technical and social subsystems, it is argued that it stresses what is called the "design of organizational systems". This characteristic limits its scope of analysis or range of application. Finally, the STS approach doesn't seem to be able to accommodate the new reality of virtual work situations; it cannot, according to the critics, adequately explain how to organize, design and articulate work activities for an environment characterized by flexible work situations that are not time and place specific.

Although it is not the objective of this paper to refute the criticisms of the STS approach, it should be said that the bases on which those critics rely on are not well grounded. First, and although STS theory has been developed in a specific socio-historic context, its concerns remain relevant. Second, STS theory is not only concerned with the integration of technical and social subsystems. As a matter of fact, it is more focused on the response given by the organization – consisting of two subsystems, technical and social – to the environmental subsystem. Finally, STS theory adopts an approach flexible enough to integrate new realities. The principles elaborated by Cherns (1976; 1987) are a good example, and should be understood as broader guidelines for work design. Moreover, it could be argued that the basic principles of virtual work do not differ so much from the "traditional" work environment. In other words, even in a virtual environment, the principle of compatibility between technical and social subsystems still persists.

Cultural Approach to Work Organization Models

The integration of culture into management studies is not widely accepted. In fact, some scholars (Ajiferuke and Boddewyn, 1970; Levitt, 1983; Ohmae, 1985) advocate a culture-free approach to management studies based on two arguments. First, it is argued that culture is not an essential variable in management studies because its assumed effects are surpassed by structural and economic factors. The second argument rests on the cultural convergence effect of globalization, especially on the business world, where the disappearance of cultural barriers diminishes the diversity and difference between cultures (Yeganeh and Su, 2006).

The culture-bound management supporters (Hampden-Turner and Trompenaars, 1993;

Hofstede, 1980; Schein, 1999), however, argue that culture is one of the most important variables when analysing management practices and they cannot be considered in a context-free and universal fashion. This view of the culture/management relationship stresses that management is about people with their personal and social characteristics, which are necessarily mediated by the cultural environment. Thus, the argument favouring cultural homogenization is completely rejected; instead they advocate cultural relativism claiming that management practices should be tailored to cultural contexts. The last decade shows that scholars have adhered to this view of culture, and there is a generalized consensus on the importance of culture in the study of management practices (Yeganeh and Su, 2006).

The concept of culture used in management studies is borrowed and adapted from other social sciences such as sociology and anthropology. There is no consensual definition of the concept maybe due to its complexity, but also because each scientific paradigm emphasizes different dimensions. Being such a complex phenomenon we have to agree that is difficult to grasp all of its nuances in a conceptual definition. Yeganeh and Su (2006) suggest that one possible way is to build a flexible concept of culture with several dimensions that would be used by researchers depending on the purposes of the research. In this way it should be possible to develop research without compromising the complexity of the phenomenon. According to Inglehart and Baker (2000), individualism, hierarchical distance, modernity or religiosity could be some of those referred dimensions.

Several models use dimensions to describe cultures. One of them is Hofstede's Cultural Dimensions (Hofstede, 1980; 1997). Hofstede's interest in the cultural phenomenon goes back to the 1970's when he started the study of cultural differences using IBM workers from over 50 countries as an empirical basis. He starts from the definition of culture, which can be seen as the collective mental programming that distinguishes members of a group (Hofstede, 1997). This computer metaphor does not mean that there is no room for creativity; on the contrary, individuals can adapt their "software" in order to adjust to different contexts and goals. Another important point about culture is that it allows individuals and groups to solve problems and, thus, facing the same problem, individuals from different cultures can present different solutions.

The theoretical model is made up of dimensions. In Hofstede's terms, this means that (1) they are independent of each other, (2) it is possible to combine them in different ways, and (3) they operate with two opposing extremes along a continuum. The theoretical model initially presented four dimensions (Hofstede, 1983):

Power Distance (PDI)

Defines how people deal with inequalities. These inequalities can be measured in terms of power and wealth. The power distance index gives us a clue to the social and individual level of the tolerance of those differences. This dimension seems to be correlated with collectivism: in countries where collectivism scores high, there is also a tendency to score high on power distance. However, the results are not so clear to relation to individualism and power distance.

Individualism (IDV)

This dimension is about the relationship between one individual and other individuals. Individualism is at one extreme and signifies very loose ties. This dimension seems to be correlated with national wealth: more individualist societies tend to be wealthier.

Masculinity (MAS)

Masculinity accounts for the (social) division of roles between the sexes. When a society is mainly "masculine" it means that masculine values, such as performing, achieving and materialism, exist throughout the society even for women. The opposite, "feminine" societies, are more concerned with relationships, quality of life and the preservation of the environment.

Uncertainty Avoidance (UAI)

Uncertainty avoidance refers to the way societies deal with the unknown, an unchangeable characteristic of the future. Societies that score low on uncertainty avoidance tend to prepare their members to accept uncertainty with ease, taking risks more easily. Another characteristic of low uncertainty avoidance societies is the high level of tolerance regarding others' opinions and behaviour.

A fifth dimension was added after a study developed by Chinese scholars (Hofstede, 1983):

Long/short term orientation (LTO)

This deals with what has been called Virtue and Truth, which is found in the thinking of Confucius. The former is associated with thrift and perseverance; the latter emphasises tradition and the fulfilling of social obligations.

Although Hofstede's Cultural Dimensions present a comprehensive model, which allows the study of national cultures and comparisons between cultures, it has been subject to extensive criticism. One of its more fierce opponents is McSweeney (2002), who criticizes the entire model from its basis (the notion of culture) to the methodology. Others, such as Baskerville (2003), build their criticism on the argument that anthropology and sociology, the scientific disciplines where the concept was constructed and refined, do not use Hofstede's model.

It is not our goal to go through the arguments of McSweeney (2002) or Baskerville (2003) step by step, and an answer to such criticisms has already been given by Hofstede himself elsewhere (2002). However, it should be said that although the model is far from perfect, to cover all aspects of such a complex concept as culture, the wide applicability of its principles in areas such as organizations, consumption, tourism, marketing and others should be considered. Furthermore, every theoretical development should be scrutinized, but this should be done on a constructive rather than destructive basis. In other words, the criticisms should be followed by new enlightening proposals, which was not the case.

Methodological Considerations

The main goal of this paper is to comprehend how culture can be related to new work organization practices. It is assumed that the introduction and success of these practices is culture bound and, as such, the cultural characteristics of each country can act as promoters or as inhibitors of new work organization practices.

According to the STS approach, and as stated before, some of the principles stated by Cherns (1976; 1987) rely on some work design practices to succeed, such as autonomy and teamwork. In order to measure the presence or the potential introduction of new work forms in the countries studied, these two characteristics of work design will be used in this paper as indicators of new forms of work organization.

Data from the 4th European Work Conditions Survey developed by the European Foundation for the Improvement of Living and Working Conditions (2007) will be used along with data from 2005. The data for the item "Autonomy" follows the method used in the 4th European Work Conditions Survey (2007: 51-60) – using a six-point scale, ranging from 0 (no autonomy) to 5 (full autonomy). The data for "Teamwork" uses a simple indicator that results from the answers given to the question "Does your job involve doing all or part of your work in a team" (with a yes or no answer).

The use of culture to study how national characteristics can help explain the success of different work organization models needs an approach that presents some particular characteristics, namely: (1) it should be able to allow comparisons between countries, (2) a typology well tested and suited to the organizational context, and finally (3) it should present characteristics allowing comparison with organizational models. Hofstede's Cultural Dimensions (Hofstede, 1980) fulfil these requisites in so far that his model offers solid standards that had been used to understand the cultures of many countries. Furthermore, it was born from the study of the organizational context and uses data from surveys conducted in the countries selected for this study. This data can be found on Hofstede's webpage (http://www.geert-hofstede.com).

Following the main objective of this paper, the association between the selected variables for new forms of work organization and the dimensions of Hofstede's model will be tested.

Results

Autonomy

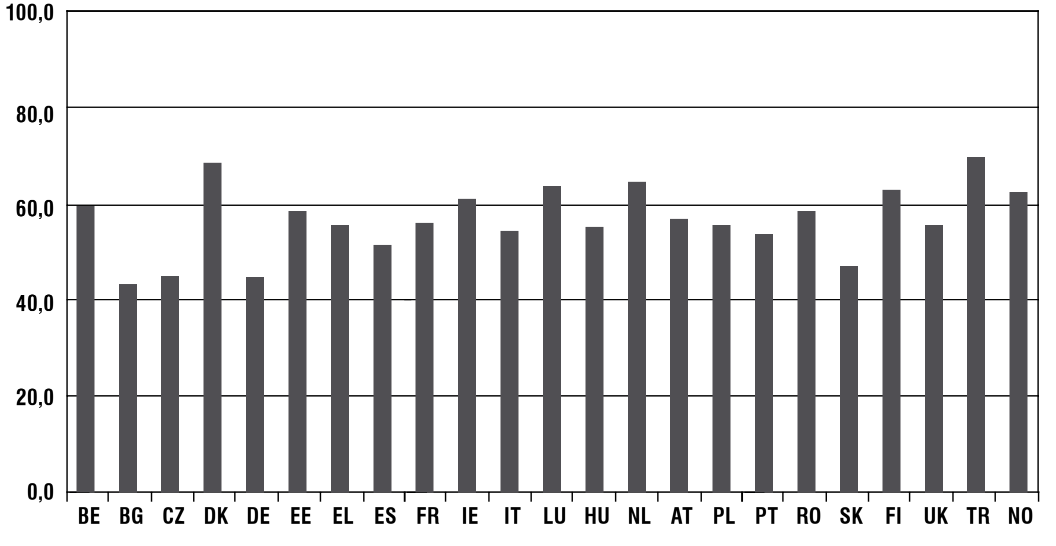
Autonomy is one of the characteristics of new forms of work organization. Graph 1 presents the results for the EU countries selected. According to these figures, the global values for autonomy are relatively high with all countries showing a rate of autonomy over 40%. The countries presenting the highest practices of autonomy are to the north (Denmark, Finland, Norway and Ireland). Exceptions include the Netherlands and, notably, Turkey, the country with the highest autonomy index (69.2%). Countries with lowest levels of autonomy are to the south (Spain and Portugal) and east (Bulgaria, Czech Republic and Slovakia).

Using Pearson's correlation coefficient to test the association between autonomy and Hofstede's cultural dimensions, the following results were obtained:

Table 3: Association between autonomy and Hofstede's cultural dimensions

Cultural Dimensions	Pearson's correlation coefficient
PDI	-0,406
IDV	0,278
MAS	-0,489
UAI	-0,319

Two main conclusions can be drawn from the results. First, the association is moderated for every dimension; second, except for IDV, the



Graph 1: Autonomy in 23 EU Countries (%)

Source: 4th European Working Conditions Survey (2007) association is always negative, meaning that high scores for PDI, MAS and UAI represent the lower use of autonomy as a working practice. However, the PDI and MAS dimensions present solid negative associations with autonomy.

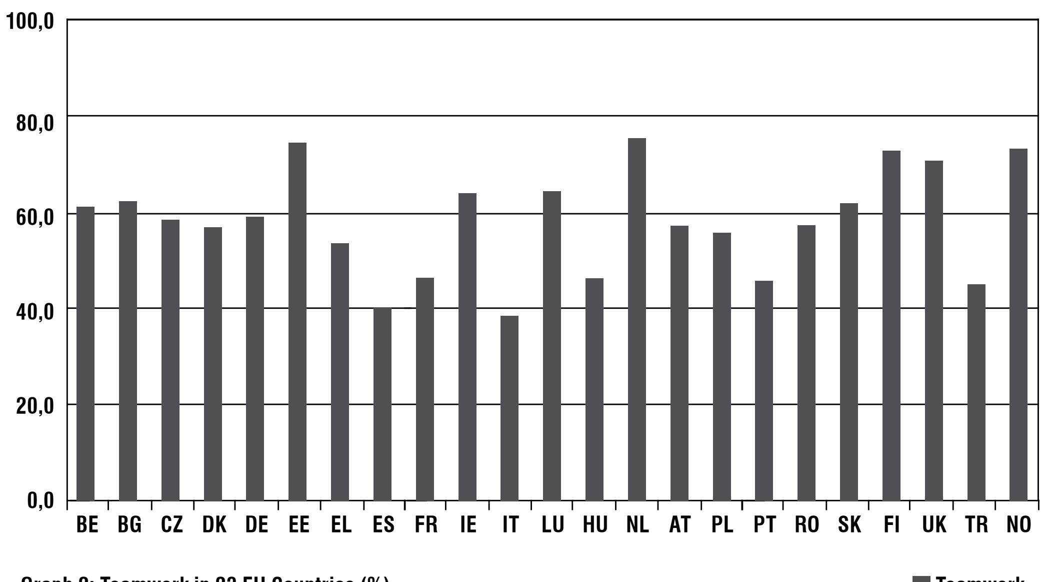
The negative correlation between autonomy and PDI means that a stronger social acceptance of power distance presents more obstacles to the introduction of autonomy. This can be explained by the nature of the STS principles for work design stated earlier, such as "minimal critical specification" or "socio-technical criterion", just to mention two. Also, some practices usually associated with autonomy that generally include the power to decide over the order of tasks, methods of work and even the pace of work, can help to explain this negative correlation. These principles and practices call for a decentralized and flexible work organization model, which is not compatible with a high index of power distance because control is decentralized and the decision-making process is the responsibility of teams.

On the other hand, the negative association between autonomy and the MAS dimension means that cultures with a high index for the MAS dimension will show stronger resistance to the introduction of principles and practices conducive to autonomy. The stronger division of roles and work associated with masculine societies can probably help explain this evidence. Autonomy practices imply a loose division of work and the assumption of different tasks and roles along the work process.

Teamwork

The principles stated by Cherns (1976; 1987) clearly show that teamwork is a very important work design practice for the STS approach. Based on the 4th European Working Conditions Survey the results for teamwork in the 23 EU countries selected is presented:

Globally, the selected countries present a wide range of results for teamwork. From Italy (38.5%) to the Netherlands (75.2%) there is a strong divergence within Europe on the use of teamwork as a work design practice. However, there are several countries where its presence is strong, such as the Netherlands, Greece, Norway and Finland. Alternatively, Italy, Spain, France, Hungary, Portugal and Turkey are weak users of teamwork.



Graph 2: Teamwork in 23 EU Countries (%)
Source: 4th European Working Conditions Survey (2007)

These data, when crossed with the cultural dimensions, present the following correlation results:

Table 4: Association between Teamwork and Hofstede's cultural dimensions

Cultural Dimensions	Pearson's correlation coefficient
PDI	-0,322
IDV	0,276
MAS	-0,313
UAI	-0,576

An overall perspective shows, once again as in the case of autonomy, a moderate association. Moreover, teamwork and autonomy present similar results for the direction of the correlation. Only the correlation with the IDV dimension is positive; all the others are negative. However, UAI is the one dimension that presents a stronger association with teamwork. With a solid result of -0.576, a looser uncertainty avoidance index seems to be favourable to the use of team working practices. This can be explained by the characteristics of a low uncertainty avoidance culture. As was stated before, societies with low scores on UAI tend to be more open to taking risks and, most of all, are more tolerant regarding others' opinions, which is a very important characteristic for teamwork to succeed. Teamwork implies a lot of interaction among its members and the capacity to solve problems and find solutions, which implies strong communication skills.

Concluding Remarks

The main objective of this paper was to understand the influence of national cultures on the success of new forms of work organization. It was assumed that the cultural characteristics of countries have some impact on the management practices related to work design. Hofstede's Cultural Dimensions model was used to test cultural influences on two important characteristics of new forms of work organization inspired by STS, namely autonomy and teamwork.

The main conclusion to be drawn is that we cannot ignore culture as a fundamental factor in the explanation of differences and similarities, and the success and failure of new forms of work organization. The moderate, but significant, association between the selected work design indicators and cultural dimensions underlines the importance of culture as a moderator of new forms of work implementation. Although this is not new to scholars and managers, the transposition of management practices between cultures regardless of cultural constraints is still a reality.

Nonetheless, there are differences between the impacts of different cultural dimensions; they do not seem to play a similar role in influencing work design indicators. For autonomy, PDI seems to be the most crucial factor, and UAI is more relevant for teamwork. This conclusion is supported by Hofstede's (1994) argument, which states that some cultural dimensions, such as PDI and UAI, are more significant than others when explaining the functioning of organizations.

Another important conclusion is that there are some significant differences among EU countries. Northern and some Central European countries present greater application of the selected work design indicators. Although it was not within the scope of this paper, the role that similarities and differences play on the use of work organization practices should also be investigated. Kogut and Singh (1988) have already used the notion of "cultural distance" to express the degree of difference among the cultural traits of two or more countries. However, as Yeganeh and Su (2006) put it, it is important not only to understand differences, but also to understand similarities. Thus, another frame of research should try to understand similarities among cultures and to what degree they are similar. Finally, the similarities and differences that seem to exist among some EU countries should be examined more closely using other variables besides culture. Hofstede (1983) pointed out that dimensions could be related to national wealth. Thus, and following Yeganeh and Su (2006), the influence of the culture/economy relationship on work design practices should also be explored.

Another limitation of this study is the work design indicators used because autonomy and teamwork can be insufficient in representing the wide variety of work design practices in the STS approach. The same is true for Hofstede's Cultural Dimensions; they don't express the wide complexity of the cultural phenomenon. However, as Yeganeh and Su (2006) state, the apprehension of the phenomenon should be easier if one uses simpler, well-demarcated and limited constructs to compare countries.

When a company starts its approach to a new market in a different country, one of the main concerns is to research the new market, namely its competitors, but also potential consumers. This is done in order to prepare and adapt the penetration strategy to a new reality. This should also be the case when dealing with the implementation of new units in new cultural realities. Managers should also try to understand the cultural environment in order to prepare and adapt their management practices, in order to take advantage of their resources.

Culture can be a "soft" element of human life in society. Nonetheless, its effects belong to the "hard" dimension, that is, they can be seen, felt and measured, but not so often these "hard" consequences are attributed to cultural constraints. If the question is incorrectly formulated, the answer will not serve the right purpose. This may be the reason why, sometimes, the wrong answers lead us on a road to nowhere…

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A Concept Analysis for Strategic Leadership

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Abstract

The aim of this article is to identify those attributes in the concept of strategic leadership (SL) that are congruent with emergent leadership approaches, focusing in particular on a systemic view and social constructionism. To address this aim, the article adopts a concept analysis of SL to determine the various ways it is used and to clarify the concept of SL itself.
Concepts and meanings are useful and necessary in collaboration. For instance, the shared meanings of SL provide a mutual orientation for organizational development in practice. Moreover, as collaboration between academics and practitioners deepens and forms a richer view of SL in action, it is vital to clarify the academic methods of using the concept of SL, eventually benefiting the further collaboration of academic research and practice.

This article proposes that the main attribute is interaction between people and conversations between participants as the most important empirical referents of SL that differentiate the concept from strategic management. It is suggested that an extensive definition of company success is needed when capturing strategic leadership and drawing its difference to simple leadership.

Keywords: concept analysis, leadership, strategic leadership, strategy, social constructionism, systemic view

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Introduction

Strategic leadership (SL) cannot be defined without defining strategy and leadership, yet their definitions, by and large, remain under debate. Similarly, little discussion exists on SL in emergent approaches such as the systemic approach (e.g. Campbell *et al.*. 1994; Barge and Fairhurst, 2008). The need for further study of leadership as an adaptive, systemic and complex approach has been acknowledged by Kezar *et al.* (2006).

This article highlights those attributes in SL that are congruent with emergent leadership approaches, focusing on the systemic view (e.g. Campbell *et al.*, 1994; Barge and Fairhurst, 2008) and social constructionism (e.g. Hosking, 2004).

In the highly competitive contemporary business environment SL may very well become the critical factor in the search for sustainable success (Ireland and Hitt, 2005: 66), but it is important that the concept itself is defined.

Concepts are social constructions and their meanings vary locally. Therefore, a **concept analysis** limited to defined contexts is more appropriate. In the following concept analysis I adopt the method used by Walker and Avant, since it offers a framework that not only helps analyze a concept, but synthesize it as well. A concept analysis takes into account what surrounds the concept in focus. Moreover, this analysis recognizes the different ways the concept is used and seeks to define a cluster of attributes that are most frequently connected with the concept (Walker and Avant, 1992; Risjord, 2007).

The structure of my article is such that I first present various definitions of leadership and strategy and approaches to researching these fields in order to highlight the inherent differences between the two. The aim is to recognize the various attributes of the two concepts as well the various ways they are used in research literature. The analysis covers a number of insightful research articles and textbooks.

I capture SL through three typical definitions, which have been selected via discretionary sampling. After that, I review the use of SL from two different perspectives: SL as a position or a process, and SL as a task or a pattern.

I then summarize the attributes, empirical referents, antecedents and consequences of SL based on the conducted literature review. The **attributes** are features that are used to differentiate and define the concept. **Empirical referents** are categories that are measurable and determine the existence of a concept or its defining attributes. (Walker and Avant, 1992; Risjord, 2007.) **Antecedents** are events or incidents that have taken place prior to the occurrence of the concept, and may lead to the emergence of the concept itself, whereas **consequences** are events or incidents that might be outcomes of the occurrence of the concept (Walker and Avant, 1992; Risjord, 2007).

Attributes in Leadership

A number of classification systems have been developed in order to capture the essence of leadership (e.g. Bass, 1990; Northouse, 2007: 2). Zaccaro and Klimoski (2001) identify four aspects that are common in many leadership definitions. Leadership aims to contribute to the development and achievement of organizational purpose, rendering it a non-routine influence. The ability to influence is grounded in the cognitive, social and political processes of an organization, and leadership is created and defined in a certain context.

These aspects are included in the definitions of leadership in Bass (1990) and Northouse (2007), although Bass stresses interaction and interpersonal influence more than contexts or organizational goals. Leadership, according to Bass (1990: 19–20), takes place…

'...when one group member modifies the motivation or competencies of others in the group'
and,...
'...leadership is an interaction between two or more members of a group that often involves a structuring or restructuring of the situation and the perceptions and expectations of the members. Leaders are agents of change–persons whose acts affect other people more than other people's acts affect them'.

Northouse (2007: 3), on the other hand, points out four key attributes in leadership: the nature of process, the presence of influence, the group context and achieving goals. Leadership aims at changing and creating movement in an organization (Northouse, 2007: 10).

Barge and Fairhurst (2008) have a different approach – they define leadership as a social and active process, adding the moral aspect.

'... as a lived and experienced social activity in which persons-in-conversation, action, meaning, and context are dynamically interrelated.'
and they continue,...
'we view leadership as a co-created, performative, contextual, and attributional process where the ideas articulated in talk or action are recognized by others as progressing tasks that are important to them.'
and yet,...
'[a] systemic constructionist approach to leadership articulates leadership as a co-constructed moral activity.'

Leadership is embedded in a specific context and time (Hosking, 2004; Barge and Fairhurst, 2008), and it should be continually reinvented and updated (Rotschild, 1996: 17; Newman and Chaharbaghi, 2000: 64).

So, leadership is about people, influence, interaction and change. It is a context dependable, moral activity and has a time relevant quality.

