Human Resources, Labour Relations and Organizations

A European Perspective
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Socio-Economic Studies

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Human Resources, Labour Relations and Organizations

A European Perspective

Nomos
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Introduction

For a quarter of a century, the management revue has been a medium of research in administration science and management studies. Founded in 1991 on the initiative of publisher Rainer Hampp, the journal reinvented itself in 2004 as an English-speaking periodical. With the subtitle “socio-economic studies”, a new team of editors defined the formula for an orientation towards economics and the social sciences as well as the aspiration for the socio-political embeddedness of the contributions to management revue. These were called upon to address empirical and theoretical issues in fields like organisation, human resources, labour relations as well as decision-making and innovation. In disciplinary terms, the journal has aimed not only at scholars from the fields of economics and administration science but also at psychologists, sociologists, legal scholars or political scientists, who do research in the above-mentioned fields. The focus, in any case, has been on behaviour in and of organisations.

There is a second thematic orientation, however, which pools contributions to the journal. In the first place, the management revue addresses authors who investigate institutional particularities of management and organisations in the European context. The emergence of this prioritisation does not come as a surprise, as the socio-economic perspective of the management revue suggests the embeddedness of the research topic in specific temporal and spatial social contexts. The assortment of contributions made to this edition, which provides insights in the spectrum of research published in the management revue, aims at illustrating this prioritisation. We were keen to bundle those contributions that represent the entanglement of the socio-economic perspective with European specificities.

The first part of this edition encompasses contributions on human resource management. The article by Wolfgang Mayrhofer and Chris Brewster sets out with an assessment of the development of European human resource management from the 1990s up to the new millennium. Empirically, the study is based on the Cranet data set. The significance of the “Cranfield network on international human resource management” for the evolvement of a European perspective on human resource management can hardly be underestimated. The initiative has not only inspired comparative research in international human resource management (not only in the European realm but also beyond) but first and foremost paved the way for studies on the convergence and divergence in European human resource management. Paul Boselie analyses factors, which form employment relationships in organisations. By referring to strategic balance theoretical arguments the author refers to the Dutch example of how markets, institutional and configurational factors affect human resource management. The third contribution of this part deals with employee share...
schemes in Europe. By putting financial participation into the spotlight, the contribution addresses a research topic, which is firmly rooted in the management revue. Erik Poutsma, Paul E.M. Ligthart and Roel Schouteten furthermore analyse the impact US multi-nationals have on the design of financial participation schemes for employees in continental Europe.

In the second part of this edition, the focus is on studies which address the peculiarities of labour relations in Europe and especially in Germany while giving particular attention to their implications for the management. Ingo Singe and Richard Croucher investigate the organisational behaviour of US multi-nationals in the context of the German approach to industrial relations: work councils and industry-wide collective bargaining. Walther Müller-Jentsch addresses the relationship between unions and civilised market economies. The author not only seeks answers to old questions posed by economic theory, namely, if and to what extend unions fit into market-based economies, but moves further by asking how far unions can be a source of irritation and disruption. Against the backdrop of the varieties for capitalism approach, Stefan Kirchner discusses the issue to what extent firms can realise internal flexibility in different systems. A point of reference for institutional embeddedness is once again the German model of industrial relations. The discrepancy between employer behaviour in practice and the textbook wisdom on good practice in human resource management is the topic of the contribution of Dudo von Eckardstein and Stefan Konlechner. The reader’s attention is pointed towards the necessity of empirical studies of specific institutional settings, not least as a basis for a critical perspective in academic teaching in human resource management, in particular, but also for business administration, in general.

Eventually, the contributions in the third part focus on theory construction on organisational behaviour. In his article, Wenzel Matiaske explores the interconnections to the new economic sociology and makes a point for multi-level models both in theory and in empirical studies, in order to be able to explain the behaviour of organisations in specific economic and social environments and to provide a deeper understanding of the behaviour the organisational members. In conceptional terms, the author endorses inter- or multidisciplinary – economic, sociological and psychological – models which explain the behaviour of and in organisations. Jörg Freiling discusses the behaviour of organisations against the backdrop the resource-based view of the firm – a widely received approach in European research. The author argues in favour of an expansion of the organization-centered perspective towards giving the organisational environment increased consideration. Werner Nienhüser also addresses the topic of external control of organisations in his contribution. There, the focal research question is how far the resource dependence theory can explain the behaviour, structure and change of organisations. Kirsten Foss and Nicolai J. Foss conclude this edition by making a point in favour of building a bridge between the economic theory of transaction costs and the social-science-inspired resource based
view, in order to explain more precisely the behaviour of firms in market environments.

The contributions in the edition show only a fraction of the spectrum of the research issues that have been addressed in the management revue in the recent decades. We hope that the reader’s interest in a social-economic perspective in the field of administration science, management studies and organisational theory that comes entangled with European specificities has been stimulated. We are indebted to the contributors, the Rainer Hampp publishing house, which for many years gave a home for the management revue, and Nomos publishing, which henceforth provides support in the development of our research field in an interdisciplinary environment.
This paper uses insights and data gained from 15 years of involvement in a research network studying HRM developments in Europe to explore the notion of “European HRM” and the meanings of convergence and divergence in HRM. Using data from the last decade of the Cranet research, the paper puts forward a more nuanced view of the notions of convergence and divergence, finding evidence of directional convergence, but little evidence of final convergence: whilst there are trends which point in similar directions, national differences remain a key factor in HRM.

Key words: Human Resource Management, European Human Resource Management, Comparative Research, Convergence

Introduction

Human Resource Management as a concept was formalised in the USA in the late 1970s and early 1980s, encapsulated in two famous textbooks (Beer, Spector, Lawrence, Mills, & Walton, 1985; Fombrun, Tichy, & Devanna, 1984). These approaches varied but both differentiated HRM from personnel management and argued that the former involved more integration of personnel policies across functions and with the corporate strategy (with HR being the downstream function); a greater role for line managers; a shift from collective to individual relationships; and an accent on enhancing company performance.

The notion of “European Human Resource Management” was developed largely as a counter to the hegemony of US conceptions of human resource management (HRM). This, in part, reflected developments in the arguments about how we should conceive of the notion of HRM (Kamoche, 1996). It was argued (Brewster, 1994; Sparrow & Hiltrop 1994) that US assumptions about the nature of HRM...
were inappropriate in this (and probably other) continents and that Europe needed models of its own. These notions were behind the establishment, towards the end of the 1980s, of a research network based on one university per country, dedicated to identifying trends in HRM in Europe. That network grew from the original five countries to twenty-seven in Europe and some dozen others spread across the world. Some fifteen years after the start of the project, and at the point of the publication of the fourth edited book based on the network’s outputs (Brewster et al. 2004), this seems to be a good time to review what we have learned.

In particular, the long-term nature of the project allows us to identify trends in the management of human resources in Europe (see Gooderham & Brewster, 2003, for a first attempt at doing so using this data). Are the European countries moving towards one another in the way that they manage HRM? If so, are they moving towards or away from a model similar to that operating in the USA? Or are they remaining separate and different?

In presenting these findings, this paper is, therefore, ambitious in scope. First, it conceptualises the notion of “European HRM”, setting it in the context of theories of international HRM and convergence and divergence in comparative HRM; it is argued that there are inevitably elements of universality and of national difference that have to be encompassed by such theories and that we need more nuanced approaches to the ideas of convergence and divergence. After briefly exploring the methodological and practical issues of researching large-scale developments in European HRM over an extended period, the paper presents empirical evidence from the research of Cranet, the Cranfield Network of Human Resource Management, as a contribution to the European convergence/divergence debate which, finally, enables us to draw some conclusions about whether there is, indeed, evidence of convergence in European HRM.

**Conceptual Background**

**Static Views: Specifics of European HRM?**

Looking across national borders, how are we to conceive of the differences in HRM systems and approaches? What is the correct level of analysis? We have elsewhere (Brewster, 1995b) used the analogy of a telescope. Changing the focus provides the viewer with ever more detail and the ability to distinguish ever-finer differences between aspects of the big picture that can be seen with the naked eye. None of the perspectives are “wrong” or inaccurate; some are more useful for some purposes than for others. So, we would argue, it is with HRM. There are some universals in the field (the need for organisations to attract, pay and deploy workers, for example). There are also some things which are shared within regions; some which are distinctive for certain countries; some which are unique to certain sectors; some ways in which each organisation or even sections of an organisation are different;
and some factors which are unique to each individual manager. Each perspective sharpens the focus on some aspects but, inevitably, blurs others.

This paper is concerned with identifying differences between the universalistic and contextual paradigms (Brewster, 1999) and, within that, of establishing whether it makes sense to speak of a “European” version of HRM (Brewster, 1994); with identifying the differences between countries in Europe in the way that they manage HRM; and with establishing whether the trends in HRM are strong enough to lead us to speak of convergence. This section deals with the first of those issues.

Can we distinguish a version of HRM in Europe that is different from the versions existing in, for example, Japan or the USA? The latter case is of particular significance, given the power of the US version of human resource management. It has been argued that the US is an inappropriate model for Europe (see Cox & Cooper, 1985; Thurley & Wirdenius, 1991; Pieper, 1990; Brewster, 1994; Brewster, 1995b). The vision of HRM that has come to us in Europe from the USA is culture bound (Trompenaars, 1994; Adler & Jelinek, 1986) and in particular a view of HRM as based on the largely unconstrained exercise of managerial autonomy has been attacked as being peculiarly American (Guest, 1990; Brewster, 1993; Brewster, 1995b). In Europe, organizations are not so autonomous. They exist within a system which constrains (or supports) them, first, at the national level, by culture and by extensive legal and institutional limitations on the nature of the contract of employment, and second, at the organizational level, by patterns of ownership (by the State, by the banking and finance system and by families) which are distinct from those in the USA. It has been argued elsewhere (Brewster, 1993) that a new ‘European’ model of HRM is required, one that takes account of State and trade union involvement – a concept of HRM which directs us to re-examine the industrial relations system approach outlined in 1958 by Dunlop (Brewster, 1995a).

Of course, with a different turn of the focus screw, it is possible to distinguish distinct regional clusters even within Europe. Mostly these have been one-dimensional and limited to simple dichotomies. Thus, Hall and Soskice (2001) and Gooderham, Nordhaug, and Ringdal (1999) contrast Anglo-Saxon style free-market capitalism with varieties where there is greater state intervention. Garten (1993) shares this view, though also noting the existence of government-induced market systems such as Japan. Hollingsworth and Boyer (1997a) focus on a different dimension, that of the presence or absence of communitarian infrastructures that manifest themselves in the form of strong social bonds, trust, reciprocity and co-operation among economic actors. Again, they find the Anglo cultures distinct from the rest of Europe, although they also distinguish France as an environment that, while not having a market mentality, is nevertheless deficient in communitarian infrastructures. Others distinguish between, on the one hand, countries such as the UK, Ireland and the Nordic countries, in which the state has a limited role in industrial relations, and the Roman-Germanic countries, such as France, Spain, Germany, Italy, Belgium,
Greece and the Netherlands, in which the state functions as an actor with a central role in industrial relations (Due, Madsen, & Jensen, 1991, p. 90). Arguments have also been made for a “northern European” approach to HRM based around those countries where English is widely spoken and trade unions are stronger (Brewster & Larsen, 2000).

One analysis of HRM practices found “three clusters: a Latin cluster [which includes Spain, Italy, France]; a central European cluster . . . and a Nordic cluster’ (Filella, 1991, p. 14). The Latin style of HRM is characterized, *inter alia*, by efforts to modernize HRM, a greater reliance on an oral culture and the presence of subtle ‘political’ structures which unconsciously nurture docile, dependent attitudes to authority. The Nordic approach to HRM would include the substantial, visible authority of the HR department, extensive written strategies, a widespread collective orientation to management, and extensive consultation. The continental central European model would involve lower authority for HR departments, extensive line management involvement in HR issues and legal support for collaboration with trade unions. Whether there is an ‘offshore central European’ model is open to question. Filella (1991) argues that the regional groupings may correspond to stages of socio-economic development.

Examining flexible (contingent) work practices, Brewster and Tregaskis (2001) found slightly different groupings in the manufacturing and service sectors. Spain tended to be a category on its own in both cases and, in manufacturing for example, Germany, the Netherlands, Norway and Switzerland were in the “high inclusive” group; France and Ireland in the moderately reactive group; in services the UK, Sweden, Denmark and Belgium in the moderately reactive group. Gooderham and Brewster (2003) found four categories based on a matrix based around communitarianism and autonomy.

**Dynamic Views: Convergence or Divergence?**

Whilst valuable in pointing us away from the universalistic prescriptions on HRM there are two major problems with these European or within-Europe approaches. First, whilst they emphasise the importance of culture and institutions, they under-emphasise the level at which such differences are most cogent, the national level. Second, they are static: they leave little room for the change that we see all around us.

As far as the level of national differences is concerned, the evidence is widespread. A number of studies show the differences between various aspects of HRM in European countries (e.g., Pieper, 1990; Vickerstaff, 1992; Brunstein, 1995; Brewster, Mayrhofer, & Morley, 2004).
However, the evidence concerning convergence or divergence is more equivocal: are the differences between nations being reduced or not?\(^1\) There are at least two variations of the convergence thesis. The first is the market-driven approach, which tends towards arguing that the rest of the world will become increasingly similar to the United States of America, the most powerful market in the world and therefore the exemplar, in the way that organisations are managed, including how they manage human resources. The second explanator is institutional which, although there is a strand of this theory which argues for world-wide convergence, also includes a strand arguing that the institutional power of the European Union and its approaches to employment practices will lead to a convergence towards a specifically European model. The divergence thesis often uses institutional and/or cultural arguments.

**Convergence: Market-led**

The first variation of the convergence thesis argues that policies of market deregulation and state decontrol are spreading from the US around the world. The power of markets will ensure that those firms that are more productive and where their costs are lower will be successful – others will be driven to copy them to survive. Since the USA is the technological leader, it followed that US management practices represented current “best practice”, which other nations would eventually seek to emulate as they sought to adopt US technology. Thus “patterns in other countries were viewed as derivative of, or deviations from, the US model” (Locke, Piore, & Kochan, 1995, p. xvi).

There is an institutional version of this theory (sometimes termed the “North-American phenomenological neo-institutionalism”, Djelic & Bensedrine, 2001), which argues that institutions reflect power relationships and that, therefore, the economic and technical pressures will be reflected institutionally. Thus there will be coercive pressure to ensure that similar structures and practices are adopted throughout the world (such as the de-regulation “strings” typically tied to IMF loans to underdeveloped countries); normative pressures (from professional bodies, international associations and the growing internationalisation of executive education); and cognitive isomorphism (as international organisations attempt to spread their policies and cultures around the world; see DiMaggio & Powell, 1983). It has been argued that one effect of this global institutional isomorphism is that the role of nation states becomes less significant (Meyer, 2000).

The convergence thesis has also received support from transaction cost economics which also contends that at any one point of time there exists a best solution to or-

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\(^{1}\) Our discussion here, for various reasons, including lack of space, is limited to convergence at the national level. Whilst we believe our analysis would have value with reference to convergence or divergence at sectoral, size, interdependence and other levels, we leave that for future articles.
ganising labour (Williamson, 1975; Williamson, 1985). “Most transaction cost the-
orists argue that there is one best organisational form for firms that have similar or
identical transaction costs” (Hollingsworth & Boyer, 1997b, p. 34). Likewise, parts
of the industrial organisation literature argue that firms tend to seek out and adopt
the best solutions to organising labour within their product markets, long-term sur-
vival being dependent on their being able to implement them (Chandler Jr., 1962;
Chandler Jr., 1977; Chandler Jr. & Daems 1980). Thus, there is a tendency for
firms to converge towards similar structures of organisation.

This argument has been carried through into HRM. It is implicit in many of the
universalist texts which simply ignore national differences and assume that findings
from the USA are replicable in other countries, and explicitly argued elsewhere (see,
e.g., Locke et al., 1995).

These various convergence perspectives are characterised by their functionalist mode
of thought: practices are explained largely by reference to their contribution to tech-
nological and economic efficiency (Brewster & Tregaskis, 2003). Management, in-
cluding human resource management, is a dependent variable that evolves in re-
sponse to technological and economic change, rather than with reference to the socio-political context. The result is that regardless of auspices, effects on management
and labour are similar (Kerr, 1983).

Convergence: Institutional driven

There is an alternative convergence argument, based on a different version of the
institutional analysis.

This argues that since institutions are strong antecedents of difference the ongoing
economic and political integration of European Union countries, for example, may
create a convergence towards a distinctly European practice – different from the
market convergence model. This concept would see regional convergence, but not
global convergence, generating a specifically European model of convergence in
HRM (Brewster, 1995b). In Europe organisations are constrained at a national level
by culture and legislation and at the organisational level by trade union involve-
ment and consultative arrangements. It is clear that, in general, European countries
are more heavily unionised than the United States, and indeed most other coun-
tries. Trade union membership and influence varies considerably by country, of
course, but is always significant. Indeed, in many European countries the law re-
quires union recognition for collective bargaining. In most European countries,
many of the union functions in such areas as pay bargaining, for example, are exer-
cised at industrial or national level, – outside the direct involvement of managers
within individual organisations – as well as at establishment level (Traxler, Blaschke,
& Kittel, 2001; Hegewisch, 1991; Morley, Brewster, Gunnigle, & Mayrhofer,
1996). Thus in Europe, unlike in the US, firms are likely to deal with well-founded
trade union structures. It is worth noting that studies of HRM in the US have tend-
ed to take place in the non-union sector (Beaumont, 1991b). In fact a constant assumption in research programmes in the US has been the link between HRM practices and non-unionism (see, e.g. Kochan, McKersie, & Capelli, 1984; Kochan, Katz, & McKersie, 1986). “In the US a number of... academics have argued that HRM [the concept and the practice] is anti-union and anti-collective bargaining” (Beaumont, 1991a, p. 300).

In HRM, state involvement in Europe is not restricted to the legislative role. Compared to the USA the state in Europe has a higher involvement in underlying social security provision. Equally it has a more directly interventionist role in the economy, provides far more personnel and industrial relations services and is a more substantial employer in its own right by virtue of a more extensive government-owned sector (for an overview about labour markets in Europe see Siebert, 1997).

Finally, there are developments at the level of the European Union or the European Economic Area which impact upon all organisations in Europe. In a historically unique experiment, European Union countries have agreed to subordinate national legislative decision-making to European level legislation. These developments have indirect effects upon the way people are managed and direct effects through the EU’s adoption of a distinct social sphere of activity. Thus, this strand of the debate would see convergence not on a world-wide basis, but rather towards different regional groupings based on the developing regional institutions. On such an analysis, the European Union, where these institutions are far stronger than they are in any other regional bloc, is a test case.

None of the “convergers” pretend that they do not see the variety of management approaches around the world. However, they argue that, in the long term, any variations in the adoption of management systems at the firm level are ascribable to the industrial sector in which the firm is located, its strategy, its available resources and its degree of exposure to international competition. Moreover, they claim, these factors are of diminishing salience. Indeed, once they have been taken account of, a clear trend toward the adoption of common management systems should be apparent.

Divergence: Alternative models

Proponents of the divergence thesis argue, in direct contrast, that personnel management systems, far from being economically or technologically derived, epitomise national contexts that do not respond readily to the imperatives of technology or the market. This may be based upon an institutionalist perspective, in which organisational choice is limited by institutional pressures, including the state, regulatory structures, interest groups, public opinion and norms (DiMaggio & Powell, 1983; Meyer & Rowan, 1983; Oliver, 1991; Hollingsworth & Boyer, 1997a). Or they may be based on the notion that cultural differences mean that the management of organisations – and particularly of people – is, and will remain, fundamentally dif-
ferent from country to country. National differences in ownership, structures, educational systems, and laws all have a significant effect on the architecture and the practices of employing organisations. This literature has been synthesised in the work of such authors as Hall and Soskice (Hall & Soskice, 2001) who draw a sharp distinction between “co-ordinated market economies” of say Germany and Sweden and “liberal market” (Anglo-American) ones. A more subtle version is propounded by Whitley (1999) who sees six different possible varieties of capitalism (Fragmented, Co-ordinated industrial district, Compartmentalised, State organised, Collaborative, and Highly co-ordinated). He defines business systems as: “…distinctive patterns of economic organization that vary in their degree and mode of authoritative co-ordination of economic activities, and in the organization of, and interconnections between, owners, managers, experts and other employees” (Whitley, 1999, p. 33) – according human resource management a distinctive role in creating the difference between these systems.

These institutionalist writers tend to see cultural differences between nations as an aspects of this analysis. Others (e.g. Hofstede, 1980; Trompenaars, 1994; House et al., 2002) would see the cultural differences as underlying the institutional differences. Cultural values affect every aspect of work and organisation and are largely unseen by the actors involved.

Divergence theorists argue that national, and in some cases regional, cultures and institutional contexts are slow to change, partly because they derive from deep-seated beliefs and value systems and partly because major re-distributions of power are involved. More importantly, they argue that change is path dependent. In other words, even when change does occur this can only be understood in relation to the specific social context in which it occurs (Maurice, Sellier, & Silvestre, 1986; Poole, 1986). Performance criteria or goals are thus, at any point in time, socially rather than economically or technologically selected so that they first and foremost reflect the national culture and the idiosyncratic principles of local rationality.

The general management discussion is beginning to be reflected in the specific field of comparative HRM (Boxall, 1995; Brewster & Tyson, 1991; Hollinshead & Leat, 1995; Brewster, Mayrhofer, & Morley, 2000). In this respect, HRM is catching up with another aspect of the study of employment relationships, the study of industrial relations, which has long recognised the importance of international differences (see, for example, Due et al., 1991; Hyman, 1994; Poole, 1986; Stephans, 1990; Przeworski & Spague, 1986; Visser, 1992; Bean & Holden, 1992; Locke et al., 1995; Hollinshead & Leat, 1995). Human resource management is increasingly acknowledged to be one of the areas where organisations are most likely to maintain a ‘national flavour’ (Adler, 2002; Schuler & Huber, 1993; Rosenzweig & Nohria, 1994) and is the point at which business and national cultures have the sharpest interface, especially in areas such as forms of control (Harzing & Sorge, 2003), work systems (Geppert, Williams, & Matten, 2003) and team work (Woywode,
2002). Even in companies that try to implement ‘world-wide’ policies, practice is negotiated or varied at national level (Ferner, 1997; Wächter, Peters, Tempel, & Müller-Camen, 2003).

Types of convergence

From a theoretical as well as an empirical point of view, the notions of convergence or divergence are complex. Although the general meaning, intuitively, is clear, it becomes more complex at a closer look. We propose to differentiate between two different forms of convergence: directional (type I) and final (type II) convergence (for a more in depth discussion of different forms of convergence see Mayrhofer, Müller-Camen, Ledoltet, Strunk, & Erten, 2002).

**Type I – directional convergence:** Directional convergence occurs where the development tendency goes in the same direction. Regardless of a starting level in each country, if the variable analysed changes in the same direction in each country there is a convergence in direction at least. Table 1 shows the basic idea. There, both in countries A and B the developments point in the same direction, e.g. the use of a certain management tool in each country increases. Nevertheless, the frequency of use in the two countries is at a different level.

**Table 1: Directional convergence (type 1)**

![Development over time](image)

**Type II – final convergence:** Final convergence exists when the developments of a variable in different countries point towards a common end point. In other words, the differences between countries decrease. This development is independent of directional convergence (type I) as different developments in terms of, for example, frequency of use of a certain management tool, can still result in final convergence. Table 2 shows three country pairs as examples of final convergence. This is the meaning of convergence that is most commonly assumed in the literature, even if rarely stated explicitly and sometimes confused with the other forms. Each of the three examples shows a different case of final convergence for illustration.

**Table 2: Final convergence (type 2)**

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2 A third type of convergence – majority convergence – occurs if a population of organisations in a country become more homogeneous or heterogeneous, respectively, in the use of a certain management concept or tool. For example, if 50% of the organisations in a country use a specific management tool and 50% do not, one can assume maximum divergence within a country since there is a clear ‘split’ in the concrete use of this tool. In more general terms: the closer a value in a country has moved to the 50% level, the greater the majority divergence has become. Vice versa, the more the value approaches the 100% or 0% level, the greater the majority convergence has become. However, since within country comparisons are not the focus of this contribution we ignore this form of convergence here.
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Our results section discusses some of the empirical findings from the Cranet network on these issues, but first we address more general research issues raised by the process of comparative research.

**Methodology**

Researching large-scale developments in European HRM over an extended period of time raises not only conceptual, but also methodological and research practical problems (for basic views on international and/or cross-cultural research see, e.g., Adler, 1983; Kochan, Dyer, & Batt, 1992; Cavusgil & Das, 1997). When doing the kind of longitudinal and comparative research that is addressed here, at least three major issues arise. First, basic decisions about methodology have to be made. Here, as in every other practical research effort, researchers have to position themselves within the available spectrum of epistemological and methodological options. Second, doing research across national and cultural boundaries adds specific elements to the ‘traditional’ problems encountered in empirical research, e.g., language barriers, different national traditions of doing research or varying practical circumstances of, say, data gathering. Third, such research efforts cannot be taken on alone. Working together in various forms of research networks seems to be a *conditio sine qua non*. Hence, the problems of working together in a culturally mixed, geographically dispersed group over a longer period of time and considerable network dynamics have to be taken into account.
Consequently, this chapter touches methodological issues at three levels. First, some basic problems of comparative research have to be addressed. Second, there is a need to discuss the consequences of doing research in a small team that is not anchored in a more or less homogeneous national background and, consequently, in a common understanding and, most often, sharing of joint standards of science. Third, the ‘usual’ issues of the concrete research project have to be mentioned.

Basic Problems of Cross-cultural and Comparative Research

Choosing a methodological angle

Based on Cartesian dualism which distinguishes between the physical as external reality and thinking as internal world, two basic paradigms of scientific thought and methods have emerged: the objective, deductive and often called quantitative and the subjective, interpretative and frequently labelled qualitative paradigm (see, e.g., Lamnek, 1988; Lueger, 2000).