The Various Ways of Using the Concept of Leadership

I group leadership approaches into four entities:

- approaches that search for universal leadership qualities
- approaches that prefer situational and contingency approaches (Landrum, Howell and Paris, 2000: 150).
- transformational approaches (e.g. Bass and Steidlmeier, 1998; Jung *et al.*, 2003: 528).
- emergent leadership approaches that are not a unified field, but consist of complex (e.g. Collier and Esteban, 1990; Stacey, 1992) systemic views (e.g. Campbell *et al.* 1994; Barge and Fairhurst, 2008), and views drawing on social constructionism (e.g. Hosking, 2006; Barge and Fairhurst, 2008)

Universal leadership approaches take an interest in those individual characteristics that define a leader according to traits, competencies, skills or behaviours (viz. a **leader approach**). A hero leader myth, for instance, assumes a leader as the primary source of knowledge and competence that cannot be found elsewhere in the company (Yukl, 1998: 8–11; Northouse, 2007: 4.). Personal qualities should be understood as antecedents to the concept of leadership. Yet the role of context and time in leadership has often been ignored (Whipp and Pettigrew, 1993: 207; Boal and Hooijberg, 2000: 528; Kezar *et al.*, 2006: 61).

Situational and contingency approaches stress the notion that leadership can only be recognized in a context. Process theory widens the notions of context by examining context more from a constructionist paradigm: leadership is interpreted and created by people in the context, so leadership is a process that unfolds in time (Kezar *et al.*, 2006: 58–62). Anyone can possess leadership, and it can be shared (Yukl, 1992: 3). This approach brings context-related antecedents and consequences to the concept of leadership.

Transformational leadership includes the following factors:

- attributed idealized influence or charisma,
- behavioural idealized influence,
- inspirational motivation,
- intellectual stimulation, and
- individualized consideration (Bass and Steidlmeier, 1998; Jung *et al.*, 2003: 528; Hackman and Johnson, 2004: 90; Barbuto, 2005: 16; Kezar *et al.*, 2006: 36).

A transformational leader is someone who promotes creativity and interaction and is manifested as a visionary. Such a leader may also empower people around him/her, and may be committed to work passionately (Whipp and Pettigrew, 1993: 207; Hackman and Johnson, 2004: 91–110).

The core question in this approach seems to be how to recognize a transformative leader and scrutinize the personal characteristics as antecedents to leadership. Previous research on transformational leadership has shown promise in understanding SL (Vera and Crossan, 2004: 223) and its interactional point of view (Hackman and Johnson, 2004: 91), even though interaction is not a core element of the theory (Kezar *et al.*, 2006: 35). Yet there is not much interest in the processes in which leadership is mutually created. The role of an employee is perceived as the role of a follower, echoed in the idea of the leader as the nexus of creativeness (Kezar *et al.*, 2006: 33–49). Transformational leadership approaches are in particular interested in actions and their consequences, yet stressing ethics and morals, and therefore stressing the consequences of leadership.

The density of networks in the contemporary, global world, together with the growing complexity and diversity seem to be related to the rise of **emergent leadership approaches.** This approach to leadership, it seems to me, has common ground with chaos and complexity theories (e.g. Collier and Esteban, 1990; Stacey, 1992), systemic views (e.g. Campbell *et al.* 1994; Barge and Fairhurst, 2008) or approaches that are embedded in social constructionism (e.g. Hosking, 2006; Barge and Fairhurst, 2008).

Whereas the transformational leadership approach still emphasizes the characteristics of a leader, emergent approaches are more focused on relationships, reciprocal influence and the context in which leadership emerges. The subjective perception of reality (Bateson, 1979), which is socially constructed in interaction (e.g. Berger and Luckmann, 1966; Burr, 1995; Gergen and Gergen, 2003), can be seen as the nucleus of social constructionism. The 'taken-for-granted knowledge' is challenged (Burr, 1995) and the word 'social' is emphasised in social construction (Hosking, 2004). Multiple interpretations and meanings always exist (Burr, 1995), and therefore, conflicts might take place. The 'common good' has to be negotiated and has an emergent quality (Collier and Esteban, 1990). Even the very concept of leadership is interpreted in different ways depending on the context, and co-created in interaction. Such an approach does not rule out that shared meanings of organizational matters are needed, but emphasises the interactional nature of leadership.

Interaction is also at the core of systemic views. **Systemic thinking** does not lean on cause and effect, but rather seeks to understand a potential problem or an opportunity embedded in larger sets of incidents and interactional processes (Campbell *et al.*, 1994).

Other key concepts of systemic thinking by Campbell *et al.* (1994) include **'creating punctuation'**, which may be interpreted as the rhythm in the system. The interdependence of a system's parts (i.e. people in a social community) is manifested in reciprocal **feedback** processes (Barge and Fairhurst, 2008). Everyone in an organization is a member of several **contexts**, through which hierarchically-organized meanings are mediated (Pearce, 2005).

In line with social constructionism, the systemic view perceives reality to be socially constructed in interaction, where the **language** used in an organization is emphasized. Use of language is not 'just talking' in a descriptive way, but serves a functional purpose (Burr, 1995) and constructs the reality (Hosking, 2004). Language also has a social nature (Barge and Fairhurst, 2008).

The single most unique addition that a systemic view brings to social constructionism is the concept of autopoiesis (Luhmann, 1995; Maturana, 2004), the core of which consists of the **circular nature** of interaction (Bakken and Hernes, 2003). Metaphorically, the strategic process of an organization could be understood as an autopoiesis of the organization (i.e. a process of constant self-creation).

Everything is always in the process of becoming something (Tsoukas, 2005: 5), including the organization and its leadership, and every encounter has the potential to influence the social system and the people involved. A systemic change may begin from small interventions (Jackson, 2003: 116). Such a view leads to a considerable difference in the way we perceive leadership. The systemic view shifts the focus from the leader to the patterns of the entire experience of relationships (Barge and Fairhurst, 2008) – the self-creation – in which the flow of novel encounters constantly changes the phenomenon in focus (Hosking 2004; Barge and Fairhurst, 2008).

The research focus in emergent approaches, therefore, is not so much on the personal, not even on the situational or contextual level, but on the relationships and on the contextual moments in which these relationships take place.

Some scholars have highlighted ethics and social responsibilities as strategic issues (Johnson, 2006: 28; Meehan *et al.*, 2006; Waldman, 2007: 227–243). Similarly, there are signs that spirituality might be of interest in leadership (e.g. Aburdene, 2005; Kezar *et al.*, 2006: 3; 71). Overall, it seems that approaches that are more charged in terms of value are gaining ground alongside the traditionally value-free approaches. Approaches that are interested in the consequences of leadership seem to be receiving increasing attention today (Kezar *et al.*, 2006: 73). It is obvious that there exists a common ground between social constructionism, systemic views and responsible/spiritual approaches: Leadership is not an isolated phenomenon, but it emphasizes connections, relationships and reciprocal consequences.

Attributes in Strategy

Strategy helps to narrow down the concept of leadership in a particular context. In a business context it can be understood as a multilevel phenomenon related to a corporate strategy, a business strategy and a functional strategy (Johnson *et al.*, 2005: 11–13). The various definitions of strategy are multiple, and the language dealing with the concept of strategy may not always be precise in its focus (French, 2009).

Mintzberg *et al.* (1989) claim, that there is no simple definition of strategy. According them, a strategy is either

- a plan that offers guidance;
- a pattern that has consistency over time;
- a position that locates products in competitive markets;
- a perspective, an underlying business philosophy or
- a ploy to undermine the opponents.

These P's define *how* strategy is formed and how it serves the organization without directives to strategic content or its features pinpointed in the many definitions of strategy.

Johnson *et al.* (2005: 9) argue that '[s]trategy is the direction and scope of an organisation over the long term, which achieves advantage in a changing environment through its configuration of resources and competences with the aim of fulfilling stakeholder expectations.' The word 'direction', to me, refers to a metaphor for moving and presupposes change. Strategic decisions tend to be related to future orientations in setting the long-term directions of an organization.

Hughes and Colarelli Beatty (2005: 28) make reference to decisions in their definition. 'Business strategy is the pattern of choices an organization makes to achieve sustainable competitive advantage.' Johnson *et al.* (2005) emphasize the inclusion of all stakeholders instead of only shareholders, and therefore, include potentially controversial expectations in their definition. A strategy has to meet those expectations in a balanced and justified manner, which sets requirements for the management. Both of these definitions above imply a selection with a 'scope' and 'pattern of choices'. Interrelatedness is loosely referred to in the sense of a 'pattern' and a 'configuration'. In addition to internal resources, learning and strategic execution are implicitly present in the definition presented by Johnson et al, whereas Hughes and Colarelli Beatty emphasize competition and decision-making.

Despite these differences, these three definitions share many of the attributes, such as an organization-wide approach, direction, interrelatedness, decision-making, selection, focus on a long-term view and competitive advantage.

The Various Ways of Using the Concept of Strategy

In this article I follow the classical division of strategy introduced by Mintzberg *et al.* (1998) complemented by the "strategy as practice" approach (Johnson *et al.*, 2007). The strategy schools are grouped as prescriptive, descriptive and configurative. The prescriptive group points to the content of and how strategic management should be, whereas the descriptive approach emphasizes the processes of strategy and how strategies are actually created and implemented. Finally, the configurative approach seeks to find an integrative stand and emphasizes transformation (Mintzberg *et al.*, 1989). "Strategy as practice" has shifted interest in the research of strategy to the everyday activities in organizations (Johnson *et al.*, 2007).

The prescriptive approach perceives strategy as a conception – a formal or an analytical process. A strategic process, a deliberate way of formulating a strategy has been developed in this approach (Mintzberg *et al.*, 1989). It can be seen as a process of visioning, focusing and implementing (Neumann and Neumann, 1999: 74), in which, during the process, strategic leaders set the direction for the organization (Howard, 2007: 19). The process requires, at least, the following:

- articulating strategic intent,
- recognizing strategic issues,
- generating strategy options,
- building scenarios and
- identifying stakeholders (Eden, 1993: 117).

The prescriptive approach resonates with the idea of control. The positioning school restricts even the number of possible strategies in the form of Porter's (1985) well-known generic strategies, and several matrix models have been introduced to recognize 'the right strategy' (Mintzberg *et al.*, 1989).

Among contemporary views, the business model approach offers 'stories that explain how an enterprise works' (Magretta, 2002) or 'an integrated framework for strategy execution' (Richardson, 2008). It seems to me that this view follows in the footsteps of the prescriptive approach.

The prescriptive approach has shown interest in competition (Mintzberg *et al.* 1989), and Abraham (2005: 3) argues that a strategy is unnecessary in the absence of competition. A sustainable competitive advantage, therefore, has for long been considered the main objective of strategy (Johnson *et al.*, 2005: 6), but it has also been questioned whether a competitive advantage can be a stable situation in the contemporary, ever more dynamic, business world (Hitt *et al.*, 2003: 76).

The descriptive approach 'seeks to understand the process of strategy formation as it unfolds (Mintzberg *et al.*, 1989).' The entrepreneurial school introduced the insightful, intuitive and active leader with a vision in foci of the strategy process. The cognitive school on the other hand is interested in a manager's strategy as it relates to the mental processes in decision-making and information processing as well the emergence of concepts of strategy (Mintzberg *et al.*, 1989).

In this context strategy has also been studied by drawing on ideas from social constructionism. Retrospective sense-making (Weick, 1995) is a constant act of interpretive learning, and also introduces the speculation about whether strategy formation is a visionary project or a situation in which managers first act, then figure out what works and what does not. They then select the processes that work and continue to operate with those processes. Included in this perspective is the idea that strategies emerge in the course of action, and it is possible that 'organizations may learn by recognizing patterns in their own behaviours' (Mintzberg *et al.*, 1989).

Many contemporary views on strategy are highly similar to the descriptive approaches in their introduction of ideas such as:

- continuous change (Boal and Hooijberg, 2000: 515; Johnson *et al.*, 2005: 7),
- organizational learning (Senge, 1996; Boal and Hooijberg, 2000: 515; Worden, 2003: 31; Vera and Crossan, 2004; Hughes and Beatty, 2005: 11–14),
- the ability to identify new opportunities in a company's revenue model (Abraham, 2005: 4) and
- a strategy of innovation (Johnson, 2006: 23).

Yet strategy formation is not just learning, but also a political process: it includes possessing the power to influence individuals and groups at the micro level, and the various stakeholders at the macro level (Mintzberg *et al.*, 1989).

The "cultural school" emphasises the interactive side of the strategic process (Mintzberg *et al.*, 1989). The culture and values of an organization often impact the management and personnel's perception, and may determine what is interpreted as important. This interpretation is a subjective process – a social construction. An issue perceived to be a strategic issue in one company, might be considered a tactical or even a mere operational issue at another time or in another company (Dutton and Penner, 1993: 91).

The cultural school also bring resources as a source of competitive advantage to the discussion (Mintzberg *et al.*, 1989). It is unclear which resources are essential to gain a competitive advantage. Some, such as Cool *et al.* (2002: 57–66) and Hitt *et al.* (2003: 88–92), have suggested that a unique culture and an organization's social complexity may be good candidates. Core competencies, a concept introduced by Prahalad and Hamel (1990), have been suggested to be a source of competitive advantage. According to Barney (1991), such **resources** that can add value are rare and hard to imitate or substitute, and may very well become resources that can be a source of competitive advantage. However, the fact that those resources have to be recognized and nurtured (Hitt *et al.*, 2003: 20), shifts the focus to the organizational operations of a company. The resource-based view introduced by Wernerfelt (1984) and popularised by Prahalad and Hamel (1990) did exactly that.

The "environmental school" has a contingency view and is primarily interested in the relationship between an organization and its environment, which is based in a force or complex set of forces (Mintzberg *et al.*, 1989). Institutionalism, a social constructionist view, claims that organizations move toward similarity and conformity due to the processes of isomorphism (DiMaggio and Powell, 1983).

The configurative approach stresses transformation, addressing stability and change as changing periods during which the role of strategic management is to sustain stability, but also to recognize the time for transformations (Mintzberg *et al.*, 1989.)

The strategy as practice approach, an approach to research in this field that is currently growing, tends to perceive a strategy not as the property of an organization, but as something people in organizations carry out, and is concerned 'with what people do in relation to strategy and how this [activity] is influenced by and influences their [people involved] organizational and institutional context' (Johnson *et al.*, 2007: 3; 7). According Jarzabkowski *et al.* (2007, 6), a strategy 'from a Strategy-as-Practice perspective [...] is conceptualized as a situated, socially accomplished activity.' This definition relates strategy to leadership and emphasizes context and interaction.

Finally, a strategy can be perceived as a discourse, where different schools of thought, approaches and concepts are formed and reproduced as social practice. Strategies are influenced by 'local understandings, recipes and routines' as well by 'competing values and conflicts of interest' (Ezzamel and Willmott, 2004).

Attributes in Strategic Leadership

The question now is whether SL can be captured simply by drawing connecting lines between leadership attributes and the strategic attributes discussed above. The following comparison of approaches to leadership and strategy (in Table 1) shows the difference in these two concepts. There are similar shifts in paradigms – connectivity, the contextual view and the activity-based view – that represent emergent approaches both in research into leadership and strategy. The attributes used in leadership lack the power to differentiate SL. Some of the attributes of strategy, the 'organization-wide approach' and 'long-term view' in particular, help to narrow down the context for SL. The paradox between the systemic view and SL seems to be the different levels of interest: whereas the systemic view focuses on relationships and momentary actions, SL is concerned more with the whole organization. The concepts of self-creation together with ideas of reciprocal influence (Luhmann, 1995; Maturana, 2004) and hierarchical contexts (Pearce, 2005) with connections suggest promising factors in solving the paradox. Nurturing social complexity is vital.

It seems to be clear that both researchers and practitioners have tended to prefer leadership theories in strategic contexts, and the theories of SL have not received audiences as large as those of the leadership theories. A number of definitions of SL have, however, been produced.
Hambrick and Mason (1984) have provided the basis for the strategic leadership theory. They set out by claiming that organizations reflect their leader's values and beliefs (Boal and Hooijberg, 2000: 521). Leaders' personal values as well their previous experiences affect not only their decisions, but their interpretations of situations. Hambrick (2007: 334, 336) points out that there is a relationship between leader characteristics and strategic choices. Waldman (2007: 233) goes even further and suggests that in the context of social responsibility, leaders' values tend to create a response in followers' perceptions and their values. Creating commitment through shared values highlights the leader's own personal values and passion as the core components of the leadership process (Davies and Davies, 2004: 32). The upper echelon theory suggests that discretion is both an antecedent and a consequence of a strategy. If a leader has high managerial discretion, his or her characteristics will be reflected in the strategy and the company's performance, whereas the absence of these features leads to a situation where the characteristics of leaders bear little significance in company performance (Hambrick, 2007: 334).

In addition to the strategic leadership theory, it is positive agency theory that is often referred to in studies on executives (Cannella and Monroe, 1997: 219). They both take an interest in managerial decision-making, but the latter discusses more about the separation of ownership and management (Cannella and Monroe, 1997: 219–220). Neither of these theories focuses on social interaction, a paramount attribute in the emergent approaches.

I will review the definitions of SL using three sources. First Hitt *et al.* (2003: 386) propose SL to be 'the ability to anticipate, envision

Table 1: Comparison of the attributes of leadership and strategy and ways to use the concept

	LEADERSHIP	STRATEGY
ATTRIBUTES IN THE CONCEPT (Bass, 1990; Zaccaro and Klimoski, 2001; Northouse, 2007; Barge and Fairhurst, 2008) (Mintzberg *et al.* 1989; Johnson *et al.* 2005, Hughes and Colarelli Beatty, 2005)	people influence interaction change time context moral activity	organization-wide approach direction interrelatedness decision-making selection long-term view competitive advantage
WAYS OF USING THE CONCEPT	leader: individual characteristics situation: context dependence transformation: influential behaviour, individual characteristics, emergent: relationships, moments, reciprocal consequences	prescriptive: content of strategy descriptive: process of strategy configurative: strategy as a transformation process strategy as practice: strategy as doing, context, interaction

and maintain flexibility, and empower others to create strategic chance as necessary.' Ireland and Hitt (1999: 63) write that '[s]trategic leadership is defined as a person's ability to anticipate, envision, maintain flexibility, think strategically, and work with others to initiate changes that will create a viable future for the organization'. They (Ireland and Hitt, 1999: 48) go on to claim that '[s]trategic leadership relates an organization's ideologies, identity, mission and view of the macro environmental system to its differentiated core competencies.'

The definitions above stress the process, and the purpose of SL seems to be in the area of strategic change. Proactive abilities, such as anticipating and envisioning, are emphasized. The phrase 'maintaining flexibility' refers to the objectives in which a dynamic situation is an end in itself. SL is occasionally perceived as an individual ability (Ireland and Hitt, 1999). A strategic leader has a role in empowering and energizing, and thus, the concept is, at least to a certain degree, shared. The definitions do not name the actors involved, but Hitt *et al.* (2003: 387) refer to executives in their writing.

Secondly, Boal and Hooijberg suggest relying on the earlier work of Hambrick (1989), Black and Boal (1996) and Malan and Kriger (1998) in that the essence of SL is 'the creation and maintenance of absorptive capacity and adaptive capacity coupled with managerial wisdom'. The term 'absorptive capacity' involves the capacity to acquire and assimilate new information, and the 'adaptive capacity' is about change and organizational flexibility. Finally, 'managerial wisdom' contains in itself the notion of the kairotic moments, viz. the capacity to utilize critical moments in a meaningful way as well recognizing variations both in the environment and in relationships (Boal and Hooijberg, 2000: 518). They (2000: 517) have perceived SL to be 'changing or reinforcing existing action patterns within organizations'. Recognizing strategic inflection points combines the ability to anticipate with the ability to take timely actions (Boal and Hooijberg, 2000: 520). If one speculates, timing might be one of the critical success factors. Utilizing critical moments and inflection points, which are congruent with the systemic view, is not important only for the purpose of timing, but also for interactive perspective, since they might potentially provide a sensitive context for sense-making.

Thirdly, Hughes and Colarelli Beatty (2005: 9) define SL as follows: 'Individuals and teams enact strategic leadership when they think, act and influence in ways that promote the sustainable competitive advantage of the organization.' Elsewhere Colarelli Beatty and Hughes (2005: 3) define SL as 'systemic, focused on the future, and oriented toward change'. They (2005: 12) see that the focus of SL is to 'foster strategic clarity, make stronger connections between strategy and tactics, and broaden their own and others' perspectives' and to 'contribute to the enduring success of their organizations.' The consequences of SL are perceived to be not just within an organization, but also impacting its environment. These definitions suggest that the purpose of SL is to be 'promoting the sustainable competitive advantage' and convert company strategy in action. However, this predicts that the focus should be on the result of SL, and does not necessarily define the process in detail. The process of leadership has been simply summarized as 'thinking, acting and influencing'. 'Influencing' implies that leadership is present when something different takes place that would not normally happen without leadership. Aiming to 'broaden perspectives' seems to imply learning.

The two actions 'thinking and acting' do not provide much grounds for highlighting the difference between leadership and other activities, although 'thinking' suggests that SL is an individual act. In my speculative interpretation, the three verbs follow the logic of a strategic process: thinking refers to the context of strategic information, acting on the other hand to the context of strategic choices and influencing points to the context of implementing a strategy. No role division is introduced, and SL is a process of influencing and promoting rather than a static position. Such a definition would be in line with the systemic view in which everyone in an organization is an influencing actor, and no one actor can have full control of the organization. SL is, therefore, not a concept at the individual level, but rather involving organizational interaction.

The summary of the various definitions of SL and my comparison of the typical aspects of leadership definitions are presented in the following table (Table 2). Hitt *et al.* (2002) as well as Boal and Hooijberg (2000) especially relate SL to executives, whereas Hughes and Colarelli Beatty (2005) perceive SL more through its goals and as a process rather than a position-related phenomenon. The approach presented by Hughes and Colarelli Beatty has more of a systemic nature than the other two definitions.

The processes described in Table 2 do not differentiate SL from leadership anymore than having the word 'strategic' in them, even though there is more stress on the anticipative and creative aspects than in the leadership definitions. Interaction, even if it is implicitly present, does not play as crucial a role in SL definitions as in the leadership definitions reviewed.

The main difference lies in defining foci and goals. The definitions of SL presented above stress change, but what seems to separate the concepts includes in particular such objectives as broadening one's perspective, core competencies or influencing the future, all of which have an expansive nature and are not related to the leadership definitions reviewed.

From all these concepts and definitions, the focus on change seems to be the common factor. According Bass (1990: 20), change relates to the motivation or competencies of group members or the structuring or restructuring of the situation or the perceptions and expectations of the participants in a situation. It is clear that change is an integral part of SL, but since it is also a property of leadership theories, it should not be considered to be solely a property of SL.

Table 2: Summary of strategic leadership definitions according to Zaccaro and Klimoski (2001)

	IRELAND and HITT (1999)	BOAL and HOOIJBERG (2000)	HUGHES and COLARELLI BEATTY (2005)
GROUP CONTEXT	Executive management, shared	Executive management (positions in the strategic apex of organization)	Individual, teams
PROCESS	Cognitive: anticipate, envision, think strategically Social: work with others, empower Political: maintain Other:	Cognitive: create, learn, recognize, assimilate, adopt, discern Social: Political: maintain Other: timing, changing or reinforcing action patterns	Cognitive: think Social: promote Political: influence, foster Other: act
NON ROUTINE FOCUS	Others	Absorptive capacity Adaptive capacity Managerial wisdom	Broaden own and others perspective Future
GOALS	Flexibility Strategic change Differentiated core competences	Flexibility Change Organizational effectiveness	Sustainable competitive advantage Change
NATURE OF INFLUENCE	Leader's ability	Leader's capacity	Systemic

In SL it is surprisingly common to use cyclic, self-referring definitions that include concepts of strategic thinking or strategic change. Definitions of SL tend to describe intentions, purpose, outcomes and competencies; they are less about specific actions than about what truly happens when SL is manifested. It is not clear whether the research is about strategic leaders or SL itself or about management in general (Boal and Hooijberg, 2000: 524; Kent, 2005: 1010).