From a subjective, interpretative point of view the world is not simply given as an objective reality. Rather, it is subjectively constituted and socially pre-interpreted, formed by the observation schemes of the individual actors. In this process, objective and subjective meaning can be differentiated. Subjectively, the actors themselves attribute meaning to their own actions. On the other side, action can be linked with meaning without referring to the psyche of the actor through the observation of observers (Soeffner, 1989; Schütz, 1981). Given this background, the methods used within this paradigm usually have to meet specific criteria like openness, communicativity, contextuality or search for meaning (e.g., Lamnek, 1988).

From an objective, deductive perspective the focus is on the world as a ‘given’ entity that can be looked at and analysed without referring to subjective interpretation. Archetypically, this approach is reflected in the approach of natural science which strives for universal laws and testing of hypotheses via quantitative, experimental methods. Critical rationalism presupposes an objective reality, i.e. truth. Through a collective effort called science this truth can be approached more and more. Critique becomes crucial in this approach as it is essential for the core elements like intersubjectively checking results and methods (Popper, 1972; Scholtz, 1991). The methods used in this paradigm have to meet criteria like connection with theory, objective research process, operational definition and isolation of relevant measures, rational explanation, primacy of falsification (Friedrichs, 1973).

Studies covering developments in European HRM are implicitly or explicitly rooted in the objective, deductive paradigm. Although using a variety of research methods including ‘typical’ elements of ‘qualitative’ research like single company cases studies or personal in-depth interviews, the basic assumption is quite clear: objective reality – in this case: developments in HRM in Europe – can be captured by using appropriate methods and operationalised through theory-based constructs.
Classic cross-cultural issues

In cross-cultural research a distinction between emic and etic approach has been made (see, e.g., Ronen, 1986; Thomas, 1993; Holzmüller, 1995). “Whereas emics apply in only a particular culture, etics represent universality – they apply to all cultures in the world” (Ronen, 1986, p. 47). If different cultures are compared on the basis of pre-defined categories (so called cultural dimensions), the researcher’s position is outside the observed cultural system because cultures are compared on the basis of dimensions developed in the culture of the researcher. Hofstede’s or Trompenaars' cross-cultural analyses are examples of etic research approaches. The main disadvantage and critique is the fact that an “ethnocentric bias” cannot be avoided, because one particular dimension (category) may have different meanings in different cultures or one cultural dimension may not exist in every culture. As far as the emic approach is concerned researchers are within the investigated cultural system, they try “to see how the natives conceptualise the world” (Ronen, 1986). The emic approach can provide a culture specific level of understanding that gives the researcher an in-depth feel for the nation (Gannon, 2001, p. 52). Though this can be characterised as a culture-adapted, non-ethnocentric approach, categorisation is under strong influence of the researcher’s way of perception and the investigator’s blind spot may cause distortions. In practical research, the emic/etic differentiation leads, among others, to the question of inclusion or exclusion of country representatives with local know-how and the effects of (not) doing so.

Specific problems in comparative research – noble and not so noble...

Different scientific traditions in methodological and epistemological terms exist across countries. Especially in continental Europe, there is a long tradition of interpretative research. Only in recent times, in spite of the domination of the ‘objective-deductive perspective’, this angle has become more acceptable also in respected top journals (see, e.g., the increasing number of interpretative contributions in top management journals like the Academy of Management Journal). These different traditions, combined with a varying amount of methodological training researchers receive during their career and the problem of speaking a common language – even if English is the lingua franca in HR research, the command of English especially in its subtle nuances varies significantly – provide a background where it is not easy to agree on a common approach in international research networks consisting of members from a great number of countries.

Struggling with the issue of ‘likeness’ and equivalence is one of the big topics in international comparative research (Cavusgil & Das, 1997). Although they are not unique to that type of research but a ‘universal’ issue in research, it becomes especially salient at the international level. The same empirical phenomena can be labelled differently in different countries and, vice versa, different things can carry the same labels. Likewise, the same data gathering procedures can yield quite different...
results. Therefore, comparative research “is concerned with attempting to compare like with like. In international settings this is not an easy task” (Tregaskis, Mahoney, & Atterbury, 2004, p. 440).

In addition, practical circumstances of doing research in each country vary considerably. For example, different traditions of how to approach companies – via letter, personal interviews, the web etc. – or the financial resources available for an ‘average’ researcher make a joint approach even more difficult.

Establishing and Maintaining Research Networks

Ambitious international comparative research efforts cannot be done ‘alone’ or with only a small group of people. Its scope in terms of content and methods, the geographical spread, the financial involvement and the time investment requires a larger research group with dedicated actors – in other words: an international research networks. Establishing and sustaining such research networks has pitfalls of its own beyond the typical problems of multicultural work teams (see, e.g., Davison, 1996; Ely & Thomas, 2001; Erez & Somech, 1996).

First, the question of who is starting the network comes up. This has an individual as well as an institutional component. At the individual level, a well-known figure in the field may use his or her reputation and contacts to bring together individuals often not (very well) known to each other. This can lead to a problematic communication structure at the beginning as much of the communication and integration is focused on the central actor. In addition, such a ‘father/mother figure’ has, for a long time, a special place in the social structure of the network. This can have positive as well as negative consequences for the development of such networks. At the institutional level, the initiator’s institutional affiliation is crucial. Its reputation as well as the country location plays a role that should not be underestimated in terms of the prestige and credibility ascribed to the network.

Second, the question of leadership, internal power distribution and decision mechanisms constitute critical areas. The scientific communities are – at least at a superficial level – characterised by formal equality and a great amount of individualistic freedom, the latter being for some members of the scientific communities one of the main motivational drivers. Nevertheless, in international research networks a number of subtle (and less subtle) differences resulting in different power bases exist, e.g., qualifications, reputation, seniority, available social capital, country of origin, command of the lingua franca of the network, etc. In addition, larger research networks require some kind of decision mechanisms beyond basic-democratic ‘everybody is involved in and decides everything’-style of decisions. Thus, hierarchical differences return through the ‘backdoor’. Handling the tension between the equality/individualistic principle of the larger context and the concrete requirements of the research network is a crucial point.
Third, managing international research networks has its peculiarities. Due to the loose institutional bonds, the cultural diversity and the geographic spread such networks have to rely on a number of mechanisms for co-ordination and control (for different types of such mechanisms see, e.g., Mayrhofer, 1998; Turati, Usai, & Ravagnani, 1998).

Fourth, if networks exist over a longer period of time, inevitably some internal network dynamics occur. Fluctuations in the membership, changes in the formal and/or informal status of network members based on developments in individual careers and professional development and, consequently, modified social relations, conflicts about the future course of the network, struggles about the use of especially promising findings and, linked with that, the distribution of reputation are just a few of the examples of issues arising. Processes become even more complicated if the research network consists of members from different reference systems, e.g., from the scientific area and from the area of consulting. In addition to the issues just mentioned, new problems arise. The ultimate, often implicit understanding of the goal of one’s effort – roughly characterised by knowledge creation/insight vs. practical applicability – is usually different. Likewise, different time frames, i.e. more long term vs. more short term, exist.

As can be seen from these few examples, the use of large international research networks – though essential for specific types of international comparative research – is fraught with dangers. Some of those networks are successfully managed and yield excellent output (see, e.g., the Globe-project in the area of comparative leadership research, House et al., 1999). However, other research consortia (it would be invidious to name them here) either never take off or clearly lag behind their own ambitions.

The Concrete Research Project

International HRM has recently experienced a steady growth in research efforts and publications. European researchers in particular have made a number of significant contributions to theoretical, empirical and methodological advances in the field (e.g., Pieper, 1990; Poole, 1990; Brewster, 1995b; Brewster, Tregaskis, Hegewisch, & Mayne, 1996; Goodeham et al., 1999; Brewster et al., 2000; Brewster et al., 2004). Cranet has been part of these efforts, dedicated to analysing developments in the area of HRM in public and private organisations with more than 200 employees in a national, cross-national and quasi-longitudinal way (see Brewster & Hegewisch, 1994; Brewster et al., 2000; Tregaskis et al., 2004). At the outset, Cranet had two major goals: First, to research whether a pattern of ‘Europeanisation’, i.e. convergence to a common pattern could be found over time and, second, to identify whether changes in personnel policies towards a more strategic human resource management approach have occurred (Brewster et al., 1996).
The Cranet survey is the largest and most representative independent survey of HRM policies and practices in the world. It includes 37 countries, 27 of them in Europe. Six major survey rounds have been conducted since 1990. Overall, data from roughly 30,000 respondents – public and private organisations – are now available and the number continues to increase. The survey concentrates on 'hard data' like numbers, percentages, ratio etc. and avoids, as far as possible, attitudinal information. To reduce respondent and cross-country bias very few open-ended questions are included. In addition, the translation-retranslation technique (Brislin, Lonner, & Thorndike, 1973; Brislin, 1976) is used for every country in every survey round.

Inevitably, Cranet has to cope with the basic options and problems of comparative research in HRM highlighted above. From a methodological point of view, it is rooted in the objective and etic paradigm. The assumption made is that across cultures and countries data can be obtained focusing on 'hard' evidence which is not very likely to be biased by cultural assumptions. Nevertheless, a number of variables are inevitably subject to culturally propelled interpretations. For example, concepts like performance evaluation are likely to be interpreted in a different way depending on one’s cultural perspective. Although translation-retranslation techniques can help, they cannot solve the basic problems linked with doing objective, etic research in this area.

Cranet handles – not solves – the issues linked to the establishment and maintenance of international research networks by relying on a number of guiding principles. A basic decision has been made to adhere to a set of (network) universal standards. For example, a standard operating procedure has been set up for data collection and input, integration of new questions etc. However, some local adaptations – for example, in the area of how to approach companies in the data collection process – have been made and are accepted within the network. In addition, the methodological discussion is kept going within the research network. This propels mutual learning processes and improves the solutions every network partner chooses for the respective country. In doing this, one has to manage skilfully the trade-off balances between practical necessities and methodological rigorousness. Likewise, there always has been a local partner in each country where Cranet collects data. Thus, the ‘ethnocentric bias/temptation’ is reduced. In terms of network dynamics, Cranet has gone through various phases. In the initial start-up phase with a lot of growth in member countries, the emphasis was on data collection. The key actors remained quite stable. In the scientific community, the network started to get international attention. In a second phase, the growth rate declined. The focus switched from data collection to data analysis. At the same time, the fluctuation in the network increased as established members were leaving the network or re-positioning themselves within the network. In terms of reputation, the activities of the network gained visibility and respectability. In a third phase, many activities and individual members of the network have become well known and an accepted part of interna-
tional comparative research in HRM. Some high-profile publications in top journals (e.g., Gooderham et al., 1999) indicate this. Still, the size of the network and the differentiated career paths its members pursue means that it remains a fragile unit.

In the following section, we will try to pull together insight from different pieces of the empirical work of Cranet over the past 15 years. As these come from various sources using different sub-sets of our own data as well as other authors’ work, the necessary information about the used part of our sample is presented at the respective place in the text. Of course, for our own as well as for other authors’ work, further information and details can be obtained by following the given references.

Results

By identifying major trends in the development of European HRM, the focus is ‘zoomed out’: We do not want to point at specific countries or industrial sectors. Rather than commenting on such details, we would like to identify major, constituting characteristics of the overall picture. To be sure, this overall picture is by no means complete. Despite the efforts of Cranet and many other most valuable contributions, empirically and theoretically, we are far from understanding completely what goes on in European HRM. Nevertheless, parts of a picture are there and – with all the caution required – we can see at least four major trends constituting important characteristics of the evolving picture or HRM in Europe. The first two of them – ‘European HRM is different’ and ‘Great variety of HR practices in European countries’ – refer to a more static view. The latter two – ‘Frequent stasis’ and ‘Some evidence of convergence’ – include a dynamic component.

European HRM is Different

As we have seen, there have been claims to identify a unique European model of HRM. The conceptual arguments have been outlined in section 2 of this paper (see Brewster, 1995b). Empirically, however, it is not easy to demonstrate convincingly that HR practices in Europe and the US (or, indeed, elsewhere) are clearly different, the main reason being a lack of adequate comparable data. Nevertheless, considerable evidence points in the direction of a distinctive European approach.

First, the legal environment relevant for HRM differs considerably between the US and Europe. Undeniably, even within Europe large differences exist between countries with a lot of labour related regulations like the German speaking area and comparatively less regulated countries like, e.g., Ireland or the UK. Yet, clearly, the density of labour regulations is higher in Europe than in the US (Grubb & Wells, 1993).

Second, the main actors in industrial relations have a different role in Europe and the US. Trade unions and employers’ associations have more members and more
influence in the former. The role of collective bargaining and collective agreements, the influence of trade unions in the political system and their importance for management decisions are just three of the important factors.

Third, a number of studies examining specific aspects of HRM point towards important differences between Europe and the US. These would include aspects like skill-level and available types of qualifications in the work force (Mason & Fingold, 1997), the role of human resource development professionals (Nijhof & de Rijk, 1997) and managerial attitude towards employees’ participation in decision making (McFarlin, Sweeney, & Cotton, 1992).

Fourth, and maybe especially relevant, is a situation where US and European views of HRM, encounter each other directly: in the case of subsidiaries of US multinationals in Europe. Multinationals and their subsidiaries seem to play a special role in the diffusion of practices and know-how in HRM (see, e.g., Müller, 1998; Ferner, 1997; Gooderham, Nordhaug, & Ringdal, 1998). The subsidiaries of US multinationals are different from indigenous organisations or multinationals from other countries which, by and large, adapt more to the local environment. US multinationals not only seem to have a rather ethnocentric approach to international HRM, with little re-transfer of best practices from their overseas operations, but are also particularly proactive in searching to by-pass local conditions that they see as constraints (Ferner, 1997; Gooderham et al., 1999). These are indicators for differences between how HRM is understood and implemented in the US and in Europe.

Great Variety of HR Practices in European Countries

When ‘zooming in’ towards HR practices in specific European countries, it becomes clear that in all major functional areas there are significant differences between European countries. Practices from four core functional areas of HR – organisational role, recruitment and selection, staffing, compensation – can serve as examples:

- Formal representation of the HR function at the highest board of the organisation and the stage at which HR is involved in the development of corporate strategy – as indicators of its role and importance.
- The use of internal mechanisms for filling managerial vacancies – as an indicator of recruitment approaches for crucial parts of the work force.
- The proportion of workforce on part-time contracts – as an indicator of the configuration of the work force.
- The proportion of the annual salaries and wage bill spent on training and development – as an indicator of the importance of well qualified labour.
When looking at these issues, the picture shown in Table 3 emerges:

Without going into the detail – and the problematic – of such comparisons, the table illustrates a remarkable degree of difference: what is widespread or standard practice in one country plays little or no role in others.

**Table 3: Differences in HR practices in Europe**

<table>
<thead>
<tr>
<th></th>
<th>EU average</th>
<th>Highest</th>
<th>Lowest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Formal representation of HR function at the highest board</td>
<td>54.5</td>
<td>88.2 (F)</td>
<td>29.9 (P)</td>
</tr>
<tr>
<td>Involved in development of corporate strategy</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>From the outset</td>
<td>58.1</td>
<td>72.0 (I)</td>
<td>43.5 (NL)</td>
</tr>
<tr>
<td>Through consultation</td>
<td>24.1</td>
<td>40.7 (P)</td>
<td>14.5 (Fin)</td>
</tr>
<tr>
<td>On implementation</td>
<td>10.2</td>
<td>28.6 (Gr)</td>
<td>3.8 (S)</td>
</tr>
<tr>
<td>Not Consulted</td>
<td>7.6</td>
<td>19.8 (A)</td>
<td>0.7 (F)</td>
</tr>
<tr>
<td>Internal recruiting</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Senior Management</td>
<td>52.0</td>
<td>65.9 (Gr)</td>
<td>7 (DK)</td>
</tr>
<tr>
<td>Middle Management</td>
<td>76.3</td>
<td>82.0 (A)</td>
<td>62.4 (P)</td>
</tr>
<tr>
<td>Junior Management</td>
<td>61.7</td>
<td>81.3 (S)</td>
<td>31.2 (F)</td>
</tr>
<tr>
<td>Proportion of workforce on non-standard contracts (part-time)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No part-timers employed</td>
<td>7.4</td>
<td>68.7 (P)</td>
<td>0 (NL)</td>
</tr>
<tr>
<td>&gt; 10% of part-timers</td>
<td>24.9</td>
<td>63.3 (NL)</td>
<td>2.3 (P)</td>
</tr>
<tr>
<td>Proportion of annual salaries and wage bill spent on T&amp;D</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&lt; 1%</td>
<td>12.9</td>
<td>26.3 (I)</td>
<td>0.3 (F)</td>
</tr>
<tr>
<td>1 – 1.9%</td>
<td>27.3</td>
<td>42.0 (E)</td>
<td>7.8 (F)</td>
</tr>
<tr>
<td>2 – 2.9%</td>
<td>20.1</td>
<td>31.2 (DK)</td>
<td>12.1 (P)</td>
</tr>
<tr>
<td>3 – 4.9%</td>
<td>19.4</td>
<td>37.5 (F)</td>
<td>9.6 (E)</td>
</tr>
<tr>
<td>5 – 9.9%</td>
<td>15.6</td>
<td>31.1 (F)</td>
<td>1.8 (I)</td>
</tr>
<tr>
<td>&gt; 10%</td>
<td>4.9</td>
<td>9.3 (P)</td>
<td>1.5 (FIN)</td>
</tr>
</tbody>
</table>

A=Austria; DK=Denmark; E=Spain; F=France; Fin=Finland; Gr=Greece; I=Italy; NL=Netherlands; P=Portugal; S=Sweden

3 This analysis was made for those countries in the EU in 2000 only.
Frequent Stasis

We live in a world of full of change. The accepted wisdom is that individuals and organisations have – ideally: as quickly and as smoothly as possible – to adapt to ever changing contextual conditions. Massive change drivers like globalisation and the diminishing importance of national barriers, growing competitive pressures and virtualisation trigger new forms of organisations, work and careers. Indeed, *prima facie* plausibility and singular, eclectic evidence both seem to confirm the dictum of ubiquitous change.

However, Cranet’s empirical results seem to be in striking contrast to such a dictum. In the area of European HRM, stability and little change seems to be not the exception but rather the rule. To be sure, this does not mean that everything stays exactly the same. Yet, very often even in areas where one might expect change (even the academics are seemingly caught up in the “change-frenzy” often generated by consultants or idealised cases), the data remain unclear or even point in the opposite direction. Let us look at three examples.

The question of *evaluation of HR departments* has been widely discussed in recent years. Due to an increasing pressure on all units not directly adding value, HR departments and their work are under close scrutiny, the acid test for HR being: is it worth it? The need to prove a contribution to the overall organisational performance leads to a growth in the formal evaluation of HR activities. Given this background, one would expect a sharp increase in the number of HR departments that are regularly and formally evaluated.

The empirical reality challenges these expectations. Our analyses use 18 European countries, (i.e. all EU before the latest enlargement in 2004 except Luxemburg, with Germany split into the old and the new federal provinces, and in addition Turkey, Switzerland and the Czech Republic). Overall, for 20,610 private sector organisations with more than 200 employees appropriate data were available for the decade between 1989 and 2000.4 For the longitudinal analyses only variables were included where identical or nearly identical questions were available for all survey rounds.

Across the surveyed countries there is no clear trend when looking at core variables for which a longitudinal analysis is possible. Several examples can illustrate this.

A first example is the degree to which HR departments are formally evaluated. When looking at the developments in this respect, the following picture emerges (see Table 4).

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4 For a fuller description of the sample and the methodology see ).
Table 4: HR departments formally evaluated (per cent of organisations)

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>46.0</td>
<td>41.0</td>
<td>44.0</td>
<td>47.8</td>
<td>42.0</td>
</tr>
<tr>
<td>N</td>
<td>3773</td>
<td>4172</td>
<td>3397</td>
<td>3996</td>
<td>4991</td>
</tr>
</tbody>
</table>

Obviously some change occurs, but these changes do not all reflect any clear trend or a significant development into one direction or the other. Of course, this does not say anything about changes at the level of the individual country or organisation. Analysing aggregate data at the overall European level averages out such changes. But it provides a “bird’s-eye” view of the overall situation across Europe.

A second example is the importance of training and development measures. Given the widely claimed emergence of the knowledge society, the changing demands of work processes and the increasing significance of a well-educated work force for handling organisational transformation processes, one would expect an ever-increasing amount of training in organisations.

However, if one looks at a major indicator for training and development activities – the number of training days per year for various groups of employees – no such trend is discernible (see Table 5).

Table 5: Importance of training and development – average training days per year by employee category

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Management</td>
<td>6.7</td>
<td>6.6</td>
<td>6.0</td>
<td>6.0</td>
</tr>
<tr>
<td>Professional</td>
<td>6.6</td>
<td>6.4</td>
<td>6.2</td>
<td>6.4</td>
</tr>
<tr>
<td>Clerical</td>
<td>4.1</td>
<td>4.3</td>
<td>3.9</td>
<td>4.2</td>
</tr>
<tr>
<td>Manual</td>
<td>4.5</td>
<td>4.7</td>
<td>4.2</td>
<td>4.5</td>
</tr>
</tbody>
</table>

Again, a certain amount of variation is visible. However, nothing points in the expected direction. Practices seem to be quite stable.

A final example refers to the role of the HR function and its relationship to line management. The notion of a general decentralisation of HRM might lead us to expect that parts of the responsibility as well as the operational tasks will be shared with line management. Hence, the percentage of European companies devolving HRM responsibility away from specialists towards line management should have been increasing through the decade.

However, again, the data does not support such a hypothesis. The mean value of a composite index indicating the relative distribution of responsibility between HR specialists and line management reveals little momentum over time. Indeed, there is a slight tendency towards centralisation – on average 0.15 points per year between 1989/90 and 1999/2000, on a scale ranging from 5 to 20. In only two countries are
there statistically significant changes, in all the other countries the changes are not significant and are as likely to go towards greater centralisation as greater decentralisation (for a more in depth discussion of these findings see Mayrhofer et al., 2002; Larsen & Brewster, 2003; Mayrhofer, Morley, & Brewster, 2004).

These three examples were deliberately chosen from areas where one would, relying on “received wisdom”, expect obvious changes. But even in such areas stability seems more common than change. Hence, one would not be surprised to find little variation in other areas. In fact, many of the areas researched by Cranet are remarkable stable in their development. Overall, the absence of change is an important part of the European picture.

Of course, in exploring these three examples a number of difficulties like the operationalisation of the variables or the problem of multi-level phenomena have to be kept in mind. Nevertheless, we would argue that if organisational practices had changed dramatically, the data would – notwithstanding research imperfections – reflect these changes. Put simply, they do not.

However, there is some evidence of change and the issue of convergence or divergence of HR practices in Europe still is open for debate.

Some Evidence of Convergence

There are, perhaps, at least some first hints about areas of convergence in some aspects of the Cranet data. Our analyses focus on practices in various functional areas of HR that do seem to show signs of such changes. We want to analyse the effects of major change drivers – whether cultural, institutional or the market: Do they lead to converging or diverging developments? For the analyses, the sample briefly described above from the 18 European countries was used.  

Directional convergence

Developments towards directional convergence in Europe can be found in four areas (more details and tables in Mayrhofer et al., 2004):

- Decreases in the size of the HR department relative to the overall work force,
- slight rises in the percentage of the annual salaries and wage bill spent on training (which, of course, may reflect a growing disparity between wage growth and the growing costs of training rather than a ‘real’ growth in the amount of training),
- increases in the amount of information being given to employees about company strategy and financial performance, and
- a more frequent use of performance related compensation systems.

5 For a more detailed discussion about the methodology applied and the detailed results see ; ;
In all these cases, the change in the average developments over all countries is statistically significant, all statistically significant changes at the country level point in the same direction and are compatible with the average development, and the majority of the non-significant changes at the country level are in the same direction as the significant changes overall and at the country level.

In all other patterns of practices analysed – the use of flexible work arrangements, the level at which the HR policy is determined and the responsibility shift from HR departments to line managers – the evidence is mixed or rather weak. Although there are some indications of converging developments, the empirical evidence is by no means clear and, therefore, we choose to be cautious in our claims.