The personal characteristics, values and competencies of leaders are the antecedents of SL and are often stressed in the SL definitions reviewed above. To add to the list, Rowley (2003) suggests that vital characteristics of strategic leaders are competences in knowledge management, global orientation and social acumen. Davies and Davies (2004: 34) note that strategic leaders have a tendency to become dissatisfied or impatient with the present. Table 2 above shows that the ability to focus on the present is not a typical characteristic in SL. However, drawing from social constructionism, to create shared meanings demands an ability to interact with interpretations of others in strategically potentially important situations.

The Various Ways of Using the Concept of Strategic Leadership

In this section, I will tackle two questions: (1) whether SL can be understood as a position or as a process (Yukl, 1992: 3), and (2) whether SL is considered to be a task or a pattern. These questions aim to answer whether SL is more about personal characteristics or is a phenomenon that is more contextually embedded. In addition, the questions relate the phenomenon to the systemic view (Bakken and Hernes, 2002).

In this article, a position is referred simply as an organizational position, where as processes are sequences of events that relate to selective actions in which perceptions before and after the events are vital. From the perspective of temporality, a structure is reversible, but a process is irreversible, and both of them are needed in self-creation (Luhmann, 1995: 286–289; 353–355). A clear line between the two is not necessary; what matters more is understanding the interplay between them. The two interact and processes may turn into structures that have an influence on future actions (Bakken and Hernes, 2002: 58; 66 - 68), thus both are essential (Luhmann, 1995: 44).

Making a difference between tasks and patterns helps to pinpoint not only the actions related to SL, but also some of the antecedents of it. A task refers to an action that can be planned or described beforehand, with a clear substance and intention involved. It is therefore linked to the goals of SL.

A pattern, on the other hand, is an emergent habitual event, and therefore, not necessarily conscious. It is repeated over time, yet it varies somewhat every time. In an organizational self-creation, organizational patterns play a key role. Bateson (1979) writes about 'the pattern which connects', and about the similarities in relationships that we can perceive and that make it possible to recognize differences from the context. It should also be noted that context itself is a pattern through time.

Patterns are embedded in reciprocal interaction and influencing processes, creating coherence and providing stability (Stacey, 2001: 132–133). Stacey, referring to Shotter (2000), points out that patterns are a potential means for change since 'the beginnings of understanding arise in the moments that strike people…'

Position or Process?

SL is often defined by a position and as a task specific to executives (Yukl, 1998: 409; Boal and Hooijberg, 2000: 516–517; Vera and Crossan, 2004: 223). Studies of SL have tended to focus on executive work (Vera and Crossan, 2004: 223). A CEO, an executive management team or board members are often named as strategic leaders. Thus, according to such a view, the sole SL responsibility lies with the CEO and his or her immediate co-leaders. The view echoes the hero leader myth.

It is clear that we should question whether a strategic change can only be lead by the top of an organization (Shrivastava and Nachman, 1989: 51; Stacey, 1992: 7; Whipp and Pettigrew, 1993: 210; Senge 1996: 42; Ulrich, 1996: 209–210; Hitt and Ireland, 2002: 4; Davies and Davies, 2004: 29.) It is equally clear that the tasks of CEOs are highly heterogeneous varying from one individual to another (Hambrick, 2007: 335). This fact makes unified assumptions based on executive positions practically impossible.

SL should not be considered synonymous with executive leadership. Yet the role of executives is crucial (Eden, 1993: 117; Worden, 2003: 31), but it is not the whole picture. SL is needed at many levels of an organization, and it is relevant to understand where and how knowledge is co-created, helping executives to make sound strategic decisions, and to realize how strategies become stories that are 'lived' and 'told' not just written by the management. It is important to remember that strategies also emerge (Mintzberg *et al.*, 1998) in situations that are not labelled strategic. If and when leadership is defined as a process (or organizing), it means that leaders are not necessarily those who have been nominated officially as leaders, but they are the ones who emerge and change during the course of interactions (Hosking, 1997: 301; 303).

As noted above, creating influence on another is the essence of leadership (Lenz, 1993: 155; Yukl, 1998: 175). It emerges when a person is perceived to have the capacity to influence (Hosking, 1997: 299; Sheard and Kakabadse, 2007: 333). Strategic leaders are usually provided with tangible resources to influence and convert strategy into action: broader responsibility allocation, more power in their decision-making, a wider range of resources, as well as a suitable amount of privileges and information they receive compared to others (Johnson, 2007: 151).

One integral part of the ability to influence is credibility, whose major elements, it has been suggested, include such personal attributes as competence, trustworthiness and dynamism, meaning how active, assertive and sure a leader is perceived to be (Hackman and Johnson, 2004: 154–155). Yet the relational aspect is important since in a conversation, the way that 'other persons' moral orders and grammars' are connected impacts how the converser is perceived (Barge and Fairhurst, 2008). Emergent leadership is dependent on the way group members respond to a person over a period of time, whereas assigned leadership only comes along with a particular position (Northouse, 2007: 5). This emerging nature of the process makes it obvious that the idea of control is too far-fetched. Drucker (1992: 100–101) suggests that the foundation of effective leadership is in realizing that leaders cannot control everything. SL is based on interaction taking place between and among top managers and employees (Ireland and Hitt, 2005: 67). Instead of control, the focus of SL rests in developing long-term organizational capacities (Whipp and Pettigrew, 1993: 208), in which interactional capacity is included.

When an organization is perceived more as a community than a formal structure (cf. Handy, 1996), it enhances the notion that connections hold value and SL cannot be solely an individual responsibility, but a shared responsibility. Perceiving leadership as a process means that leadership is a social phenomenon manifested in those events where people interact (Hosking, 1997: 299). A number of scholars seem to agree that organizations emerge and exist only in interaction and communication (Hackman and Johnson, 2004: 222).

Leaders influence their surroundings, but are also influenced upon in interactions with the surroundings. All this means that both the leaders and the others are involved in the leadership process (Whipp and Pettigrew, 1993: 210; Yukl, 1998: 175; Kent, 2005: 1012; Northouse, 2007: 3). SL therefore is embedded in interactive relationships and the moments of encounters rather than in a single participant or single position. Yet a position may serve as a means to enhance the necessary relationships.

Tasks or Patterns?

Tasks and patterns do not work separately, but in a relationship. In the SL literature, the words 'tasks' and 'patterns' are sometimes used incoherently. While operational leadership is concerned with particular objectives and tasks *in* an organization, SL is more involved with the large-scale goals *of* an organization (Boal and Hooijberg, 2000, 516).

Jonas III *et al.* (1990: 42–45) identify continuity, novelty and transition as the most important executive tasks, whereas Lenz (1993: 153–165) suggests five patterns that define an executive's work. In these five patterns, 'office holding' tends to restrict organizational learning, but the other four lead to organizational change and learning. Lenz calls these four patterns 'orchestrated learning' and 'orderly transition' and 'execute now' and 'shock treatment' – the former two relate to a low sense of urgency and the latter two to a high sense of urgency.

Similarly, Hitt *et al.* (2003: 395–406) describe strategic human resource management as exercising effective SL. They perceive the following tasks as being critical in this:

- determining strategic direction,
- exploiting and maintaining core competencies,
- developing human capital,
- sustaining an effective organizational culture,
- emphasizing ethical practices and
- establishing balanced organizational controls.

Any of the tasks above might include minor tasks that can be described beforehand, but every one of the tasks is also inherently about relationships and patterns: they are about talking to people, introducing issues, using language resources and choosing convenient arenas. Every encounter creates new encounters and circular feedback creates patterns that might be recognized in retrospective sense-making.

Strategic orientation that considers a visionary, long-term and holistic perspective is needed, but it is equally important to understand the present situation in context – the ability to link one's visions to the daily work and creating a strategy *with* others instead of *to* others (Davies and Davies, 2004: 31). Additionally, the duties of the top leaders include building and harnessing such circumstances in which people can change, learn and succeed (Stacey, 1992: 15).

Creating innovations and strategic changes are often seen as the main tasks in SL (Hitt *et al.*, 2003: 390). The ways in which executives lead might be an antecedent to innovation. A non-controlling, democratic environment seems to provide opportunities in which innovations are more plausible (Jung *et al.*, 2003, 525–528). The never-ending task of strategic leaders is to build and facilitate relationships, both internally and externally (Hitt and Ireland, 2002: 3–5), and this also influences learning and innovations.

A strategy seeks to succeed and thus provide the basis for organizational continuity. It sets the agenda for the focus of the organization. The strategy concept includes the notion of differentiation. These features are parallel to Albert and Whetten's concept (1985 in Dutton and Penner, 1993:95) of the organization's identity as 'enduring, central and unique'. The purpose of SL can thus be seen to co-create (Barge and Fairhurst, 2008) and protect identities. Identity negotiation is continual (Dutton and Penner, 1993: 96–97), since identities are not fixed (Burr, 1995). An organizational identity is manifested in patterns, and identity co-creation is an ongoing, social endeavour, which is often anchored in sense-making (Weick, 1995). Protecting identity relates to maintaining stability (Newman and Chaharbaghi, 2000: 67–73.), since stability relates to the 'ongoing truth of some descriptive proposition (Bateson, 1979). We have to alter our perceptions in the stability–change continuum. Stability and change form an entity that cannot exist when only one of them is present (Sturdy and Grey, 2003; Durand and Calori, 2006). If the 'what is' – namely stability as a social construction and pattern of choices – can be recognized more fully in sense-making, we might then understand better whether anything novel truly results from strategic changes. Novelty, on the other hand, lives in new connections and combinations where 'that which already is' cannot be ignored, but only utilized.

Organizational identity is often tightly linked with strategy so that perceptions of the identity have an impact on what is perceived and assessed as the issues that have organizational importance along with people's beliefs about feasible choices (Dutton and Penner, 1993: 99–101). A shared identity may strengthen a culture with narrow or even unified perceptions. It may also create a culture in which patterns of interaction value and nurture multiple voices and interpretations.

Communicating a vision might be the paramount task of a strategic leader. On the other hand, an equally important question is whether a vision is necessary. A vision and strategic intent are closely tied together (Hitt *et al.* 2003: 395). A vision relates to an envisioned future, but also to a core ideology (Hitt *et al.* 2003: 396) and values or business philosophies (Stacey 1992: 27). Those concepts emerge from the past rather than in the future. Stacey (1992: 122–147) goes as far as adding that a vision for the future might not even be necessary at all.

The concept of organizational identity, more so than a vision, has more potential for being linked to the integrity and consequences of leadership. A preferred identity, because of the social essence of the concept of identity (Barge and Fairhurst, 2008), involves comparisons to others as well their perceptions. It employs more pressure to address the consequences of strategy to the stakeholders.

Conclusions

The difference between the concepts of general leadership and strategic leadership appears to be somewhat obscure. The most obvious differentiating attribute relates to context, and even though the definitions I have reviewed here do not provide solid grounds for defining strategic context, it is a social construction, created and defined in a particular situation. Labelling a context as 'strategic' may serve the function of punctuating (Campbell *et al.*, 1994), and stressing the importance of an issue or an activity. The context emerges in the course of action, and the recognition of its strategic value is recognized retrospectively in sense-making (Weick, 1995).

Another potential differentiator is the expansive nature that strategic leadership seems to have when compared with leadership. This expansive nature may be interpreted in different ways. I draw a link to patterns of relationships: leadership is a quality in relationships rather than a quality in a person (Hosking, 2006; Barge and Fairhurst, 2008). Reciprocal relationships are potentially interactive, expansive and creative.

The third differentiating attribute relates to the possible consequences of strategic leadership that tend to be large-scale and might have an impact not just to an entire organization, but also on its stakeholders. Strategic leadership stresses consequences that can be perceived, responsible.

In addition, the various encounters between people make it possible to clearly distinguish between strategic management and strategic leadership. Strategic leadership is by nature emergent and contrary to management; it is acknowledged in the course of actions. The concept should not necessarily be defined in an absolute manner since its meaning is deeply contextual. Yet views that can be contested in interaction are needed.

I suggest a few antecedents, defining attributes, empirical referents and consequences. My proposal is based on the results of the literature review attempted here that are in line with what is known as a systemic view and social constructionism.

Antecedents

All companies have executives, yet the mere existence of executives does not ensure the existence of strategic leadership. Such tangible signs as strategic documents might indicate the presence of strategic management, but not yet that of strategic leadership.

Strategic leadership is embedded in social interaction and cannot take place without connections and inner consent between two or more individuals. Strategic leadership is an expansive connection between two or more people towards a shared aspiration about organizational future. Thus, both or all parties are equally important in the process, even though the decision-making itself would be an act of strategic management. The traditional terms "leader" and "follower" do not realistically emphasize the complex interaction in which all parties involved are both influencing and influenced upon (Hosking, 2006). Barge and Fairhurst (2008) adopt a more convenient term ‘leadership actors’.

Strategic leadership has to be sensed, acknowledged and even created by people acting to create a social system. Yet, that does not necessarily imply a charismatic leadership. The aim of both systemic and strategic leadership is to enhance autonomy (Collier and Esteban, 2000) instead of dependency, but such a connectivity that does not exclude a leader, and does not either perceive her/him as the nexus of every action that may carry strategic value. Yet commitment and resilience are needed from a strategic actor, given that strategic leadership involves complexity and is ongoing.

Defining Attributes

Strategic leadership manifests itself first and foremost in interaction. Sense-making is continual since an organization is not a stable or a unified entity, but constantly organizing itself

Table 3: The conceptual analysis of strategic leadership

ANTECEDENTS	DEFINING ATTRIBUTES	EMPIRICAL	CONSEQUENCES
Connections	Interaction	Conversations	Connections
Commitment	Reflectivity	Participation	Learning
Resilience	Sense-making of organizational purpose	Reciprocal feedback	Maintained or growing capacity for actions
Inner consent of participants	Future orientation	Selective control	Enduring success
Trust	Learning	Extensive definition of success	Responsibility
Holistic intention	Change		We-ness in identity
Relational attentiveness	Continuity		Shared purpose of organization
Systemic perspective	Presence in moments of encounters		
	Sense of mutual enforcement		

in interaction with multiple participants. The major defining attributes in strategic leadership are future orientation with a holistic intention, a relational attentiveness and a systemic perspective. It is about learning and change and also harnessing the circumstances in which they can take place. Yet combining them with reflectivity and presence, since without this it is not possible to create continuity and a sense of mutual enforcement.

Moreover, identifying and developing core competencies or strategic competencies and strengths calls for understanding the story of the people in the organization, since their perceptions and competencies, as well their understandings have been developed through their earlier experiences (Barge and Fairhurst, 2008).

Strategic leadership is about continually sharpening the shared purpose of an organization, and in that way not only changing but also highlighting the continuity in changes.

Empirical Referents

Since strategic issues are wide organizational issues, there is a tendency to separate strategic and operational actions in clear-cut ways in which all organizational actions are strategic and smaller actions, by contrast, are operational. In recognizing the 'strategic', the scope of outcomes and consequences is relevant. Yet treating 'the scope of actions' as a determinant variable might lead to the assumption that large impacts relate to large actions, which is too narrow a perspective and neglects the large impacts of small actions (Collier and Esteban, 1990; Stacey, 1992).

Among empirical referents, the most important ones are conversations. In order to create such an environment that fosters innovation and expansive learning both empowerment and participation are needed. This calls for selective control, since freedom is an antecedent for creativity (Jung *et al.*, 2003, 525–528).

A paramount indicator for strategic leadership is the extensive definition of success. The bottom line on the balance sheet is just not enough. A company seeks success, and financial success cannot be ruled out since it is also a means to other ends, yet there is a need for a more expansive and contingent interpretation of company success. The idea of success, coupled with the main goals of an organization, represents the main idea that an organization prioritizes. In those ideas, the acknowledgment of responsibility has become more vital. Success and organizational identity are intertwined. Extended, yet integrated, perceptions of success would provide a larger platform for being inspired and innovative; a success is verified just by co-creation and recognition from employees and other vital stakeholders. Recognition is possible not only through shared and accepted identity, but also through constant dialogue and negotiation.

Consequences

Strategic leadership is about creating connections both within an organization and between organizations. An essential component is the trust that has to be created. The objectives have an expansive nature: learning and securing the capacity for actions. An efficient leader seeks to build understanding not just for the immediate consequences of his/her or organizational actions, but the delayed and indirect consequences.

Strategic management seeks sustainable competitive advantage. In the context of strategic leadership, enduring success is success that is not linear or rigid, but may fluctuate and demand recognition from different angles. Strategic leadership defines the objective better since it is not just about competition and financial results, but about the sense of meaning, which can be addressed through a shared identity and by acknowledging the moral grammars of people (Barge and Fairhurst, 2008).

The practical implications are concentrated in the interactional nature of strategic leadership that includes the serious idea that organizations should ensure enough opportunities for its members to interact and be present. Further work needs to be done to understand the momentary and temporal nature of strategic leadership.

All in all, when strategic leadership is scrutinized as a systemic phenomenon, attention has to be given to the circular, enforcing feedback cycles that are needed in self-creation. In such cycles, an antecedent may be a consequence and a consequence becomes an antecedent. One can suggest that the concluding verification of strategic leadership is that antecedents and consequences are relational: strategic leadership is an 'expansive conversational system'. Interpersonal encounters create something new that cannot exist without those encounters, whether that is knowledge or enthusiasm. Thus, strategic leadership is more about what happens between people in conversational moments than about a single leader. Moreover, strategic leadership *per se* is constructed and renewed in those encounters.

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Connections between Corporate Social Responsibility and Innovation Climate

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Abstract

The purpose of this paper is to investigate connections between the innovation climate and two facets of corporate social responsibility. A survey was conducted in Estonian, Chinese, German, Finnish, Czech, Slovakian and Japanese electrical-electronic machine, retail and machine-building enterprises. Data about two facets of corporate social responsibility, the innovation climate and seven different countries were compared by means of an ANOVA-test. A linear regression analysis was conducted in order to analyze connections between the innovation climate and corporate social responsibility. The total number of respondents was 5410.

The results of an empirical study show that one facet of corporate social responsibility – the firm's performance concerning social issues – predicts the innovation climate in all seven countries. A second facet of corporate social responsibility – the firm's respect for the interests of agents – predicts the innovation climate in Estonian, Czech and Slovakian enterprises. The model subsequently developed explains how two facets of corporate social responsibility predict the innovation climate in Estonian, Chinese, German, Finnish, Czech, Slovakian and Japanese electrical-electronic machine, retail and machine-building enterprises.

Keywords: innovation climate, corporate social responsibility, Estonia, China, Japan, Germany, Finland, Czech, Slovakia.

Introduction

This paper analyses connections between the innovation climate and two facets of corporate social responsibility – the firm's performance concerning social issues and the firm's respect for the interests of agents in Estonian, Chinese, German, Finnish, Czech, Slovakian and Japanese electrical-electronic machine, retail and machine-building enterprises.

The main aim of the study is to identify the connections between two facets of corporate social responsibility and the innovation climate.

Research has called for organisations to be more entrepreneurial, flexible, adaptive and innovative in order to effectively meet the changing demands of today's environment (Orchard, 1998; Parker and Bradley, 2000; Valle, 1999). According to Borger and Kruglianskas (2006) it was found that there were many indications of a strong relationship between the adoption of a CSR strategy in the firm and an effective environmental and innovative performance.

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A standardised corporate social responsibility questionnaire comprising 19 items developed by the Denki Ringo research group (Ishikawa *et al.*, 2006) was used to explore the two facets of corporate social responsibility. Based on the Innovation Climate Questionnaire by Ekvall *et al.* (1983), the authors developed an Innovation Climate Scale, and both questionnaires were then administered in Estonian, Chinese, German, Finnish, Czech, Slovakian and Japanese electrical-electronic machine, retail and machine-building enterprises.

A linear regression analysis was used in order to find statistically relevant connections between two facets of corporate social responsibility and the innovation climate.

The main research question is: Do two facets of corporate social responsibility – the firm's performance concerning social issues and the firm's respect for the interests of agents – predict the innovation climate?

The following section will explore the theoretical framework of the study by presenting an overview of the literature on this topic. This will be followed by a brief discussion of the relationship between the innovation climate and CSR. Then the empirical study will be presented followed by the results and some concluding remarks.

Theoretical framework

Innovation climate

In this study, we examine the innovation climate. In particular we examine how the degree to which an organisation offers its employees support and encouragement to take initiative and explore innovative approaches can influence the degree of actual innovation in that organisation (Martins and Terblanche, 2003; Mumford and Gustafson, 1988).

Many authors (Van de Ven, 1986; Amabile, 1988; Smith, 2000; Unsworth and Parker, 2003) have found that individual innovation helps to attain organisational success. Employee innovative behaviour depends greatly on their interaction with others in the workplace (Anderson *et al.*, 2004; Zhou and Shalley, 2003). According to Damanpour and Schneider (2006), the climate for innovation is a direct result of the top managers' personal and positional characteristics.

Previous studies treat innovative behaviour among employees as a one-dimensional construct that encompasses both idea generation and application behaviour (Scott and Bruce, 1994; Janssen, 2000). This implies that differences in the relevant leader behaviour between the two phases remain invisible, which is why recent work recommends keeping these phases of the innovation process separate (Mumford and Licuanan, 2004). Innovation theorists often describe the innovation process as being composed of two main phases: initiation and implementation (Zaltman *et al.*, 1973; Axtell *et al.*, 2000).

The Schumpeterian definition (Shumpeter, 1934) of innovation states that the commercialization of all new combinations is based upon the application of any of the following: new materials and components, the introduction of new processes, the opening of new markets and the introduction of new organisational forms. Only when a change in technology is involved is it termed an "invention", but as soon as the business world becomes involved, it becomes an "innovation" (Janszen, 2000).

Innovation involves the creation of a new product, service or process. ”New” products can be viewed in terms of their degree of newness, ranging from a totally new, or discontinuous, innovation to a product involving simple line extensions or minor adaptations/adjustments that are of an evolutionary or incremental nature (Brentani, 2001).

According to Buckler and Zien (1996) innovation is the purpose of the whole organisation – a broad activity. In this kind of culture, new ideas come forward into an atmosphere of enthusiastic support and a desire to contribute to them, even though everyone knows that the majority of these ideas will not make it to market. Innovative companies are on the lookout to continually refresh this climate, because it can be undermined.

Thinking "outside the box" is certainly a major characteristic of an innovative environment. It is essential to become somewhat comfortable with the idea that at times the "unreasonable" solution is exactly what's called for (Buckler and Zien, 1996).

Corporate Social Responsibility (CSR)

Different organisations have formed different definitions of CSR, although there is considerable common ground between them. Today, corporate leaders face a dynamic and challenging task in attempting to apply societal standards of ethics to responsible business practice (Morimoto *et al.*, 2005). Nowadays, corporate social responsibility is an integral part of the business vocabulary and is regarded as a crucially important management issue (Cornelius *et al.*, 2008; Humphreys and Brown, 2008).

Hillman and Keim (2001) suggest that when assessing the returns on CSR, it is critical to discriminate between stakeholder management CSR and social CSR. This is consistent with Baron's (2001) distinction between altruistic and strategic CSR. More specifically, the authors concluded that while stakeholder-oriented CSR is positively correlated with financial performance, social CSR is not.

The tendency to invest in companies that practice and report CSR is increasing (Sleeper *et al.*, 2006). Corporate social responsibility forces organisations to reposition their strategies from being profit-driven to organisations that consider their influence on social and environmental aspects (Quaak *et al.*, 2007).

The Firm's Performance in Regard to Social Issues

Sethi (1975) stated that while social obligation is proscriptive by nature, social responsibility is prescriptive. Jones (1980) stated that corporate social responsibility is the notion that corporations have an obligation to constituent groups in society other than stockholders and beyond that which is prescribed by law and union contract. Epstein (1987) provided a definition of CSR in his quest to relate social responsibility, responsiveness and business ethics.

According to Frederick (1960) social responsibility in the final analysis implies a public posture toward society's economic and human resources and a willingness to see that those resources are used for broad social ends and not simply for the narrowly circumscribed interests of private persons and firms. The proper social responsibility of business is to tame the dragon – to turn a social problem into an economic opportunity and economic benefit, into productive capacity, into human competence, into well-paid jobs and into wealth (Drucker, 1984).

In the 1990s, the concept of the corporate social performance stream emerged (Wood, 1991). Carroll's (1999) CSR model identifies four components: economic, legal, ethical and voluntary (discretionary). The economic aspect is concerned with the economic performance of the company, while the other three categories – legal, ethical and discretionary – address the societal aspects of CSR.

Waddock and Graves (1997) found a positive relationship between a firm's social performance and its financial performance, whereas Wright and Ferris (1997) found a negative relationship. Orlitzky *et al.* (2003) claim that there is strong empirical evidence supporting the existence of a positive link between social and financial performance.

Marcel van Marrewijk (2003) has narrowed down the concept of corporate social responsibility so that it covers three dimensions of corporate action: economic, social and environmental management. Garriga and Mele´ (2004) grouped theories of corporate social responsibility into four groups: instrumental, political, integral and ethical.

The Firm's Respect for the Interests of Agents

Stakeholder Theory, popularized by Freeman (1984; 1994), essentially argues that a company's relationships with stakeholders (and treatment of the natural environment) is central to understanding how it operates and adds value as a business. Freeman (1994) argues that stakeholder language has been widely adopted in practice and is being integrated into concepts of corporate responsibility/citizenship by scholars who recognize that it is through a company's decisions, actions and impacts on stakeholders and the natural environment that its corporate responsibility/citizenship is manifested.

Corporate social responsibility is a concept whereby companies fulfil accountability to their stakeholders by integrating social and environmental concerns in their business operations (Tanimoto, Suzuki, 2005). Companies will necessarily have to take into account cultural differences when defining their CSR policies and communicating to stakeholders in different countries (Bird and Smucker, 2007).

Connections Between the Innovation Climate and CSR

Today, pioneering enterprises integrate social entrepreneurship into their core activities by actively channelling their research-and-development capabilities in the direction of socially innovative products and services (Schwab, 2008).

According to Asongu (2007), the key to success in using any type of innovation to a company's advantage from the CSR perspective is to communicate with local municipal authorities, the press and most importantly, the general public that stands to benefit from such initiatives. Asongu (2007) states that companies that have sustainable policies tend to be technological leaders, as they seek imaginative new methods to reduce pollution and increase efficiency. In many cases, these companies are able to come out with new, innovative products that out-pace most of their competitors.

According to Phills *et al.* (2008) many social innovations involve the creation of new business models that can meet the needs of underserved populations more efficiently, effectively, and if not profitably, at least sustainably. Many innovations tackle social problems or meet social needs, but the distribution of financial and social value is only tilted toward society as a whole as a result of social innovations.

Based on the relevant literature we developed the following general propositions:

P1. One facet of corporate social responsibility – the firm's performance concerning social issues – predicts the innovation climate in Estonian, Chinese, German, Finnish, Czech, Slovakian and Japanese enterprises.

P2. One facet of corporate social responsibility – the firm's respect for the interests of agents – predicts the innovation climate in Estonian, Chinese, German, Finnish, Czech, Slovakian and Japanese enterprises.

Empirical Study

The authors of this article conducted their empirical study in 2007–2008 in order to find connections between two facets of corporate social responsibility – the firm's performance concerning social issues and the firm's respect for the interests of agents – and the innovation climate in Estonian, Chinese, German, Finnish, Czech, Slovakian and Japanese enterprises. These two facets of corporate social responsibility were chosen because they typify the essential character of CSR. The research was conducted with 623 respondents in Estonian enterprises, 1150 respondents in Chinese enterprises, 1110 respondents in Czech enterprises, 605 respondents in Slovakian enterprises, 113 respondents in German enterprises, 239 respondents in Finnish enterprises and 1570 respondents in Japanese enterprises.

There were 6 enterprises from Estonia, 6 from China, 6 from the Czech Republic, 3 from Slovakia, 1 from Germany, 4 from Finland and 6 enterprises from Japan in the study. There were 32 enterprises all together. Approximately 200 employees were working in the companies that were chosen for the study.

The companies were selected in a non-random manner, as the organisation registers do not have a solid basis for random sampling because only a fraction of the registered enterprises are active in Estonia, China, Japan, Germany, Finland, Slovakia and the Czech Republic. The total number of respondents was 5410.

Methodology A standardised corporate social responsibility questionnaire comprising 19 items was developed by the Denki Ringo research group (Ishikawa et al, 2006) and translated from English into Estonian, Chinese, Czech, German, Finnish, Slovak and Japanese. The questions in the survey addressed 2 facets of corporate social responsibility – the firm's performance concerning social issues (11 items) and the firm's respect for the interests of agents (8 items). The questionnaire was administered in Estonian, Chinese, Czech, German, Finnish, Slovakian and Japanese electrical-electronic machine, retail and machine-building enterprises. The authors conducted the survey in the Estonian enterprises themselves by making contact with a member of the board and getting permission to conduct the study. After that the questionnaire was sent by e-mail to the respondents in each enterprise, and the answers were also sent back by e-mail. Then the answers from the Chinese, Japanese, German, Finnish, Slovakian and Czech respondents were collected by their Japanese co-partner and coordinator of the study.

The authors then developed an innovation climate scale based on the Innovation Climate Questionnaire prepared by Ekvall *et al.* (1983). Items to measure the innovation climate were selected. The internal consistency, or Cronbach Alpha coefficient was 0.70. The final version of the questionnaire for measuring innovation consisted of 14 items.

The data about the two facets of corporate social responsibility, the innovation climate and seven different countries – Estonia, China, Czech, Slovakia, Germany, Finland and Japan – were compared by means of an ANOVA-test. The linear regression analysis was used in order to find statistically relevant connections between the two facets of corporate social responsibility and the innovation climate.

The main research question is: Do these two facets of corporate social responsibility predict the innovation climate?

Results

Our main purpose was to evaluate how corporate social responsibility predicts the innovation climate. The authors used a linear regression analysis. In the analysis two facets of corporate social responsibility – the firm's performance concerning social issues and the firm's respect for the interests of agents – are taken as independent variables and the innovation climate as a dependent variable. We calculated a standardised regression coefficient Beta, which enabled us to predict how strongly corporate social responsibility forecasts the innovation climate. The analysis was applied separately for the two facets of corporate social responsibility and for one factor of the innovation climate.

Corporate Social Responsibility

The Firm's Performance Concerning Social Issues

In the different countries the respondents estimate statements about the firm's performance concerning social issues differently.

Table 1 shows the opinions of the respondents about the firm's performance concerning social issues. The statements were rated high in German (m=4.32, sd=0.58) and Chinese enterprises (m=4.15, sd=1.02), and low in Japanese (m=3.44, sd=0.89) and Finnish enterprises (m=3.62, sd=0.91).

Table 1: The firm's performance concerning social issues in Estonia, China, Japan, Finland, Germany, the Czech Republic and Slovakia

		1	2	3	4	5	6	7	8	9	10	11	SUM
Estonia N=623	M	4.37	4.11	3.98	4.20	4.54	4.22	4.40	4.29	3.33	3.21	2.88	3.95
	SD	0.80	0.95	1.12	1.02	0.62	0.85	0.71	0.77	1.14	1.09	0.96	0.84
China N=1150	M	4.11	3.96	4.15	4.11	4.20	4.36	4.38	4.30	4.11	3.99	4.06	4.15
	SD	0.95	1.09	0.99	1.01	0.97	0.89	0.86	0.90	0.97	1.03	1.03	1.02
Japan N=1570	M	3.82	3.43	3.51	3.50	3.56	3.71	3.70	3.51	3.24	2.98	2.97	3.44
	SD	0.91	1.06	0.83	0.89	0.81	0.84	0.89	0.87	0.85	0.92	0.93	0.89
Finland N=239	M	3.99	4.18	3.58	3.59	4.02	4.14	4.16	3.34	3.22	2.75	2.89	3.62
	SD	0.96	0.95	0.88	0.94	0.93	0.92	0.87	0.86	0.90	0.84	0.82	0.91
Germany N=113	M	4.08	4.65	4.18	4.62	4.64	4.57	4.71	4.73	3.62	3.58	4.16	4.32
	SD	0.98	0.62	0.80	0.55	0.57	0.57	0.47	0.44	0.93	0.83	0.93	0.58
Czech N=1110	M	4.18	4.64	4.20	3.62	3.64	3.57	4.11	3.73	4.62	4.58	3.16	4.00
	SD	0.99	0.52	0.80	0.55	0.67	0.57	0.47	0.44	0.93	0.83	0.93	0.86
Slovakia N=605	M	3.91	3.80	4.05	3.83	4.07	4.07	4.12	3.90	3.56	3.28	3.21	3.80
	SD	0.98	0.98	0.88	1.00	0.93	0.86	0.87	0.95	0.99	1.08	1.08	0.87

Notes: All indicators are statistically different between countries according to the ANOVA-test, $p < 0.05$

Notes: The firm's performance concerning social issues: 1 – compliance with the laws for business activities; 2 – compliance with the laws for worker protection; 3 – care and service for consumers; 4 – environmental protection; 5 – trustful relations with customers; 6 – safety and security of products and services; 7 – realization of the best quality of products and services; 8 – aftercare for users; 9 – publicity of company information for society; 10 – contribution to science and culture; 11 – public activities for the local community; a five-point scale was used, where 1 signifies **not at all** and 5 signifies **fully**.

The Firm's Respect for the Interests of Agents

In the different countries the respondents also evaluate statements concerning the firm's respect for the interests of agents differently. Table 2 shows the opinions of respondents about the firm's respect for the interests of agents. The statements were rated high in Czech (m=4.27, sd=0.73) and German enterprises (m=4.19, sd=0.82), and low in Estonian (m=3.23, sd=1.26) enterprises. Finnish respondents did not answer the fifth question.

Innovation Climate

There are some similarities and also differences concerning the opinions of the respondents in different countries about the innovation climate.

Table 3 shows the opinions of the respondents about the innovation climate. The statements were rated high in Chinese (m=3.56, sd=1.05) and Estonian enterprises (m=3.53, sd=0.98), and low in Japanese (m=3.01, sd=0.93) and Finnish enterprises (m=3.01, sd=1.02).

Table 2: The firm's respect for the interests of agents in Estonia, China, Japan, Finland, Germany, the Czech Republic and Slovakia

		1	2	3	4	5	6	7	8	SUM
Estonia N=623	**M**	4.26	3.51	3.83	2.91	3.54	2.42	2.76	2.64	**3.23**
	SD	1.21	1.38	1.33	1.35	1.41	1.40	1.28	1.36	**1.26**
China N=1150	**M**	4.28	4.07	4.33	3.85	3.69	3.69	3.98	3.96	**3.98**
	SD	0.88	0.85	0.86	1.08	1.12	1.15	0.93	1.03	**1.06**
Japan N=1570	**M**	3.74	3.41	3.88	3.44	3.06	3.03	3.19	3.13	**3.82**
	SD	0.82	0.86	0.91	0.91	0.93	0.91	0.84	0.89	**0.87**
Finland N=239	**M**	4.44	3.02	3.69	4.19	-	2.45	2.68	2.77	**3.32**
	SD	0.98	1.10	1.12	0.96	-	0.98	0.90	0.95	**0.96**
Germany N=113	**M**	4.67	3.85	4.29	4.40	3.87	4.07	4.05	4.38	**4.19**
	SD	0.54	0.77	0.80	1.00	0.79	0.61	0.75	0.57	**0.82**
Czech N=1110	**M**	4.37	4.85	3.29	3.40	4.57	4.87	4.55	4.28	**4.27**
	SD	0.54	0.77	0.70	1.20	0.77	0.41	0.79	0.57	**0.73**
Slovakia N=605	**M**	4.10	3.81	3.95	4.15	3.30	3.37	3.69	3.66	**3.75**
	SD	0.91	0.85	0.90	0.93	1.06	1.08	0.98	0.98	**0.97**

Notes: All indicators are statistically different between countries according to the ANOVA-test, $p < 0.05$
Notes: The firm respects the interests of the following agents: 1 – customers; 2 – subsidiary, subcontracting firms; 3 – consumers; 4 – stock holders; 5 – employees; 6 – trade unions; 7 – public administrations; 8 – the local community; a five-point scale was used, where 1 signifies not at all and 5 signifies fully.

Connections between Corporate Social Responsibility and the Innovation Climate

There are similarities and differences concerning the connections between corporate social responsibility and the innovation climate in different countries.

From this study one facet of corporate social responsibility – the firm's performance concerning social issues – predicts the innova-

Table 3: The innovation climate in Estonia, China, Japan, Finland, Germany, the Czech Republic and Slovakia

		1	2	3	4	5	6	7	8	9	10	11	12	13	14	SUM
Estonia N=623	M	3.71	4.40	2.78	3.58	3.37	3.79	3.35	3.39	4.04	2.86	2.92	3.37	3.56	4.23	3.53
	SD	0.75	0.67	0.49	0.96	0.98	1.11	0.99	1.40	0.92	1.27	0.88	1.41	0.97	0.98	0.98
China N=1150	M	3.94	4.45	2.82	2.82	3.20	2.76	3.30	3.87	3.61	3.04	3.80	3.83	4.14	4.24	3.56
	SD	0.88	0.92	0.45	1.28	0.94	1.21	1.24	1.12	1.18	1.33	1.09	1.10	1.01	0.91	1.05
Japan N=1570	M	2.94	3.53	2.63	2.67	2.81	3.03	3.02	2.75	3.07	3.09	3.20	2.54	3.19	3.59	3.01
	SD	0.88	1.09	0.55	0.91	0.88	0.90	0.81	0.82	0.83	0.98	0.90	0.84	2.70	0.83	0.93
Finland N=239	M	2.66	3.88	2.93	2.98	3.19	2.98	2.73	2.70	3.07	2.20	3.02	2.50	3.38	3.92	3.01
	SD	1.01	1.03	0.31	1.05	1.08	0.92	1.09	1.14	1.18	1.10	1.03	1.17	1.19	1.02	1.02
Germany N=113	M	3.42	4.51	2.46	2.17	2.63	2.97	4.03	3.87	3.23	2.77	3.08	3.34	3.30	3.87	3.26
	SD	1.05	0.72	0.73	1.26	1.21	1.37	1.08	1.06	1.42	1.65	1.45	1.40	1.43	1.39	1.16
Czech N=1110	M	3.33	4.23	2.60	3.01	3.03	3.10	3.32	3.00	3.45	2.83	3.29	2.98	3.41	4.03	3.26
	SD	1.01	1.00	0.60	1.16	1.16	1.10	1.06	1.14	1.19	1.29	3.36	1.18	1.15	1.03	1.24
Slovakia N=605	M	2.50	4.06	2.73	3.02	2.98	2.81	2.84	2.75	3.29	2.86	3.15	3.07	3.91	4.31	3.16
	SD	1.01	1.05	0.51	1.03	0.96	1.16	1.10	1.17	1.21	1.36	1.18	1.22	1.20	1.01	1.08

Notes: All indicators are statistically different between countries according to the ANOVA-test, $p < 0.05$

Notes: 1 - How do you think you are estimated properly at your work, 2 - What do you feel toward the firm you are working (a five-point scale was used, where 1 signifies I don't care for the firm and 5 signifies I would put maximum effort toward the firm's success), 3 - Have you attended courses or seminars organized by the firm inside or outside in the last five years, 4 - The rules of the firm are occasionally disobeyed when an employee thinks it would favour the firm, 5 - Our organisation relies more on horizontal control and coordination, rather than strict hierarchy, 6 - Most capable persons commit in decisions to solve an urgent problem, 7 - Fresh creative ideas are actualized on time, 8 - Current vision creates stimuli for workers, 9 - Company realizes a clear mission that gives meaning and sense to work, 10 - If the department is short on hands, the department's head may hire temporary workers himself, 11 - Our organisation cares even about temporarily hired workers, 12 - We can all clearly imagine the future of our organisation, 13 - Failure is considered as a stimulus to learning and development, 14 - All the employees should be aware of the important role of the their firm in society; a five-point scale was used, where 1 signifies not at all and 5 signifies fully.

tion climate in all seven countries. The second facet of corporate social responsibility – the firm's respect for the interests of agents – predicts the innovation climate in 3 countries – Estonia, the Czech Republic and Slovakia and does not predict the innovation climate in 4 countries – China, Japan, Finland and Germany (Table 4).

Table 4: How two facets of corporate social responsibility – the firm's performance concerning social issues and the firm's respect for the interests of agents – forecast the innovation climate in Estonia, China, Japan, Finland, Germany, the Czech Republic and Slovakia (according to the standardised regression coefficient Beta).

Table 4: How two facets of corporate social responsibility – the firm's performance concerning social issues and the firm's respect for the interests of agents – forecast the innovation climate in Estonia, China, Japan, Finland, Germany, the Czech Republic and Slovakia (according to the standardised regression coefficient Beta).

		B	Beta	T	Sig.
INNOVATION CLIMATE					
ESTONIA					
N=623, R^2=.418, F(2.620)=223.00,p<.000	**FPSI**	.653	.576	18.329	**.000***
	FRIA	.399	.189	6.009	**.000***
CHINA					
N=1150, R^2=.009, F(2.1134)=5.4592,p<.000	**FPSI**	.225	.095	2.524	**.011***
	FRIA	.011	.003	0.090	.928
JAPAN					
N=1570, R^2=.067, F(2.1526)=55.480,p<.000	**FPSI**	-.468	-.227	-6.281	**.000***
	FRIA	-.121	-.042	-1.165	.243
FINLAND					
N=239, R^2=.186, F(2.221)=25.299,p<.000	**FPSI**	.274	.368	4.835	**.000***
	FRIA	.111	.093	1.229	.220
GERMANY					
N=113, R^2=.211, F(2.97)=12.998,p<.000	**FPSI**	.293	.453	5.003	**.000***
	FRIA	.006	.038	0.426	.670
THE CZECH REPUBLIC					
N=1110, R^2=.231, F(2.87)=12.78,p<.000	**FPSI**	.453	.676	16.429	**.000***
	FRIA	.679	.187	5.459	**.000***
SLOVAKIA					
N=605, R^2=.213, F(2.400)=54.159, p<.000	**FPSI**	.459	.368	7.412	**.000***
	FRIA	.182	.157	3.171	**.001***
ALL COUNTRIES					
N=5410 R^2=.294, F(2.3427)=714.69 p<.000	**FPSI**	.449	.563	29.919	**.000***
	FRIA	-.037	-.032	-1.749	.080

Notes. * - coefficient statistically significant, p<0,01
FPSI – The firm's performance concerning social issues FRIA – The firm's respect for the interests of agents

According to the results, almost 41% of the variability in the innovation climate can be explained by reference to the two facets of corporate social responsibility (R^2=.418, F(2.620)=223.00,p<0,00) in Estonian enterprises.

According to the results, 23% of the variability in the innovation climate can be explained by reference to the two facets of corporate social responsibility (R^2=.231, F(2.87)=12.78, p<0,00) in Czech enterprises.

According to the results, 21% of the variability in the innovation climate can be explained by reference to the two facets of corporate social responsibility (R^2=.213, F(2.400)=54.159, p<0,00) in Slovakian enterprises.

In Chinese, Japanese, Finnish and German enterprises, the innovation climate was predicted by only one facet of corporate social responsibility – the firm's performance concerning social issues, but not by the other facet of corporate social responsibility.

Conclusions

In this article, a theoretical model of the relationship between the innovation climate and two facets of corporate social responsibility – the firm's performance concerning social issues and the firm's respect for the interests of agents – was developed and tested. Our purpose was to examine the relationship between the innovation climate and two facets of corporate social responsibility. The findings of this study contribute to our understanding of the connection between these theoretical constructs.

The social, political and economic environment that organisations operate in influences how corporate social responsibility predicts the innovation climate. In different countries, corporate social responsibility and the innovation climate as concepts are understood and applied differently in organisations.

There are also similarities and differences concerning the connections between corporate social responsibility and the innovation climate in different countries.

From this study one facet of corporate social responsibility – the firm's performance concerning social issues – predicts the innovation climate in all seven countries – Estonia, China, Germany, Finland, Czech Republic, Slovakia and Japan. Another facet of corporate social responsibility – the firm's respect for the interests of agents – predicts the innovation climate in 3 countries – Estonia, Czech Republic and Slovakia, and does not predict the innovation climate in the remaining 4 countries – China, Japan, Finland and Germany (Figure 1). Therefore, the innovation climate is influenced by the facet of corporate social responsibility – the firm respects the interests of agents and this relationship is influenced by the social, political and economic environment where the organisation operates. The social, political and economic environment in Estonia, the Czech Republic and Slovakia has been similar in recent decades, but different from China, Japan, Germany and Finland.

The statements about the facet of corporate social responsibility – the firm's performance concerning social issues – were rated high in German and Chinese enterprises and low in Japanese and Finnish enterprises.

The statements about the facet of corporate social responsibility – the firm's respect for the interests of agents – were rated high in Czech and German enterprises and low in Estonian enterprises. Therefore, the statements concerning both facets of corporate social responsibility were rated high in Germany.

The statements about the innovation climate were rated high in Chinese and Estonian enterprises and low in Japanese and Finnish enterprises.

The propositions discussed at the beginning of the paper will now be re-evaluated.

P1 postulated that the firm's performance concerning social issues predicts the innovation climate in Estonian, Chinese, German, Finnish, Czech, Slovakian and Japanese enterprises. This proposition was supported by the findings. In Estonian, Chinese, Japanese, Finnish, German, Slovakian and Czech enterprises the facet of corporate social responsibility – the firm's performance concerning social issues predicts the innovation climate.

P2 postulated that the firm's respect for the interests of agents predicts the innovation climate in Estonian, Chinese, German, Finnish, Czech, Slovakian and Japanese enterprises. This proposition was partly supported by the findings. In Estonian, Slovakian and Czech enterprises the firm's respect for the interests of agents predicts the innovation climate, but in Chinese, Japanese, Finnish and German enterprises it does not predict the innovation climate.

Our findings are consistent with the following studies.

Some corporate leaders now see CSR as part of their strategic management program, while others see it as a source of innovation (Allen and Husted, 2006).

According to Borger and Kruglianskas (2006) it was found that there were many indications of a strong relationship between the adoption of a CSR strategy by the firm and an effective environmental and innovative performance.

Today, pioneering enterprises integrate social entrepreneurship into their core activities by actively channelling their research-and-development capabilities in the direction of socially innovative products and services (Schwab, 2008).