Table 6: Directional convergence (yearly change)

<table>
<thead>
<tr>
<th>Range and explanation of scales</th>
<th>Level of policy determination</th>
<th>Distribution of responsibility between HR department and line management</th>
<th>Relative size of HR department</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Scale range: 0-5</strong></td>
<td>0</td>
<td>Scale range: 0-5</td>
<td>Percentage</td>
</tr>
<tr>
<td>The policy in all five major HR areas is determined by (international) headquarter</td>
<td>5</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>The policy in all five major HR areas is determined at the subsidiary/site level</td>
<td>20</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td><strong>Scale range: 5-20</strong></td>
<td>5</td>
<td>HR department is primarily responsible for crucial decisions in all five major HR areas</td>
<td></td>
</tr>
<tr>
<td>Line management is primarily responsible for crucial decisions in all five major HR areas</td>
<td>20</td>
<td>20</td>
<td></td>
</tr>
</tbody>
</table>

Average value, all countries and points in time

<table>
<thead>
<tr>
<th>Hypotheses about developments</th>
<th>HR policy determined at the subsidiary/site level</th>
<th>HR responsibility shifts from HR departments to line management</th>
<th>Relative size of HR department decreases</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria (2)*</td>
<td>-0.139</td>
<td>+0.045</td>
<td>+0.017</td>
</tr>
<tr>
<td>Belgium (2)</td>
<td>-0.028</td>
<td>-0.096</td>
<td>+0.044</td>
</tr>
<tr>
<td>Czech Republic (2)</td>
<td>-0.077</td>
<td>-0.089</td>
<td>+0.039</td>
</tr>
<tr>
<td>Denmark (4)</td>
<td>-0.037</td>
<td>-0.015</td>
<td>-0.012</td>
</tr>
<tr>
<td>Finland (3)</td>
<td>-0.060</td>
<td>+0.003</td>
<td>+0.014</td>
</tr>
<tr>
<td>Country</td>
<td>Level of policy determination</td>
<td>Distribution of responsibility between HR department and line management</td>
<td>Relative size of HR department</td>
</tr>
<tr>
<td>------------------</td>
<td>-------------------------------</td>
<td>------------------------------------------------------------------------</td>
<td>--------------------------------</td>
</tr>
<tr>
<td>France (5)</td>
<td>-0.062</td>
<td>-0.151</td>
<td>-0.024</td>
</tr>
<tr>
<td>Germany - East (3)</td>
<td>-0.034</td>
<td>+0.038</td>
<td>+0.065*</td>
</tr>
<tr>
<td>Germany - West (5)</td>
<td>-0.147</td>
<td>-0.027</td>
<td>+0.004</td>
</tr>
<tr>
<td>Great Britain (5)</td>
<td>-0.045</td>
<td>-0.039</td>
<td>+0.010</td>
</tr>
<tr>
<td>Greece (2)</td>
<td>-0.142</td>
<td>-0.150</td>
<td>+0.095</td>
</tr>
<tr>
<td>Ireland (3)</td>
<td>0.000</td>
<td>+0.130*</td>
<td>+0.018</td>
</tr>
<tr>
<td>Netherlands (4)</td>
<td>-0.035</td>
<td>+0.029</td>
<td>+0.021</td>
</tr>
<tr>
<td>Norway (4)</td>
<td>-0.041</td>
<td>+0.199*</td>
<td>+0.064*</td>
</tr>
<tr>
<td>Portugal (2)</td>
<td>-0.032</td>
<td>-0.077</td>
<td>+0.044*</td>
</tr>
<tr>
<td>Spain (5)</td>
<td>+0.011</td>
<td>-0.175</td>
<td>+0.038*</td>
</tr>
<tr>
<td>Sweden (5)</td>
<td>-0.087</td>
<td>+0.064*</td>
<td>+0.004</td>
</tr>
<tr>
<td>Switzerland (3)</td>
<td>-0.019</td>
<td>+0.034</td>
<td>+0.015</td>
</tr>
<tr>
<td>Turkey (3)</td>
<td>+0.142*</td>
<td>+0.005</td>
<td>+0.022</td>
</tr>
<tr>
<td><strong>Average of developments, all countries</strong></td>
<td><strong>-0.046</strong></td>
<td><strong>-0.015</strong></td>
<td><strong>+0.026</strong></td>
</tr>
<tr>
<td><strong>Proportion of countries with developments/statistically significant developments according to hypotheses</strong></td>
<td>11%</td>
<td>50%</td>
<td>89%</td>
</tr>
</tbody>
</table>
Table 6 continued: Directional convergence (yearly change): Training and development, communication with employees, compensation system and flexible work

<table>
<thead>
<tr>
<th>Range and explanation of scales</th>
<th>Proportion of annual salaries and wages bill spent on training (percentage)</th>
<th>Information of employees about company strategy and financial performance (Scale: 0-8)</th>
<th>Compensation system includes variable/performance related elements (Scale: 0-16)</th>
<th>Use of flexible work arrangements (Scale: 0-4)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Scale range: 0-4</td>
<td>Scale range: 0-16</td>
<td>Scale range: 0-4</td>
<td>Scale range: 0-4</td>
</tr>
<tr>
<td></td>
<td>0 none of the four groups of employees is informed</td>
<td>0 none of the four groups of employees has variable/performance related compensation elements</td>
<td>0 none of the four groups of employees has variable/performance related compensation elements</td>
<td>0 none of the four flexible work arrangements is used</td>
</tr>
<tr>
<td></td>
<td>8 all of the four groups of employees are informed</td>
<td>8 all of the four groups of employees are informed</td>
<td>8 all of the four groups of employees are informed</td>
<td>8 all of the four flexible work arrangements are used</td>
</tr>
<tr>
<td>Average value, all countries and points in time</td>
<td>3.1% (3.1% of the annual salaries and wages bill is spent on training)</td>
<td>Scale value: 4.8</td>
<td>Scale value: 3.9</td>
<td>Scale value: 2.1</td>
</tr>
</tbody>
</table>

Developments between 1990 and 1999 (values indicate average yearly change)
### Hypotheses about developments

<table>
<thead>
<tr>
<th>Hypotheses about developments</th>
<th>Increasing investment into training and development</th>
<th>More information of employees about company strategy and financial performance</th>
<th>More use of compensation systems including variable/performance elements</th>
<th>More use of flexible working arrangements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria (2)*</td>
<td>+0,061</td>
<td>+0,142*</td>
<td>+0,086</td>
<td>+0,010</td>
</tr>
<tr>
<td>Belgium (2)</td>
<td>+0,209*</td>
<td>-0,111</td>
<td>+0,012</td>
<td>+0,054*</td>
</tr>
<tr>
<td>Czech Republic (2)</td>
<td>+0,060</td>
<td>+0,026</td>
<td>-0,204</td>
<td>-0,045</td>
</tr>
<tr>
<td>Denmark (4)</td>
<td>-0,005</td>
<td>+0,027</td>
<td>+0,032</td>
<td>+0,127*</td>
</tr>
<tr>
<td>Finland (3)</td>
<td>+0,067</td>
<td>+0,044</td>
<td>+0,218*</td>
<td>+0,026*</td>
</tr>
<tr>
<td>France (5)</td>
<td>+0,069*</td>
<td>+0,062*</td>
<td>+0,540*</td>
<td>+0,044*</td>
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<tr>
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<td>+0,167*</td>
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<tr>
<td>Germany - West (5)</td>
<td>+0,028</td>
<td>+0,091*</td>
<td>+0,103*</td>
<td>+0,059*</td>
</tr>
<tr>
<td>Great Britain (5)</td>
<td>+0,005</td>
<td>+0,079*</td>
<td>-0,026</td>
<td>-0,004</td>
</tr>
<tr>
<td>Greece (2)</td>
<td>+0,195</td>
<td>+0,053</td>
<td>+0,220*</td>
<td>-0,061</td>
</tr>
<tr>
<td>Ireland (3)</td>
<td>+0,101</td>
<td>-0,050</td>
<td>+0,040</td>
<td>-0,016</td>
</tr>
<tr>
<td>Netherlands (4)</td>
<td>+0,192*</td>
<td>+0,082*</td>
<td>+0,214*</td>
<td>+0,063*</td>
</tr>
<tr>
<td>Norway (4)</td>
<td>+0,182*</td>
<td>-0,062</td>
<td>+0,055</td>
<td>+0,045*</td>
</tr>
<tr>
<td>Portugal (2)</td>
<td>+0,214*</td>
<td>+0,046</td>
<td>-0,128</td>
<td>+0,054*</td>
</tr>
<tr>
<td>Spain (5)</td>
<td>+0,043</td>
<td>+0,132*</td>
<td>+0,063*</td>
<td>-0,103</td>
</tr>
<tr>
<td>Sweden (5)</td>
<td>+0,023</td>
<td>+0,127*</td>
<td>+0,010</td>
<td>+0,016</td>
</tr>
<tr>
<td>Switzerland (3)</td>
<td>+0,190*</td>
<td>+0,146*</td>
<td>+0,117*</td>
<td>+0,070*</td>
</tr>
<tr>
<td>Turkey (3)</td>
<td>+0,072</td>
<td>+0,052</td>
<td>+0,065*</td>
<td>-0,082</td>
</tr>
<tr>
<td><strong>Average of developments, all countries</strong></td>
<td><strong>+0,092</strong></td>
<td><strong>+0,053</strong></td>
<td><strong>+0,088</strong></td>
<td><strong>+0,019</strong></td>
</tr>
<tr>
<td><strong>Proportion of countries with developments/statistically significant developments according to hypotheses</strong></td>
<td>89%</td>
<td>83%</td>
<td>83%</td>
<td>67%</td>
</tr>
</tbody>
</table>

* The values in brackets indicate the number of measurement points in time
* significant regression coefficient at the .05 level, one-tailed test of hypotheses

#### Final convergence

Overall, the evidence for all the HR practices analysed is clear: there is no unequivocal trend towards final convergence. On the contrary, developments across European countries diverged during the 1990s, having a maximum point of convergence mostly around the middle of the decade rather than at the end (see Table 6 and, for a more detailed picture of the results, see Mayrhofer et al., 2004). ‘Pure’ final con-
vergence would include a ‘narrowing down’ of differences between European countries indicating a more common practice in the various countries. For the first part of the ‘90s, this is the case in some areas such as the use of variable and performance related elements of compensation or the use of flexible working practices. However, between the mid-‘90s and the end of the ‘90s, the heterogeneity of HR practices in Europe increased again. Instead of a decrease of variety, (in other words, final convergence, i.e., a movement towards a common or more similar ‘endpoint’), the data shows increased divergence.

Concluding Remarks and Open Questions

Overall, how are we to understand the evidence in the light of the conceptual and empirical considerations? Neither the emergence of a European model of HRM nor the great variety of HR practices in European organisations come as a big surprise. Conceptual as well other empirical work have indicated this before. The empirical work reported here corroborates previous insight and puts new nuances to it. The empirical data show that in very ‘traditional’ areas of HR country differences do continue to exist. Given the current situation within Europe this is again not very surprising. Despite the increasing common elements in the legislative framework of the EU countries, the access countries and even countries such as Switzerland that for a number of reasons make efforts to harmonise their legal system with essential legislative rules of the EU, country differences in institutional terms still matter. The role of trade unions and works councils, the level of safety and health regulations or the amount of regulation of the labour markets are just a few prominent examples of these institutional differences. Clearly more exciting from our point of view are the findings that deal with the more dynamic element of developments over time. In some circumstances, the absence of change is remarkable. The development or, more precisely, the non-development of various areas of HR are such a remarkable instance. As shown above, the data imply a relative constant picture during the 1990s. This is a clear antidote to the ‘change frenzy’ that has infiltrated much of scientific and practitioner oriented writing about the situation in Europe. Combined with the previous point about the heterogeneity of the stable picture, this is a further attack on the messages of ‘ultimate solutions’, “best-practices” that lead to organisational success and related models (Marchington & Grugulis, 2000).

The frequent stasis does not rule out change and even convergent developments. As was shown, there are some areas where at least directional convergence occurs. A closer look shows that directional convergence, i.e. the movement of a variable into the same direction, for example: more frequent use of certain instruments, occurs in areas where there is a clear and ‘overwhelming’ pressure coming from various sources. If economic necessities, institutional requirements and/or management folklore point in the same direction, then a more or less consistent trend can be seen. The reduction in the comparative size of the HR department or the increasing
amount of money spent for training and development measures can be mentioned as examples of this. Here, at least the mentioned sources seem to be supporting factors for the observable developments. One might speculate that only the joint appearance of a variety of factors pointing in the same direction has a measurable impact on the European landscape of HR. In all other cases, not much changes besides the rhetoric.

To be sure, this is not to say that HR stays the same at the level of the single organisation. However, without the combined effects of various sources we seem to experience replacement effects. It is likely that as some companies move in one direction, others move in the opposite one. The combined effect would be an observation of little change at the aggregate level of HR practices across countries.

In general, it seems clear that we need a more nuanced understanding of convergence in HRM policies and practices than has been apparent hitherto. Clearly, there are differences between European countries and, in turn, overall they differ from the general picture of HRM presented in the US literature. However, things appear to change slowly in HRM and perhaps the decade-long data presented here examines too short a period. From a directional convergence point of view there seems to be at least some positive indication of convergence in some areas. However, looking at final convergence, things become more blurred. None of the HR practices converge at the end of the decade. Rather, the maximum point of convergence is reached in the middle of the decade with signs of divergence after that.

These broad conclusions leave us with a number of open questions:

- How are we to handle unresolved methodological questions, such as whether to measure HRM at local, national or regional levels? which aspects of HRM to measure? What techniques to employ? and so on.
- What determines whether stasis, convergence or divergence occurs?
- What is a sufficient and appropriate time segment over which to measure convergence or divergence?

To answer these questions or at least have more insight, more evidence and more analysis, as so often, is clearly needed. Cranet members are committed to continuing the work they have started and a new round of the survey is currently underway. In addition, the Cranet network continues to expand, taking in more and more new countries. Other networks, such as the GLOBE network (House et al 2004), taking different approaches to these and related topics, will also add to our understanding. Support or challenge to these findings will also continue to be forthcoming from the groups applying more case study based and qualitative methods. There

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is much scope for expanding our understanding of comparative differences in HRM and how they are developing. It is a difficult, but worthwhile, task.

References


There is a need for alternative theories to get a better understanding of human resource management (HRM), in particular with regard to the shaping of the employment relationship in organizations. This study examines how market, institutional and configurational factors affect HRM in a global financial services company using the strategic balance theory and Paauwe’s model. Interview data and document analysis show the impact of critical incidents (e.g. a merger) and trends (e.g. a transition in Dutch industrial relations) on HRM.

Key words: HRM, strategic balance theory, context

Introduction

Contemporary research in the field of human resource management (HRM) is dominated by the ‘scientific’ approach to demonstrate an empirical association between HR practices and increased organisational performance (Hesketh & Fleetwood, 2006). The ‘scientific’ approach puts empirical results first and ignores or underestimates the theoretical problems involved. The emphasis is on testing the added value of human resource practices using simple input-output models. More than a decade of empirical research has been conducted since Huselid (1995) stimulated the HR debate, yet little progress has been made towards an understanding of how HRM is shaped in organisations (Paauwe, 2004). If we want to know more about the underlying processes in HR decision making we need some new theories and models (Hesketh & Fleetwood, 2006; Keegan & Boselie, 2006).

Contemporary popular theories in the field of HRM – the resource based view (Barney, 1991), AMO theory1 (Bailey, 1993) and strategic contingency approaches (Porter, 1980) – are not adequate to fill this gap due to their serious theoretical problems (Priem & Butler, 2001; Boxall & Purcell, 2003; Boselie, Dietz, & Boon, 2005). There is a need for alternative theories to get a better understanding of

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1 AMO theory is based on the notion that HR practices that stimulate Abilities [A], employee Motivation [M] and Opportunity to participate [O] increase employee discretionary effort and firm performance.
HRM. New institutionalism\(^2\) is an alternative for further application in the HR field because of its special attention to institutional mechanisms (Paauwe, 2004; Legge, 2005). The theory offers yardsticks for understanding the impact of coercive mechanisms (for example labour legislation, trade union power and collective bargaining agreements), normative mechanisms (professional norms and values linked to professional bodies and employee groups) and mimetic mechanisms (fads and fashions) on the shaping of the employment relationships in an organisation (Paauwe & Boselie 2003).

However, this theory only looks at one side of the coin. The external market mechanisms and the internal configurational context are not fully taken into account. Strategic balance theory builds on the notions of new institutionalism and extends it by explicitly incorporating the market dimension (Deephouse, 1999). Paauwe’s (2004) model applies strategic balance notions and explicitly adds a third dimension: the organisation’s configuration. This paper explores the view that human resource management (HRM) in an organisation is affected by the three dimensions from strategic balance theory:

- The external market dimension (external product, market and technology pressures/developments);
- The external institutional dimension (external social, cultural and legal pressures);
- The internal configuration of the organisation (cultural/administrative heritage of the organisation in terms of culture, structure and systems).

Strategic balance theory (Deephouse, 1999) is the foundation for the conceptual model on the shaping of HRM in an organisation used in this research. The aim of this paper is to test an alternative approach to understanding the shaping of HRM in organisations based on Paauwe’s (2004) model. The central research question addressed in this paper is: How do market, institutional and configurational factors affect the shaping of HRM in an organisation? The alternative model will be tested in a case study approach within a large Dutch financial institution. The data was collected in 2006 and is based on interviews, archival data and document analysis.

The theme of this special issue is: The end of personnel? (Variety in employment – characteristics, prerequisites, consequences). There are several threats that could cause “the end of personnel” as we know it, both in theory and in practice. First, the lack of good theory in the field of HRM seriously limits future research. RBV theory, AMO theory and strategic contingency approaches have reached their limits. Alternative theories, including new institutionalism and strategic balance theory, are needed in order to expand the HR horizon of personnel issues. Second, the ‘scien-

tific’ approaches in the field of HRM are too focused on the impact of human resource practices while neglecting other relevant aspects of HRM such as the role of those who enact HRM (line managers), the role of the personnel managers themselves (HR roles and competencies) and the structuring of HRM in an organisation (for example downsizing, outsourcing and offshoring). There is a need for a much broader definition of and better approaches to the concept of human resource management. In other words, HRM is much more than just a set of practices that either are or are not aligned with the business strategy of an organisation. Finally, the notion that context matters (Boxall & Purcell, 2003; Paauwe, 2004; Legge, 2005) is largely overruled by best practices approaches in the field of HRM. And even the empirical evidence supports the universal modes of theorizing (Delery & Doty, 1996) which may potentially result in a hollowing out of the HRM discipline to leave merely to a list of practices that should or should not be applied in practice.

The paper begins by defining human resource management (HRM). Section 3 discusses the general theory. Section 4 discusses the conceptual model. Section 5 gives an account of the research design and methods for further analysis. The results are presented in section 6 and section 7 provides a discussion of these. Finally, a general conclusion on the alternative approach presented here looks at the lessons that can be drawn from it for future HR research on understanding HRM in organisations.

**Defining Human Resource Management**

This paper uses a very broad definition of human resource management: HRM involves management decisions related to policies and practices which together shape the employment relationship and are aimed at achieving individual, organisational, and societal goals. Human resource management is not solely the responsibility of the HR department. It involves the design and implementation of human resource practices by both HR professionals and line managers (Guest, 1987). The latter are regarded increasingly as the enactors of HRM and a crucial link in the HR value chain (Hutchinson, Kinnie, Purcell, Swart, & Rayton, 2003). In theory a substantial part of HRM is aimed at aligning the business strategy and the HR strategy, also known as the strategic or vertical fit between strategy and HRM (Golden & Ramanujam, 1985). HRM is also responsible for developing and implementing so-called high performance work practices (HPWPs) that contribute to the sustained competitive advantage of an organisation. The linkage between these HPWPs and achieving a high performance human resource system, also known as internal or horizontal fit, is one of the key areas of interest in the ongoing added value debate (Huselid, 1995). This performance orientation also led to a revision of the HR roles in organisations: Ulrich’s (1997) typology of four different HR roles – administrative expert, employee champignon, strategic partner and change agent – is probably the most famous in this field. The late 1990s brought a new challenge for HRM: the downsizing of firms (Baron & Kreps, 1999). Downsizing often goes hand in
hand with large-scale dismissals and a fundamental restructuring of the organisation including work design. Since 2000, two other developments have tended to characterise HRM in the new millennium: outsourcing and offshoring. Strategic reorientation (back to the core business), efficiency notions (economies of scale) and service quality (through service level agreements with contractors) are the primary reasons for outsourcing and offshoring parts of the business (for example salary administration, cleaning, catering, call centres and ICT).

Wright and Nishii (2007) make a valuable contribution to the HR debate in drawing a distinction between intended HR practices, actual HR practices and perceived HR practices. Intended HR practices are those HR policies and practices which have been developed and designed by HR professionals to affect employees in organisations, for example through new compensation schemes and employee development. Actual HR practices are those HR interventions that are implemented and which tend to be mainly enacted and applied by line managers (Hutchinson et al. 2003). Perceived HR practices are HR interventions as experienced by employees. Wright and Nishii (2007) assume a sequential relationship between intended, actual and perceived HR practices. This study focuses on the shaping of HRM in terms of intentions (policies) and actual interventions. Employee perceptions of HRM are not taken into account here.

The contemporary ‘scientific’ approaches to HRM are mainly focused on (1) the impact of best practices in HRM on firm performance, (2) the link between HR practices and high performance work systems, and (3) the link between HRM and the business strategy of an organisation. The concept of HRM in this study incorporates not only these three aspects (notions of practices, systems and strategic fit), but a number of other relevant components as well. In summary, HRM in this study is a broad concept which includes: (a) the degree of high performance work practices and systems for adding value in place, (b) the alignment between HRM and strategy, (c) line management involvement, (d) the professionalisation of HR managers, (e) the HR role in downsizing and organisational restructuring and (f) make or buy decisions in respect of employment issues (outsourcing and offshoring). In this paper we examine how market, institutional and configurational factors affect the shaping of HRM in an organisation.

The Strategic Balanced Perspective

A distinction can be made between ‘best practices’ approaches (Pfeffer, 1998) and ‘best-fit approaches’ (MacDuffie, 1995). This discussion implicitly deals with the impact of the organisational context (both internally and externally) on the shaping of HRM. Best practice approaches assume a universally successful application of certain high performance work practices such as performance related pay, employment security, selective recruitment and employee involvement in decision making (Delery & Doty, 1996). The best-fit approaches in HRM stress the importance of
the organisational context in the optimal HR design. In the early days of the HR discipline some authors were already emphasising the impact of context on HRM (Beer, Spector, Lawrence, Mills, & Walton, 1984), while others devoted less attention to it or none at all (Fombrun, Tichy, & Devanna, 1984). The early best-fit approaches in HRM were inspired by the traditional strategic contingency approaches (Miles & Snow, 1984; Porter, 1980). Boxall & Purcell (2003) summarise the three main critiques of these early best-fit approaches in HRM:

- Such approaches are too simplistic and do not capture the full spirit of strategic linkage in practice;
- There is a general lack of attention to the individual employee perspective; and
- The approaches are static with no room for dynamics and organisational change.

Strategic contingency approaches are sometimes called outside-in approaches because the external environment is taken as a starting point for this type of analysis.

The emergence of the resource-based view (RBV) in the early 1990s (Barney, 1991) provided an impetus for ‘best practices’ approaches in HRM from a typical inside-out perspective. In this view, organisational success can only be achieved through a focus on the strengths of valuable internal resources (for example, human resources). The RBV is often criticised for its lack of attention to the external context and as being tautological (Priem & Butler, 2001). Nevertheless, the RBV did emphasise the internal organisational context and the relevance of the cultural and administrative heritage to creating uniqueness in an organisation. We now know that the external context matters and this is reflected at different levels of analysis including sector and national level (Brewster, Mayrhofer, & Morley, 2004).

In the late 1990s the RBV debate stimulated the development of a new school of thought called the strategic balance perspective (Oliver, 1997; Deephouse, 1999). This approach unifies new institutionalism and the resource-based view and acknowledges the relevance of both market and institutional mechanisms. In times of globalization and increased competition there is a growing awareness that sustained competitive advantage depends on creating a balance between market demands (e.g. reduce costs, increase the firm’s flexibility and shorten the production cycles) and institutional pressures (e.g. offer employment security and demonstrate socially responsible environmental behaviour) as advocated by new institutionalists such as Oliver (1997). Although this balanced perspective is related to the well-known Balanced Scorecard concept (Kaplan & Norton, 1992), it is in fact deeply rooted in earlier research on Industrial Relations (Dunlop, 1958; Kochan, Katz, & McKersie, 1986; Poole, 1986), Stakeholder theory (Freeman, 1985) and New Institutionalism (DiMaggio & Powell, 1983). In the strategic balance model, organisational success can only be achieved when the financial performance AND societal performance of an organisation are above average within the particular population of that organisation (Deephouse, 1999). In this view, high scores achieved for either financial or
societal performance alone are bad for the long-term survival of an organisation. High financial outcomes alone could lead to serious social legitimacy issues, for example if these high scores go hand in hand with environmental pollution and labour intensification among the workforce (Legge, 2005). Equally, social legitimacy without good financial outcomes on efficiency and effectiveness, as is the case in some public sectors such as the National Health Service in the UK (Bach, 2004), is also not good enough to support survival in the long run.

In the last decade, large multinational companies (MNCs) have learned that they cannot ignore societal issues that affect stakeholders other than the traditional shareholders of the organisation. Shell had its Brent Spar incident and these days is working closely with an important external stakeholder and former “enemy”: Greenpeace. There is a growing willingness among MNCs to look beyond financial results and take into account the interests of multiple stakeholders including the employee perspective. Heineken, for example, has a special Aids prevention and treatment program for employees and their families working in African countries and who have been affected by the Aids epidemic. The program is called the Heineken HIV-Aids Policy program.

In summary, strategic contingency approaches emphasise only the external organisational context in a rather simplistic, static and one-dimensional way (i.e. only the employer’s perspective). The introduction of the RBV led to a major shift towards a focus on the internal organisational configuration, while the external environment of the organisation tended to be neglected. The strategic balance perspective restored the balance between external and internal organisational context. Deephouse (1999) acknowledges market and institutional mechanisms, but there is still one crucial element missing in his model: the configuration. Paauwe (2004) applied the balanced perspective to HRM but also included the internal organisational configuration based on earlier RBV notions. His approach combines the “best of both worlds” from new institutionalism (institutional dimension) and the resource-based view (market dimension and configuration). The next section will focus in more detail on our conceptual model.

Conceptual Model

Strategic balance theory suggests that there needs to be an organisational balance between the managing of market pressures and institutional pressures. In this paper, the framework will be extended to include notions from the resource-based view on the cultural and administrative heritage (or configuration) of an organisation. HRM is the result of (1) market mechanisms, (2) institutional mechanisms and (3) the configuration of the specific organisation in our conceptual model (see Figure 1). This approach in HRM was originally developed by Paauwe (2004) and called the Contextually Based Human Resource Theory. Market mechanisms may be defined as external pressures on the organisation in terms of, for example, new developments
in products/services and markets (market growth, stagnation and decline), and technological developments (for example related to information technology communication). This market dimension which an organisation faces is also known as the external PMT dimension (product, market and technology dimension) (Paauwe, 2004).