Asongu (2007) states that companies that have sustainable policies tend to be technological leaders, as they seek imaginative new methods for reducing pollution and increasing efficiency. In many cases, these companies are able to come out with new, innovative products that out-pace most of their competitors.

Summarizing the above, one facet of corporate social responsibility – the firm's performance concerning social issues – predicts the innovation climate in all seven countries – Estonia, China, Germany, Finland, Czech, Slovakia and Japan. A second facet of corporate social responsibility – the firm's respect for the interests of agents predicts the innovation climate in 3 countries – Estonia, Czech and Slovakia. This relationship is influenced by the social, political and economic environment where the organisation operates.

Most difficult and important social problems cannot be understood and solved without an innovative climate within the organisation, without understanding the interests of different agents and without taking into account the influence of the social, political and economic environment.

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Appendices

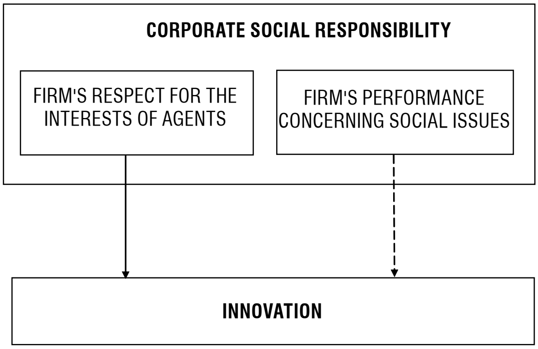

Figure 1: How corporate social responsibility predicts the innovation climate

Evaluation of Intellectual and Social Capital and their Influence on the Propensity of Export Consortia Members to Cooperate

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Abstract

An export consortium is a specific form of strategic alliance formed by small and medium-sized companies in order to increase their stake in foreign markets. Similar to other types of strategic alliances, the consortium's activity is threatened by the risk of dissolution. Therefore, careful selection of potential member companies is of crucial importance.

Promoters of export consortia usually take into account first of all the economic and commercial capital of candidates during the selection procedure. To put it simply, these include the company's financial assets, the exportability of its products and its commercial relations. All these criteria determine the alliance's propensity to cooperate. However, they exert influence on only a part of the alliance's activity. There are four decisive criteria that determine the company's capacity to function within the alliance: economic capital, commercial capital, intellectual capital and social capital.

The purpose of this article is to describe those types of capital that are the hardest to define, namely intellectual and social capital, and their influence on the evaluation of the company's propensity to cooperate.

In order to do so, those methods of evaluating intellectual and social capital currently used are presented and assessed as to their aptitude for use in the small and medium-sized companies constituting export consortia.

Keywords: export consortia, intellectual capital, social capital, strategic alliances, propensity to cooperate

Introduction

An export consortium can be defined as an association of entities established in order to carry out certain business activities or planning and research projects in a specified period of time (Koszewski, 2009). Companies decide to engage in collaboration on their own initiative and at their own risk. Consortia may prove to be especially useful if a given undertaking is being implemented on a large scale and lays the foundation for future profits.

An export consortium is a special type of strategic alliance and usually comprises small and medium-sized companies. The companies join forces in order to promote services and goods manufactured by their members, and to work together toward enabling the export of their goods and services. Export consortia are established on the basis of formal agreements between companies.

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In the European Union export consortia have expanded particularly in Italy and Spain. There are currently 250 consortia operating in Italy, and they account for 8% of total exports (ACE - Asesores de Comercio Exterior, 2004). It is estimated that every year about 1,000 different companies gain experience in international trade owing to consortia. For the most part, those enterprises represent such lines of business as: engineering, textile and clothes and foodstuffs.

The Classification of Capital

The evaluation of an export consortium's capital poses notably more difficulties than the evaluation of a given company's capital. Firstly, as a legal entity the consortium usually disposes of little property, consisting mainly of furnishings, existing contracts, goodwill (also of little value at the beginning of the consortium's activity), etc. The consortium usually has no valuable fixed assets, such as productions lines, as these belong to its participants. Intellectual and social capital are of no great value either, as usually only the managing director and his assistant are employed right from the beginning. The other members of staff are hired in the course of the consortium's development. Nevertheless, the consortium staff is never large. Due to all these factors, it is the capital value of individual participants, and not of the consortium itself, that should be estimated. Moreover, this is consistent with the claim that the consortium's success or failure is not determined by the consortium's results, but rather by its participants' results.

The well-conducted selection process for suitable member companies is the key issue in every alliance. This holds also for consortia. In the author's opinion, the selection criteria should comprise the evaluation of the four types of capital making up the company's value, namely financial, commercial, intellectual and social capital. Each of these types has been characterized below.

Financial capital is defined as the funds the company is able to allocate to pay for its membership. In order to become a consortium member, a company must meet the requirement of disposing of funds allowing to cover both the membership fee and the settling of current liabilities. Consortium members might be exempt from this duty only in exceptional cases. Consortium participants are subject to a fixed membership fee, as well as payments covering the consortium's current needs and other charges. They are also required to provide the consortium with enough products to carry out orders accepted by the alliance. The term "other charges" involves payments that the company can make to the consortium to receive additional benefits not included in the mentioned fees.

Commercial capital delineates the potential of a future export participant to sell products on a foreign market. This is influenced by the company's business position on the home market, the number of products meeting export requirements, the income these products are capable of earning and the company's access to distribution channels.

In order to estimate the value of the commercial capital it is necessary to assess the following items: brand image, customer loyalty, customer engagement, licensing agreements, distribution agreements, data and information, codified knowledge, trade secrets and patents. Another important component of commercial capital is the exportability of the product; that is, being in possession of a product that can be entered and sold on a number of foreign markets.

Intellectual capital is the possession of knowledge and experience, professional knowledge and skill, good relationships and technological capacities, which when applied will give the organizations competitive advantage (CIMA, 2002).

Social capital is in other terms the company's 'goodwill, which is engendered by the fabric

of its social relations and can be mobilized to facilitate action' (Adler and Kwon, 2002). SC is made up of elements such as formal and informal relations, partnerships, trusts, corporate values, tacit and informal routines and management processes (Koszewski, 2009).
Participants decide to join a consortium mainly on the basis of their evaluation of other member companies. What follows is that every alliance has its own propensity to cooperate, which is assessed by its partners. Defining what 'propensity to cooperate' is would be of fundamental importance to alliance research. So far, however, such studies have not been carried out yet (Kale-Dyer *et al.*, 2002).

Propensity to cooperate can be defined as the sum of those types of company capital, which facilitate its collaboration with other alliance members. Owing to its financial capital the company may, for example, cover the membership fee and engage in export production. The commercial capital enables the company to reach foreign customers. These types of capital are, without doubt, salient components of the propensity to cooperate. However, intellectual and social capital are just as important in collaboration with other alliance partners. To sum up, when a given company decides to join the alliance, it assesses its potential partners on the basis of the four criteria mentioned above. This approach has an additional advantage. All four types of capital are measurable; therefore, the propensity to cooperate is measurable as well.

Both the financial and the commercial capital are relatively easy to evaluate, as there are numerous methods of assessing assets, financial means, the value of existing contracts, customer relations, goodwill, etc. The difficulty of performing this kind of evaluation certainly lies in the application of the two types of capital for the consortium's purposes. It is quite common that, although companies do have assets, they cannot or will not use them for the benefit of the consortium. One can also imagine a situation in which a given company has good relations with its importers; however, does not want to make them available to other participants.

The limitations mentioned above also apply to intellectual and social capital. This additional obstacle lies in the fact that there are no effective and widely accepted methods of assessing the value of these types of capital. The remaining part of the article shall henceforth consider only intellectual and social capital.

Intellectual Capital

It is estimated that the value of intellectual capital on average amounts to three or four times as much as the value of the given company's tangible assets (Handy, 1989). This element of the company's value is significant not only to economists[1]. Peter Drucker claims a new type of economy is emerging, an economy he calls the knowledge society (Drucker, 1993). According to Drucker, knowledge is not only another resource similar to labor, capital and land, but is currently the only meaningful resource. However, it should be noted that the importance of intellectual capital was brought to light much earlier[2].

Intellectual capital has been defined in a variety of ways. The following definition could well be an alternative to the one presented above: 'knowledge and knowing capability of a social collectivity, such as an organization, intellectual community, or professional practice' (Nahapiet and Ghoshal, 1998: 243). Literature in the field provides a number of different methods of classifying human capital. The best-known system is that in which the intellectual capital comprises human, structural and organizational capital (Sveiby, 1997). According to another evaluation technique the intellectual system consists of an internal structure, external structure and human capital (Guthrie and Petty, 2000).

[1] John Paul II, 1991. Centesimus Annus. The exact citation: 'Whereas At one time the decisive factor of production was the land, and later capital (…) today the decisive factor is increasingly man himself, that is, his knowledge'.

[2] 'Capital consists in a great part of knowledge and organization… Knowledge is our most powerful engine of production' (Marshall, 1965: 115).

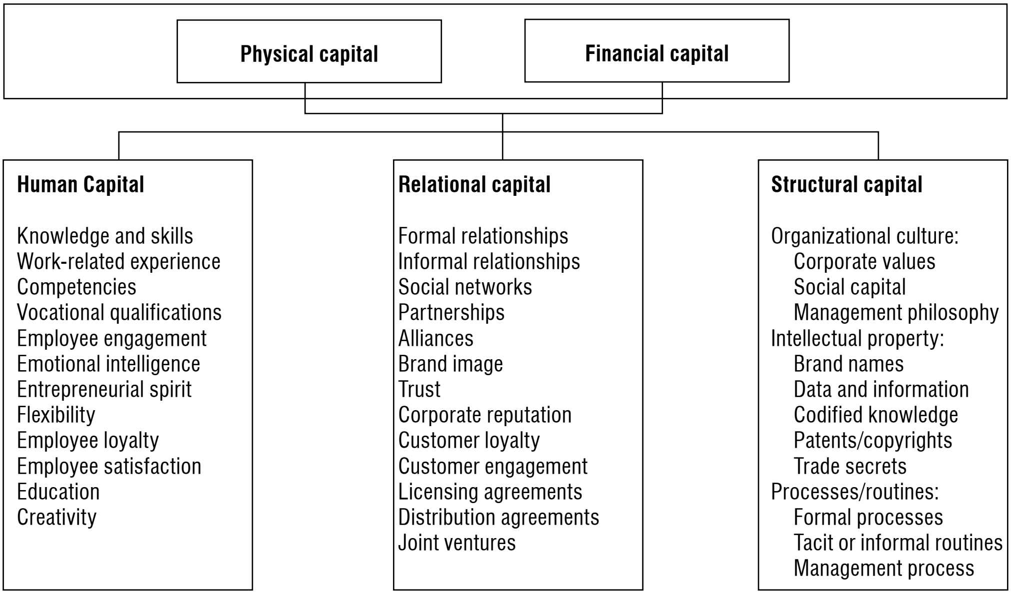

Figure 1: Company Capital Classification

Source: Marr B., 2008. Intangible Asset Measurement. Financial Management, June 1, 2008: 32.

Intellectual capital is what we define as the set of Intangible Assets in an organization that, despite not being reflected in the traditional statements, currently generates value or has the potential to generate value in the future (Euroforum, 1998).

One of the most popular methods of classifying intellectual capital can be found in Figure 1.

The proposed classification is one of many. In his comments on the classification of intellectual capital components, the author of this system suggested: ‘The different elements of the three categories can overlap. The aim is not to have a rigorous framework that clearly separates them, but to have one that you can use to identify and understand intellectual capital in your organization’ (Marr, 2008: 33). The presented system for categorizing IC is certainly useful in the evaluation procedure, although it is not faultless. The drawback of this approach is that it underestimates social capital, which is here referred to as relational capital. Social capital should be incorporated into the assessment process as an additional type of capital, and, equally importantly, as a capital of equal significance with intellectual capital. There are two reasons why social capital should be taken into account. Firstly, intellectual capital refers solely to the employees of a given organization. Social capital, on the other hand, includes not only the people (or in a broader sense the company’s resources) inside the organization, but also those linked to it on the outside. Companies usually fully control their intellectual capital, but are incapable of monitoring their social capital, as it is dependent on too many external factors. Secondly, social capital is of major importance to a company entering a strategic alliance, or at least it is equally significant to its intellectual capital. I will elaborate on this issue in a further section of this paper.

Irrespective of the adopted intellectual capital classification model, it is no doubt that the significance of intellectual capital remains underestimated. This, however, is not a result of managers’ general reluctant attitude to intellectual values, but rather the consequence of the lack of a generally accepted method for evaluating this component. A few most popular methods of intellectual capital evaluation have been presented below (Axtle Ortis, 2006: 38-39):

Return over Assets (ROA) uses the average pre-tax earnings of a company for three to five years. This average earning is then divided by the average tangible assets of the company over the same period of time.

Implementing this method in order to assess the intellectual capital of an export consortium member company involves a certain degree of inconvenience. First and foremost, it entails difficulties with ascertaining which company assets contribute to export activity. Even after those assets are evaluated it is impracticable to compare their value for the ROA average for the whole industry, as the results refer to all the assets of these companies, not only those engaged in export activity. It is possible to overcome these difficulties by ascribing part of the assets to export activity by means of existing statistical data and existing management accounting methods. As I mentioned earlier, this is a highly demanding task and requires a large labor input. The process is nevertheless feasible. However, even performing the necessary calculations does not provide the value of intellectual capital expressed, for example, in euros, but a certain coefficient, which can be compared to the average intellectual capital value for that industry.

The Market Capitalization Method (MCM) reports the excess of a company's market capitalization over its stockholders' equity as the value of its intellectual capital.

This system is also not free of flaws and is seriously limited regarding the potential for being implemented in assessing the intellectual capital of a potential export consortium member. MCM can also be used to assess the IC of companies listed on the stock market or valued in other ways by the market. At the same time, it is small companies, most often run by families and not listed on the stock exchange nor valued, that are consortium members. The expenditure on the evaluation procedure is simply too high for such companies.

Knowledge Capital Earnings (KCE) as proposed by Baruch Lev (2001) involves first one normalizing earnings for 3 years before and forecasting for 3 years after. By subtracting the income caused by intangibles from the normalized earnings, there is a portion of non-accounted earnings. This amount represents the knowledge capital earnings and can be used for different ratios such as the intellectual capital margin KCE/ sales, and operative knowledge capital margin KCE/ net income.

Employing this method to predict income value involves certain obstacles. Income value is forecast for three consecutive years. Large companies can more easily use statistical data in order to carry out certain estimates, while small companies are more prone to unexpected changes. Moreover, a period of time as long as three years is such a remote perspective for small enterprises that they would rather not embark on estimating their income in advance. Another problem results from the difficulty of assessing product value generated by intangibles, as its worth is practically impossible to evaluate.

Tobin's q measures the relationship between a company's market value and its replacement value (i.e. the cost of replacing its assets) (Bontis, 1998). This model consists of a reference to the company's market value, which most potential export consortium members do not dispose of. What is more, the value of q aims to be 1, and the different results for this factor's value are not only the influence of the company's intellectual capital, but are for the most part affected by the industry in which the company operates. What follows is that this method is useless in assessing the intellectual capital value of export consortium members.

Direct Intellectual Capital Method (DIC) is based on measuring the value of intellectual capital by first identifying its various components. Once these components are accurately identified, they can be directly evaluated. It focuses on components of market assets such as customer loyalty; intangible assets, such as patents; technology assets, such as know-how;

human assets, such as education and training; and structural assets, such as information systems. Once these components are all measured, they can be aggregated to derive the total value of a company's intellectual capital.

This method seems to be the most appropriate means of assessing the intellectual capital of a consortium member. To start with, it makes it possible to evaluate the value of the components of intellectual capital and obtain results in monetary units. Secondly, this system does not require the company to be in possession of its value according to the market (e.g. an assessment of the market value of the company's shares). Thirdly, it is not necessary to assess the value of the intellectual capital for a period longer than one year. This means that companies that have only recently entered the market have the opportunity of undergoing the evaluation procedure.

However, it remains undecided which element of the company's entire capital is to be classed as a component of its IC. In reference to the intellectual capital classification presented in Figure 1, one could suggest the following elements – see Figure 2.

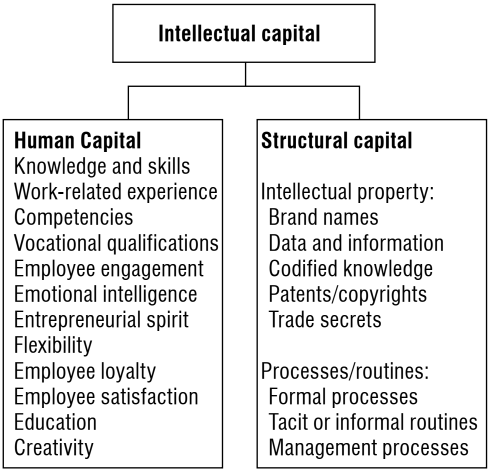

Figure 2: Intellectual Capital Classification
Source: own analysis on the basis of Figure 1.

Relational capital and organizational culture, present in Figure 1, have been removed here, as relational capital and organizational culture are elements of social capital. Following from Figure 2, intellectual capital can be evaluated, for example, on the basis of:

1. The number of employees experienced in exports working for the company, and the assessment of their experience (defined in number of years, diversity of launched export operations, etc.). It might include the evaluation of specific skills – knowledge of foreign languages, export, transport and dispatch of goods procedures, Incoterms formula, forms of payments, etc.

2. Number of employees ready to cooperate within an export consortium. These employees would be required to take part in Management Board and Board of Directors meetings, as well as events organized by the consortium, such as trade fairs and expos, study trips, organizing foreign contractors' stays at a given company, etc.).

3. The number of employees possessing skills and experience in fields other than export – negotiating, accounting, financial management or human resources.

The components of the intellectual capital presented above do not exhaust the entire list of IC elements. They are solely a more detailed description of the elements formulated in Figure 2.

Social Capital

The IC classifications presented above treat social capital as a component of intellectual capital. As I have already mentioned, such a classification is characterized by serious shortcomings. It seems more appropriate to single out social capital as a separate element of the company's value, and as a component of equal importance with intellectual capital.
The first social capital analyses focused on clarifying how social capital influences the

processes developing trust, cooperation, formulating joint initiatives and fostering human relations among groups of neighbors (Jacobs, 1965)[3]. In the course of time analysts turned to investigating the influence of social capital not only on individuals and social groups, but also on the economic outcomes of companies (Baker, 1990), geographical regions (Putnam, 1993, 1995) and countries (Fukuyama, 1995). Belonging to a specific group or organization gives its members the opportunity of obtaining information about interesting topics and at the same time makes it possible to carry out transactions and reap benefit from them.

Social capital can be defined as the 'sum of resources that accrue to a firm by virtue of possessing a durable network of inter-firm relationships' (Bourdieu and Wacquant, 1992: 119). This definition concentrates on the relations between companies and access to resources and information. This definition might suggest that social capital should be identified with intellectual capital, as eventually the main benefit connected with social capital is obtaining relevant knowledge or information. However, such an approach would oversimplify the notion of social capital, as it would reduce SC to merely another source of knowledge. Meanwhile social capital encompasses much more, which is illustrated by the following definition: 'social capital is an instantiated informal norm that promotes cooperation between two or more individuals. The norms that constitute social capital can range from a norm of reciprocity between two friends, all the way up to complex and elaborately articulated doctrines like Christianity or Confucianism' (Fukuyama, 2000: 3). What follows from this definition is that the social capital possessed by a given individual or group of people (e.g. a company) helps enhance cooperation with other individuals or groups.

To conclude, the value of the social capital possessed by the company is not solely dependant on the activities it performs. The value of social capital is also heavily dependant on the company's environment. Every company makes contact with other companies throughout its activity and engages in relations such as buyer-seller or organization and strategic alliance member. These relations support the development of social capital (Koka and Prescott, 2002). The company obtains access to information, which is the key to creating entrepreneurial opportunities (Burt, 1992, 1997). However, it is equally important to develop patterns of obligation and expectation between companies. Each and every company operating on the market has contact with certain behavior patterns and expectations regarding existing behavior. Although these are of course subject to constant change, just like societies are, individual companies have a relatively small influence on these patterns. It can be stated that certain characteristics of the social behavior of a given company can contribute either to an increase or decline in social capital value. Social capital value is conditioned by the company's surroundings. To provide an example: let us take an Indian company operating in the food sector, which does not include beef in its offering for social reasons. In Indian society this company's decision is fully understandable and contributes to an increase in the value of the social capital of this company, as excluding beef from its offering boosts its image and wins customer trust. A similar declaration about rejecting beef in a different society, for example, Argentina would be beyond the Argentinean customers' comprehension, and would entail a decrease in the value of its social capital. This example illustrates the difference between the reception of the same actions in different countries and cultures, and how the company is influenced by the environment it operates in. However, this dependence is not the only one influencing the company's social capital value.

Social capital to a large extent explains why some companies find it easier to cooperate with other organizations, for example, within a strategic alliance. Social capital is the source of the company's competitive advantage

[3]James Coleman was one of the first to carry out research on social capital. See: J. Coleman. (1988).

(Nahapiet and Ghoshal, 1998; Pennings and Lee, 1999). Nevertheless, it is also a resource characteristic of a given company operating in specific social conditions and cannot be exchanged by companies (Leana and Van Buren, 1999). This makes it a unique type of capital, which, contrary to, for example, intellectual capital, must be created over a fixed and usually long period of time. Many elements of intellectual capital can be purchased or acquired from other companies. Managers with the appropriate qualifications can be hired and, for example, training programs can increase the value of the intellectual capital in a short period of time. Social capital, on the other hand, cannot be acquired by similar means. It is not possible to purchase a "social capital package" or take on a manager from another company who is capable of quickly altering the social capital value for the benefit of his new workplace.

Social capital can be divided into structural and relational capital. Some analysts argue that social capital value is dependant on the company's structural position (Burt, 1992; Powell-Kogut *et al.*, 1996; Walker-Kogut *et al.*, 1997). Others claim that the company's structural position is a benefit worked out by social capital and not vice versa (Portes and Landolet 1996). Relational capital is another component of social capital. Relational capital is a function of repeated relationship dynamics between partners (Nahapiet and Ghoshal 1998; Tai and Ghoshal 1998).

Two social capital elements are discerned within one company – identification-based trust and associability (Leana and Van Buren, 1999). 'In identification-based trust one individual has fully internalized the other's preferences, such trust is constructed through a history of personal interactions with the other party' (Pastoriza-Rivas, 2007: 21). Individuals who share identification-based trust are closely bound to common values (Shepard and Tuchinsky, 1996) and reap higher benefits from relational closeness than in the case of other trust-based relations, such as calculus-based (Deutsch, 1973) and knowledge-based (Stein, 1993) relations.

Associability is defined as 'the willingness and ability of organizational members to subordinate their parochial interests to the firm's collective goals' (Leana and Van Buren, 1999: 541). There are a relatively small number of associability studies. The existing analyses concentrate on commitment to and identification with the company (Mele, 2003).

Social capital has only recently been discovered and is a new economic phenomenon. Therefore, it has not been studied in-depth and SC value assessments are not numerous. Researchers still do not see eye-to-eye on the definition and elements of social capital. Not surprisingly, a single coherent model for evaluating its value is also non-existent. This raises the question of whether it is feasible to assess the value of a capital of this kind. If one assumes that its value depends on the company's environment then one must also assume that this value is dynamic. If one assumes that the capital value is dynamic then one must also assume that it will change dynamically and that the company will not be capable of influencing its capital value.

One more difficulty has to be overcome, and this obstacle is much more serious than dynamic changes in the company's surroundings. Social capital consists of elements due to which two companies possessing equal financial, commercial and intellectual capital can have different results. Companies in possession of high social capital value easily enter into cooperation within strategic alliances. Such companies also find it easier to retain employees, as they offer higher salaries and access to interesting information. Therefore, the employees of high social capital companies often decide not to change their jobs despite receiving similar or financially more attractive offers. The reasons behind such behavior are elusive to scientific research, and it is not possible to estimate their value. These elusive components of social capital are, for example, a friendly atmosphere at the workplace, mutual trust among employees, certainty concerning the employees' good will and intentions, solid human relations, pride in being part of the given organization and many others. It is also difficult to evaluate the value of the quality of relations between the company and its surroundings. This is partly due to the fact that these relations are numerous and complex, and partly because a method of evaluating these elements has yet to be developed[4].

Francis Fukuyama (2000) undertook one of the most interesting attempts to measure social capital. Fukuyama put forward the following formula for evaluating social capital value:

$$SC = \sum((1/r_n)r_p cn)_{1..t}$$

In which:
SC – social capital
r_p – radius of trust
r_n – radius of distrust
c – internal cohesiveness
n – the number of the organization's members
t – the number of organizations in the society

This formula can be applied if one wishes to assess social capital value for all organizations operating in a given community, but not in the case of a single company's capital. That is why n stands for the number of all the members of the organization and t is the sum of all organizations functioning in the given community. Determining t's value poses many problems. First of all, it is crucial to define what is meant by such terms as 'group' or 'organization'. Secondly, data pertaining to their number has to be collected. Moreover, it is of great importance to bear in mind that not all organizations are registered, and that there are always a significant number of unofficial groups.

[4]Altruistic motivations are one of the components of social capital which are significant for the strategic alliances the company enters into. The author of the anthropological theory of motivation – Perez Lopez – defined altruistic motivations as the degree of growth in moral virtues that the decision will have on the decision maker himself. For more on this topic see: Perez Lopez, J.A., (1993).

What is characteristic of all the groups considered is the different internal cohesiveness coefficient c. Depending on relations between a given groups' members, c may assume various values. Coefficient c cannot be calculated easily. Instead, its value for each group can be estimated on the basis of quantitative data.

In contrast to other forms of capital, social capital is to a great extent determined by external factors. That is the reason why the radius of trust, which is one of the positive externalities, has to be taken into consideration. In many groups the radius of trust will embrace all group members. However, this does not always have to be the case. In every group there can be entities which do not enjoy other participants' trust. The coefficient Rp assumes the value of 1 if, and only if, the number of a group's members equals the number of members in the radius of trust. If n is lower than the number of members in the radius of trust, the coefficient assumes a smaller value than 1. In some cases n may even exceed the value of 1. This happens when a given organization's radius of trust embraces entities other than its members. To put it simply, there are certain entities from outside the group which put trust in the organization. The radius of distrust is the last of the presented coefficients. A group's members may have confidence in one another; however, they may still be distrusted by entities from outsider the group. Such groups create negative externality.

The social capital calculation method presented above helps fully grasp its essence. Nevertheless, it does not allow for the evaluation of its value for an export consortium's participants. Following this example one may, however, assume that there is only one group of people in the society, a given company, that is being taken into consideration. What follows is that the t coefficient assumes the value of 1. A high value of n is tantamount to the significant social capital potential in a company. Nevertheless, the higher the value of n, the more likely that all the other coefficients will assume values that will reduce the social capital. In the case of large organizations it is much more difficult to retain internal cohesiveness. Moreover, smaller sub-groups are created, which, in turn, lead to a lower radius of trust coefficient.

The radius of distrust, the remaining coefficient, does not depend as much upon the number of employees, as upon their moral standards. For potential participants in an export consortium it is of great significance whether a given company can be trusted and whether those employees that will directly collaborate within an alliance have the necessary predispositions.

The main disadvantage of this method of social capital evaluation is that it does not allow for an assessment in monetary units and, therefore, cannot be compared with the evaluation methods of the other three types of capital. The assessment of social capital value poses more difficulties than the evaluation of the remaining types of capital, as one has to take into account numerous coefficients that are difficult to measure. Many of them cannot be measured unless the company's relations with other organizations, or even values ascribed by other organizations to the company are considered. For instance, whether a given company enjoys the trust of other organization or is distrusted can only be measured with reference to other entities. Theoretically, one of the methods of evaluating intellectual capital could be adopted. Firstly, one would need to determine a company's market value. Then, the value of all the other types of capital would be subtracted from its market value. The difference could be assumed to be its social capital. However, this seems to be an oversimplification and may not reflect the real value of the social capital. Besides, potential participants in export consortia rarely have access to a company's market value.

Propensity to Cooperate

Let us assume, for the sake of argument, that methods of evaluating intellectual and social capital do indeed exist, and that they are part of the balance sheet submitted to revenue offices. It would be crucial to evaluate all types of capital by means of the same unit and, therefore, monetary units, such as euros, would seem most appropriate for that purpose. Then, the company's propensity to cooperate would no longer simply be an aggregation of the components of its capital – but rather the whole company's value. Cooperation within the alliance is most deeply influenced by those components of the company's capital that impact collaboration with other member companies.

It could be said that the company's total capital has an impact on its collaboration within the consortium and this would most certainly be true. If a given company's financial capital is substantial, this company is a much more desirable business partner than a company with less financial means, even though both companies plan to invest equal amounts from their financial capital. The risk of a lack of financial liquidity is much lower in the case of a wealthy company and, consequently, such a company is a more stable business partner. It could, therefore, be assumed that within each type of capital there are components whose impact on cooperation between member companies is either more or less significant. Each and every component is characterized by its aptitude for the consortium. However, in order not to create as many categories as there are capital components, several specific groups could be distinguished. To make matters easier, let us assume that there are four different groups for each type of capital:

1. Components which are directly involved in the consortium's activity (for instance: employees delegated to work in the alliance, exported products, relations with foreign distributors whose services will be rendered to all member companies, etc.).

2. Components which could become of use to the whole consortium (for instance: tradesmen employed in the domestic market whose knowledge of foreign languages makes them likely candidates for collabo-

ration with tradesmen working directly for the consortium or available resources in the promotional budget which could be assigned for promoting the consortium, etc.).

3. Components which, at least currently, cannot be of use to the whole consortium (for instance: tradesmen employed in the domestic market who neither speak foreign languages nor have any experience in foreign markets, etc.).

4. Components which could never be of any use to the whole consortium (for instance: business relations with local customers, resources allocated to the company's canteen, etc.).

The list below presents examples of components of specific groups of intellectual and social capital. The entire list is for obvious reasons impossible to show; therefore, only some examples of components can be found here.

The components of intellectual capital group I consist of elements indispensable to cooperation within the consortium, even when it comes to short-term functioning. These components are entirely devoted to serving the consortium. The following values might be ascribed to this group:

- delegating employees with certain competences to cooperate with the consortium, the necessity of other employees serving the consortium e.g. accountants, lawyers, export production, etc.,
- the experience and knowledge connected with cooperating within an export consortia,
- the motivation of the company's management to create a consortium.

The components of group II are:

- the employees of the sales department who have the necessary skills to cooperate within an export consortium, but who are not appointed to do so,
- the employees of other departments who are not linked with the consortium, but who have the skills and motivation to cooperate within a consortium,
- the knowledge and experience to service domestic products which could be adapted to export requirements,
- the knowledge and experience related to cooperation within strategic alliances other than export consortia.

The components of group III are:

- the employees who have not been assigned to cooperate within the consortium and who do not have the knowledge and experience of cooperating within alliances and export-related fields, but who have the potential enabling them to acquire knowledge and experience of this sort,
- the employees of the departments of the company not related to cooperating within the consortium, and whose preparation for such cooperation requires investing in appropriate educational programs,
- the employees of the departments of the company not directly linked to cooperating within the consortium, e.g. servicing products not designed for export.

The components of group IV are:

- the remaining employees of the company who have not been ascribed to the first three categories and who do not have the skills or motivation to cooperate within an export consortium,
- the employees who have competitive motivations in relation to the consortium, e.g. who are in favor of activity limited to the domestic market.

What follows from the specific character of the social capital is that the majority of its elements is connected with cooperating within all kinds of strategic alliances, which is why most of these elements belong in the first group.

The components listed below are the elements on which the atmosphere of cooperation with consortium partners and the ability to make trade contacts abroad are highly dependant:

- the reputation of a partner in strategic alliances – might be good or bad, which means it can be perceived as either a positive or a negative value,
- the radius of trust within possible consortium partners abroad (e.g. distributors, importers and financial institutions),
- the radius of trust within foreign consumers – if such a radius exists, as small companies are often unknown to foreign customers,
  the informal relations with entities servicing export and potential recipients,
- the cooperation style within the strategic alliance, e.g. readiness to provide partners with assistance in case they have difficulties or are competing with other members of the consortium.

The components belonging to this group are not visible outside of the company, but are decisive for the atmosphere of cooperation between its employees and might readily influence the attitude of the employee and the entire company to external institutions. These elements are, among others:

- trust granted by the employees to the company,
- the readiness of the employee to face challenges related to activity within the export consortium.

Group III encompasses elements which are not directly connected to cooperating within an alliance or with the company's activities on foreign markets, but might indirectly influence, for example, the company's reputation with foreign customers, and these are:

- the reputation forged by cooperating with public administration institutions, meeting liabilities specified by the tax office, etc.
- the loyalty of home customers towards the company.

Group IV consists of the components that influence the atmosphere of cooperation with foreign and domestic partners least, but which are bound to the company's values. To give an example, these might be the funds allocated for charity and which are not the subject of promotion; that is, the company does not disclose these activities. Ascribing given components of the financial and commercial capital to specific groups is far more obvious than in the case of IC and SC, moreover this article focuses on the influence of the IC and SC on the propensity to cooperate; therefore, a similar classification for financial and commercial capitals has not been presented here.

A value ranging from 0 to 1 could be ascribed to each of the above-mentioned components. The first group would be valued at, for example, 1, the last group at 0.1. If we multiply those values by the value of appropriate components, what we get is the value that each type of capital in the company represents to the alliance. Then, if we sum the results obtained for all four types of capital, we finally get the value of the company's general propensity to cooperate. It could be defined as the company's aptitude for cooperation evaluated from the perspective of an average company operating in a given market.

This has to be distinguished from the particular propensity to cooperate, that is the company's aptitude for cooperation as vied by a specific potential partner. This type of propensity to cooperate is dependent upon other companies' predilections. Therefore, the company itself has a limited influence on its attractiveness as a partner in the strategic alliance. It is, however, to be expected, as each company looks for specific features in potential business allies, such as different types of capital. Some companies wish to find business partners with substantial financial means; others concentrate on such factors, as specific experience, trade relations, goodwill, etc. That is the reason why the detailed propensity to cooperate is determined through potential business partners ascribing values to different types of capital in the company.

The high value of the general propensity to cooperate does not automatically mean that the given company is an appropriate candidate for the given consortium. Of course, the high value of this index encourages a more detailed analysis of the potential for cooperation; however, it is not possible to make the final decision to form an alliance on the basis of this value alone. The decision to create a consortium can only be made after specifying the particular propensity to cooperate; that is, after acquainting oneself with the value of all of its elements, or, the four types of capital.

The ideal compilation of these four capitals exists – it is an optimum point, after the achievement of which the company becomes the most sought after alliance candidate for other companies. Each and every member of the export consortium searches for a candidate that is perfect from his point of view. Although finding such a candidate is naturally hardly ever possible, the model for estimating the propensity to cooperate presented in this article based on the four types of capital is useful both for determining the profile of the perfect consortium candidate and evaluating the degree of the given candidate's compliance with the profile.

In a nutshell, the application of the suggested "propensity to cooperate model" while selecting the candidate to join the export consortium should include these steps:

1. Determining the propensity-to-cooperate profile of the perfect candidate.
2. Determining the minimal acceptable levels for each type of capital.
3. Determining the dynamics of change in the values of the particular types of capital.
4. Determining the acceptable scope of substituting one type of capital with a different one, if the given capital had not achieved the minimal accepted value.
5. Determining the joint value of the capitals, that is the particular propensity to cooperate.
6. Comparing the particular propensity to cooperate of different candidates.

The reason underlying the creation of strategic alliances is that one partner has something the other one does not, but would like to have. In other words, the sole necessity to form an alliance indicates a certain lack in the company, which can be eliminated by means of an alliance. Therefore, the perfect consortium candidate is a company capable of filling in the gap, so that the other company can fully exploit its potential. To provide an example, the perfect candidate for a company with high production capacity is a company with extensive trade contacts, while a wealthy company without experience of foreign markets will perceive an alliance with a company experienced in this field as most useful. The profile of the perfect candidate depends on the given company's needs.

Cooperation with a company that has the perfect propensity-to-cooperate model is for many reasons rarely possible. However, there is also the minimal level of the types of capital. When these are not met, forming an alliance with the given company is impossible. In the case of financial capital, this minimal level equals the value of the initial capital, which the given candidate must contribute and the capacity to make timely payments of the periodic contribution (e.g. 3,000 EUR per month) for performing operational activity. A company that does not dispose of the required financial capital value will become a problem for its partners, as it will be incapable of fulfilling its liabilities against the consortium, and as a result, the alliance budget will become devoid of funds already allocated to achieving certain goals. If the financial capital value exceeds the minimal value, then, if necessary, the participant can contribute more than was initially agreed. The company therefore becomes a more attractive candidate.

Defining the minimal level of commercial capital is also not problematic, since it can be determined as the minimal sales value generated by the partners of the given company within the consortium thanks to its trade contacts and export products. In other words, the commercial capital of the candidate achieves minimal value if the members of the alliance increase export revenues due to access to importers, trading companies and export products granted by the candidate company. However, if the new consortium member causes the export revenues to decrease, since, for example, the new company will intercept importers or includes such products in its offer that will discourage customers from cooperating with the consortium, the value of the commercial capital is lower than minimal.

The minimal value of intellectual capital is the level enabling cooperation within a consortium. It indicates that the candidate should be capable of delegating an employee able to understand the significance of the strategic alliance and cooperation with the consortium, as well as the specific character of export activity. The value of IC increases if the company takes on employees who can professionally organize promotion events, logistics services, financial servicing, etc. However, the absolute minimum equals the ability to delegate one appropriate person to cooperate within the consortium, to negotiate and comprehend the differences between activity on the domestic and foreign market.

The greatest difficulty lies in defining the minimal value of the social capital. It is of course important that the candidate have the reputation of an honest company fulfilling its liabilities and shunning conflicts, etc. One can assume that the minimal level is a balance between the radius of trust and the radius of distrust. SC increases when the value of the radius of trust achieves superiority over the value of the radius of distrust, and when internal cohesiveness rises. However, in the field of export activity the trust of partners and contractors is significant. Therefore, if distrust overshadows trust, then the value of the candidate's SC will be detrimental to the consortium, which means in this case this type of capital will assume a value lower than the minimal.

After assessing whether all of the four types of capital exceed the established minimum, one should evaluate the dynamics of the changes in the value of these types of capital. This is especially significant if the results obtained fluctuate around the minimum level. It is possible for the candidate to not possess the capital at the minimum acceptable value, but this candidate might be generating sufficient growth so that it may ultimately fulfill the minimal requirements. The contrary situation is also possible – though the candidate meets the agreed criteria, the value of one or more types of capital are declining and may ultimately decrease below the minimal value. Therefore, the evaluation should also include an analysis of the dynamics of change. If the analysis is unfavorable, it should be determined whether the negative results actually mean that the candidate is incapable of meeting the minimal requirements.

Until now each of the four types of capital was assessed separately on the basis of the assumption that the minimal acceptable capital values allow the alliance to generate profit and not incur any losses. When the levels for all types of capital exceed the minimal value, the candidate is beneficial rather than detrimental to the consortium. However, it is possible for one of the types of capital to generate profits high enough for the consortium to accept the candidate in spite of the value of other types of capital being below the minimal level. Therefore, the fourth step of the evaluation of the candidate should specify whether and to what extent the excessive value of one or more types of capital compensates for the shortcomings of one or more other types. At this stage it is also important to assess the dynamics of change in the value of the capitals. The author claims that companies should not allow cooperation with partners who fail to meet at least one of the requirements, as this decision would affect the cooperation within the alliance. If the company, lured by the candidate's high financial capital, accepts a candidate lacking, for example, the minimal social or intellectual capital, then it is sacrificing the good atmosphere of cooperation for the new candidate's contribution. Maintaining contact with a candidate with a high radius of distrust causes the whole alliance to be perceived as untrustworthy. The lack of a person capable of cooperating within the consortium and that is able to reach a compromise, will entail conflict encompassing the entire alliance and might lead to its dissolution. The only reason for which one might consider accepting a candidate failing to meet the requirements is the positive dynamics of change in the values of particular types of capital.

After determining that the failure to meet at least one of the criteria does not disqualify the candidate, one can add the values of particular capitals together and obtain the value of the particular propensity to cooperate. Once the values for particular candidates are at hand, it is possible to prepare a ranking and begin negotiations with the companies with the best results. In order to properly draft the ranking, it is necessary to first assess the particular types of capital and class them according to their significance. If the capital and/or its significance have been erroneously estimated, then the ranking will be faulty. One cannot expect the ranking or estimation of significance to be free from errors; one should rather aim at minimizing the possibility of making a mistake. Moreover, the candidate ranking cannot be treated as an error-free list, as similar to other rankings it has its limitations and should be regarded as a certain guide. This is why detailed negotiations should be held with the few partners in the first positions of the ranking, so as to select the optimal candidate or candidates for the alliance.

Determining the export consortium members' propensity to cooperate might also serve as a tool for a public administration allocating funds for the development of export activity. It is possible to evaluate a given consortium's chance of succeeding by means of the criteria suggested below. The public administration might decide whether to grant public funds on the basis of such an assessment. It also benefits from the opportunity to carry out an evaluation of how effectively the allocated funds have been used. The model presented here helps estimate how each euro of allocated public funds has contributed to increasing the value of capital among the members of the consortium.

Discussion

There are many different models for evaluating intellectual capital. Unfortunately, none of them is universal enough to be of use in all types of companies. Difficulties arise especially in the case of small and medium-sized companies, which cannot bear the costs of implementing complicated evaluation methods. That is the reason why only one out of all the evaluation methods presented in this article is universally applicable, namely the Direct Intellectual Capital Method (DIC). It has to be, however, duly noted that up till now there has not been a single method for evaluating intellectual capital that would be universally accepted by revenue offices. The existing methods are used by companies as internal means of evaluating intellectual capital management, owing to which they can determine their IC and its dynamics of change. Those methods do not, however, allow for assessing IC by means of monetary units as with financial capital. Therefore, instead we deal with approximations and rough estimates, which may prove helpful in managing the company but, nevertheless, are inadequate for presenting the value of IC on the company's balance sheet. The Direct Intellectual Capital Method is a laborious but fairly efficient method of evaluating the potential member company's IC.

However, there are two major obstacles connected with this method. Firstly, a precise and universally acknowledged definition of what IC is and what it comprises has to be formulated. Without this definition doubts may arise as to how to classify the capital's components to one of the four above mentioned types. Too many definitions may, in turn, lead to misunderstandings. In some cases good relations with foreign contractors could be considered part of commercial capital, in other cases, either part of intellectual or social capital. Theoretically, this component could be ascribed to all three capitals; however, it is essential that the same criteria be used consistently. Therefore, the problem of the evaluation of IC lies not so much in each method's shortcomings, but rather in the lack of consistent rules and the consequent confusion.

Secondly, it is very difficult to verify the results obtained from the potential member companies. IC is one of the criteria employed during the selection procedure. Let us assume that all member companies agree on one, uniform definition of the propensity to cooperate, according to which the evaluation criteria comprise the four types of the company's capital (FC, CC, IC and SC). A given small or medium-sized company's financial capital seems to be quite simple to assess. The same applies to the commercial capital's evaluation, which can be based on export results, lists of contractors, etc. However, verification of both the intellectual and the social capital may cause problems. Is it safe to assume that ten years of experience in one business is worth more than seven years in another? Or that an employee's ability to speak Finnish is more valuable than another employee's knowledge of Portuguese?

In the above mentioned examples, the given abilities or experience may be evaluated at the same level in monetary or other units. But whether those abilities are, at a certain point in time, equally useful to the export consortium depends both upon the foreign markets it wishes to engage in and the products it wishes to export. This example may seem a little exaggerated, as most trade transactions are nowadays conducted in the contemporary lingua franca – English. Nevertheless, it is important to bear in mind that the verification of the company's estimated IC generates numerous problems. It is often the case that such verification is altogether impossible. Then, the company's declaration constitutes the sole source of information pertaining to the company's IC. Once again, this proves how crucial it is to devise methods, which would be universally acknowledged by revenue offices, as this would be the only way of ascertaining that the same, easily verifiable and transparent methods of evaluating IC be used.

Social capital is often identified with intellectual capital. However, this article proves that they are two separate types of capital that should never be mistaken. Although several methods for evaluating IC have already been proposed, there do not exist any methods for evaluating SC. What follows is that combining the two types of capital may make it difficult to reliably evaluate the company's IC. SC is often marginalized due to the fact that its components are hard to define. Many managers consider it to be in the realm of virtual reality, something that can neither be estimated nor evaluated. Nevertheless, they all agree on how important structural capital is, both in relation to other companies and within the company; for example, whether employees identify themselves with their workplace. Therefore, it is not that SC is disregarded, but rather that there are no scientific methods of its estimation. It is universally believed that there is hardly any use in devising evaluation methods, as such evaluation is impossible. Although it certainly is difficult, if a given phenomenon exists there should be tools for measuring it.

Companies would benefit from further research into SC and its components, even if the devised methods were, for the time being, unavailable or imperfect. For the consortium's members it is of great importance to acquaint themselves with at least the rudimentary evaluation criteria employed by new candidates. Factors, such as: positive or negative externalities and the company's radius of trust or distrust, have a crucial impact on future collaboration within the alliance, trust among business partners and the consortium's efficiency in decision-making. Nevertheless, up till now the SC phenomenon has only been dealt with superficially and more research into the issue is in great demand.

Troubles pertaining to the evaluation of both intellectual and social capital lead to business partners turning to factors that are more easily assessed, such as financial and commercial capital. Therefore, a substantial part of the potential member's capital is disregarded, which may lead to its aptitude for collaborating within the consortium being wrongly assessed. Classification and evaluation of all components of the company's capital are a prerequisite for defining its propensity to cooperate. Doubts may arise whether the propensity to cooperate, which may be viewed as something elusive, like member companies' likes and dislikes, should be presented in monetary units. It is true, however, those likes and dislikes are part of the social capital and that is why they are so important in determining the propensity to cooperate.

Conclusion

The definition of and method for evaluating the propensity to cooperate is a key issue in selecting strategic alliance partners or verifying the results obtained by means of cooperation. However, until now the notion has yet to be defined and is rather used in its colloquial meaning. The author of this article suggests binding the propensity to cooperate to the value of the company, as it is the value that is most often estimated both by experts and the market. Still the value of the company is not simultaneously its propensity to cooperate, although the changes in their levels are interdependent. The author argues that every company consists of four types of capital – financial, commercial, intellectual and social capital. These types of capital influence a company's propensity to cooperate within a strategic alliance to a varied extent. For this reason it is necessary to, above all, evaluate each of the types of capital separately, and create categories of components that influence cooperation within the alliance to various degrees for each type of capital.