In the model, *institutional mechanisms* represent external pressures exerted on the organisation by society (for example with regard to issues of environmental pollution and of labour intensification), norms and values in a society (for example in respect of working hours), and legislation on employment relations issues (for example collective bargaining agreements, disability laws, unemployment legislation). This institutional dimension is also known as the SCL dimension (social, cultural and legal dimension) (Paauwe, 2004). Finally, the *configuration* represents the historical blueprint of the organisation, possible major organisational transformations in the past (mergers, acquisitions and reorganisations), the role of the founding fathers (for example their philosophy), internal organisational culture in terms of norms, values and routines, and the structures and systems in place.

HRM is the dependent variable in the study and incorporates the following key indicators: the strategic fit (or non-fit) between the business strategy and HRM, the degree of line management involvement in HRM, the added value of high performance work practices and systems, the role of the HR department in the organisation, downsizing and HRM, and outsourcing and offshoring businesses. It is implicit in the model that perceived HRM practices are the outcome of the intended and actual HRM. The last two components (intended and actual HRM) are the main subject of this empirical study.
**Figure 1: Conceptual model**

**Market Mechanisms (PMT)**
- product
- market
- technology

**Institutional Mechanisms (SCL)**
- social
- cultural
- legal / industrial relations

**Configuration**
- history
- mergers/acquisitions/re-organisations
- founding fathers
- culture (norms/values)
- structure & systems

**HRM (intended & actual)**
- strategic fit
- line management
- added value
- HR roles/position
- downsizing
- outsourcing & offshoring

**Perceived HRM (employees)**

Source: Adapted version of Paauwe's (2004) model

**Research Design and Methods**

The study examines how market, institutional and configurational factors affect HRM in an organisation. This type of research question favours the use of a case study approach (Yin, 1994). A case study is particularly suited to phenomena that either cannot be distinguished from their context or that must be seen within their context (Vaus, 2001). Yin (1994) defines a case study as an empirical method for studying complex phenomena, based on an extensive understanding of these phenomena as a whole, within a real-life context. The data for this research is based on face to face interviews, literature study, and document analysis (e.g. annual reports, archival data, and newspaper articles).

The conceptual model was assessed in one large multinational organisation. This MNC was founded in the early 1990s through a merger. The MNC is a global financial services company of Dutch origin with roots in organisations going back more than 150 years. The core business of the MNC comprises retail banking (including insurance and asset management services), wholesale banking, retirement...
services, direct banking, life insurance, property and casualty insurance. The company operates in more than 50 countries and its banking, insurance and asset management services employ over 120,000 employees worldwide. Based on market capitalisation, this MNC is one of the 20 largest financial institutions worldwide.

This study looks at the Dutch component of the MNC which has about 30,000 employees. The Dutch component of the MNC was rated as the best employer in the Netherlands in 2006, and ranked second in both 2004 and 2005 (Intermediar, 2006), scoring highly on wages, bonuses, budgets for training and development, and with low employee turnover rates (8.9% in 2006) and low percentages of absenteeism due to illness (below 5% on a yearly basis). The Management Board of the Dutch component of this MNC comprises six members: Chairman (and Director of Wholesale Banking), CFO, Human Resources Director, Director of Retail Banking, Director of Operations/IT, and Director of Intermediaries.

The first part of the case study is a pilot study in which a limited number of interviews with HR executives (n = 3) and archival data (newspapers articles, website information and annual reports all publicly available) were used in order to determine the most important critical incidents and trends that the Dutch component of the MNC had to deal with during the period 1990-2006. A critical incident is defined as a definite and discrete occurrence that interrupts normal procedures or precipitates a crisis. Critical incident techniques are widely used in qualitative research, in particular within organisation studies in order to gain a better understanding of organisational development and organisational change (Chell, 2004). A trend is defined here as the general direction in which something tends to move. The start date of 1990 was chosen because of the merger that took place in the early 1990s. The three dimensions – market, institutional and configuration – of the conceptual model are used in the search for critical incidents and trends and their potential impact on HRM.

The second part of the case study is concerned with testing and validating the alternative research model proposed in this paper by means of face to face interviews (n = 18) with HR professionals and employee representatives, and further document analysis. The critical incidents and trends that were determined in the first step are used as a starting point (guideline) for the interviews and the further analysis of documents in this second part of the research. The 21 interviewees were selected by the Assistant HR Director and the university research team. The research team comprised two master’s degree students and one university supervisor. The selection of the interviewees was based on two criteria:

*Company tenure.* It was decided to select groups of employees who were employed between 1970-1985 (n = 5), between 1986-1995 (n = 5) and after 1996 (n = 8). In this way, a distinction can be made between, for example, those employed before and after the merger.
**Type of work.** A distinction was made between (a) high-level HR executives (n = 9), (b) HR professionals at operational level, most of them at business unit level (n = 6), and (c) employee representatives (members of the works council).

The face to face interviews consisted of open questions regarding the main developments since 1990 and their impact on HRM. All interviews were fully typed out in Word documents. The transcripts were then imported into Atlas.ti, which is a computer program for qualitative data analysis. Atlas.ti offers tools to manage, extract, compare, explore and reassemble meaningful textual fragments (www.atlasti.com). In this study, the program was used to structure the dataset. In the final stage of analysis, the data was coded for data reduction and classification purposes. The coding process provided the research team with insights into the different interview outcomes. Once all of the separate interviews had been coded, the entire coding process was repeated to avoid excess codes and any potential overlap of codes. The iterative process was repeated several times and for purposes of reliability the researchers re-read the interviews a number of times to ensure that the content of the interviews had not been misinterpreted during the coding process.

**Results**

The most important critical incidents and trends for the Dutch component of the MNC were determined first. These findings will be used to further analyse the impact of external institutional mechanisms, the internal configuration, and external market mechanisms on the HRM of the company. The section concludes with an overview of the overall findings.

**Critical Incidents/Trends**

The pilot study, based on the interview data (n =3) and archival data, showed six major critical incidents and trends that affected the organisation to some degree. The incidents and trends will be summarised in historical order.

First, although not explicitly mentioned by the interviewees in the pilot study, there is sufficient additional written material suggesting that there was a fundamental shift – read trend – in Dutch industrial relations in the 1980s. The Wassenaar Agreement (Akkoord van Wassenaar) in 1982 between trade unions, employers’ organisations and the Dutch government resulted in the following outcomes (Ruyssen et al., 1996):

- Fewer governmental interventions and more leeway for employment relations negotiations between the ‘social partners’ (trade unions and employers’ organisations);
- Collective agreements on wage compression in order to create employment;
- More leeway for decentralisation of collective bargaining agreements.
The Wassenaar Agreement is considered to be the foundation of Dutch success (termed the ‘Dutch miracle’) in the 1990s and can be characterised by stability (low levels of industrial unrest and stable growth in wages), the creation of new jobs and economic growth (Visser & Hemerijck, 1997).

Second, the interviewees in the pilot study all mentioned increased global competition (trend) partly due to new competitors, but perhaps even more as a result of the international expansion of the business on a worldwide scale since the early 1990s through mergers and acquisitions. Less than 25% of all employees now work in the Netherlands compared to over 70% in the 1980s.

Third, the respondents all mentioned the merger between the insurance company and the bank in the early 1990s. This merger is unique because of the nature of the two businesses (insurance and banking) that were being integrated into one new company. The founding of the organisation as one company began in 1990 when the legal restrictions on mergers between insurers and banks were lifted in the Netherlands. The insurance company had over 25,000 employees and the bank company about 23,000 employees at the time of the merger. The merger involved an integration of two firms with authentic cultures and businesses (insurance versus banking). Growth and expansion have been key characteristics of the MNC Group over the last 15 years.

Fourth, although the internet officially has its roots in US military intelligence in the late 1960s, the World Wide Web (WWW) can be said to have really developed and broadened its scope in the 1990s (trend). Internet services (both banking and insurance) have become a major component of the company’s activities.

Fifth, the firm was the first financial institution in the Netherlands to discuss the possibility of a company-level collective bargaining agreement (CBA) instead of a sector-level CBA for all financial institutions. The decentralisation of negotiations on working conditions is a major issue in Dutch industrial relations. Trade unions have traditionally objected to this trend for fear of losing bargaining power. Decentralisation of the sector-level CBA towards a separate company-wide CBA could create more flexibility and provide a better fit between employment systems and the specific context. The CBA was introduced in 2001 and is still in place.

Finally, in 2004 the company appointed a new CEO and ever since then it has been looking for ways to improve its performance. Part of its new high performance philosophy was to reduce 24 separate labels into 5 new business lines (a new governance structure). One of the challenges for staff departments (including HRM) was to achieve the full integration of activities with the new business lines. The new high performance philosophy has been heavily inspired by Anglo-American shareholder models. See Table 1 for an overview of the six critical incidents and trends and the nature of these incidents according to our conceptual model.
Table 1: Six critical incidents/trends

<table>
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<th>Incident:</th>
<th>Time:</th>
<th>Type of incident or trend:</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) Transition in IR – Wassenaar Agreement (trend)</td>
<td>1982-</td>
<td>institutional mechanism</td>
</tr>
<tr>
<td>2) Globalisation &amp; increased competition (trend)</td>
<td>1980s &amp; 1990s</td>
<td>market mechanism</td>
</tr>
<tr>
<td>3) Merger (incident)</td>
<td>1991</td>
<td>configuration</td>
</tr>
<tr>
<td>4) Technology (web-based organising) (trend)</td>
<td>1990s</td>
<td>market mechanism</td>
</tr>
<tr>
<td>5) MNC CBA (decentralisation) (incident)</td>
<td>2001</td>
<td>institutional mechanism</td>
</tr>
<tr>
<td>6) New governance structure (new CEO) (incident)</td>
<td>2004</td>
<td>configuration</td>
</tr>
</tbody>
</table>

Institutional Mechanisms

Since the Wassenaar Agreement in 1982, industrial relations in the Netherlands have undergone a fundamental change. Less governmental interference on labour issues resulted in a shift from a tri-party IR system (trade unions, employers’ organisations and government) to a bi-party IR system (trade unions and employers’ organisations). Within the company, wages and employment benefits have almost never created major disputes between these ‘social partners’ due to the economic wealth and prosperity of the firm. The banking and insurance companies simply continue to deliver excellent financial performance. The general ‘organisational wealth’ of companies in this branch of industry has created a common willingness to pay their employees high wages. Traditionally, the employees of this firm are much better paid than employees in other sectors (Intermediair, 2006). Their benefits include not only excellent pay and bonuses of up to six months’ salary, but also mortgage discounts of up to 40% of the monthly cost. There was and to some degree still is no reason for collective disputes between the ‘social partners’ (trade unions and employers’ organisations) on matters such as wages and employment benefits. But there is growing concern within the financial sector that the excellent rewards offered there have created golden cages or golden handcuffs for current employees who are simply not able to leave the organisation because of these incentives (for example, they could not afford to keep up the mortgage repayments on their home if they took a job outside the financial sector). Golden handcuffs are considered to have a negative impact on organisational flexibility (little or no employee mobility). Most financial institutions are aware of this potential threat and aim to provide GOOD working conditions rather than EXCELLENT working conditions for new employees.

The HR Director of the Dutch component of the MNC has full responsibility for negotiations with the trade unions, for example on collective bargaining agreements and in respect of reorganisations and the outsourcing of business activities (for example, outsourcing ICT personnel). The HR policies are aimed at achieving a constructive relationship with the trade unions, one that fits the typical Dutch “Polder Model” in which trade unions are considered as strategic partners in the process of shaping the employment relationship within the company. The HR Director himself strongly believes in good stakeholder management and seeking the right balance
between business goals and employee interests. Strategic reorientation (new governance structure) has forced the company to make radical changes, for example outsourcing 6000 ICT employees, creating major challenges for HRM and the trade unions involved. The constructive and healthy atmosphere existing between the ‘social partners’ has led to good solutions for all the employees involved, involving a successful outsourcing of almost 20% of all employees over a relatively short period of time (approximately 2 years). Such a transformation process is only possible when employment relations are good.

The introduction in 2001 of a company-level CBA instead of a financial sector CBA was partly the result of changes in the Dutch Industrial Relations system in the 1980s. There was a further need for the decentralisation of collective bargaining agreements and for a better linkage (fit) between the arrangements made in the CBA and the specific organisational context. As a result of their diminishing power (a general decrease in trade union membership) trade unions had little choice but to approve this decentralisation towards the company-level CBA in 2001. In fact, the interviews reveal an increase in trade union power within the firm and in respect of HR issues since the decentralisation in 2001. Trade union officers are now closely linked with the strategic HRM level of the Dutch component of the MNC, and operate as strategic partners on employment issues. The HRM within the company has gained more flexibility and increased opportunities for achieving a better fit between HR issues and the organisational context.

In summary, the company-level CBA in 2001 can be seen as a further development of the general changes taking place in the Dutch IR system in the 1980s. The typical Dutch Polder Model in which various stakeholders cooperate and jointly solve problems is characteristic of the institutional environment which the organisation has to deal with. HRM creates added value through good stakeholder management and a long-term investment in relationships with trade unions. The HR director has gained a strong position in the organisation as a result of his formal responsibilities (formal position). The HR Director is in full charge of negotiations and holds a strong position as a result of personal credibility in managing the employment relationship. Structural parameters (HRM formally in charge of employment relations) and personal characteristics (HR competencies) have contributed to the HR Director having a beneficial influence on the overall HRM within the firm.

Market Mechanisms

Since the 1980s, globalisation and increased competition have affected organisations in all sectors in the Netherlands. The Dutch component of the MNC is facing increased competition from three main types of organisation in the field:

1. Other competitors in the Netherlands. The Dutch component of the MNC is one of the big four financial institutions in the Netherlands.

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Generiert durch IP '54.70.40.11', am 23.08.2019, 15:37:56. Das Erstellen und Weitergeben von Kopien dieses PDFs ist nicht zulässig.
2. New Dutch organisations in the market, often relatively small but highly aggresive firms.
3. New international organisations in the Dutch market.

There appears to be increased competition between these organisations regarding their image and reputation among clients and employees. Employment branding has become a major issue for HRM within the company in order to recruit and retain talent. Key items in the war on talent are reputation and excellent working conditions.

ICT is being outsourced within the organisation will affect 6000 IT employees. The outsourcing process is part of the general HR transformation process and is the responsibility of HRM with the HR Director as most important manager. IT developments and the introduction of the internet have had a major impact on the work design within the firm. Part of the business was digitalised (for example internet banking) and customer relations have changed fundamentally from face2face to click&call. The IT networks within the company also created new communication opportunities internally through extended use of the intranet and e-mail communication. Communication among employees and communication between the organisation and employees is becoming increasingly digitalised. For example, the traditional hard copy newsletter has been replaced by digital newsletters that are distributed through the e-mail system. The administrative part of HRM within the Dutch component of the MNC has recently been centralised, standardised and automated into a shared service centre (SSC) using new technological developments to deliver HRM to its (internal) customers.

In summary, increased competition in the area of corporate reputation resulted in the downsizing of business units and the outsourcing of non-core business activities (for example ICT) within the firm. The HRM department is in charge of these shifts as strategic partners and change agents. Technological developments resulted in new ways of organising work, for example in respect of internal communication. The HRM department itself has been reorganised and the administrative tasks have been centralised and automated into an SSC.

Configuration

The merger in the early 1990s between the banking and the insurance business blended two different cultures: the banking organisation was typically short-term focused and the insurers long-term oriented. Most interviewees stated that over the years there have been no serious attempts to fully merge these different cultures. After the merger, further expansion and internationalisation through market growth and acquisitions dominated the company’s agenda. In contrast to the MNC group on the global market, the company kept its home brands (customer loyalty considerations). Through the merger, the MNC Group gained power in the financial markets and created potential economies of scale.
A new CEO was appointed in 2004. He had previously had years of work experience in the USA. His philosophy is heavily inspired by the Anglo-American high performance model. The introduction of the new governance structure in 2004 was closely linked to the appointment of the new CEO and involved a shift from 24 labels to 5 main divisions. The new CEO not only puts people first but takes HRM very seriously as well. The Dutch component of the MNC is directly affected by this global transition and the appointment of the HR Director to the Dutch component of the MNC means HRM has a seat at the executive table. The HR Director is also in charge of the European HR Transformation process. The introduction of the SSC (see technological developments) is also part of the new corporate governance structure. The ONE project was introduced in 2003 and is in line with the new governance structure. In this particular project, the harmonisation of practices across business units and divisions is crucial with line management playing a crucial role in the actual implementation of HRM. The introduction of the ONE project has put line management in charge of HR enactment, at least in theory. The project has been criticised by the line managers involved partly for the lack of organisational support.

In summary, the merger of 1991 created a massive organisation which has the power to grow and acquire other firms in the late 1990s. Ten years later corporate restructuring was put into place by means of the ONE project in 2003, the appointment of a new Anglo-American oriented CEO in 2004 and a new corporate governance structure in the same year. HRM has a seat at the executive table of the firm since 2004, with major responsibility for HR Transformation in Europe. The ONE project has given line management full responsibility for the actual implementation of HR practices although serious criticisms have been voiced regarding the effectiveness of this transition in daily practice.

Overall Findings

A summary of the critical incidents and trends together with the key HRM criteria from the interviews can be found in the Appendix (Tables 2a and 2b). These overviews show a major (perceived) impact from market mechanisms (globalisation, technology and customer centric) and changes in the configuration of the company (mergers, new governance structure, new CEO, Anglo-American approach, ONE project, and centralisation). Institutional mechanisms are often not explicitly mentioned although they also seem to have had a major impact on the organisation. Changes in the institutional environment and legislation (for example the Wasse-naar Agreement in 1982, and new banking and insurance legislation in 1990) created opportunities for organisational change (merger in 1991 and company-level CBA in 2001). These organisational changes affect the employment relationship in the organisation. In summary, although (external) institutional mechanisms may be less visible to employees this does not mean that employees are unaffected by the
changes they bring about. More leeway for organisations in the Netherlands is anticipated in the near future as a result of increased deregulation.

Second, increasing globalisation and internationalisation (acquisitions) created a shift in the company’s corporate philosophy towards an Anglo-American approach in order to satisfy the interests of the MNC Group shareholders. Boxall and Purcell (2003) describe this phenomenon as the creation of viability towards the owners of the firm through adequate returns on investment. Changes in the configuration of the company are mainly the result of external market pressures, for example: The appointment of a new CEO, the introduction of the new corporate governance structure, the introduction of the ONE project and the new Anglo-American management approach.

Third, technological developments (especially information technology communication and the internet) create new opportunities for customer service (call centres), new products and services (internet banking), internal communication towards employees (intranet and email), and reorganising the HRM department (shared service centre).

The most important HRM themes are also summarised in the Appendix (see Table 2b). The overall impression derived from the overview is that HRM is changing within the Dutch component of the MNC. The HRM Director is in charge of the transformation process (“he has a seat at the executive table”) and the HRM department is increasingly seen as a strategic partner, for instance in outsourcing non-core activities (e.g. ICT). The linkage between the overall business strategy and the HR strategy has shifted from an administrative linkage to a one-way/two-way linkage, partly as a result of the formal position of the HRM Director. The real added value of HRM is largely in creating and maintaining a good relationship with the social partners (works councils and trade unions). Effective stakeholder management is necessary in order to achieve organisational changes and comprises one of the most important responsibilities of the HRM Director within the organisation. Two major challenges have been the enactment of HRM by line managers and the maintaining of good HR administration through an effectively functioning shared service centre (SSC). Within the firm the SSC is called “gas, water and light” (gas, water en licht). The performance orientation since 2004 is probably the change that has had the biggest impact on HRM. In the Dutch context, good stakeholder management by the HRM department seems to be one of the most important areas where value can potentially be added to the organisation. Effective stakeholder management also enables a balance to be achieved between the economic side and the moral side of organising the work in an organisation.

In times of increased market pressures and deregulation (institutional mechanisms) it is important to strike the right balance in order to achieve sustained competitive advantage for the firm (Deephouse, 1999). Although some changes are inevitable, the way in which these changes are handled and managed is crucial and HRM can
play an important role in the actual change process. Strategic balance theory suggests that the long-term success of an organisation is the result of external market mechanisms and external institutional mechanisms being optimally managed. The MNC in this study focused heavily on the economic side of organising (the market mechanisms) which was reflected in the high level of performance orientation, while at the same time attention was devoted to good stakeholder relationships with the trade unions (an important institutional mechanism). Necessary organisational change as a result of external market mechanisms is balanced by long-term stakeholder management and the maintenance of good relationships with the trade unions. This is an important empirical finding which supports the relevance of HRM’s duality in the way it shapes the employment relationship through achieving a good balance between market and institutional considerations. Establishing such a balance through HRM could be key to long-term organisational success as strategic balance theory suggests.

Conclusion and Discussion

The aim of this paper was to test an alternative approach to understanding the shaping of HRM in an organisation. The central question we addressed was: How do market, institutional and configurational factors affect the shaping of HRM in an organisation? The alternative model was based on notions drawn from strategic balance theory (Deephouse, 1999) and Paauwe’s (2004) model. The data used in the further assessment of this alternative model derives from the Dutch component of the company.

Four overall outcomes in the results of the analysis of this case study have been useful in further developing an alternative model for the shaping of HRM. First, it is difficult to make a clear distinction between market, institutional and configurational factors. These three dimensions are sometimes interrelated and affect each other. For example, market pressures (increased competition) caused fundamental changes in the configuration of the company (new CEO and corporate philosophy). Second, not all critical incidents and trends have a direct and substantial impact on HRM. Some mechanisms are actually trends that drive a transition over a longer period (for example, the shift in the Dutch Industrial Relations system in the 1980s). This does not mean, however, that these ‘trends’ are irrelevant to HRM. On the contrary, the IR changes probably enabled most organisational changes within the firm over a period of two decades (for example the company-level CBA). Third, although some critical incidents and trends may profoundly affect the organisation, they may not initially affect HRM. Although the merger in 1991 had a huge impact on the organisation and of course some administrative implications for HRM, the real challenges for HRM emerged ten years later with the appointment of the new CEO, the introduction of the new corporate governance structure and the new management philosophy. Fourth, the CEO’s attitude towards HRM plays an im-
The formal position of the HR Director within the Dutch component of the MNC is related to the CEO’s personal, people-centred perspective. General leadership, HR leadership and a strong belief in the power of people management appear to be necessary preconditions for putting people first in practice. The formal position of the HR Director combined with his personal HR competences created further opportunities for HR professionalisation. The model can therefore be extended by the inclusion of those points relating to the CEO’s attitude towards people. The CEO’s attitude forms part of the configuration dimension.

If we look at the three dimensions in the model – market, institutional and configurational – the findings in this study suggest that these factors affect HRM significantly and substantially. However, the way in which these dimensions affect HRM is complex and not always visible. For example, the shift in Dutch Industrial Relations in the 1980s manifested itself a decade later for HRM through the debate on a decentralised collective bargaining agreement. In-depth and thorough analysis of a specific context is necessary in order to fully understand the impact of changes in these mechanisms. See, for example, previous research by Boxall and Steeneveld (1999), Doorewaard and Meihuizen (2000), Marchington, Carroll, and Boxall (2003) for good in-depth analyses conducted through qualitative research techniques focused on revealing underlying processes. The market mechanisms which dominate the management agenda may appear more visible than the institutional mechanisms and organisational configuration. However, the results show the relevance of the last two and to ignore them could seriously disturb the organisational balance between market pressures, institutional pressures and the organisation’s own historical roots.

Another remarkable finding of this study is the potential interaction between the different dimensions. For example, changes in the Dutch IR system created the leeway to bring about the organisational change that was needed to meet the market dimension’s challenges in terms of globalisation and internationalisation in the 1990s. The stakeholder management view of the firm, in which social partners (trade unions and works councils) are considered as strategic partners in a never-ending process of organisational renewal, blends the institutional and the market dimensions and creates unique approaches in HRM that could contribute to the long-term sustainability of the firm.

This study uses a very broad definition of HRM, one that is distinct from the HR practices approaches that have dominated empirical research over the last decade. Over the last ten years, there has perhaps been too much focus on practices while other factors that shape the employment relationship through HRM have been ignored. HRM in an organisation is much more than simply a bundle of HR practices; HRM also includes the roles of HR professionals, the CEO’s people-centred vision, the front-line managers’ belief in HRM and numerous other relevant factors.
These points suggest it is not so much “the end of personnel” but rather the beginning of a new era for HRM both in theory and in practice. Alternative theories, including new institutionalism and strategic balance theory, have shed new light on HR issues relevant to the further development of the HRM discipline. The findings of this study suggest that much might be gained from a balanced perspective where organisations are not driven solely by market considerations, but take account of (1) institutional aspects including stakeholders and legislation and (2) their own history and roots (configuration). The recent financial crisis has demonstrated the limitations of a one-sided economic approach for companies, and for financial institutions in particular.

There are several limitations of this study which are linked to the nature of the approach and methods used. First, the data is cross-sectional and therefore causality (for example, linking critical incidents to changes in HRM) could not be fully tested. Second, this study is of an explorative nature and uses data from one single organisation. The results might not be applicable in other organisations in different contexts, although earlier applications of Paauwe’s (2004) model show similar outcomes in respect of the impact of market mechanisms, institutional mechanisms, and the configuration, on the shaping of HRM in organisations (see Paauwe, 2004, for case studies). Third, the study is based partly on interviews with two specific groups of respondents: HR professionals and employee representatives. Front-line managers, top managers and employees were not included in the research. Finally, this study focuses on HRM and not on the outcomes of HRM parameters (for example employee-perceived HRM).

Future research could include multiple case studies in order to achieve full validation of the model in different organisations, different branches of industry and perhaps even different countries. It is also important that other actors should be included in the research, such as front-line managers, employees and top managers.