Each of the four types of capital is at the same time the criterion for the assessment of the company's propensity to cooperate. The general propensity to cooperate is an objective value dependant on the average values ascribed to particular capitals by other companies on the market. What follows is that this value is difficult to determine, as it requires obtaining assessments from many companies. The particular propensity to cooperate has the value granted in a subjective manner by a potential partner and is therefore easier to define. That is why this article suggests a new definition of the propensity to cooperate, which differentiates between the general and particular propensity to cooperate, as well as estimating their value in monetary units on the basis of the evaluation of each of the four types of capital.

This article also suggests discerning between social and intellectual capital, as the specific character of their assessment differs greatly and influences the propensity to cooperate within the consortium in a different manner. The value of social capital is increasingly significant for cooperation within the alliance, which results in, among other things, the necessity to differentiate between the social and intellectual capital. At the same time the greatest limitation of the proposed model is the difficulty in estimating the value of the social capital, and to a lesser degree, the value of the intellectual capital. What follows from this is the need to carry out further research on these types of capital.

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Strategy Creation in a Restructuring Environment The Case of an Estonian Fixed Telecommunications Operator in 1993-2003

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Abstract

This case study presents an in-depth analysis of the creation of strategy in an environment that is restructuring by focusing on an Estonian fixed telecommunications operator in the period 1993 to 2003. The study is based on institutional, sensemaking and strategic management organizational theories. The overlapping of these theories and the focus of the study is the creation of the company's strategy in a restructuring and changing environment. This was a single case study where the main components were the questions, analysis, and criteria for interpreting the findings.

The study shows how a company's strategy was externally imposed by institutional forces, as institutional forces directed managerial sensemaking; how a technically oriented company gave way to customer-centred logic; and how rapid changes in approach guaranteed the survival of many successful strategic activities on the market. The study explores three periods: the first period characterised by poor infrastructure and an immature telecommunications market; the second period characterised by preparing for competition before the telecommunications market opened; and, the third period characterised by market pressure after the telecommunications market became fully open. Finally, the study shows the key strategic decisions that were made and offers suggestions for other organizations undergoing change across periods that also markedly differ.

Keywords: strategy creation, telecommunication, theory of institutions, sensemaking, strategic management, changing environment, restructuring environment.

Introduction

This case study analyzes the creation of strategy in an environment that is restructuring − how the Estonian Telephone Company (ETC)[1] underwent changes between 1993 and 2003 and why the managers of ETC selected the strategic responses they did. The study's focus and main questions arose on the basis of three theories: institutional change, changes in managerial approach, strategic management and the creation of strategy in a restructuring environment. This led to the focus of the study − the creation of strategy in an environment that is restructuring. The study explores the micro-level to see what top managers really did when making strategic decisions and how they responded to external and internal factors.

We find a truly turbulent situation in the telecommunications sector, when a new approach was introduced while the culture and industrial know-how were adrift. Such conditions for change are not so common, and create a situation where it is hard to predict the outcome of the change process. Many East European countries confronted such conditions in the early 1990s (Hellegren and Melin, 1993). It is evident that telecommunications firms are confronted with significant technological,

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political, competitive and operational uncertainties. Strategic responses to these uncertainties are likely to be critical in determining the ultimate winners and losers in an evolving industry (Baliga and Santalainen, 1999). Robert Grant (1998) commented that the telecommunications sector has gone into hyper competition. This concept of institutional change seems particularly apt as a model for understanding the change processes that were under way in Eastern Europe at the end of the twentieth century (Stark 1996; Campbell and Pedersen 1996). Forces of deregulation, internationalization and technological innovation have dramatically changed the European telecommunications industry. To cope with these forces, incumbent telecommunications operators had to strategically renew their companies also taking into account institutional changes impacting the telecommunications sector (Scott, 2001; Stienstra, 2004).

This study is based on interviews with informants – top managers and managers. As a case study, it presents an in-depth analysis of the strategic management in fixed telecommunications operators in a restructuring environment. Thus, the unit of analysis is the organization, which has been in an environment of extreme change, and the strategic decisions made by the leaders are the main concern of the study. The study takes into account three theories and questions with empirical organizational data and tries to focus on empirics and evidence directly connected with the questions.

The study shows how one company's strategy was externally imposed by institutional forces, as institutional forces directed the sensemaking of the managers; how a technically oriented company gave way to customer-centred logic; and how rapid changes in approach guaranteed the survival of many successful strategic activities in the market. The study explores three distinct periods: the first period characterised by poor infrastructure and an immature telecommunications market; the second period characterised by preparing for competition before the telecommunications market opened; and, the third period characterised by market pressure after the telecommunications market became fully open. Finally, the study highlights key strategic decisions that were made and suggestions for other organizations, if the company in question undergoes change in periods that markedly differ.

In the first part of the study we cover the main questions and the introduction. The theoretical background in terms of institutional theory, sensemaking and organizational strategy and the citations of scholars are introduced in the second part. Thirdly, the methodology of the study is presented, and finally, the most important part, the findings.

Strategy Creation and Sensemaking among Managers in a Restructuring Environment

The most important decision in Estonia's recent history was made on 20 August 1991, when Estonia regained its freedom and independence. A similarly important decision was made in the autumn of 2003, when Estonia and nine other countries were given approval to accede to the European Union. When Estonia joined the European Union it was among equals – the Estonian telecommunications market had already been completely opened up to competition in 2001. A new electronic communications act complying with the requirements of the European Union was passed in 2005. In several areas of life, Estonia has set itself the objective of catching up with Europe. In terms of mobile penetration and Internet use, Estonia has already achieved a considerable level by European standards. Estonia's success in developing e-government and the practical implementation of other Internet opportunities has received global acclaim (Estonian Telephone Annual Report, 2003).

This study's main focus is strategy creation in the organization in a restructuring environment (Figure 1) – how the Estonian Telephone Company (ETC) underwent changes in the period from 1993 to 2003 and why the managers of ETC selected the strategic responses they did. How ETC gave way to new logic, actors and forms. What were the external and internal factors? Where did interest come from and how did the approach change at ETC? What kind of strategy was successful in the restructuring and changing environment at ETC? And what kind wasn't? (Heil, 2005)

The restructuring and changing environment, identified by institutional scholars and which influenced ETC, included: the introduction of new technologies, in particular "competence-destroying" technologies (Tushman and Anderson, 1986); major changes in policies including industrial regulations (Carroll, Delacroix and Goodstein, 1988); social reform movements such as civil rights (McAdam, 1982); economic crises or dislocations (Stark, 1996); shifts in cultural beliefs and practices such as changing concepts of the natural environment (Frank, 1999); and management innovations such as total quality management (Cole 1999). (Scott, 1995) ETC was created after the collapse of the Soviet era at the end of 1992. At the beginning of 2001, the Estonian telecommunications market was liberalized, ending an era of monopoly. ETC was renamed Elion Enterprises Ltd (Elion) in August 2003. The number of employees in ETC decreased from 4770 in 1993 to 1354 in 2003. ETC's vision was to become a western company. ETC borrowed aspects of order, meaning and legitimacy from earlier institutions. This concept of institutional change seems particularly apt as a model for understanding the change processes under way in Eastern Europe at the end of the twentieth century (Stark 1996; Campbell and Pedersen, 1996).

Some sensemaking frameworks lead to more effective behaviours than others do, but the criteria for effectiveness are many and inconsistent, and observers can usually only appraise such effectiveness in retrospect (Weick, 1995). We can do so in the current study as we look back 10 years. Feldman (1989) insists that sensemaking often does not result in action. It may result in an understanding that action should not be taken or that a better understanding of the event or situation needed. However, it may simply result in members of the organization having more and different information about an ambiguous issue. The top management at ETC has been fundamentally changed inside the organization over a 10-year period and managerial approaches and attitudes have also changed. There have been strong external implications from national and EU legislation and from western telecommunications companies (Heil, 2000). But local managers have also found unique solutions for competing on the market.

ETC has gone through a process of constant change requiring the restructuring of the organization and its activities, as a result of external pressure from the government and competitors. Many strategic decisions have been made by the managers at ETC in order to survive.

Methodology

Study Design

This was a single case study where the main components were the research questions, the analysis and the criteria for interpreting the findings. In general, case studies are the preferred strategy when "how" or "why" questions are being posed, and when the focus is on a contemporary phenomenon within some real-life context (Yin, 2001). The questions were asked in the introductory chapter. The informants – top managers and managers – were asked more detailed questions (Table 1). This case study presents an in-depth analysis of the strategic management of a fixed telecommunications operator in a restructuring environment. On the technology side there is convergence between the telecommunications, IT and media sector. On the liberalization side, every incumbent wants to hang on to his market share and at the same time find new revenue streams. New entrants wish to obtain their market share from the incumbents and also show their innovativeness. Thus, the unit of analysis is the organization in an environment of extreme change, and the strategic decisions made by the leaders are the main interest of the study. The study takes into account three theories and questions using empirical data from the organization, and tries to focus on the empirics and evidence that are directly connected with the questions. Thus, the methodology of the study is summarized in Table 2 (Remenyi, 2000).

Data collection and analysis

Data were collected through interviews and secondary sources, including business plans, annual reports, meeting notes, regulations, archival records, observations and articles (Table 3). The author interviewed two types of informants: the chairman of the board or members of the board (top managers) and those responsible for strategic management or managers involved with strategic planning during that period. The responsibilities of the respondents were divided between customer service, network handling and general management. The 15 interviews conducted were taped and transcribed. Interviews typically lasted 90 minutes. The questions were asked for the periods 1993–1996, 1997–2000 and 2001–2003, as informants accepted those three periods. Open-ended questions were asked first, and finally, the informant was asked to list the major factors and important issues in conjunction with strategic management issues in order of importance. As the author has been working in the company since September 1997 it was easy to make contact with informants and locate the relevant secondary data including business plans, meeting notes, regulations and archival records. The author was responsible for strategic planning from March 2001 till January 2003, when he was head of the strategic planning department. That background gave the author a better understanding of the context. For example, the author's observation in the study occurred via participation on the management board and in council meetings in that period, as well via teamwork with colleagues putting together the business plan.

The database for the study can be separated into paper form, electronic form and the report itself. On the other side, the author has divided the data into documents, tabular materials, narratives and study notes. As the case study's structure has to move from one part of the study to another, with clear cross-references to methodological procedures and the resulting evidence, a chain of evidence was required so that we can read the conclusions in the study report and retrace the substantiation process (Yin, 2003). Thus, maintaining a chain of evidence is critical for the study's reliability, and we can see the following links in that chain: conclusions; citations to specific substantiating sources in the study database; the study database; the study's main questions and detailed questions; the theory used in the study.

The data were analyzed by first constructing the questions according to the theories, and then comparing those questions with the collected data. As the first step, an overview of the literature, which took up a great part of the study, was used to build up a theoretical framework and design the questions. Next, collecting the evidence for the questions was the main focus of the data analysis. Data from informants were put into a matrix where the questions for three time periods were put in rows and the data from the informants were put in the columns. Those findings were strongly representative where the content of the information was primarily common for all informants. The data from the informants were systemized beforehand in a separate matrix and saved in the database, as the author wrote the major statements during the interviews. The author has also designed a pattern matching that compares the data from the informants with the secondary data. The main focus was to locate those facts that support the common understandings – an example of the findings is presented in Table 4. Detailed answers according to informants were collected in Table 2. All the findings are explained in the final chapter.

The limitations of this study were that it studied a single company acting in the local market, thus restricting its external value. Secondly, the study was conducted in a relatively small company in the telecommunications sector. The third limitation was the level of the informants, as the author only interviewed managers. An alternative could have been to interview more employees for a better understanding of the strategic implementations.

Development Stages of the Company

The Company's Strategy was Externally Imposed by Institutional Forces

Figure 2 and Table 5 show what the study's findings teach us about the organization's strategy creation. The company's strategy was imposed by external institutional forces, as institutional forces directed the sensemaking among the managers. Figure 2 shows the connections between institutional forces, managerial sensemaking and the organization's strategy creation as the main findings. Table 5 explains those institutional forces in greater detail. The study has shown how the higher institutional level – government and EU legislation – had a direct impact on the organization's direction and strategy. In order to transfer to a competitive market in a restructuring environment, organizational changes were essential and self-evident to the managers if they were to reach the average European level in the telecommunications sector. As ETC started to renovate the network in 1993, it was a rather technically oriented company. Every year the market became increasingly liberal, and so the management at ETC started to focus more on their customers. As table 6 shows below that a technically oriented ETC gave way to customer centred logic. The current study has shown that the customer-oriented direction, as well the technological change, had a strong impact on organizational structure.

Building up the Infrastructure 1993–1996

What did the top managers really do when they acted strategically? The study has shown that there were three different periods where strategic decisions have been made.

If the infrastructure is poor and the telecommunications market is immature, then it is essential to:

- Choose strategic partner(s) to build up the infrastructure;
- Agree upon and fulfil concession agreements between government and strategic partner(s) to plan and build a long-term infrastructure;
- Copy the organizational strategy from the owners, competitors and earlier institutions (e.g. to adopt a western company model; to have a certain number of employees according to the main telephone lines).

Table 4 presents evidence that confirms the first findings. The informants are marked with an "I", and the number refers to the concrete informant's answer and acceptance of the finding. Facts from annual reports and business plans are also presented.

The period 1993–1996 was the period when the company established itself and built up its infrastructure. There was a rapid reduction in employees (approx. 25%) in that period. The company started at the beginning of 1993 with a telephone waiting line of 146,000 customers, approximately 45% of the customer base in that period, and a main line digitalization rate of 5%. After four years, those figures were 108,000 and 28% respectively. Thus, the company's effectiveness increased rapidly because of the willingness to be more effective and to serve customers, which wasn't its aim in the Soviet era. Organizational changes were essential and self-evident for managers in order to reach the average European level of telecommunications and to guarantee high-quality infrastructure and customer services. Thus, after Estonia regained its independence in 1991, it was clear for most of the managers that they had to make radical changes to return to a "normal" situation, as they described it:

The strategy was to adopt a western company model.
The strategy was to implement western thinking.

According to the informants, the strategy was simple – just build a new network or renovate the existing one. The top management had their own business plans in an empty market, plans for the main telephone lines and an agreement with the government. The government expected ETC to install a high-quality infrastructure across all of Estonia and eliminate telephone queues. And since this was obvious, other opinions in the company were "unnecessary". As the managers put it:

We didn't need any smart strategies.
Network building was the strategy.
Fortunately, the concession agreement worked well, and thanks to that it was possible to plan and build the network.
The concession agreement provided the impetus.
It was the company's formative period.
The strategy was to execute the concession agreement in the optimal way.

The business plan was mainly used to predict the volume of the new mainlines, as the fulfilment of the concession agreement was of primary interest to the government and as informants put it:

As the government asked for a business plan, we asked it from the company's board.
The network was everything – marketing was nothing.
The network planning unit was the most powerful.

On the other hand, important decisions were made at that time: for example, the selection of partners and the decisions about the structure of the network. The actions was quite clear and the organizational changes were essential in that period, as the managers expressed it:

Key decisions were made before 1993 – then a quick start was most important.
We followed the general telecom business model.
The strategy was to adopt the western company model.
What had happened in Europe happened soon in Estonia as well.
The strategy was to implement western thinking.

Since the owners had different interests, there wasn't always agreement between them, for example, in regard to investments, one informant expressed the following:

One of the owner's[1] didn't like investing in the countryside, but the other owner wanted investments in the country as well.
The government wanted a modern network; strategic owners saw an empty market.

Preparing for Competition 1997–2000

To prepare for competition in the period 1997–2000, when the telecommunications market would be opened, it was essential for the incumbent company to (evidence presented in table 7):

- Make structural changes and change the managers to serve customers better, especially business customers (for example: restructuring from regional to functional units; new units for business customers);

- Develop new internet and content services (for example: internet search engine (NETI), voice over IP, ID-card identification infrastructure, internet broadband services);

- Rebalance prices so they correspond to cost prices;

- Buy majority holding from competitor for new subsidiary and new culture (for example: chain of stores for customer service);
- Put together a strategic planning team as a source of new attitudes and approaches (strategy and tactics);
- Create the key employee concept to protect employee turnover.

The period of 1997–2000 was when ETC prepared for competition, and when the executive leaders could change and implement changes in order to enter a competitive market. The number of employees decreased from 3784 to 2531, revenues increased from 1176 to 2690 m EEK (1 EUR=15.6 EEK).

ETC's management made many major changes in the period 1997–2000: restructuring the company from regional to functional units; ETC began to implement a new call price calculation structure so prices corresponded with the cost price based on real expenses; ETC acquired a majority holding in Telefonipood Ltd., one of Estonia's largest chains of telephone stores; with the public listing of Estonian Telekom Ltd. stock on the Tallinn and London stock exchanges, ETC became a 100% Estonian Telekom subsidiary.

The managers had to make sense of an uncertain situation that initially made no sense (Weick, 1995). The managers described the period 1997–2000 as follows:

> *The strategy was to prepare for competition including customer segmentation, rebalancing tariffs, etc.*
> *The strategy was still to invest in network development and fulfil the concession agreement.*
> *Some people had ideas and these ideas were implemented thanks to their perseverance.*

There were questions in the air about how ETC should prepare for competition and how they should change? As one manager put it:

> *We have to change continuously. It will not end happily if you are changed by others.*

The media disliked monopolies. ETC was relatively often mentioned in the news as a monopolistic company, and there were opinions like 'let's see what happens to ETC when the competition comes'. The top managers wanted to change and were able to implement changes. One top manager commented in the 2000 annual report:

> *Today, however, the telecommunications industry has grown so rapidly that a monopolistic organization on the market will undoubtedly slow further sector development. Therefore, I firmly support opening the telecommunications market to competition.*

Brown and Eisenhardt (1998) state that competing on the edge assumes that industries are rapidly and unpredictably changing and, therefore, the central strategic challenge is managing change. One manager described the changing environment:

> *Understandings changed continuously and were perceived rapidly.*

After four years of intensively building up the infrastructure and approximately four years before transferring to a competitive market, the top management started to talk more about customers, as the informants expressed it:

> *Once we had the connections (network), then we moved towards products and then customers.*
> *When earlier we talked about building up the network, today we talk about the customer.*

Market Pressure 2001–2003

If the telecommunications market is opened, then it is essential for the incumbent company to (evidence in table 8):

- Launch a new image, a new brand (for example Elion, which consolidates several old ones);
- Outsource non-core activities (for example: network building);
- Develop new customer-centric services (for example: self-installation kits for internet, IT services, DigiDoc, vpn, Telehotel);
- Change managers;
- Guarantee market share.

The period of 2001–2003 was a period of market pressure. The number of employees decreased from 2531 to 1354, yearly revenues decreased from 2690 to 2585 m EEK.

ETC's management made many major changes in 2001–2003. To boost efficiency and concentrate on its core business, ETC transferred its over-the-counter services to its Hallo chain of stores (subsidiary of Telefonipood); the management decided to sell a minority stake (49%) in AS Connecto (subsidiary), a unit providing telecommunications system design, installation, deployment and maintenance services; ETC turned Internet broadband into a household product by selling ADSL self-installation kits in supermarkets (a solution that was first offered on the Estonian market by ETC). In August 2003, ETC was renamed Elion Ettevõtted AS (Elion), and the Elion trademark replaced the existing *et, Hot, Hallo* and *Atlas* trademarks; Elion fulfilled the national requirement of satisfying telephone applications that had arisen before the termination of the Concession Agreement on 29 December 2000. With that event a Soviet concept, the 'telephone waiting list', disappeared into history; Elion rose from zero to the fourth position among IT companies in Estonia (2003).

The key driver of superior performance is the ability to change. Success is measured by the ability to survive, to change, and ultimately to constantly reinvent the firm over time (Brown, Eisenhardt, 1998). A top manager at ETC described it as follows:

> *Owners have been satisfied with ETC, because of the economic results.*

The owners of ETC told the top manager:

> *You are innovative and fast thinking. If you want to change something in your company, you just do it and you don't start finding objections, such as we have never done it that way or we tried that some years ago, but it didn't work.*

It is not about planning an approach and knowing how it will unfold. The future is too uncertain for such pinpoint accuracy. It is more about making some moves, observing what happens and continuing with those strategies that seem to work. Although the past and future matter, the focus of attention is on today (Brown, Eisenhardt, 1998). As one informant put it:

> *There was no long-run strategy, rather one year at a time.*

According to Kahane (1991), strategic management is not about establishing "right" or "optimal" solutions, but about understanding complex relationships, and an uncertain future (Hendry, 1994). Some months before 2001, the future was quite uncertain for the management at ETC, as one manager put it:

> *In January 2001, we were afraid about what will happen.*

The bases for those kinds of changes and developments were: market pressure, the fact that the concession agreement had ended and the market was open; managers had enough experience to manage the changes (in 1992, when the concession agreement was signed); the managers were willing to compare themselves with competitors and with companies acting on the global level (public listing on the

Tallinn and London stock exchange; international benchmarking survey; owners of ETC: "*You are innovative and fast thinking*").

The managers at ETC were focused on the present during the period of 2001–2003. The growth of broadband internet was faster than expected, market shares in the voice market decreased less than expected; the rate of growth in IT services was lower than expected in previous years (compared to the business plans of planned and actual results). When the management put together a three-year business plan, they focused first of all on the first year, and so did the members of the Board.

ETC's management had at least one long-term vision and goal in all these years – customer-orientation. But the meaning of that word "customer-orientation" changed over time. The business plan for 1994 also covered the vision of customer-orientation, but the meaning of that compared to its meaning in 2003 was different (targets/business ideas/visions in ETC's business plans). The vision at ETC has changed from catching up with the average level of Europe and offering high-quality telecommunication services to being the preferred service provider (during the last 10 years). Organizations are the creation of their institutional environments, but most modern organizations are formed as active players, not passive pawns (Scott, 2001).

A Technically Oriented ETC adopts Effectiveness and Customer-centred Logic

The current study has shown how external and internal factors influenced the approach and attitudes of the company managers and how they adopted a new logic, actors and forms. The study has shown how a higher institutional level – the public sector and EU legislation – had a direct influence on the organization's direction and strategy. While transferring to a competitive market in a restructuring environment, organizational changes were essential and self-evident for the managers in order to reach the average European level in the telecommunications sector. The study helped us to better conceptualize the restructuring (including destructuring) processes as they operate at the level of the organization. This central topic has received surprisingly little sustained theoretical or empirical attention from the organizational community (Scott, 2001). As ETC started to renovate the network in 1993, it was a technically oriented company. Each year that it came closer to market liberalization, the management at ETC started to focus more on its customers. Table 4 shows how the technically oriented ETC adopted an effectiveness and customer centred logic. Those changes were self-evident for the state and the organization, which had been independent and which had experience to draw on from the time of the first republic (1918-1940). The need for this kind of change may not be so obvious in countries where such experience is lacking, such as in other former Soviet republics. The current study has shown that the customer oriented approach, as well as the technological change, strongly influenced the organizational structure.

The Strategy at ETC was Strongly related to Changes in the Political Environment

External factors, such as institutional factors, included the public sector, technology, customers and competitors. From the point of view of the public sector, this study has shown how strongly the company's strategy related to changes in the political environment. Estonia regained its independence in 1991. It was self-evident for most managers that radical changes were necessary to recover a "normal" situation, as the managers of the company described the strategy: "to adopt a western company model"; "to implement western thinking". Political change at the national level had the most important impact on the company's strategy, as it made it possible to think in a market and customer-oriented way. The core of the concession agreement between the Estonian government and ETC was reducing the telephone waiting list, laying a new telephone network and improving the quality of communications. As one manager put it:

> *Fortunately, the concession agreement worked well and thanks to that it was possible to plan and build the network.*

Changes in legislation moved us toward the principles of the EU. After market liberalization, in addition to the legislation, the communications board and competition board played a major role in creating a competitive environment in the Estonian telecommunications market. A top manager commented:

> *Today, however, the telecommunications industry has grown so rapidly that a monopolistic organization of the market will undoubtedly slow down further development. Therefore, I firmly support opening the telecommunications market to competition.*

In terms of technology, ETC's goal was to update the entire telecommunications sector and to initiate a development program agreed upon with the government. The focus was on constructing new digital exchanges and establishing a base network of optical cables. One manager commented:

> *The network was weak compared to Europe. We needed a production base to provide services.*

Those targets were mainly achieved later, as one manager commented:

> *In mobile penetration and internet use, we have already achieved a considerable level by European standards. Estonia's success in developing e-government and the implementation of other internet opportunities have received global acclaim.*

Customers influenced ETC's strategy and activities in a different way. Earlier, customer applications formed an input to network development, but after market liberalization, customer satisfaction formed an input to service development. One informant described the earlier era as follows:

> *It was self-evident that if there were telephone queues, then the technological approach was right. We didn't need smart strategies.*

But later, as stated in the business plan: *Elion's goal is to turn from being a technology company into a customer-needs-driven best service provider. We would like the Estonian people to choose our services first and foremost.*

Although ETC was focused on building the network under the concession agreement in the earlier era, the top managers paid attention to their competitors, as stated in the business plan: To guarantee ETC's business in the long run, special attention shall be paid to priority customers (such as business customers) and their satisfaction. Later, as the competition arrived, an informant commented:

> *Life is becoming more complex, competition will be stronger, and thus we have to choose our priorities.*

Managers changed to Focus on Customers after Market Liberalization

Internal, sensemaking factors can be grouped into logic, actors and forms. ETC's focus was on building up the infrastructure in the earlier period. As most of the informants put it:

> *Network building was the strategy to obtain connections to the world, eliminate telephone queues and satisfy the concession agreement.*

After market liberalization, the company changed to focus on its customers. As most informants described:

The strategy was to be customer-oriented and to secure market share.

Customers could now choose another service provider, so the most critical issue was to be near the customer and keep them at ETC. The largest investments, which reached over 800 million kroons in 2000, were made before the market liberalization, as the infrastructure needed a lot of renewal. To keep their customers, service competence and good customer relations were necessary.

The culture was hierarchical and autocratic at the beginning; most of the informants agreed that there was an authoritarian style in 1993–1996. The informants described it as follows:

Top management heard what local managers said, but acted as they wanted.

Many informants remember the same phrase from one top manager:

You don't ask the frogs when you want to drain the swamp.

The second period was already more horizontal and autonomous – the informants described the last period:

Information moved horizontally as well. Earlier, there were quite strong functional frameworks. Strategies came from the bottom up.

The more complex market situation, as it has been since market liberalization, requires a more horizontal and autonomous management style.

Members of the Management changed Dramatically

The management changed dramatically. There were 19 top managers in 1994, but in 2000 those managers had all been changed and altogether there were 7 top managers. In 2004, there were 11 top managers and 8 of them were new managers compared to the structure in 2000. The informants described the changes in the management:

There should be the right people in the right positions – strategy is at the head. Certain types of managers fit in certain types of positions at certain times.

Thus, the top managers considered it of great importance to put the right people in the right places. As the internal and external environment changed rapidly, there were rapid changes among the members of the management at the same time.

The strategic shareholders have been the same throughout the decade – TeliaSonera. The government has reduced its share with the public listing of Estonian Telekom stock on the Tallinn and London stock exchanges in 1999. Initially, ETC needed strategic partners to bring knowledge and investments into the telecommunications infrastructure. Afterwards, the changes focused on turning the company into a more transparent organisation and decreasing the government's shareholding.

The number of employees (form) has decreased from 4770 to 1354, the digitalization rate rose from 5% to 79% and the number of main lines grew from 350,000 to 449,000 between 1993 and 2003. Informants described the changes among employees as follows:

It was a cultural change from a Soviet culture to a capitalist one. Some have come along and some have not.

New technology, efficient programs and a customer-oriented strategy led to changes mainly in technical staff and service staff.

The Brand and Structural Changes in the Company expressed Changes in Managers' Sensemaking

ETC's brand was established on 1 January 1993. This was during an era when international calls were routed through Moscow. That is why the Estonian government assigned the company the task of ending the country's telephone shortage, of laying a new comprehensive telecommunications network and opening up international connections. In 2003, the company decided to change its name to Elion. The name was changed because Elion is not a mere telephone services provider. The fastest growing business areas for the company have been the internet, data communication and IT. Elion is not a monopoly any more, neither is it a technology company. Its goal was to become the best service provider driven by the needs of its customers.

The current study has shown that core business and strategy have an impact on organizational structure. One of the biggest structural changes was the transfer from a regional structure to a functional one in 1997. The main arguments in favour of that change were in terms of technology and customer orientation, as well as flexible management and the potential to make faster decisions. Those arguments were seen by the top managers, as it was a top-down implementation. One top manager explained:

> *One of the reasons was technological development. An analogue exchange can be managed better in a decentralized way (regional way), because if something happened with exchange, then a technician went to repair it. But digital equipment can be managed centrally from one place (so we continually replaced analogue equipment with digital).*

Many middle managers did not see the benefits of that change, as their position weakened. Many meetings were held to manage that change, to explain the need for it and to find solutions for going further with the new principles. The role of the executive management increased in the later period (2003 and 2004).

In 1999, ETC acquired a majority holding in Telefonipood Ltd. (a subsidiary), one of Estonia's largest telephone retail chains. This step was made to strengthen ETC’s counter service. The managers saw that ETC’s counter service did not fit the current needs of the market, and ETC wanted to be a customer-oriented company with its own telecommunications retail store. As one top manager put it:

> *The attitude was different at Telefonipood; we haven’t been able to reorganize our counter service so quickly. The positions held by the shops were different. The thinking was more business-oriented. We didn’t handle the goods as necessary in a retail store. There was clear added value for us. Of course, there were risks as well.*

On the other hand, ETC created one subsidiary on the basis of one of its functional units, which built and maintained the network – AS Connecto. In 2003, Elion sold a 49% holding in this subsidiary to the Finnish network construction company ELTEL Networks Corporation to focus on its main strategy – to be the best service provider.

Business areas have changed according to the market and customer needs, as well as technological and legal conditions. Voice calls have been the main product, but lately the internet and IT services have been the largest growth areas.

Important Findings

In brief, the important findings from this study are:

The company’s strategy was externally imposed by institutional forces.

If the infrastructure is poor and the telecommunications market is immature, then it is essential to (evidence in table 4):

- Choose strategic partner(s) to build up infrastructure
- Agree upon and fulfil a concession agreement between the government and strategic partner(s) to plan and build infrastructure for the long term
- Copy the organization's strategy from its owners, competitors and earlier institutions (e.g. to adopt a western company model; to have a certain number of employees according to the main telephone lines).

To prepare for the competition (1997–2000) when the telecommunications market is liberalized, it is essential for the incumbent company to (evidence in table 7):

- Make structural changes and change managers to better serve customers, especially business customers (e.g. restructuring regional units into functional units; new units for business customers)
- Develop new internet and content services (for example: internet search engine (NETI), voice over IP, ID-card identification infrastructure, internet broadband services)
- Rebalance prices to correspond with real costs
- Buy a majority holding from a competitor to launch a new subsidiary and new culture (e.g. telephone retail chain for counter service);
- Put together strategic planning team, as the source of a new way of thinking (strategy and tactics)
- Create a key employee concept to protect employees turnover

Under market pressure (2001–2003) after the telecommunications market has been liberalised, it is essential for the incumbent company to (evidence in table 8):

- Launch a new image and a new brand (e.g. Elion, which consolidates several old brands)
- Outsource non-core activities (e.g. network construction)
- Develop new customer-centred services (e.g. DIY kits for internet, IT services, DigiDoc, vpn, Telehotel)
- Change managers
- Secure market share

Conclusions and Topics for Future Research

The study presented the trends and gave a detailed analysis at company level. The study dealt with a full range of sources – documents, artefacts, interviews and observations, which gave us an overview of the strategic management in a restructuring company. The author answered to the study's main questions – how the Estonian Telephone Company (ETC) underwent changes and why the managers at ETC selected the strategic responses they did. The study consolidated organizational theories and the concepts of institutions, sensemaking and strategic management. The overlap between these theories was strategy creation in a restructuring environment. The findings highlighted a positive case study in connection with strategic management in a changing environment, as the performance of the company satisfied different stakeholders.

The company's strategy was externally imposed by institutional forces, as institutional forces directed the managerial sensemaking. The study showed how external and internal factors influenced the thinking and attitudes of the managers of the company and how the managers adopted new logic, actors and forms. The study showed how a higher institutional level, such as the public sector and EU legislation, had a direct impact on the direction and strategy of the organization. On transferring to a competitive market in a restructuring environment, organizational changes were essential and self-evident for managers who were aiming to reach the average European level in the telecommunications sector. When ETC started to renovate the network in 1993, it was a very technically oriented company. Each year, as they moved closer to market liberalization, the management at ETC focused increasingly on its customers. The technically oriented ETC gave way to an effectiveness and customer centred logic. Those changes were self-evident for the state and the organization, which had been independent and which had experience to draw on from the time of the first republic (1918-1940). The need for this kind of change may not be so obvious in countries where such experience is lacking, such as in other former Soviet republics.

The limitations of this study included the fact that it focused on a single company acting in the local market. Secondly, the study was also conducted in a relatively small company in the telecommunications sector. The third limitation was the level of informants, as the author only interviewed managers. An alternative would have been to interview more employees for a better understanding the strategic implementations or to analyse multiple companies in the region.

The study helped to better conceptualize the restructuring (including destructuring) processes as they operate at the level of the organization. This central topic has received surprisingly little sustained theoretical or empirical attention from the organizational community up to now. These findings need to be examined with more analogous cases in the future.

Notes

ETC (Estonian Telephone Co) began its financial operation under that name on 1 January 1993. It was founded on the basis of a concession agreement concluded with the government of the Republic of Estonia on 16 December 1992. Fifty-one percent of ETC's shares belonged to Estonian Telekom and 49% to Baltic Tele AB, formed by the Swedish company Telia and Telecom Finland.

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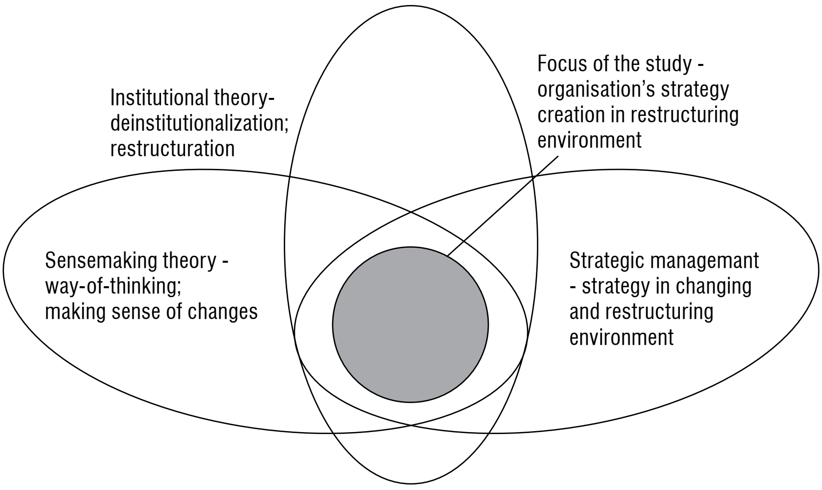

Figure 1: Main focus of the study – the creation of strategy in the organization in a restructuring environment

[changes necessary in Figure 1: Focus of the study – strategy creation in the organisation in a restructuring environment Strategic management – strategy in a changing and restructuring environment]

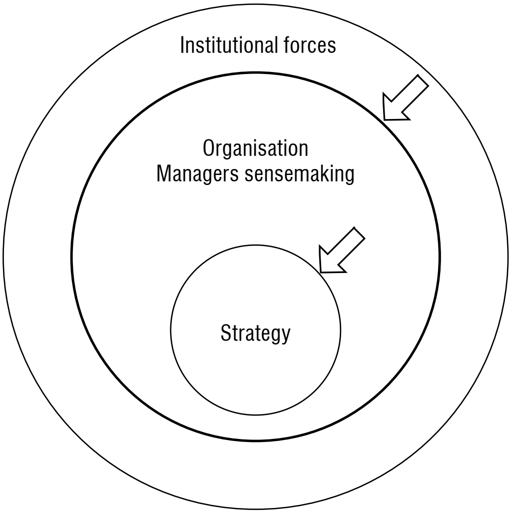

Figure 2: Organizational strategy is imposed by external institutional forces, as institutional forces directed managerial sensemaking

TABLES

Table 1: Questions to the informants

Questions to the informants	1993-1996	1997-2000	2001-2003
Can we separate the three periods (1993-2003)?			
What is strategy?			
1.What was the strategy in that period? Was there a strategy at all?			
2.Why did the strategic leaders choose the strategy they did?			
3.How were the company's strategy and strategic goals formed? What or who were the major factors (inputs)?			
4.What kind of formal and informal structures were involved in strategy making? What was the role of that function in these periods?			
5.What did the strategic management intend to achieve?			
6.What were the values and beliefs connected with the company's strategic management?			
7.What were the company's major strategic goals?			
8.How were the company's strategies and strategic goals implemented and how were personnel informed? Why in this way?			
9.How was the company's structure connected with its strategy and strategic goals? Did the strategic goals impact the company's structure? How?			
10.What were the criteria for making investment decisions? Where were the company's major resources allocated? Why?			
11.Did the strategic planning help achieve the company's goals? How?			
12.What impact did the CEO have in strategic management? How was this impact expressed? What was vital for the CEO?			
13.What was your role in strategic management? How was your role used or how did you use it? What was vital / important to you?			
14.What kind of important strategic decisions were made? What was done? Why?			
15.How were the strategic changes implemented? Why that way?			
16.Did the company fulfill its targets? How and why?			

Table 2: Case study methodology

Tests	Case Study Method	Phase of research in which tactic occurs
External validity	•Theories: -institutions and organizations -sensemaking in organizations -strategic management	research design
Construct validity	•Multiple sources of evidence •Chain of evidence	data collection
Reliability	•Case study protocol •Case study database	data collection
Internal validity	•Research questions based on reviews of literature •Pattern matching (comparing the data from informants and the secondary data to make conclusions)	data analysis

Table 3: The sources of evidence in the study

	Informants: Top Managers	Informants: Managers	Business Plans	Annual Reports	Minutes of Meetings	Regulations	Articles
No/amount	**8**	**7**	**10**	**9**	**approx. 100**	**approx. 25**	**approx. 30**
Main source of the content for the study	Evaluating the questions from the viewpoint of the leaders	Evaluating the questions from the viewpoint of middle managers	Company's visions, strategies and main targets for the future	General feedback from the leaders to the company and to public and the facts about performance	Strategic decisions which have been made by leaders (ETC's Council and Board)	Strategic decisions and arrangements by the leaders	Feedback and comprehension from the press and public

Table 4: Data analysis for conclusions: Building up an infrastructure 1993-1996

Evidence **Finding**	**Informants** (top managers) (Informant's (I) answers to the question (aq) nr x according to table 1)	**Informants** (managers involved with strategic planning)	**Annual reports**	**Business Plans**
Building up an infrastructure 1993-1996 – if the infrastructure is poor and the telecommunications market is not mature, then it's essential to:				
Choose strategic partner(s) to build up the infrastructure	I5aq1; I11aq14;	I1aq1; I7aq3; I14aq3; I15aq1;	"With the help of our partners, Swedish Telia and Finnish Tele-com, we have also managed to solve our financial problems." (1994)	The business idea of ETC is to provide high-quality telecommunication ser-vices to businesses, insti-tutions and private people in Estonia in a profitable and customer-oriented way. (1995-2004)
Agree and fulfill con-cession agreement between govern-ment and strategic partner(s) to plan and build an infrastruc-ture for the long term.	I3aq1; I4aq1; I12aq14;	I1aq2; I2aq7; I6aq1;	"We have suc-ceeded in abiding with the developmen-tal plan and the strate-gic directions agreed upon with the govern-ment." (1994)	The main target of ETC is to manage the public and remunerative communi-cation network in Esto-nia, to satisfy customer needs, and to foster Esto-nian economic develop-ment to catch up with the average European level of telecommunications development (1994-2003)
Copy the strategy from the owners, competitors and ear-lier institutions (e.g. to adopt a west-ern company model; to have a certain number of employees according to the main telephone lines)	I4aq1; I5aq3; I10aq2	I2aq2, 11; I6aq8; I7aq1; I7aq3; I8aq2; I9aq3; I14aq9;	"An increasing number of its employees have had the opportunity to study abroad." (1994)	

Table 5: The organization's (ETC) external factors as institutional forces

External factors as institutional forces		
	Before market liberalization (from 1993)	**Period of competition (2003 and before)**
Public sector and legislation	Concession Agreement with government from 1993 (for 8 years). Communication act.	Communication board. Competition board. Electronic communication act. Competition act. Market liberalization from 2001.
Technology	New digital exchanges and a base network of optical cables for voice services and other future services.	ADSL for Internet services; WiFi for wireless internet services; VoIP for internet calls.
Customers	Customer applications functioned as an input for network development.	Customer satisfaction functioned as an input for service development.
Competitors	Mobile companies; Data and Internet companies.	Mobile companies; Data and Internet compa-nies; Cable companies; IT companies. (alto-gether 110 companies)

Table 6: Technically oriented ETC adopted an effectiveness and customer-centred logic

	Before market liberalization (from 1993)	Period of competition (2003 and before)
Internal factors as sensemaking factors:		
Logic		
Focus	Building up an infrastructure – network to provide services	Company under market pressure – customers
Culture	Hierarchical and autocratic	Horizontal and autonomous
Actors		
Management	19 top managers (1994)	-7 top managers (2000) – all new managers compared to 1994 -8 top managers (2003) -11 top managers (2004) – 8 new managers compared to 2000
Shareholders	Estonian Government majority (51%) and strategic partners (Telia, Telecom Finland) (49%)	Estonian Government (27%); Public Investors (24%); Baltic Tele (TeliaSonera) (49%)
Forms		
No of employees	4380 – mainly technical staff	1400 – mainly service and technical staff
New Brand and company name	Estonian Telephone Co. – from 1993	Elion – from 2003
Structure	Regional structure	Functional structure
Daughter companies	1 (100% owned)	2 (100% owned) and 3 related companies
Business areas	Voice calls, network operators, data	Voice calls, network operators, data, internet, IT
Revenues and profit	Rapid growth	Stable and decreased

Table 7: Data analysis for making conclusions: Preparing for competition 1997–2000

Evidence **Finding**	**Informants** (top managers) (Informant's (I) answer to the question (aq) nr x – according to table 1)	**Informants** (managers involved with strategic planning)	**Annual reports**	**Business Plans**
Preparing for competition 1997–2000 – if the telecommunications market is opened, then it is essential for an incumbent company to:				
Make structural changes and change managers to better serve customers, especially business customers (e.g. restructuring from regional to functional units; new units for business customers)	I13aq9; I12aq15; I11aq1; I10aq2, 9; I4aq6; I3aq1;	I15aq4; I9aq1; I8aq1; I7aq4; I2aq9;	"One of the crucial issues we are facing this year (1997) will be to effectively implement the new structure. We have to safeguard the effective functioning of the firm as a unit, which will also guarantee better and higher quality for the customer". (1996); … several structural changes will be introduced in 1998 (1997)	ETC is a preferred and reliable partner that creates welfare and competitive advantage for people while offering them customer-oriented and innovative communication and IT solutions. (2001-2003)
Develop new internet and content services (e.g. Internet search engine, voice over IP, ID-card identification infrastructure, internet broadband services)	-	I15aq14; I14aq2; I2aq1; I1aq2;	The hot.ee web-based e-mail environment was introduced, (1999); Netifon, the voice communications service based on Voice over Internet Protocol (VoIP) technology, was launched on the market. (2000)	
Rebalance prices in correspondence with the actual cost of the services	I12aq14; I4aq1; I3aq1, 16;	I15aq3; I6aq1; I2aq1; I1aq1;	Long distance and international tariffs were reduced, and cross subsidising of local call minutes by other services was also reduced. (2000)	Offer high-quality telecommunications services in a customer-oriented and profitable way (1998-2007)
Buy majority holding from competitor for new subsidiary and new culture (e.g. telephone retail chain for counter service)	I12aq14; I10aq5;	-	The company took a majority stake in AS Telefonipood (the Hallo! chain of telephone retail stores) (1999)	-
Put together strategic planning team, as a source of a new way of thinking (strategy and tactics)	I13aq3; I12aq3; I11aq3; I10aq3; I3aq4;	I6aq4; I2aq4; I1aq4;	-	-
Create the key employee concept to protect employee turnover	I11aq8; I10aq8; I13aq3;	I14aq8; I7aq11; I1aq10;	-	-

Table 8: Data analysis for making conclusions: Market pressure 2001–2003

Evidence **Finding**	**Informants** (top managers) (Informant's (I) answer to the question (aq) nr x – according to table 1)	**Informants** (managers involved with strategic planning)	**Annual reports**	**Business Plans**
Market pressure 2001–2003 – if telecommunication market is opened, then it is essential for the incumbent to:				
Launch a new image, a new brand (e.g. Elion, which consolidated several old brands)	I11aq14; I12aq14;	I2aq14; I6aq8; I15aq14;	The launching of the Elion trademark was not just a name change; it was required by the company's new business strategy. With the change in strategy, we laid down a new vision – to be the preferred company, offering simple and reliable communication solutions for home and office. (2003)	Elion is the preferred service provider in the area of home and business communication solutions in Estonia. (2004-2006)
Develop new customer-centred services (e.g. DIY installation kits for internet, IT services, DigiDoc, vpn, Telehotel)	I3aq5; I10aq4; I11aq14; I12aq7,14;	I2aq7,14; I6aq1; I9aq10; I14aq2,3; I15aq14;	In 2003 ETC will focus on the Internet, on data communication services and IT solutions. (2002)	
Change managers	I3aq9; I4aq6; I10aq6; I11aq1,6,8,12,13; I13aq9;	I1aq3; I7aq8; I8aq9; I9aq3; I14aq9;	At the end of 2000 ETC had 8 top managers (appendix 11), and at the beginning of 2004 ETC had 11 top managers (appendix 13). Comparing the two periods (within 3 years), 8 new top managers have been employed. Compared to 1994, all top managers have changed (appendix 10).	-
Outsource non-core activities (e.g. network building, vehicle maintenance)	I3aq14; I10aq14; I12aq14; I13aq14;	I1aq9; I2aq9; I7aq4;	On June 2003, a 49% minority share in AS Connecto was sold to Eltel Networks Corporation. (2003)	ETC is a customer-oriented sales and service company, contributing to its customers in Estonia on the basis of a mutually beneficial principle, developing and providing telecommunications and IT solutions. (2003-2005)

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