References


### Appendix

#### Table 2a: Counting Interviews: Critical Incidents/Trends

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#### Table 2b: Counting Interviews: HRM issues

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Erik Poutsma, Paul E. M. Ligthart, Roel Schouteten*

Employee Share Schemes in Europe. The Influence of US Multinationals**

The debate on convergence and globalisation of national economies emphasises the role of Multinational Corporations (MNCs) with regard to the export of home-country policies in countries where they have their plants. MNCs set a process of change in motion in which local companies attempt to catch up with the more internationalised companies, particularly those from the Anglo-Saxon world. This process is called Anglo-Saxonisation. In this paper we focus on share (option) schemes. Analysing a European survey of HRM practices in workplaces in selected countries, we can trace a US-MNCs effect in the case of the narrow-based executive type of share (option) schemes in continental Europe. We can also trace a minor effect in the case of broad-based schemes open to all employees. The diversity we find in predictors between countries and the strong significant effects of country suggest that local corporate and institutional factors are more important in the case of broad-based share schemes than in the case of the narrow, executive type of share schemes.

Key words: Employee Share Ownership, Stock Options, Human Resource Management, Multinationals, Europe

Introduction

This paper focuses on the possible transfer of specific HRM practices of US multinationals to European establishments. We focus on the use and spread of share (option) schemes in selected European regions and countries. We make a distinction between narrow-based schemes open to executives and management only, and broad-based schemes open to all employees. The literature offers several explanations for the extent of adoption of broad- and narrow-based employee share schemes. The transfer literature emphasises that, in their striving for internal consistency, MNCs try to disseminate successful practices throughout the entire organisation (e.g. Whitley, 1992). However, systematic national differences force MNCs to adapt to local situations. From an institutional perspective, therefore, it is possible to find explanations for differences between European countries in the adoption of employee share schemes. Differences in cultural attitudes and institutional contexts,
such as regulatory regimes, state involvement, industrial relations structure and tax incentives, may influence the adoption of HRM practices, such as employee share schemes.

In addition, the agency theory perspective offers insight into the principal-agent relationships between owners (share-holders) and management and the employment relationship between management and employees (Eisenhardt, 1989). The first can be used to explain the adoption of narrow-based schemes, whereas the latter can be used to explain the adoption of broad-based schemes. Alongside this principle-agent perspective, a human resource perspective can offer more detailed insight into the adoption of employee share schemes.

This article contributes to the transfer literature by adopting an international comparative approach to the adoption and spread of employee share ownership as HRM practices of MNCs. While most of the employee share ownership literature has a national focus, this contribution shows the national institutional embeddedness of employee share ownership in an international comparative approach, and clarifies the diversity of schemes currently not well researched in the literature. While research on share schemes is divided in two separate strands, focusing on executive type of schemes and schemes for all employees, this article combines the two and compares both schemes with respect to their respective determinants.

The article begins with a description of narrow- and broad-based share schemes. Next, we discuss the debate on the transfer of HRM practices of multinationals. Then we move on to the institutional perspective, suggesting that, when entering a nation state, MNCs have to cope with institutional contexts that affect, or even shape, the nature of share schemes, their adoption and spread. We focus in this section on specific national frameworks of selected countries and specify hypotheses concerning adoption and diffusion of employee share schemes with these frameworks. Finally, we consider the literature on determinants of share schemes where an agency and human resource perspective is dominant in explaining the adoption of share schemes.

**Narrow- and Broad-based Share Schemes**

Employee share-ownership provides for employee participation in enterprise results in an indirect way; this is through participation in ownership, either by receiving dividends, or through the appreciation of employee-owned capital, or a combination of the two. While such schemes are not directly related to company profits, they are related to company profitability and so enable participants to gain indirectly from the company’s added value. Employee share-ownership can be both individual and collective. Shares can be in the company where the employee works or in other firms. However, this paper mainly focuses on those employee share-ownership schemes set up with the explicit intention of providing employees with an additional source of future earnings or income related to enterprise results.
Employee share-ownership can take on many different forms (for a detailed overview, see Poutsma, 2001, pp. 10-20). Typically, a portion of company shares is reserved for employees and offered on privileged terms, or employees are offered options to buy their company’s shares after a certain amount of time, under favourable tax provisions. Alternatively, an employee benefit trust (EBT) is set up through Employee Share-Ownership Plans (ESOPs), which acquire company stock that is allocated periodically to each employee’s ESOP account. Workers’ buy-outs of their companies are a special form of employee share-ownership.

The distinction between so called ‘broad-based’ all employee financial participation schemes and ‘narrow-based’ management oriented schemes is important. Narrow-based schemes are typically executive incentive schemes aimed at monitoring management performance. Broad-based schemes, where all employees are eligible to participate in the scheme, tend to be more collective and may be directed towards increasing identification with the company rather than direct performance.

The generic term ‘employee share-ownership’ is frequently used in the literature to denote both share-based profit-sharing, and employee share-ownership; ‘profit-sharing’ is sometimes used to refer to both profit-sharing in the strict sense of profit-related pay, and share-based profit-sharing. The distinction between individual and collective employee share-ownership is not clear cut either. In other words, the phenomenon of employee financial participation includes a variety of schemes that need to be clarified before statements can be made about the extent and impact of financial participation.

Most research in the USA deals with ESOPs while European research is more focused on general employee share schemes, since typical ESOP arrangements are rare in Europe: some of these USA schemes are related to pension savings (e.g. 401K plans) and these are rare in Europe. It is to be expected, therefore, that US MNCs will probably not transfer the ESOP type but probably tend to shape the scheme according to national facilitated and preferred schemes or more universally applied schemes, like stock option schemes. In Europe, research is also more oriented towards profit-sharing. It is also typical of Europe that discussion of employee financial participation considers both profit-sharing and employee share ownership while these different schemes tend to be treated separately in the USA. This is probably caused by European Union policies combining both forms and the typical diversity of promotion policies for these forms by different leading European Member States: the UK promotes share options savings, France promotes profit-sharing and Germany promotes asset savings. We will go into more detail about these differences later. Use of these schemes increased in the 1990s both in the US and Europe. It became common practice in larger corporations. For an overview for the US, see: Blasi, Kruse, Sesil, and Kroumova (2003) and Blasi, Kruse, and Bernstein (2003); and for Europe: Pendleton, Poutsma, Van Ommeren, and Brewster (2001) and Poutsma and De Nijs (2003).
HRM Practices Transfer

The debate on convergence and globalisation of national economies has emphasised the role of Multinational Corporations (MNCs) with regard to the export of home-country policies to countries where they have their subsidiaries, especially since MNCs’ importance as actors in the world economy is increasing (UNCTAD, 2002). Through the dissemination of ‘best practices’ MNCs spread managerial knowledge and techniques internationally (Quintanilla & Ferner 2003, p. 363). In order to be effective global competitors, MNCs try to replicate successful recipes in all economies they operate in (Whitley, 1992; Bartlett & Goshal, 2000; Gooderham, Nordhaug, & Ringdal, 1998) and seek internal consistency in their managerial systems (including HRM) throughout the entire organisation (Rosenzweig & Nohria, 1994; Gooderham et al., 1998).

In contrast to these convergent forces, many (empirical) studies highlight the existence of systematic national differences in aspects of corporate governance systems and business organisation, that force MNCs to adapt to local environments (Whitley, 1992; Brewster & Hegewish, 1994; Ferner, 1997; Gooderham et al., 1998; Gooderham, Nordhaug, & Ringdal, 1999; Sorge, 2004; Communal & Brewster, 2004). Whitley (1992, p. 267) argues that effective forms of economic organisation vary considerably across European countries and that they are deeply embedded in their particular institutional contexts. These variations are closely linked to nation states, because these contain many of the key institutions which affect the business systems that develop in market economies. According to new institutional theory (see for instance Gooderham et al., 1998; Sorge, 2004), firms will conform to expectations of host countries in order to gain legitimacy and acceptance. These expectations emanate from the state (e.g. laws and regulations), other firms (especially those operating in the same field), representative bodies (e.g. labour unions), and public opinion.

In recent years, a large number of studies have concentrated on the role of MNCs in promoting or resisting convergence of HRM practices across national borders (Quintanilla & Ferner, 2003). Of special interest is the role of US MNCs, whose global dominance in the world economy triggered Ferner and Quintanilla (1998, p. 711) to research a process of ‘Anglo-Saxonisation’: a convergence in MNC structure and behaviour around a model of international operation typical of highly internationalised British or US MNCs. As Ferner et al. (2004) show, US MNCs have a strong preponderance of market activities on very large (mass) home market. As a result, they have developed distinctive ‘organisational capabilities’ in order to deliver standardised products to mass markets. This provides them with technical means and managerial experience to manage overseas operations in a centralised, formalised and standardised way. This Anglo-Saxon HRM approach can be characterised as calculative (performance-oriented) with an emphasis on shareholder value, as opposed to the collaborative approach to HRM that is aimed at promoting...
the goals of both employees and employers (Communal & Brewster, 2004; Gooderham et al., 1999).

Several studies have found some evidence for a convergent ‘Anglo-Saxonisation’ trend in the dissemination of HRM practices (see for instance Fernea & Quintanilla, 1998; Gooderham et al., 1998), but these studies also show that there are important limits to the degree of likely homogenisation of international HR management styles. This is in accordance with Rosenzweig and Nohria’s (1994) findings that affiliate HRM practices generally follow local practices (which they call forces of local isomorphism), with differences among specific practices (as a result of MNCs striving for internal consistency). Gooderham et al. (1998), for instance, found that being a subsidiary of a US multinational in the United Kingdom, Ireland, Denmark and Norway normally acts as a substantial determinant of the application of calculative (performance-oriented) human resource management practices. They also found that the domestic firms in the UK use these practices more than firms in the European continental countries (Gooderham et al., 1999). However, on the one hand they found support for the notion that US MNCs bring many of their own, nationally idiosyncratic, repertoire of human resource management practices with them to their subsidiaries in Western European countries. On the other hand, they noted that MNCs are at the same time significantly receptive to local institutional conditions in the sense that their use of US inspired human resource practices is markedly lower in settings where the use of such practices by domestic firms is relatively low. They concluded, therefore, that both a partial immunity effect and a partial host-country-specific, mimetic effect exist side by side.

Narrow-based ‘Executives’ Schemes

Research on narrow-based financial participation schemes has largely focused on the merits and pitfalls of executive performance-oriented rewards. Since the pioneering paper of Jensen and Meckling (1976) stock ownership by managers has been seen as a useful instrument for aligning interests. Stock options are perceived as an especially powerful tool because the capacity to increase earnings and wealth is at the core of this instrument (see Baker, Jensen, & Murphy, 1988). This is why firms adopt shares and options schemes for their executives and management. For this reason, we expected multinationals to adopt these plans depending on variations in agency costs. Bebchuk, Fried, and Walker (2001), however, argued that it is highly unlikely that executive options are used primarily for incentive purposes because options take such similar forms between companies (i.e. 10 year expiry terms, 3-4 year vesting periods etc.). Given variations in circumstances between firms, and consequent variations in agency costs, it would be expected that greater variation would be observed in the character of options.

Critics have suggested on these grounds that stock-based performance measures may lead to managerial actions to influence the outcomes. There is evidence to sug-
gest that executive agents exploit their insider information advantages to influence the terms of the ‘optimal contract’, by influencing the timing of stock option awards and issues. There are reasonable grounds for the ‘rent extraction’ perspective (Bebchuk et al., 2001), which argues that in effect managers are able to award themselves stock options to enhance their returns from employment via their capture or manipulation of shareholder institutions such as remuneration committees.

In addition, in the US there is a considerable body of evidence that suggests that executive insiders dominate shareholder representatives in pay-setting (Bertsch, Leahez, & Haun, 1998). Main, O’Reilly, and Wade (1995) found that directors who serve on remuneration committees are influenced by notions of reciprocity, authority, and similarity in setting executive remuneration. In addition to this internal pay-setting, US stock exchange rules give considerable latitude to firms to award options, this may boost the use of options for ‘rent extraction’. We could, therefore, predict that there is a higher push to diffuse these practices in US MNCs. It remains to be seen if such practices are transferred to subsidiaries in countries with a less voluntary climate of pay settings, as for instance in Germany.

From this overview of the transfer and executive compensation literature, we expect being a subsidiary of a US MNC to be a good predictor of the use of both narrow-and broad-based schemes.

Hypothesis:
1. Being a subsidiary of a US MNC is a good predictor of the use of narrow- and broad-based schemes.

Institutional Perspective

The literature on employee share schemes in Europe shows an increasing interest in the comparative incidence of profit-sharing and employee share ownership (see, for instance, the studies of profit-sharing in France, Germany, Italy, and the UK conducted by the IPSE team1, (Uvalic, 1991), and the studies reported in a special issue of Economic and Industrial Democracy in 19992). In general, these studies show that there are differences in cultural attitudes, regulatory and fiscal regimes that create differences between countries in the use and incidence of financial participation, i.e. profit-sharing and employee share ownership. Uvalic (1991) found a wide divergence between Member States. Similar results have been replicated by, for example, Vaughan-Whitehead (1995) and Poutsma (2001). The general consensus in the literature so far is that variations in statutory identity and fiscal concessions

1 The results are reported in IPSE (1997), and in numerous papers by members of the country teams. See Biagioli (1995); Carstensen, Gerlach, and Hübler (1995); Del Boca and Cupaiuolo (1998); Mabile (1998); Perotin and Robinson (1998).
2 See Poutsma and Huijgen (1999); Poutsma, de Nijs, and Doorewaard (1999); Festing, Groening, Kabst, and Weber (1999).
have a major impact on cross-national variations in the incidence of financial participation. Although not fully developed in the literature so far, national differences in corporate governance and ownership also appear likely to influence the incidence of share ownership schemes. For instance, share ownership schemes seem likely to be facilitated by the extensive use of stock market listing in countries such as the UK, and obstructed by the pyramidal and cross-ownership structures of corporate ownership in countries such as Italy and Germany.

Given the known variations between nations in institutional support for financial participation, we predict substantial differences between countries in the incidence of the various forms of financial participation. These differences in usage would broadly correspond to known differences in legal, fiscal, and other institutional features of the financial participation environment. In addition, variations in national support for financial participation may have a major impact on managerial assessment of the costs and benefits of financial participation. For instance, the costs of using share ownership schemes (set-up costs, administrative costs, and share dilution) may be off-set by a reduction in monitoring costs and tax deductions (accruing either directly to the firm or to employees). Without tax breaks, the net cost of using financial participation may be sufficient to deter the introduction of a plan, especially for smaller companies.

To give the paper focus we selected a small number of European countries: France, Spain and Germany on the continent, and the Anglo-Saxon country UK. These represent the three ‘varieties of capitalism’ that Hall and Soskice (2001) distinguished in Europe: Liberal Market Economy (UK), Co-ordinated Market Economy (Germany) and Mediterranean (France, Spain). In this section, we provide a summary of national frameworks for narrow- and broad-based share (options) ownership. The information is largely based on Poutsma (2001) and Pendleton and Poutsma (2004)3. The in-depth studies of a number of countries make clear that there are quite distinct patterns of financial participation systems in Europe. On the one hand, this may facilitate or hinder the adoption and spread of the HRM practice to be transferred; on the other hand, this will shape the nature and form of schemes. In other words, when transferred this HRM practice will most probably be modified and shaped according to national specific ‘approved’ practices.

France

France has a framework that consists of extensive, state-regulated (mandatory), broad-based, deferred profit-sharing with the aim of enhancing employee savings and wider distribution of wealth and wage flexibility. Started by President De Gaulle to bridge the gap between labour and capital in the fifties, the development

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3 These reports contain descriptions of the situation in each country based on reports by national experts. We have focused on the descriptions for 2000 but do not rule out later developments, because the survey data we used is from the year 2000.
of deferred profit-sharing (mandatory for companies with 50 or more employees) and Mutual Fund Savings (voluntary schemes) have been supported by French governments of the right and left with tax incentives. To be approved, financial participation systems must be agreed upon by employees or their representatives. The financial participation system has evolved into a system where employee savings are invested in funds, which in turn either invest in a diversified fund or in the shares of the employer. In this way employee share ownership has been promoted in the French system: recent evidence indicates that nearly half of savings plans are used as a means of employee share acquisition (see Pendleton/Poutsma 2004 and Income Data Services 2001). In other words, French companies are responsive to employee share schemes provided they fit the legal framework and are agreed by the employees or their representatives, including unions.

Stock option legislation has existed since 1970. Until recently stock options were mainly held by top executives. Under the influence of globalisation stock option plans became more common. Most multi-nationals have these plans and approximately 50% of listed companies operate such a plan. However, tax treatment is not that favourable toward broad-based plans (income tax and social security charges at collection; see also Directorate-General Enterprise 2002). French companies are more responsive to narrow-based plans. Given the observation that French management has a tradition of autonomous, non-consultative decision-making while at the same time government sets precise rules on various labour issues (Brunstein, 1995) (especially in the case of broad-based financial participation) we expected that the willingness of management to adopt voluntary broad-based schemes would mainly be based on tax incentives. Managerial autonomy and a strong emphasis on control (Lane, 1995) may enhance the possibilities of narrow schemes being adopted.

Spain

In comparison with France, Spain has a framework of minor regulations for share ownership or share-based profit-sharing. Developments so far have not been substantial. In fact, the policy on employee share ownership has been determined far more by concerns about the development of the co-operative sector and the social economy. The co-operative movement and the use of labour societies are important in Spain. These are gradually diffusing into small employee share ownership types of companies. The Spanish government considers its fiscal support for share-based profit-sharing to be one of its measures favouring local employment in small-and medium-sized firms. In public and private joint stock companies, there has been not much development in policy on employee share ownership or any substantial development in the uses of schemes, despite some upswing due to privatisation of national bodies. There are some tax exemptions on benefits from offering stock options, given a certain retention period (more than 2 years). However, since the Telefónica scandal, where top management made use of these possibilities to enrich themselves during the privatisation, regulation has been tightened up by setting a
maximum amount of received benefit⁴. Due to this there has been some interest in narrow-based stock option plans in Spain (see Directorate-General Enterprise, 2002).

Spain has a long tradition of negotiations and collective agreements on variable pay. However, stocks (options) were seldom included in the debates. Since changes in the regulations in 1994, employers have been more autonomous in setting variable pay. Given the weak institutional structures of industrial relations and a limited countervailing power of trade unions, management has a great deal of autonomy. An increase in individual contracts ‘outside’ collective agreements, mainly for management and higher staff, has occurred. This may boost schemes. On the other hand, as in France, the terms and working conditions for the main labour force is highly regulated and this sets legislative and administrative constraints on the personnel function, leaving little scope for broad-based schemes.

Germany

The financial participation framework in Germany is quite different. Germany has a framework that consists of investment savings plans with the principal aim of enlargement of (employee) ownership of capital savings and other assets for the future security of low earners. This exemplifies German governments’ concern about the (re)distribution of wealth. The co-determination-based corporate governance system of Germany has led to the operation of agreed collective schemes. The legal framework in Germany provides for preferential tax treatment on employer payments to various forms of employee investments. These are supplemented by a tax-free government savings premium. Traditionally this system has been primarily concerned with employee participation in productive capital in general and not specifically in own company shares. Since 1999 this system has been modified to favour employee share ownership. The issue of stock options to management and employees was prohibited by company law until 1998. Since this was liberalised, there has been an increase in the use of stock options for management and selected staff.

German management has to face an elaborate system of industrial relations where collective agreements set the standards and works councils, for instance, have the legal authority to negotiate on agreements about broad-based stock options. Personnel departments have to cope with this detailed prescriptive framework and this prevents any large-scale adoption of more recent international human resource management practices. Trade unions appear to have started discussions on plans but in general they are sceptical. In addition, as in France, the capital market is not very developed in Germany. Many firms are privately owned, which leaves little scope for the development of full employee share ownership. All in all, we expected some favourable trends toward the adoption of narrow-based schemes and less develop-

⁴ The amount is still relatively high. In 2000, it was about 30% of average annual salary (about 5,000 €) times the number of years in which the benefits are generated.
ment of broad-based schemes. However, due to the recent changes in legislation and tax and benefit policies this may not have reached substantial levels in the year of focus in this study: 2000.

The United Kingdom

The UK has a financial participation framework that consists of mainly deferred share-based profit-sharing via option schemes. An elaborated stock market provides ample scope for share-based investments. The development in the UK is heavily supported by UK government policy and measures (mainly tax concessions). The position of unions in the UK can best be described as ‘engaged scepticism’. The introduction of financial participation in many UK companies is kept separate from collective bargaining over pay and terms and conditions of employment. This reflects both the interests of managers wanting to preserve as much freedom of manoeuvre as possible, and trade union representatives anxious to prevent financial participation substituting for annual pay increases or part of ‘base’ wages and salaries. Both parties tend to accept that the legal regulations governing financial participation may limit the scope for negotiation over the content of profit-sharing and share ownership schemes. On these grounds, we expect a substantial responsiveness and use of narrow- and broad-based plans in the UK (for further details, see Pendleton & Poutsma, 2004).

In summary, from an institutional perspective, country differences with respect to state involvement (national tax incentives, legal regulations), locus of control (managerial autonomy, IR structure) and corporate ownership (use of stock market listings) can explain national differences in the adoption of employee share schemes. Based on these country differences we predict substantial differences between the countries in the incidence of the various forms of financial participation. Since the UK is closest to US calculative management practices, with well-developed stock markets (emphasis of share value) and broad acceptance of legal regulations, we expect, in general, a higher incidence of both schemes in the UK than in other European countries. For Germany, we expect the lowest figures with some favourable tendencies for the adoption of narrow-based schemes and less of broad-based schemes. Being mainly based on tax incentives, we expect a relatively higher incidence of both, but especially of narrow-based schemes in France. In Spain, we expect lower figures with a relatively higher incidence of narrow-based option schemes, because individual contracts for management and senior staff are increasingly kept outside collective agreements.

Hypotheses:

2. The incidence of narrow- and broad-based schemes is higher in the UK than in other European countries.
3. The incidence of narrow- and broad-based schemes tends to be lower in Germany than in the other selected countries.

Determinants from Employee Share Ownership Literature

Two perspectives are widely used in the literature on employee share ownership: the agency perspective and the human resource perspective. Research into financial participation using the agency perspective is reported on in two strands of the literature. The first tries to explain the impact of financial participation on performance (see Jones & Kato, 1995; Sesil, Kroumov, Blasi, & Kruse, 2002). The second, growing strand examines the determinants of firms and workplaces with financial participation, using variables that proxy for monitoring costs in models of adoption to try to test the agency perspectives (see Drago & Heywood, 1995; Kruse, 1996). In this paper, we focus on the determinants of employee share ownership schemes and we have selected additional control variables from this literature.

Agency Perspective

The core of the agency theory perspective is the contract between principal and agent (Eisenhardt, 1989). In these agency relationships, a major issue is ensuring that the agent acts in the interests of the principal (Huarng, 1995). Agency problems arise when “(a) the principal and agent have different goals and (b) the principal cannot determine if the agent has behaved appropriately” (Eisenhardt, 1989, p. 61). As a result, aligning goals and monitoring output are important management instruments. Employee share schemes are a means to steer agents’ behaviours and, therefore, can be considered as part of behaviour-based contracts if the level of alignment between principal and agent is low and/or if output measurability is low. Regarding employee share schemes, three principal-agent relationships are of interest: between owner (share-holders) and management, between management and employees, and, in case of MNCs, between headquarters and subsidiary. The first relationship is mainly related to narrow-based schemes (for aligning owners’ and management’s goals) and the second to broad-based schemes (for controlling employees’ behaviours). The relationship between headquarters and subsidiary in MNCs combines insights from MNC research with the agency perspective.

Agency Perspective in MNCs

Regarding the agency perspective in MNCs, the relation between headquarters and subsidiary is of importance. Strategy literature distinguishes between different structures and strategies of MNCs according to their level of local or global responsiveness: the multi-domestic, the international and global product division (Bartlett & Goshal, 2000). The ‘agency problem’ in MNCs is probably most felt when the subsidiary plays a key role in the global strategy of the corporation, particularly when the subsidiary itself operates in a global market instead of being oriented to the lo-
cal market. This will be the case in subsidiaries of global product divisions. Hence, their remuneration systems will be more oriented towards global corporate performance while in multi-domestic firms they will be more oriented to subsidiary performance in the local context. O’Donnell (1999) found support for this, she found that, in comparison with subsidiaries that have a multi-domestic strategic role, for subsidiaries with a strategic global role the percentage of subsidiary management remuneration was based more on corporate performance than on local performance. The question for our research is whether US multinationals (based on their global dominance in world economy) develop more global equity plans for the management of their subsidiaries with a strategic role than for their subsidiaries with a more local orientation.

4. **Being a global player as a business unit of a US MNC has a positive effect on the incidence of narrow-based schemes.**

**Broad-based Schemes**

The main argument from the determinants approach in case of broad-based schemes is that firms adopt employee share ownership schemes if direct means of monitoring or controlling the work of individuals is costly. Employee share ownership will be more likely to be used where employee efforts are difficult to observe and output difficult to monitor and it is expensive for the principal to verify and monitor (McNabb & Whitfield, 1998; Cheadle, 1989). Share ownership has the potential to align the interest of employees with those of the firm. Additional reward is not the only key to this alignment, share ownership may also raise commitment and trust because the firms share results with the employees. This may have an impact on lower absenteeism, for instance (Brown, Fakhfakh, & Sessions, 1999). In addition, psychological ownership may be developed (Pierce, Rubenfeld, & Morgan, 1991; Pendleton, Wilson, & Wright, 1998) and peer pressures may develop to prevent under-performance of colleagues (Fitzroy & Kraft, 1987; Freeman, Kruse, & Blasi, 2004).

Determinants literature has selected several indicators to test these claims. Workplaces where individual output and performance is hard to measure because of the complexity and interdependence of work tasks may be observed in advanced manufacturing contexts, some service activities, and in creative occupations. There are a range of measures which may be used to approach these indicators: the proportions of various groups of staff (such as professionals whose output is difficult to measure), the presence of automated technology, the complexity/interdependence of work tasks, and the proportion of highly-educated staff. These features might be proxied by the proportion of manual workers on the basis that manual work tends to be more readily measurable than much white collar work, the proportion of graduates in the workforce on the grounds that more highly qualified employees tend to perform relatively complex work tasks, and the proportion of professionals
on the basis that professional work is especially difficult to monitor (for use of these proxies, see Pendleton, 1997; Festing et al., 1999; Poutsma & de Nijs, 2003). Another important determinant in the literature on financial participation is size of the workplace. The argument here is that monitoring costs increase in larger organisations, so size may be an important predictor of the adoption and use of financial participation, and indeed many studies have found this to be the case especially in relation to share ownership schemes (see for instance Pendleton, Poutsma, Van Ommeren, & Brewster, 2003). However, the problem here is that with the increase in size more free rider effects may occur, and so the effects of size may be ambiguous. The free rider problem is one of the reasons why determinants literature presents mixed results in relation to the agency perspective.

Human Resource Perspective

Although the agency argument is mentioned in connection with broad-based share plans, the literature and research on these plans takes much more of a human resource management perspective. In a critique on theories of the firm, Blair (1999) stated that in labour theory the principal-agent model is not directly applicable to the employment relationship especially not when firm-specific investments in human capital are involved. In simple principal-agent modelling the contract specifies outcomes and fees and after the contract is agreed the assumption is that in this asymmetrical relationship the principal will not influence or change the variables that influence the outcomes and hence the fee. In firm-specific investments in human capital by employees in the course of the employment relationship, the outcomes cannot be specified and management can change the conditions under which firm-specific investments in human capital can reach certain outcomes. The consequence of this reasoning is that firms will look for other arrangements beyond contract to bind employees in a long-term employment relationship to protect firm-specific investments by those employees. Expectations that Blair mentions in this respect are that firms will develop bundles of HRM strategies to protect these investments like development plans, corporate culture and ownership and control rights, hence employee share ownership.

Recent HRM literature provides grounds to expect that firms with financial participation will develop such a bundle of HRM practices. An important part of this literature views financial participation schemes as part of a high-performance work system, composed of several, interacting HRM instruments (Becker & Huselid, 1998). If employees are to accept a range of performance-enhancing managerial initiatives, it is arguable that they should receive a pay-off from any improvements in performance that might result. Equally, if employees are to share in the performance of the firm, it is arguable that they should actively contribute to performance outcomes. We therefore expect to find firms with financial participation also having a range of other human resource management features, such as higher than average training expenditure, comprehensive performance appraisal systems etc.
The relationship between financial participation and training is of particular interest. In the literature, it is argued that employees should have equal rights to owners and investors because employees also make firm-specific investments and incur potential opportunity costs from their investment (see Blair, 1995, 1999). They bear risk in so far as management or owners may opportunistically capture the benefits resulting from employee investments. The consequence of this reasoning is that employees should receive a dividend on their investment in much the same way as private investors. Financial participation schemes signal to employees that the benefits of investments in training will be shared with employees. Equally, from the firm’s point of view, the use of financial participation helps to protect investments made by the firm in employee training. It raises the costs to employees of shirking (i.e. dismissal may lead to lower remuneration elsewhere) and of leaving the firm5. In so far as financial participation schemes frequently have deferral periods, it binds the employee to the firm in the medium term. To control this training effect, we proxy this by the percentage of employees trained and the level of training budget as a proportion of the wage bill.

Methodology

The empirical analysis was performed using the data set of the Cranfield Network on European Human Resource CRANET-2000 (for details of the survey and Cranet Network see Brewster, Hegewisch, Mayne, & Tregaskis, 1994). We performed a secondary analysis on the data collected in 1999/2000 in 14 European Member States. Cranet-E describes company practices and policies in human resource management of medium and large-scale organisations in the private sector (200 or more employees). The organisation could be the firm in its entirety or a relatively independent subsidiary. The data was collected using a mail survey directed at the head of personnel in representative national samples of organisations based in one of the fourteen EU countries (for a detailed description of the sampling procedure, see Pendleton et al., 2001). The unweighted distribution of the organisations between the fourteen countries is shown in Table 1. In the analysis, we used weights (Table 1) in order to compensate for unequal sampling probabilities due to a stratified (i.e. country) sampling design. A representative pan-European picture was reached using the country’s proportion of large-scale enterprises (LSE), i.e. with 250+ employees, in the EU (European Observatory SME’s 2002, Eurostat/EIM6). Nevertheless, the data cannot claim to be a fully reliable representative picture of the European Union due to slightly different sampling procedures across countries.

This study focused on the practice whereby organisations offer employees a form of share ownership by allocating shares or options to personnel. The question in the survey does not make a distinction between share allocation and the issue of

5 Except where financial participation is in use in similar firms.
Table 1: Distribution of cases by country

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>Unweighted</th>
<th>Unweighted</th>
<th>Weighted</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Count</td>
<td>Col %</td>
<td>Col %</td>
</tr>
<tr>
<td>Austria</td>
<td>131</td>
<td>5.2</td>
<td>2.4</td>
</tr>
<tr>
<td>Belgium</td>
<td>141</td>
<td>5.6</td>
<td>2.7</td>
</tr>
<tr>
<td>Denmark</td>
<td>151</td>
<td>6.0</td>
<td>1.4</td>
</tr>
<tr>
<td>Finland</td>
<td>131</td>
<td>5.2</td>
<td>13.3</td>
</tr>
<tr>
<td>France</td>
<td>264</td>
<td>10.5</td>
<td>13.3</td>
</tr>
<tr>
<td>Germany</td>
<td>415</td>
<td>16.6</td>
<td>33.9</td>
</tr>
<tr>
<td>Greece</td>
<td>95</td>
<td>3.8</td>
<td>1.0</td>
</tr>
<tr>
<td>Ireland</td>
<td>96</td>
<td>3.8</td>
<td>1.0</td>
</tr>
<tr>
<td>Italy</td>
<td>60</td>
<td>2.4</td>
<td>6.8</td>
</tr>
<tr>
<td>Netherlands</td>
<td>56</td>
<td>2.2</td>
<td>6.2</td>
</tr>
<tr>
<td>Portugal</td>
<td>96</td>
<td>3.8</td>
<td>2.2</td>
</tr>
<tr>
<td>Spain</td>
<td>184</td>
<td>7.3</td>
<td>7.6</td>
</tr>
<tr>
<td>Sweden</td>
<td>156</td>
<td>6.2</td>
<td>2.3</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>530</td>
<td>21.1</td>
<td>17.8</td>
</tr>
<tr>
<td>Group total</td>
<td>2506</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

options. In the CRANET survey, the respondents indicated which categories of employees this type of financial participation applies to: management staff, professional and technical staff, clerical and administrative staff, and manual workers. Using these specific categories of employees, it is possible to determine not only whether an organisation is engaged in share ownership but also the extent to which its scheme goes beyond the level of management in the organisation. Following Pendleton et al. (2003), we therefore distinguished between organisations with a narrow-based share scheme (limited to less than 50% of the employees, mainly management staff) and those with a broad-based share option scheme open to more than 50% of the employees.

7 The original English questionnaire was translated into the languages of the various countries where the survey was held. In addition, the questionnaire was translated back into English to highlight possible differences in national interpretation of concepts, terms and wording. The Cranet Team discussed these and came to an agreement that maximised comparability. The question on incidence of share schemes should therefore be read as schemes that offer bonds related to company shares. This broad category, therefore, covers peculiar national-specific (wording of) schemes to make it comparable. For the sake of readability, we use the term share schemes.

8 In constructing these two indicators, Pendleton et al. (2003) took into account not only the specific categories of employees but also their proportional representation in the organisation (151-152).
Being dichotomous dependent variables, Narrow- and Broad-based share (option) schemes were analysed using logistic regression. These statistical models treat the predicted probability of the type of share option scheme occurring as a non-linear function of the independent variables. Positive coefficients (odd ratios) indicate that the specific category concerning the independent variable increases the probability of the scheme at hand, whereas a negative parameter signifies a decrease in this probability. The rate of change, however, will depend on the position on the probability curve (see Long, 1997).

Table 2 presents an overview of the main independent variables and their categories. Our focus in this study was on the adoption of share schemes by corporations. Although this type of payment scheme has distinct features compared with other profit-sharing schemes, in practice these types of payment schemes may be conjoined (Pendleton et al., 2001). We therefore incorporated the prevalence of profit-sharing schemes as control variables.

We specified four large EU-countries to look for country-specific institutional effects: the United Kingdom, France, Spain and Germany. These countries also have satisfyingly high cell frequencies of multinationals using share schemes. Some of the independent variables have a number of missing cases. List-wise deletion would have led to an unacceptably low number of valid cases, so following Poutsma, Hendrickx, and Huijgen (2003), we included missing values as a separate category in the analysis. The indicator contrast was used for the independent variables, i.e. the contrasts within an independent variable were tested against a specific reference category. A significant effect for the ‘missing’ category indicates that missing cases are not random but relate to specific categories more than to others. It is, however, preferred that the ‘missing’ categories be non-significant. At least this procedure ensures that the parameter estimates are based on as large a sample as possible.

Table 4 summarises the parameter estimates for the effects of the independent variables on the Narrow-based as well as for the Broad-based share schemes. Asterisks following the variable’s name indicate the significance of the variable. The chi-square values for each of the added blocks of independent variables can be found in Table 5.

**Results**

Throughout the European Union a minority of companies have either a narrow- or a broad-based share scheme (Table 3). In the EU countries, the incidence of narrow-based share schemes (14.0%) was comparable with the incidence of broad-based share schemes (14.1%). The incidence of both types of share schemes appeared to be associated somewhat negatively, i.e. a Phi-coefficient of -.164 (weighted, p<.001). This implies that both share schemes are separate phenomena.
Table 2: List of Independent Variables

<table>
<thead>
<tr>
<th>Categories</th>
<th>Broad-based profit-sharing</th>
<th>Narrow-based profit-sharing</th>
<th>EU states:</th>
<th>Headquarter (Multi)national:</th>
<th>Interaction terms EU states*USHQ:</th>
<th>Focus on International Markets</th>
<th>Control variables</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0 ‘no’; 1 ‘yes’</td>
<td>0 ‘no’; 1 ‘yes’</td>
<td></td>
<td>Business Size</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0 ‘no’; 1 ‘yes’</td>
<td>1 ‘Nationally based company’ (refcat)</td>
<td></td>
<td>1 200-499 employees’ (refcat)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0 ‘no’; 1 ‘yes’</td>
<td>2 ‘EU-based multinational corporation’</td>
<td></td>
<td>2 500-999 employees’</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0 ‘no’; 1 ‘yes’</td>
<td>3 ‘US-based multinational corporation, USHQ’</td>
<td></td>
<td>3 1000 plus employees’</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0 ‘no’; 1 ‘yes’</td>
<td>4 ‘not EU and US based multinational corporation’</td>
<td></td>
<td>Percentage of Professionals</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2 ‘1.51-3.0%’</td>
<td>United Kingdom*USHQ (refcat)</td>
<td></td>
<td>1 ‘0-30%’ (refcat)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2 ‘1.51-3.0%’</td>
<td>France*USHQ</td>
<td></td>
<td>2 ‘31-60%’</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2 ‘1.51-3.0%’</td>
<td>Spain*USHQ</td>
<td></td>
<td>3 ‘61-100%’</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2 ‘1.51-3.0%’</td>
<td>Germany*USHQ</td>
<td></td>
<td>Percentage of Manuals</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2 ‘1.51-3.0%’</td>
<td>Others*USHQ</td>
<td></td>
<td>1 ‘0-30%’ (refcat)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2 ‘1.51-3.0%’</td>
<td></td>
<td></td>
<td>2 ‘31-60%’</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2 ‘1.51-3.0%’</td>
<td></td>
<td></td>
<td>3 ‘61-100%’</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2 ‘1.51-3.0%’</td>
<td></td>
<td></td>
<td>Percentage of Employees trained</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2 ‘1.51-3.0%’</td>
<td></td>
<td></td>
<td>1 ‘0-1.5%’ (refcat)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2 ‘1.51-3.0%’</td>
<td></td>
<td></td>
<td>2 ‘1.51-3.0%’</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2 ‘1.51-3.0%’</td>
<td></td>
<td></td>
<td>3 ‘3.1%-highest’</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2 ‘1.51-3.0%’</td>
<td></td>
<td></td>
<td>Training-costs as proportion of Wage Bill</td>
</tr>
</tbody>
</table>

Employee Share Schemes in Europe. The Influence of US Multinationals
Table 3: Incidence of share schemes in EU-countries (%) (weighted)

<table>
<thead>
<tr>
<th>Type of share</th>
<th>United Kingdom</th>
<th>France</th>
<th>Spain</th>
<th>Germany</th>
<th>Other EU countries</th>
<th>EU countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>No share-options scheme</td>
<td>55.0</td>
<td>61.1</td>
<td>80.6</td>
<td>80.5</td>
<td>75.0</td>
<td>71.9</td>
</tr>
<tr>
<td>Narrow-based share-options scheme</td>
<td>15.7</td>
<td>19.8</td>
<td>14.2</td>
<td>10.3</td>
<td>14.8</td>
<td>14.0</td>
</tr>
<tr>
<td>Broad-based share-options scheme</td>
<td>29.3</td>
<td>19.2</td>
<td>5.2</td>
<td>9.2</td>
<td>10.2</td>
<td>14.1</td>
</tr>
</tbody>
</table>

This univariate analysis table shows that the incidence of share schemes followed the hypothesised pattern. The incidence was highest in the UK followed by France. Lower incidences were found in Spain and Germany. A high incidence of broad-based schemes was found in the UK followed by France. Lower incidences of both schemes were found in Germany.

Determinant Factors for Narrow- and Broad-based Share Schemes

In this section, we present the effects of the independent variables according to the hypotheses formulated. A general overview of the Chi-Squares of the hypothesised effects are summarised in Table 4 for the Narrow-based and Broad-based share schemes. The parameter estimates, i.e. the odds-ratios, are summarised in Table 5.

In the discussion on ‘Anglo-Saxonisation’ and HRM practices transfer, we predicted that not only employee share schemes but also other calculative HRM practices would conjoin (Gooderham et al., 1999). Pendleton et al. (2001) noted that in practice share schemes go together with profit-sharing schemes. Our results confirm this. However, the results show that profit-sharing only increased the probability of organisations also having a share scheme (i.e. the odds-ratio is greater than 1) for the same organisational group. The incidence of narrow-based profit-sharing only increased the presence of narrow-based share schemes, whereas the presence of broad-based share schemes was only increased by the incidence of broad-based profit-sharing schemes. This consistency across different types of payment schemes validates the distinction between narrow-based and broad-based calculative practices.
Table 4: Chi-Square values of the terms

<table>
<thead>
<tr>
<th></th>
<th>df</th>
<th>Narrow-based share</th>
<th>Broad-based share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Broad-based profit</td>
<td>1</td>
<td>1.16</td>
<td>35.75**</td>
</tr>
<tr>
<td>Narrow-based profit</td>
<td>1</td>
<td>13.89**</td>
<td>.96</td>
</tr>
<tr>
<td>HQ_MNC</td>
<td>3</td>
<td>49.93**</td>
<td>31.61**</td>
</tr>
<tr>
<td>EU states</td>
<td>4</td>
<td>29.66**</td>
<td>83.14**</td>
</tr>
<tr>
<td>Interaction EU states * USHQ</td>
<td>4</td>
<td>5.25</td>
<td>18.87**</td>
</tr>
<tr>
<td>International Market Orientation a</td>
<td>3</td>
<td>3.51</td>
<td>5.56</td>
</tr>
</tbody>
</table>

**Control variables**

<table>
<thead>
<tr>
<th></th>
<th>df</th>
<th>Narrow-based share</th>
<th>Broad-based share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business size</td>
<td>2</td>
<td>21.62**</td>
<td>4.98</td>
</tr>
<tr>
<td>Total Corporation size a</td>
<td>3</td>
<td>1.64</td>
<td>11.33**</td>
</tr>
<tr>
<td>Percentage manuals a</td>
<td>3</td>
<td>5.98</td>
<td>3.95</td>
</tr>
<tr>
<td>Percentage professionals a</td>
<td>3</td>
<td>3.54</td>
<td>.63</td>
</tr>
<tr>
<td>Proportion trained employees a</td>
<td>3</td>
<td>1.33</td>
<td>13.69**</td>
</tr>
<tr>
<td>Training of budget as proportion of wages a</td>
<td>3</td>
<td>1.15</td>
<td>4.60</td>
</tr>
</tbody>
</table>

Model Chi-square 33 181.00** 312.03**
N 2367 2319
-2 Log Likelihood 1781.38 1660.04
Percentage correct predictions 85.7 85.8
Nagelkerke's R-Square .13 .22

* significant at .05 ** significant at .01
a including the missing values categories

Table 5: Odds-ratios for the characteristics of corporations with a Narrow-based or a Broad-based share options scheme a Logistic Regression

<table>
<thead>
<tr>
<th>Categories</th>
<th>Narrow-based</th>
<th>Broad-based</th>
</tr>
</thead>
<tbody>
<tr>
<td>Broad-based profit-sharing</td>
<td>0 'no'; 1 'yes'</td>
<td>1.19</td>
</tr>
<tr>
<td>Narrow-based profit-sharing</td>
<td>0 'no'; 1 'yes'</td>
<td>1.95**</td>
</tr>
<tr>
<td>HeadQuarter_MNC</td>
<td></td>
<td>**</td>
</tr>
<tr>
<td>1 'Nationally based company (refcat)'</td>
<td></td>
<td>2.10**</td>
</tr>
<tr>
<td>2 'EU-based MNC'</td>
<td></td>
<td>8.08**</td>
</tr>
<tr>
<td>3 'US-based MNC, USHQ'</td>
<td></td>
<td>1.57</td>
</tr>
<tr>
<td>4 'Not EU or US based MNC'</td>
<td></td>
<td>**</td>
</tr>
<tr>
<td>EU states:</td>
<td></td>
<td>**</td>
</tr>
<tr>
<td>UK (refcat)</td>
<td></td>
<td>1.38</td>
</tr>
<tr>
<td>France</td>
<td></td>
<td>1.09</td>
</tr>
<tr>
<td>Spain</td>
<td></td>
<td>.39**</td>
</tr>
<tr>
<td>Germany</td>
<td></td>
<td>.84</td>
</tr>
<tr>
<td>Others</td>
<td></td>
<td>**</td>
</tr>
<tr>
<td>Categories</td>
<td>Narrow-based</td>
<td>Broad-based</td>
</tr>
<tr>
<td>----------------------------------</td>
<td>--------------</td>
<td>-------------</td>
</tr>
<tr>
<td>Interaction EU states*USHQ</td>
<td>n.s.</td>
<td>**</td>
</tr>
<tr>
<td>United Kingdom*USHQ (refcat)</td>
<td>.58</td>
<td>.44</td>
</tr>
<tr>
<td>France*USHQ</td>
<td>.27</td>
<td>.98</td>
</tr>
<tr>
<td>Spain*USHQ</td>
<td>.44</td>
<td>13.91**</td>
</tr>
<tr>
<td>Germany*USHQ</td>
<td>.90</td>
<td>.53</td>
</tr>
<tr>
<td>Others*USHQ</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Focus on International Markets</td>
<td>n.s.</td>
<td>n.s.</td>
</tr>
<tr>
<td>1 'National orientation' (refcat)</td>
<td>.82</td>
<td>.66</td>
</tr>
<tr>
<td>2 'European market orientation'</td>
<td>1.15</td>
<td>.88</td>
</tr>
<tr>
<td>3 'Global player'</td>
<td>.93</td>
<td>.04</td>
</tr>
<tr>
<td>4 'missing'</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business Size</td>
<td>**</td>
<td>n.s.</td>
</tr>
<tr>
<td>1 '200-499 employees' (refcat)</td>
<td>.66*</td>
<td>1.27</td>
</tr>
<tr>
<td>2 '500-999 employees'</td>
<td>1.52**</td>
<td>1.45*</td>
</tr>
<tr>
<td>3 '1000 plus employees'</td>
<td>1.37</td>
<td>.71</td>
</tr>
<tr>
<td>Total Company Size</td>
<td>n.s.</td>
<td>**</td>
</tr>
<tr>
<td>1 '200-499 employees' (refcat)</td>
<td>1.37</td>
<td>.71</td>
</tr>
<tr>
<td>2 '500-999 employees'</td>
<td>1.10</td>
<td>1.36</td>
</tr>
<tr>
<td>3 '1000 plus employees'</td>
<td>1.02</td>
<td>.87</td>
</tr>
<tr>
<td>Percentage of Professionals</td>
<td>n.s.</td>
<td>n.s.</td>
</tr>
<tr>
<td>1 '0-30%' (refcat)</td>
<td>1.20</td>
<td>1.03</td>
</tr>
<tr>
<td>2 '31-60%'</td>
<td>.75</td>
<td>1.22</td>
</tr>
<tr>
<td>3 '61-100%'</td>
<td>1.24</td>
<td>.97</td>
</tr>
<tr>
<td>4 'missing'</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Percentage of Manuals</td>
<td>n.s.</td>
<td>n.s.</td>
</tr>
<tr>
<td>1 '0-30%' (refcat)</td>
<td>1.13</td>
<td>1.19</td>
</tr>
<tr>
<td>2 '31-60%'</td>
<td>1.53</td>
<td>.79</td>
</tr>
<tr>
<td>3 '61-100%'</td>
<td>1.61</td>
<td>1.11</td>
</tr>
<tr>
<td>4 'missing'</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Percentage of Employees trained</td>
<td>n.s.</td>
<td>**</td>
</tr>
<tr>
<td>1 '0-30%' (refcat)</td>
<td>.82</td>
<td>1.80**</td>
</tr>
<tr>
<td>2 '31-60%'</td>
<td>.90</td>
<td>1.77**</td>
</tr>
<tr>
<td>3 '61-100%'</td>
<td>.94</td>
<td>1.64*</td>
</tr>
<tr>
<td>4 'missing'</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proportion training of Wage Bill</td>
<td>n.s.</td>
<td>n.s.</td>
</tr>
<tr>
<td>1 '0-1.5%' (refcat)</td>
<td>.90</td>
<td>1.37</td>
</tr>
<tr>
<td>2 '1.51-3.0%'</td>
<td>.86</td>
<td>1.45</td>
</tr>
<tr>
<td>3 '3.1%-highest'</td>
<td>.83</td>
<td>1.53*</td>
</tr>
<tr>
<td>4 'missing'</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Constant</td>
<td>.07**</td>
<td>.10**</td>
</tr>
</tbody>
</table>

* significant at .05 ** significant at .01

Odd ratios >1 contribute positively to the dependent. Odd ratios <1 contribute negatively to the dependent.

An overview of the findings for the hypotheses concerning the perspectives is presented in Table 6. In the institutional perspective, the findings show that the specified EU countries with their different institutional arrangements played an important role in the incidences of both types of share schemes. The different institutional arrangements affected the prevalence of both share schemes, although more exten-
sively for broad-based than for narrow-based share schemes. With regard to a possible Anglo-Saxonisation effect, however, the presence of a US subsidiary had a general and prominent effect on the prevalence of the narrow-based and broad-based share schemes.

Table 6: Summary of the findings of the hypotheses for the perspectives

<table>
<thead>
<tr>
<th>Formulated hypothesis</th>
<th>expected</th>
<th>Narrow-based Share</th>
<th>Broad-based Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. USHQ</td>
<td>more likely</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>2. UK compared to other regions</td>
<td>more likely</td>
<td>Partly</td>
<td>Yes</td>
</tr>
<tr>
<td>3. Germany</td>
<td>less likely</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>4. International Market Orientation</td>
<td>more likely</td>
<td>No</td>
<td></td>
</tr>
</tbody>
</table>

Our first hypothesis predicted that being a subsidiary of a US MNC would affect the probabilities of having narrow- and broad-based share schemes. The results confirm the hypothesised effect, i.e. being a subsidiary of a US MNC (US-based MNC, USHQ) generally increased the odds of the narrow-based and broad-based schemes. The odds were 8.08 (Wald statistic 40.74, p < .001) and 2.38 (Wald statistic 4.20, p < .040) respectively. Especially for the narrow-based share scheme, the odds were raised prominently by US MNCs. A MNC-effect was also found for the EU-based MNCs, although it was less prominent. The odds for both share schemes were increased for these EU-based MNCs compared with the nationally based companies. Seemingly, EU-based MNCs mimic the management practices of US MNCs.

Although the institutional effects described below show that German companies generally were less likely to adopt a broad-based share scheme, a US MNC effect nevertheless appeared to be – present and very prominent – in Germany. The odds increased by 13.91 (Wald statistic 9.3; p < .002). Apparently, US-based MNCs in Germany do adopt the broad-based share scheme more than US-based MNCs in the UK. These findings support our first hypothesis on narrow-based and broad-based share schemes.

Based on the differences between the countries specified (i.e. following the institutional perspective), we hypothesised substantial differences between the countries in the incidence of the share schemes. As predicted, the results show that with regard to broad-based schemes, the continental countries like France, Spain and Germany score lower than the United Kingdom, i.e. the reference category. Likewise, Germany scored lower than the United Kingdom for the narrow-based share schemes. However, the incidence of narrow-based schemes was only significantly lower in Germany. In France, Spain and other EU countries, the incidence of narrow-based share schemes was equivalent to the United Kingdom. We therefore found our second hypothesis to be partially supported, to the extent that the United Kingdom has the highest – or at least equal – incidence of share schemes to the other EU
countries. In particular, there was a much higher incidence of broad-based share schemes in the United Kingdom than elsewhere in the EU. Spain scored as high as the UK on the incidence of narrow-based schemes. France also scored higher than Germany and as high as the United Kingdom on narrow-based schemes. We can fully accept our third hypotheses stating that Germany scored lowest regarding both types of schemes (Hypothesis 3).

Interpreting the agency perspective in the relationship between multinational corporate headquarters and the management of subsidiaries, we expected that being a global player as a business unit of a US MNC would have a positive effect on the incidence of narrow-based schemes. This cannot be confirmed by our results. A closer look at the relationship between the variables US (and EU) MNC and the international orientation variable reveals that the correlation is strong suggesting that subsidiaries of multinationals already tend to be global players. Additional analysis showed that the separate – positive – effect of this independent variable disappeared when controlling for the EU and US MNC – effect. This suggests that the EU and US variable described in the step before does indeed cover the international orientation effect to a large extent.

Control Variables

Of the control variables, only size of the business unit and the proportion of employees trained appear to be significant contributors. Business unit size increased the odds for broad-based schemes. This may be interpreted as a possible scale effect as well as a possible agency effect. However, total company size was not a significant predictor, suggesting that scale factors are less important. At least we may say that free rider problems may not prevent the establishment of schemes in larger organisations. Although not explicitly expected, business unit size also increased the odds for narrow-based schemes. This may be interpreted as an additional effect marking the importance of the organisation. Corporate headquarters and owners may use these schemes more often for management of larger units reflecting the importance of the unit.

The results show, as expected, that the Percentage of Employees Trained had a positive effect on the probability of broad-based schemes; the higher the Percentage of Employees Trained the higher the probability of broad-based schemes. On the other hand, we found no evidence for the expected relation between the Proportion of the Wage Bill spent on Training and the proportion of broad-based schemes. Although both indicators are very rough indicators for the nature of training (general and specific) we can interpret this finding as giving some support to the firm-specific skills argument. A higher budget for training may indicate higher expenditure for training provided by external trainers and consultants. This training may be directed to more general skills than firm-specific skills. Firm-specific on the job training may not be covered by explicit budgets. A higher proportion of the workforce may
indicate more on the job training of firm-specific skills. Since the budget variable is not correlated to the workforce-proportion variable we may suggest that the latter indicates firm-specific skills training.

The predictors concerning the composition of the workforce (high percentage of professionals and high percentage of manual workers) appear not to contribute to the phenomenon. The results show that the proportion of professionals and manuals yielded no significant effect on the probability of broad-based schemes.

**Conclusions and Discussion**

Some general conclusions can be drawn from this comparative study. First, the countries with their different institutional arrangements and US multinationals played an important role on the extent to which share schemes are available to narrow and broader categories of employees in European companies. The different institutional arrangements affected the prevalence of both types of share schemes, although more extensively for broad-based than for narrow-based share schemes. The largest effect comes from multinationals, especially those based in the US. US multinationals tended to introduce narrow-based share schemes more than broad-based schemes in Europe. European multinationals tended to mimic US practices. This supports the so-called Anglo-Saxonisation effect as found by Ferner and Quinlanilla (1998). They stated that tensions arise between the requirements of ‘globalised’ operations and the characteristics MNCs have adopted from their home country environment. MNCs respond to such tensions by adopting various adaptation strategies, the most important if which may be termed ‘Anglo-Saxonisation’: a convergence of MNC behaviour around a model typical of highly internationalised British or US MNCs.

Second, the results also show that this convergence effect applies to narrow-based schemes more than broad-based schemes. This suggests that the adoption of narrow-based schemes fits more easily into a universalist convergence perspective.

Third, this contribution supports the institutional perspective of certain HRM practices and sets out the diversity of institutional arrangements that may influence the adoption of HRM practices. It highlights the varieties of capitalism in Europe by the fact of the existence of distinct national financial participation frameworks. These frameworks determined the nature and incidence of broad-based schemes to a large extent and the nature and incidence of narrow-based schemes to a lesser extent.

Fourth, the contribution suggests that the Agency and Human Resource perspective provide some determinants of share schemes. However, the indicators used were very rough and there is a need for further exploration. There are also grounds for an imitation and rent extraction perspective especially for narrow-based schemes. We discovered the possibility of an additional explanation for broad-based schemes.
coming from the human resource perspective. Training affects the use of broad-based share schemes. These results are in line with other research results in this domain (Pendleton et al., 2003). However, a more detailed analysis is needed of studies into how companies protect firm-specific skills and the contribution of employee share schemes and profit-sharing schemes to this.

There are some important drawbacks to this study that have to be taken into account when taking research in this area further. Anglo-Saxonisation does have a much broader meaning than simply having US management, despite the fact that US management appeared to have a direct and an indirect effect on the likelihood of having a narrow-based and broad-based share scheme, respectively. However, when introducing a broader scope of Anglo-Saxon HRM practices, it is important to look for diversity in the adoption of some or parts of the listed HRM practices in certain institutional environments. Second, we could not distinguish between types of schemes. Since a broad range of schemes is covered that have substantial differences in nature and effect, the relevance of certain theoretical perspectives for some of these plans is questionable. In general, the literature suffers from a lack of comparison of different schemes. The schemes are also likely to be country-specific in design depending on regulatory and taxation differences. There is a need for further comparative research. Third, the proxy value of the independent variables used in this study are rough indicators. On the one hand, the unobtrusive variables enabled an interesting comparative study of companies among EU regions, on the other hand, the validity of some measurements can be questioned. Given their effects as demonstrated already in this study, it would be worthwhile studying more precisely the relationship between the proxies used and their inferred meanings.

References


Ingo Singe, Richard Croucher*

**US Multi-Nationals and the German Industrial Relations System**

This paper critically reviews literature on the behaviour of US-based Multi National Companies (MNCs) in Germany in relation to the historic institutions of the German labour market: works councils and industry wide collective bargaining. The German system is becoming increasingly company-rather than sectorally centred, and US-based companies have reinforced a wing of German employer opinion seeking to further these developments. Surveys show US-based companies generally accepting works councils and sectoral bargains but case study evidence also shows them seeking to weaken links with parts of the system external to the company. A typology is proposed and it is argued that many US-based companies appear to follow a ‘formal compliance/content avoidance dichotomy’ tending to exacerbate the system’s existing tendencies towards disarticulation. They also tend to explore all options available to them within the existing system. A research agenda is suggested.

Key words: US Multinationals, Germany, Industrial Relations

**Introduction**

This paper critically reviews literature on the industrial relations behaviours of US-based multi-national companies (MNCs) operating in Germany. Though many management practices indirectly impact industrial relations, we restrict ourselves to considering managers’ activities in dealing directly with representative institutions.

US companies are the biggest foreign investors in Germany; investment of around one hundred billion Euros makes Germany the country with the highest concentration of US capital abroad (www.amcham.de accessed on 12 July 2004). US-based MNCs’ activities have recently attracted considerable interest, often located within the general discussion of ‘convergence’ and ‘divergence’ of business practices (see for example Streeck, 1997 and Lane, 2000 for two different views on the issue in relation to Germany). Some research has concentrated on companies’ employment practices and their consequences in Europe or Germany (for example Gooderham, Nordhaug, & Ringdal, 1999; Edwards & Ferner, 2002).
Both national economies are in different ways highly successful, and act as models elsewhere. The German system constitutes the core of the European social model. Despite debates about whether it is eroding in Germany, German requirements for informing and consulting employee representatives are currently being extended, albeit in diluted form, in Europe within and beyond the EU. The encounter between US MNCs and the German environment is one between two very different economies, described variously as ‘Liberal’ and ‘Coordinated’ Market Economies (LMEs/CMEs) (Hall & Soskice, 2001) or as ‘Compartmentalised’ and ‘Collaborative’ (Whitley, 1999). Both characterisations recognise that German industrial relations are central to its business system and highly regulated in comparison to the American. In Whitley’s analysis (1999, p. 60), compartmentalised systems such as the USA’s are characterised by low market regulation, ‘low to some’ union strength and low bargaining centralisation. Collaborative systems such as Germany’s are characterised on the other hand by high market regulation, high union strength and high bargaining centralisation. However, business systems do not simply determine company practices abroad, where significant internal (employee expectations) and external (public relations) constraints exist. Ferner et al. have argued that the links between the US business system and US MNCs’ behaviours are inadequately demonstrated in the literature (Ferner et al. 2004).

Moreover, the ‘business systems’ approach underemphasises historical dynamics and changes within models. US MNCs have a long history in Germany, marked by waves of German interest in US methods. Inter-war German employers and unions showed a great interest in American production methods, championed by German industrialists’ associations (REFA) from 1924 onwards (Müller-Jentsch, 1997, p. 250). Exchange between the two countries’ management education institutions was intense before 1939 and contributed after 1945 to considerable interest in US management methods (Wächter, Peters, Tempel, & Müller-Camen, 2003: 15) US MNCs’ policies continue to attract considerable interest from their German counterparts. Business schools and management publications (Hartmann, 1963; Kipping, 1997), collective employer institutions (such as the American Chamber of Commerce in Germany, founded in 1903 and currently containing many German companies as members) and consultancies have constituted conduits of ideas and political views. In 1951, for example, the US National Association of Manufacturers intervened in debates around co-determination laws, saying that American capital could not be expected to flow into Germany if stockholders’ rights were insufficiently secure (Jacoby, 1999, p. 23). The American government has also been a player. The US government intervened against the extension of codetermination in 1976 on the grounds that it violated property rights (Wächter et al., 2003, p. 12). Recent analyses of German management journals show that contributions from US HR managers/academics greatly exceed those of other nationals. IBM and Hewlett Packard have been rated by their German counterparts as having ‘the best’ HRM strategy (Wächter et al., 2003, pp. 25-26).
Recognition of the usefulness of US models in context cannot however be equated with adopting them. German interest in American methods has always retained a critical perspective and Gergs and Schmidt have argued that simple adoption of American management models by German employers is therefore unlikely (Gergs & Schmidt, 2002). The process may have been one of mutual accommodation. The age of some important US-owned manufacturing plants such as Ford and Opel suggests well established internal IR systems, typical of German manufacturing and this is confirmed in Opel’s case by recent research (Martens, 2002). It is nevertheless noteworthy that the current period is one of renewed interest in US models from German managers. American criticisms of the German system, long present, have recently been given more attention because Germans are themselves discussing them.

Wever has suggested that American companies show a strong wish for unilateral management discretion rather than control negotiated through employee representatives (Wever, 1995). They exercise strong central influence over IR questions and attempt to develop strong company cultures inimical to outside bodies such as unions (Muller, 1998). On the other hand, Gooderham and his colleagues have shown that German employment practices are relatively impervious to external influences from US-style unilateralist HRM (Gooderham et al., 1999). Some researchers suggest that HR and IR practices are likely to diffuse from systems that are dominant and comparatively successful but how far this has actually occurred in the German case is not entirely clear (Edwards & Ferner, 2002; Tempel, 2002).

The recent German context has been one of sharp challenges to existing industrial relations bodies and their operation. Corporate and political commentators are most disaffected with these institutions (Lane, 2000). The main German employers’ representative bodies (BDI and BDA) and the American Chamber of Commerce have called for a reduction in the system’s regulatory content and increased rights for works councils and employees to agree change without union consent. Unions oppose this and the system is now the subject of intense public political debate.

American MNCs may be expected to vary in their strategies (Strauss, 2001) ‘Institutional underdevelopment’ in the USA (Ferner, 2002) allows for great scope in interpreting and implementing HRM and relating to employee representation. Nevertheless, certain traits such as anti-statism, an emphasis on direct communications with employees, individualised pay systems and anti-unionism are apparent within US companies (Wever, 1995; Ferner, 2002; Wächter et al., 2003). Some authors have suggested that anti-unionism can itself take various forms (Ferner, 2002; Edwards & Ferner, 2002). This has been subject to variation when circumstances demanded, as during the ‘Progressive Era’. Fantasia (1988, p. 25) shows that company unions were established to ward off inter-company forms of worker organisation. There are therefore significant US antecedents for an approach allowing and even encouraging in-company vehicles of employee voice, while seeking to marginalise
trade unions. Such an approach is compatible with the German ‘dual system’ where
the separation of works councils and trade unions allow its replication.

Thus, US MNCs can draw on earlier US history as well as their own ‘business sys-
tem’ when operating in Germany. They should not be conceived of as simple advokates of their own business system, which in any case allows great variation in company practices. The question addressed by our literature review is therefore: how far are US MNCs accepting, or seeking to accommodate to, to shape or to challenge the Ger-
man IR system’s institutions?

The paper is structured as follows. The first two sections provide essential context.
In the first section, we describe the German IR system in theory. In the second, we
review debates about its current condition. In our third section, we review literature
on US MNCs in Germany, considering works councils first and then collective bar-
gaining. Finally, we draw conclusions, develop a typology of US MNC behaviours
and propose a research agenda.

The German System of Industrial Relations: Stability or Erosion?

In this section, we describe the system in a theoretical sense (i.e. as ‘ideal type’) and
then review recent debates about its stability in practice.

The System in Theory

The German system is commonly described as a dual model (Jacobi, Keller, &
Müller-Jentsch, 1992; Müller-Jentsch, 1997), functionally differentiated between
sectoral collective bargaining and workplace co-determination. In the first arena,
employers’ associations and unions bargain mainly over issues such as wages and
working time; in the second, elected works councils (established on workers’ re-
quest) represent employees’ interests irrespective of union membership. This last
feature potentially means that they are representative institutions faithfully reflecting
employee opinion and are therefore a crucial part of industrial democracy (Kot-
thoff, 1994). The system’s pillars have legal bases in the concepts of ‘Tariff autono-
my’ (Tarifautonomie) enacted in the Tarifvertragsgesetz 1949/1999), i.e. the right of
unions and employers to bargain without state interference and Betriebsverfassung,
or the idea of workplace co-determination enacted in successive laws (Betriebs- and
Personalvertretungsgesetze). Works councils have legal responsibility for implement-
ing sectoral agreements at workplace level and deal with a range of social issues
there. They are bound to work with employers in a ‘spirit of co-operation’ and have
rights of co-determination, consultation and information across a wide range of is-
Sues. They must not initiate industrial action. In recent years, they have in many sec-
tors taken on bargaining roles for locally-negotiated deviations from the sectoral
contract, or ‘opening clauses’. These allow companies under certain conditions and
to specified extents to modify or diverge from the agreed standards (Müller-Jentsch,
1997; Bispinck & Schulten, 1999).

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The system has always allowed employers to opt out of sectoral agreements by simply not joining employer’s federations other than ‘OT’ (‘without tariff’) federations, minority federations not requiring observation of sectoral agreements. Alternatively, they may strike separate company agreements or Haustarifverträge, as have major employers such as Volkswagen. Unions were historically amenable to Haustarifverträge because, although they constituted an exception, they frequently provided improvements to sectoral bargains. The system also allows works councils without union representation.

Though the two parts of the dual system are envisaged as separate arenas, employers’ associations, unions and works councils are in fact interdependent. Unions and collective bargaining on the one hand and works councils on the other have mutually supportive functions. Employers’ associations have a policing role on employers shared with works councils. In practice, there have been strong ties between unions and works councils (Schmidt & Trinczek, 1999, p. 106). They can play an important role in assisting works councils by education, access to information, and networking. Conversely, unionists on works councils provide unions with access to the workplace. It is also notable that it contains more options for employers (Haustarifverträge, OT employers’ associations, opening clauses, non-union works councils) than is often recognised.

The System in Practice: Recent Debates

The system was long regarded as solid, with high adaptive capacity (Jacobi et al., 1992). Until the late 1990s, the stability of co-determination in particular was unquestioned with some authors detecting increased works council involvement in management (see Kotthoff, 1998, for a review of the discussion). Recently, however, debates have arisen over how far the theoretical description continues accurately to describe the current situation. Re-unification in 1989 played a large part in these debates because of the lack of co-determination and free trade union traditions in the ex-DDR. Change has been reflected in the development of a sizeable ‘co-determination-free zone’ outside of large companies in both East and West, and increased decentralisation through ‘opening’ clauses allowing bargained deviations from collective agreements at company level. ‘Wildcat co-operation’ (Streeck, 1984) between works councils and managements, a term used to describe local council-management collusion to allow variations in terms and conditions in defiance of sectoral agreements has called the system’s stability into question. One interpretation claims that the collective bargaining system has displayed ‘far-reaching institutional continuity’ (Streeck & Rehder 2003, p. 345). ‘Opening clauses’ showed adaptive capacity rather than systemic erosion. In this view, devolving issues to company level that were traditionally regulated sectorally was seen as a reconfiguration rather than a fundamental problem. Hence Jacobi (2003, p. 37) concludes that employers continue to value the stability and predictability of German industrial relations.
Other researchers have argued that the system is eroding (Hassel, 1999, 2002) as it is being both by-passed and internally undermined. While declining coverage of collective agreements in the West does not result from employers opting out (but rather to sectoral change, i.e. the number of manufacturing firms declining and new entrants not joining federations) in the East sizeable numbers of employers have left employers’ associations and are outside sectoral agreements (Kohaut & Bellmann, 1997; Ellguth, 2004). Schmidt, Röbenack, and Hinke (2003) show that whereas in 1989/1990, 90% of employees were covered by collective agreements (including sectoral agreements and Haustarifverträge) by 2001 the equivalent figures were 71% in the West and 57% in the East. During the 1990s, the number of Haustarifverträge roughly doubled in the West and increased four-fold in the East. Schmidt and his colleagues studied the metal and electronics industries in the East (excluding Sachsen-Anhalt) and found a majority of enterprises unconnected to the sectoral agreement. Among the Haustarifverträge these researchers examined nearly 60% of them paid less than the sectoral bargain. Artus (2003) reached similar conclusions from her studies of the East.

As Ellguth (2004, p. 178) has argued, any assessment of the systems’ actual operation must combine analysis of the number of works councils with analyses of union-council relations, the observation of standards in workplaces and councillors’ capacity to act.

According to Schmidt and Trinczek (1999) decentralisation poses real challenges to the system’s operation in workplaces. They enumerate a range of further problems including unions’ decreasing capacity to provide training and advice to councillors dealing with increasingly complex and differentiated employee issues. Croucher and Singe demonstrated the crucial significance of such support in dealing with issues of working time flexibility (Croucher & Singe, 2004). Even where companies remain covered by sectoral agreements and workplace representative institutions, pressure on works councillors to make concessions has increased. A recent survey of private sector works councillors found 15% of respondents admitting to breaches of collective agreements (Bispinck & Schulten, 2003). Although these trends are more observable in the East than the West, Brinkmann (2003) suggests that employers consciously use the East as a ‘laboratory’ for changes they wish to introduce in the West.

Perhaps the most significant point is that it is now seen as appropriate to debate the system’s operation. The two interpretive approaches outlined above in large part draw attention to two different aspects of the system: its forms and the quality of the social relations. Yet the vital links between different parts are clearly becoming less robust. The system’s articulations (Kjellberg, 1983) are weakening and sometimes disappearing altogether. We examine below how US MNCs contribute to this disarticulation process.
US-Based MNCs- Attitudes and Behaviours

Below we deal in turn with US MNCs in relation to works councils and collective bargaining.

Works Councils

Works councils mediate between management and workforce interests (Müller-Jentsch, 1997, 2003). Some authors have asserted that they function as ‘democratic’ and ‘representative’ institutions (Schmitt, 2003). To the extent that this is the case, US managements would be expected to avoid them as infringing their capacity to manage unilaterally. Others have argued that they may be strongly affected by management attempts to shape them, and can function as tools for internalising management logics (Kotthoff, 1994). If this were so, then US MNCs could be expected to support them. The key question we examine in this section is therefore whether US MNCs seek to avoid works councils, or to accept and influence them?

Cooke’s (1997) survey of American companies’ preferences for overseas investment showed that they preferred company, rather than sectoral-based, bargaining arrangements. He found less concern among companies with regard to employee representation through, for example, works councils, than with outside involvement with employers’ associations or trade unions. Cooke and Noble (1998) later confirmed these results and showed that investment and an obligation to establish works councils were positively related. Hence, works councils were seen as a positive advantage. Schmitt (2003) surveyed 297 companies including 119 US and 46 UK subsidiaries of MNCs operating in Germany. He used German-based companies as a control. He distinguished on occasions between British- and American-based firms but found little difference. However, nor was there much difference between the ‘Anglo-Saxon’ firms and their German counterparts. Indeed, the former were at least as likely to have works councils as native German firms. Schmitt argues from this that, contrary to some other researchers’ arguments, US multi-nationals are not seeking to erode the ‘co-determination pillar’ of the German dual system. He suggests that this is for reasons of both internal (with employees) and external (with outside stakeholders) legitimacy.

The content of relationships is a more complex issue. A small survey of 43 multinational companies by Vitols (2001) sampled foreign companies generally, including about one third US-based companies. All the companies sampled had works councils, relations between management and councillors were overwhelmingly described as ‘co-operative’ or ‘very co-operative’ and council engagement on issues such as restructuring was intensive. He found that managers regarded elements of the German system such as plant-level agreements and the dual training system positively. Respondents were evenly divided on the advantages and disadvantages of works councils. Some reported improved communication and employee ‘buy-in’ but others also reported slower decision-making. This, along with trade unions and
legal protection against dismissal was viewed negatively. The survey raises the question of how different US MNCs are from those from other country bases.

Kluge and Vitols (2001) survey of the 400 largest foreign owned firms also found that managers of UK and US origin value the ‘legitimacy effect’ works councils can have on management decisions. Councils can help to successfully transmit management decisions from the (American) centre to the workforce and also help management develop an understanding of workers and workplace traditions.

Wever (1995) conducted case studies of the extent to which ‘strategic diversity’ was possible for companies in the German system, including IR issues in her scope. She found considerable ‘strategic diversity’ among US and German MNCs chemical companies operating in Germany. Wever conducted four case studies from the first (three were US companies and one a wholly-owned subsidiary) and four from the second group. The US companies favoured a ‘unilateral’ management model, stressed individualism, and ‘direct’ communication with employees rather than through works councils. The US companies showed a preference for rapid change even if conflict arose with employee representatives.

Muller (1998) also conducted case studies of HR/IR practices in nine US-owned companies, comparing these with a control group of twelve German companies (four British firms were also examined). Focussing on the chemicals and finance industries, he demonstrated substantial differences between many of the US MNCs’ practices and those of the comparable British and German companies. The US companies attempted avoidance of works councils by various means including forming separate companies. Only five of the US companies had works councils (including two in which there were no works councils in major parts of their operation), compared to all of the German companies. Co-determination, where it existed, reduced companies’ scope to introduce world-wide remuneration systems, but respondents suggested that works councils caused delays in organisational change and this was the main reason why they were avoided. In two cases, works councils were pressurised to obtain their agreement to change and in one of these employee representatives rejected their union’s advice (whether this happened in the German control group is not discussed). These effects existed in both sectors examined, but were shown to be especially significant in the finance companies where the US banks were small. Muller stresses the significance of small size in successful works council avoidance as very few large companies of any description have successfully avoided councils. His sample construction for the finance sector has been justifiably criticised by Schmitt (2003) on the grounds that home country effects cannot be differentiated from size and workforce structure effects. The criticism illustrates a general difficulty, that of establishing comparability on the appropriate variables. Nevertheless, Muller’s findings for the chemicals industry remain untouched by this problem.
Wächter et al. (2003) analyse the behaviour of US MNCs in Germany from an institutionalist perspective and explore the interactions of actors and institutions. They present ten case studies from different sectors. Three of these are of companies long-established in Germany and are presented in greater detail. The authors conclude that outright avoidance strategies towards works councils are rare. The study shows attempts to de-couple works councils and unions: ‘Within the legal framework, they try to keep unions out of the company’ (Wächter et al., 2003, p. 93). They found that ‘in most cases there is close co-operation between management and works councils. However, the closer it is, the more union involvement and union members on work councils are prevented’ (ibid., p. 91) One company (apparently HP) involves works councillors in decision making at an early stage and co-operation is said to be characterised by ‘rationality and trust’ (ibid., p. 37). Of 100 works councillors only five are IG Metall union members, and union density is only 1%. HP recently attempted to bar IG Metall from its premises, but lost a legal case brought by the union (Standpunkt, 2003). However, IG Metall finds it difficult to gain a foothold amongst a workforce traditionally alien to unionisation. 75% of HP’s employees are college graduates. HP might thus be one case where works councils effectively become integrated into company HRM strategies.

Another company, producing and distributing photographic equipment and supplies, has a ‘welfare capitalist’ background (Wächter et al., 2003, p. 58). It has remained union free in the US and union density in its German operations stands at 10%. Works councils exist but management prefers direct communication with employees.

Thus, in terms of the existence of the institutions, the literature displays some coherence: US MNCs generally allow works councils to be established on employee request. They prefer direct communication with employees and rapid change, attempting to exert relatively strong influence over works councils. However, some companies prioritise works council avoidance, and we now turn to these.

Longitudinal research on McDonald’s by Royle (2002) shows a company prepared to go to great lengths to avoid works councils. It adopted what Royle categorised as a ‘legal form’ of avoidance by changing its company structure. Employees were screened prior to employment. Where this was not possible, those in favour of works councils were pressurised or dismissed; entire workforces were dismissed in some restaurants. Premises were temporarily closed when council elections were imminent. By the 1990s some councils had nevertheless been established, in around 5% of restaurants. The company formed management-supported slates for works council elections and exerted pressure on other councillors, including paying considerable amounts of money to some councillors to resign from their posts.

Wal-Mart, the world’s largest retailer, entered Germany in 1997 and by 2000 employed around 18,300. Though it has remained virtually union-free in the USA, it announced on entering Germany that it would respect both German legislation and
customs (Köhnen, 2000; Köhnen & Glaubitz, 2000). The Wal-Mart case differs from McDonald’s because the former entered Germany by acquiring existing companies (Interspar and Wertkauf) and works councils were therefore ‘inherited’ (Köhnen, 2000). Wal-Mart is known for its developed company ‘family’ ethos. There are reports of attempts to obstruct council activities, ranging from disputing the conduct of council elections to preventing joint meetings of councils from different parts of the enterprise. Management has also tried to put slates of candidates from management ranks in council elections in a similar fashion to McDonald’s (Köhnen, 2000).

These strategies are relatively easily pursued in this sector in comparison with others. The fast-food and retail sectors have strong product and service market competition, high levels of (female) part-time and immigrant employment, high labour turnover and strong efforts by companies to generate strong customer service cultures and induce employee loyalty. Employees lack access to information and experience to enforce the provisions of co-determination law.

These company behaviours are consistent with those of German competitors especially those in the ‘discount segment’ (such as Aldi, Schlecker and Lidl) as recently publicised by the ver.di union. Lidl only has works councils in five of its 2500 outlets and has used a range of tactics to prevent the introduction of councils (ver.di Publik 2004).

An anonymous example of initial avoidance and subsequent adaptation is given in Wächter et al. (2003). This company operates in delivery and transport services and leads the American market. It began its operations in Germany in 1976 and avoided works councils until the 1990s. The company used subcontractors when it appeared possible that a council would be requested. 80% of employees are now represented by councils but the study contains little information about how and why change came about. There are indications that management switched from avoidance to colonisation of the council machinery, since the majority of members on the company works council (i.e. the most relevant institution) are managers.

In this section, we have demonstrated that surveys show US MNCs in Germany to recognise works councils, though there have been cases of determined avoidance, mainly in the fast-food and retail sectors. In this sector, they may not differ substantially from their German counterparts and it is difficult to distinguish between country-of-origin, sectoral and company size effects. Employee perceptions and traditions are an important variable, i.e. constraining companies wishing to pursue policies that are as unilateral as possible. The simple existence of the institution tells us little about the actual operation of councils. Wächter et al. (2003) suggest that US MNCs seek particularly strongly to influence the operation of works councils. There is also evidence of by-passing councils by direct communications to employees. Further research on US MNC behaviour, particularly in the more traditional blue collar environments that remain important in Germany is clearly necessary.
Collective Bargaining

Trade unions and employers’ associations conduct collective bargaining. These institutions represent constraints on unilateral management control, especially in the use of international company-based pay systems. However, as shown above, the German system contains options. The question addressed in this section is therefore: how far have US companies adhered to the mainstream arrangements, and how far have they either avoided them or used the options already available within the system?

Reliable empirical data on US behaviour towards collective bargaining remains scarce (Tempel, 2002). Schmitt’s (2003) survey found US MNCs in Germany to show no greater propensity to make decentralised arrangements than their German equivalents; in fact they adhere more strongly to centralised bargaining (362). Muller (1996) even describes one US company (IBM) as having a reputation for being innovative in IR issues because of their negotiation of remuneration and framework agreements that became models in Germany.

Contrary evidence also exists. Vitol’s (2001) small study found US managers to have a negative approach towards unions and industry wide collective bargaining. Wever (1995) also stressed the importance to US companies of relating pay to individual performance and how this was difficult to achieve in the context of sectoral agreements. In Muller’s work (1996, 1998) five of the nine firms of American origin did not participate in collective bargaining at all, three were covered by industry wide agreements and one had struck a company agreement. Wächter et al. (2003, p. 87) found that companies of US origin challenged the system much more than their German counterparts as ‘(…) all the companies have a definite stand towards unions and almost all have adopted an active policy of keeping unions out of the firm if at all possible’.

Some American companies have clearly successfully avoided the collective bargaining institutions. Wal Mart has avoided collective bargaining with ver.di, despite being pressurised by a public union campaign (www.verdi.de). Neither Microsoft nor HP, which left the employers’ federation in 1976, are covered. One anonymous American bank abandoned collective bargaining in some of its operations and planned to introduce a franchising system, to further undermine collective agreements (Wächter et al., 2003, p. 90).

Strategies have in some cases changed over time. IBM has a history of movements in and out of different employers’ associations. It left the Gesammtmetall employers’ association in 1992 specifically to avoid the engineering agreement. The then chairman of IBM Germany, subsequently president of the umbrella employers’ federation BDI, Hans-Olaf Henkel, argued publicly that leaving the metalworkers’ employers’ association Gesammtmetall was necessary to challenge the German ‘collective bargaining cartel’. The company created a holding structure and subsidiary com-
panies, separating highly unionised production facilities from its service operations; while the former re-joined the employers’ association, the latter did not. IBM then struck a company agreement with the non-DGB, white-collar only DAG union in 1993 although this union had very few members in the company (Henkel, 2000, 2001). Further examples of option-exploring by MNCs trying to avoid assertive unions and strike agreements with weaker ones are given in Wächter et al. (2003).

McDonald’s also successfully explored the options. It refused to join the employers’ association on opening its first restaurant in 1971. By 1989, it had modified its stance in response to external pressure from campaigning journalists and recognised the NGG union. It simultaneously established a separate employers’ body, the BdS, as an alternative to the existing association, DEHOGA. The BdS has attracted other, mainly US, companies into membership. McDonald’s pressurised NGG by threatening to de-recognise it in favour of the tiny Ganymed, which has under 1,500 members in total (Royle, 2002, p. 96). Therefore, the company recognises both a trade union for collective bargaining purposes and has membership of an employers’ association, but has also contributed to de-stabilising the IR status quo in the retail food sector. German companies in the same sector such as Blockhouse have also followed recognisably similar policies (Royle, 2002).

Wächter et al. (2003, p. 88) argue that managers in German subsidiaries are under considerable pressure from the US centre to remain union-free. Reluctance to join employer’s associations might also be stimulated by the fact that US MNCs can exert little influence over associations dominated by large German employers.

In sum, the behaviour of US companies towards the collective bargaining institutions is difficult to establish with clarity. Surveys indicate high coverage, but case studies provide little support for their findings. Case studies focus on sectors in which German employers also show considerable deviation from the German mainstream. In the retail sector, there has certainly been some exploration of the existing options.

**Conclusion: Towards a Research Agenda**

The literature is relatively sparse, particularly when the importance of the topic to the future viability of the European model of employment relations is taken into account. Nevertheless, some conclusions may be drawn in answer to our initial question for investigation.

The key findings of our review are now summarised. Survey evidence generally shows relatively high degrees of compliance by US-based MNCs with both works councils and the sectoral bargain. Case study evidence, on the other hand, shows two quite different phenomena: works council avoidance, and high levels of pressure on works councillors to divorce themselves from unions. This latter phenomenon is of course compatible with observance of the sectoral bargain and may
help to explain the differing results of surveys and case studies. Where councils exist in US-owned companies, these may tend towards the ineffective forms conceptualised by Kotthoff (1994). A tendency for US companies to explore options in the German system by forming separate employers’ associations and recognising small unions is also apparent.

US MNCs behaviours may be categorized into four categories, as set out below. These categories may be used to describe companies’ predominant behaviours at any given historical point. However, the categories are far from mutually exclusive and the last three may also be seen as a range of options which may be adopted by different companies according to circumstances:

(1) ‘Support/innovation’. Active support for and innovation with the German IR system. An example is IBM policy until some twenty years ago and it is revealing that the company has changed its views so radically. This may be a largely historic category.

(2) ‘Formal compliance/content avoidance’. Complying with the strict terms of the law but seeking to avoid its democratic possibilities and external links. In some cases, for example in well-established manufacturing plants (e.g. Hewlett Packard), such practices may differ little from those of German companies in the sector. Where possible use may be made of works councils to assist management efforts to get employees to internalize management logics and reject trade union links. Apparently, a widespread behaviour pattern.

(3) ‘Option exploration/system avoidance’ Using various methods to explore the possibilities inherent in the German system and/or take steps to avoid compliance. Recognition of minor unions, formation of non-mainstream employers’ associations. Use of ‘legal avoidance’ methods (Royle, 2002) Compliance with works councils only under strong pressure. Many examples are found in the food and retail sectors.

(4) ‘Public criticism’. Campaigning publicly to reduce the regulatory content of current legislation. IBM’s current behaviour places it in this category though many German companies have also shown similar behaviour. This is also characteristic of collective bodies such as AmCham.

There is little doubt that US companies are affecting the German IR system. Dörre (2001, 2002) has argued that the US business system is influencing large German enterprises, where shareholder value ideas are gaining importance with negative consequences for employee participation. US companies in categories (2) and (3) above are certainly playing a role in eroding the articulations between unions and works councillors, and those between employers and mainstream employers’ associations which have historically made the system function. They are doing so in ways consistent with many German employers’ practices. As Kotthoff (1994) and others (Trinczek, 2004) have shown, considerable variation is also evident among
German managers in their attitudes to co-determination and unions, and US-based employers probably cluster at the sceptical end of the spectrum.

The need for further valid and reliable data for all companies, including foreign-owned MNCs is apparent. The divergence between surveys and case studies reviewed is striking and although some possible partial explanations have been offered, there is a real need for more extensive high-quality exploration of mechanisms as well as the extent of institutions. Attention has been drawn to the ‘micro-political processes’ within which external constraints are defined and interpreted by central and local actors in MNCs, and to the contingent oscillations in modes of operation that these can generate (Ferner et al., 2004). In the German case, we know that local management can use German circumstances as a bargaining tool in internal negotiation with US management (Geppert, Matten, & Williams, 2002, 2003). However, too little is known about these micro-political processes in Germany. This might help to resolve tensions within the existing literature between reports of widespread observance of the mainstream German system and avoidance and ‘option exploration’ shown by companies whose behaviour has been analysed in depth.

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Walther Müller-Jentsch*

**Trade Unions in a Civilized Market Economy**

The article tries to answer an old question of economic theory and institutional economics: How do trade unions fit into a market economy? Are they a constitutive element of the market order or: are they a source of irritation and disruption?

Key words: trade unions, economic theory, market economy, labour market, collective bargaining, Germany

Trade unions and their compatibility with the liberal market order is a highly controversial issue in economic theories. Within the mainstream of market liberalism – from Adam Smith to Friedrich August von Hayek – the trade unions rarely found acceptance. However, if we look at the whole array of liberal economists we find a broad spectrum of answers – reaching from disruptive factor to functional prerequisite of the market order.

We can identify three different assessments of trade unions (according to Briefs, 1965):

1) Trade union as a disturbing or just irrelevant factor (classical liberalism).
2) Trade union as an auxiliary organ (e.g. Adolf Weber).
3) Trade union as a functional institution of the liberal market order (Sidney Webb & Beatrice Webb; Lujo Brentano).

**Classical Liberalism**

Although Adam Smith is regarded as the Godfather of classical liberalism at the time when he wrote his “Wealth of Nations” the term “liberalism” was not yet in use. Smith spoke of “natural” or “rational” economic order. Only a short remark on trade unions can be found in the bulky book. In Chapter 8 of the first book he states:

“What are the common wages of labour, depends everywhere upon the contract usually made between those two parties whose interests are by no means the same. The workmen desire to get as much, the masters to give as little, as possible. The former are disposed to combine in order to raise, the latter in order to lower, the wages of labour” (Smith, 1904, I.8.11).

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This is, by the way, a short and most precise formulation of the paradigmatic conflict of interests between employers and wage-earners. Smith states that the masters have a clear overweight in all aspects of labour market operation (first: they can easier combine because of their fewer numbers; second: contrary to workmen, they are prevented from legal persecution when combining; third: in case of a dispute, they can hold out much longer).

“But though, in disputes with their workmen, masters must generally have the advantage, there is, however, a certain rate, below which it seems impossible to reduce, for any considerable time, the ordinary wages even of the lowest species of labour” (I.8.14). “A man must always live by his work, and his wages must at least be sufficient to maintain him” (I.8.15) … and additionally his breed. The need of subsistence is the lowest level of wages. Smith regarded labour like any other commodity. The demand for men, he expounded, “like that for any other commodity, necessarily regulates the production of men” (I.8.39).

David Ricardo is the presumed creator of the “iron law of wages”, formulated on the basis of Malthus’s theory of population. He proposed that wages tend, in the long run, toward the minimum wage necessary to sustain the life of the worker. He called existence minimum the natural wage and consequently considered trade unions’ endeavours as useless. Nevertheless, he opposed the prohibition of trade unions. Due to his liberal opinion, he challenged the parliamentary passing of the Combinations Acts of 1799 and 1800. He thought: Why should trade unions be forbidden if they cannot influence economic laws?

One of the first of liberal economists who theoretically found it possible that trade unions could increase wages was John Stuart Mill. He thought that they could do so in particular trades whenever they were capable to restrain market competition. Above all, he defended the rights of skilled workers to protect their jobs by trade union organization and industrial action.

Adolph Wagner

The German economist Adolph Wagner assigned the trade unions a role as auxiliary organ in market economy for the following reasons: They could support workers for better use of market opportunities und could strengthen their behaviour in regard to work performance. Moreover, they could contribute to an acceleration of market adjustment in business cycles and ensure that workers would participate in monopoly profits.

The Webbs and Lujo Brentano

We find quite different assessments of some socially minded liberals, namely Sidney and Beatrice Webb (1902) on the one hand and Lujo Brentano (1909) on the other. Both have emphasized the fundamental differences of product and labour markets
and the regulatory impact that trade unions have on labour markets. To them trade unions empower the workers to challenge the employers’ overweight that allowed them to fix – actually to dictate – wages unilaterally because of the usually prevailing excess of labour supply.

The Webbs regarded trade unions as a price-setting agency providing the workers with „bargaining power“.

According to this judgement, workers were no longer exposed to the unregulated competition on the labour market. Collective bargaining supersedes the individual bargaining on wages and working conditions. In fact, it was Beatrice Webb who coined the term collective bargaining (Webb & Webb, 1902, pp. 173f.). Organized in trade unions the workers were relieved from the immediate constraint to sell their labour power.

Although being an opponent to the Webbs on the question about the origins of trade unionism, their contemporary Lujo Brentano agreed with them on the question of the economic rationale of trade unions.

His main argument was: only trade unions enable workers to behave like other good sellers, namely to adjust his supply to market conditions. Hence trade unions were to him an integral part of the market order, even a capstone in the architecture of a market economy.

**Karl Polanyi/Goetz Briefs**

Although Brentano argues in favour of trade unions with an apparently consistent argument, it was exactly this argument which has been challenged by Karl Polanyi and Goetz Briefs.

In his seminal book on “The Great Transformation” Polanyi (1978) signified labour as a “fictitious commodity” – fictitious, because commodities were goods to be produced for selling on the market. To him it was destructive for a civil society to treat men under the marketable label “labour” as an ordinary commodity. Class struggles and the development of social policy could be understood as movements of de-commodifying labour.

Goetz Briefs (1926) argued in a similar way. Contrary to Brentano, Briefs denied that trade unions are genuine elements of liberal market order. Defining them as a shelter to protect (Schutzgebäuse) workers from commercialisation of labour he rather identified them as institutions for the de-commodification of labour.

Summarizing so far, I think the differences between the Webbs and Brentano on the one hand and Polanyi and Briefs on the other can be dissolved if we elaborate on the specifics of the labour market.
According to Robert Solow everybody except mainstream economists believes that “there is something special about labor as a commodity and therefore about the labor market too” (1990, p. 3).

In a way, labour is a commodity but cannot be handled like an ordinary commodity, because for the bulk of the population labour power is an essential revenue for human life and labour power cannot be detached from the person. Her or his integrity demands special treatment. Briefs specifies the boundaries which have to be erected against the commodification of labour: they are necessary where „the existence, dignity and cultural form of working life” (Briefs, 1926, p. 1117) could be endangered.

**Social Market Economy**

Turning to the concept of Social Market Economy the question arises: Did the fathers of this concept reserve a place for the trade unions?

It was Walter Eucken, the theoretical head of ‘Ordoliberalism’, who also emphasized the fundamental differences between product markets and labour markets. He thought labour were not a commodity, therefore the labour market had to be humanely framed (Eucken, 1965, p. 185). This implies a balance of power between the social partners. Consequently, the political proponents of Social Market Economy regarded free collective bargaining (Tarifautonomie) and social partnership as complementary institutions, which should – as self-regulating bodies – contribute to reconcile social antagonism. Eucken even praised trade unions for their merits on the improvement of the social conditions of workers. Although trade unions were „monopolistic organizations“, they were called into action by monopolistic overweight of the employers. Trade unions could be institutions to establish equilibrium within the framework of a competitive economy. However, they also could become powerful organizations putting the competitive order at risk (Eucken, 165, pp. 185f.).

The regulatory system of Social Market Economy looks as follows:

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<th>Market</th>
<th>Regulatory Law</th>
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<td>Product Market</td>
<td>Act Against Restraints of Competition</td>
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<td></td>
<td>Gesetz gegen Wettbewerbsbeschränkungen</td>
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<tr>
<td>Labour Market</td>
<td>Collective Agreement Act</td>
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<tr>
<td></td>
<td>Tarifvertragsgesetz</td>
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<tr>
<td>Capital Market</td>
<td>???</td>
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We can identify two basic regulatory laws,

- one for the product markets: the Act Against Restraints of Competition (*Gesetz gegen Wettbewerbsbeschränkungen*)
- and one for the labour markets: the Collective Agreement Act (*Tarifvertragsgesetz*).

The first, the Act Against Restraints of Competition, a kind of anti-cartel law, did not find the full acceptance of the main proponents of Ordoliberalism because the provisions left to many loopholes.

The second, the Collective Agreement Act, was unanimously enacted by the common Economic Council (*Frankfurter Wirtschaftsrat*) for the British and American occupation zones of post-war Germany. Since the Act was adopted before the official foundation of the Federal Republic of Germany (FRG) there was a transition period before it became valid for the whole territory of the FRG (including the former French occupation zone) in 1953.

Regarded as the outcome of a “historical compromise” between capital and labour, the Collective Agreement Act has provided the legal framework for Germany’s highly institutionalised collective bargaining system and, in the view of some commentators, has made a major legal contribution to the ‘institutionalisation of class conflict’. Apart from a few amendments, the fundamental provisions of the Act have remained unchanged until today. The application of the law, however, has always been made concrete and further developed by Labour Court decisions.

The third category – the capital markets – has still been a blanc position within the regulatory framework of Social Market Economy. Of course, there are legal regulations on the establishment and the business of financial institutions, but – as has been lamented during the current financial crises – a genuine regulatory framework for capital markets is still lacking.

There are quite a few academics (coming from social sciences, economics and labour law) who stress the close relationship between Social Market Economy and social partnership in Germany. *Birger B. Priddat*, a political economist, argues that social partnership would not have been developed without the concept of Social Market Economy (Priddat, 2011, p. 19). *Bernd Rüthers*, a well-known professor of labour law states: “Social Market Economy and social Partnership belong together. The one is the necessary foundation for the other.” (Rüthers, 2011). And the sociologist *Walther Müller-Jentsch* holds the view that although the concept of Social Market Economy originally contradicted the post-war program of trade unions, but both have developed a mutual affinity over the years, in fact the trade unions have contributed to the actual profile of the existing order of Social Market Economy (Müller-Jentsch, 2011, pp. 193ff.).
Civilized Market Economy

The concluding section of my Paper is devoted to the question: What is the future of trade unions in a civilized market economy. The term civilized market has been taken from the Swiss ethical economist Peter Ulrich (2010) of St. Gallen.

Peter Ulrich understands by this term a market order that is embedded in a civil society which re-defines the guiding principles of economic performance – rationality, progress, and freedom.

<table>
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<tr>
<th>Principle</th>
<th>Liberal Market Economy</th>
<th>Civilized Market Economy</th>
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<tbody>
<tr>
<td>Rationality</td>
<td>economical efficiency in the use of resources (clash of 2 rationalities: business &amp; economy)</td>
<td>ecological efficiency (efficiency according to ethical values: e.g., good life, justice)</td>
</tr>
<tr>
<td></td>
<td>economic-technological rationality</td>
<td>socio-economic rationality</td>
</tr>
<tr>
<td></td>
<td>- external effects</td>
<td>- internalisation of ‘external effects’</td>
</tr>
<tr>
<td></td>
<td>- rationalisation of work</td>
<td>- work-life balance</td>
</tr>
<tr>
<td>Progress</td>
<td>one-dimensional economic progress</td>
<td>culturally &amp; ethically reflected progress</td>
</tr>
<tr>
<td>Freedom</td>
<td>market freedom</td>
<td>freedom of the citizen (Bürgerfreiheit)</td>
</tr>
</tbody>
</table>

The freedom of citizens includes rights of citizenship in different dimensions:

- civil rights in the dimension of constitutional state,
- political rights in the dimension of democracy,
- social rights in the dimension of welfare state.

A fourth dimension should be added on the basis of T. H. Marshall’s ‘industrial citizenship’. It includes

- national and international trade union rights as well as industrial democracy.

<table>
<thead>
<tr>
<th>Category of citizenship rights</th>
<th>Dimension of civil society</th>
</tr>
</thead>
<tbody>
<tr>
<td>civil rights</td>
<td>constitutional state</td>
</tr>
<tr>
<td>political rights</td>
<td>democracy</td>
</tr>
<tr>
<td>social rights</td>
<td>welfare state</td>
</tr>
<tr>
<td>industrial rights</td>
<td>free collective bargaining &amp; industrial democracy</td>
</tr>
</tbody>
</table>

There is a whole array of national law and international conventions that guarantee the rights to organize in trade unions, to negotiate collective agreements and to go on strike.
Basic Law / Grundgesetz (Article 9, Para 3),
Collective Agreement Act / Tarifvertragsgesetz,
Charter of Fundamental Rights of the European Union (Articles 12 & 28),
ILO Conventions (No. 87 & 98),
European Convention on Human Rights (Article 11).

Starting with the statutory basis of trade union rights we can refer to the Basic Law (article 9, paragraph 3) and the Collective Agreement Act of 1949. Both guarantee the freedom to organize in trade unions and to negotiate collective agreements. The right to strike is not explicitly codified in both documents but has been guaranteed by Labour Court decisions of principle. The Charter of Fundamental Rights, Article 28, explicitly underlines “strike action”, too.

Judged by these provisions trade unions cannot complain about their legal status. Whether they play an important role in economy and society depends first of all on their capacity to mobilize members among the working population and to display their competence for solutions of labour market problems and as an agency to secure social justice. As to the latter it seems to me what is badly needed are national and international campaigns for minimum wages and programs to qualify working people.

The Social Market Economy is no a static concept but – as its name-giver Alfred Müller-Armack repeatedly emphasized – a dynamic concept open for “permanent modification” (1978, p. 13). Though the concept of “civilized market economy” or even of “ethical market economy” (Ruh, 2011) could be regarded as legitimate offsprings. Far away from being a disruptive factor, as in a neoliberal free market order, trade unions have to play an essential role for the regulation of labour markets within these market orders as long as dependent labour will prevail.

References


Stefan Kirchner*

**Embedded Flexibility Strategies and Diversity within National Institutional Frameworks: How many Flexibility Profiles are in the German Model?**

The varieties of capitalism approach (VoC) and the related research assume that German firms adopt an internal flexibility profile that corresponds with the national institutional framework. Recent empirical studies, however, have found substantial diversity in realized firm-level strategies. This article investigates the actual distribution of flexibility practices in German establishments. Latent class analysis revealed four flexibility profiles, including a dual profile that combines internal and external flexibility as well as a low flexibility profile that is characterized by an overall low importance of flexibility practices. The distribution points to significant diversity of flexibility profiles within the German economy and emphasizes the role of industry and firm size as crucial factors for the externalization of flexibility and a growing dualism within the German economy.

Key words: German model, internal and external flexibility, temporary agency work, outsourcing; latent class analysis

**Introduction**

Under the label “German model” characteristics of the German economy have been in the focus of several researchers (cf. Albert, 1992; Esser, Fach, & Simonis, 1980; Jürgens, Krzywdzinski, & Teipen, 2006). According to the varieties of capitalism approach (VoC) and the related literature, firm strategies are embedded in the national institutional context and the respective socio-economic environment (Hall & Soskice, 2001). In this and related research approaches, German firms are expected to pursue internal flexibility practices (Streeck, 1991; Tüselmann, 1996; cf. Whitley, 2007; Jackson & Deeg, 2008). Yet, especially in the German employment sys-

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tem, considerable changes towards external flexibility patterns have taken place. Examples for prominent practices of external flexibility are temporary agency work (TAW) and outsourcing. In the 1990s both practices were introduced by a considerable share of firms. One might expect that this development has led to a substantial diversity of flexibility patterns within the German economy.

This paper aims to uncover different flexibility patterns in German firms. In addition, it accounts for a possible tendency to replace or combine traditional practices of internal flexibility with novel external practices such as TAW and outsourcing. Thus, this paper contributes to the growing literature on strategic diversity within market economies (Herrmann, 2008; Crouch, Schröder, & Voelzkow, 2009; Lange, 2009; Barry & Nienhueser, 2010). It also relates to research that has emphasized the externalization of flexibility in general (Kalleberg, 2001) and a recently growing dualism on the German labour market in particular (Palier & Thelen, 2010; Hassel, 2012).

The debate arguably suffers from two major shortcomings. Firstly, there is a need to address the underlying segments of diversity conceptually. A conceptual approach of multi-level embeddedness of firms in national economies is proposed here. This approach emphasizes the influence of industry and firm size on particular flexibility profiles. Secondly, there is an empirical gap concerning firm-level data and respective analysis. Both are needed to assess firm-level diversity within the German model.

The research approach was guided by three main questions: (1) Are there different profiles in Germany that combine flexibility practices? (2) What implications can be drawn for the idea of a particular German model of flexibility? (3) What role do particular segments play in the distribution of flexibility profiles?

The analysis is based on a telephone survey data set of German establishments in highly innovative industries collected in the second half of 2010. The argument of the article is structured as follows:

Section 2: The general theoretical approach of the VoC literature is introduced and discussed under the aspect of flexibility on the firm level. The recent debate on diversity within national frameworks is introduced and complemented with the concept of societal sectors and the industry culture approach. Section 3: Conceptual and empirical approaches towards flexibility practices are discussed and a concept of flexibility profiles is developed. Section 4: Based on the raised conceptual issues and the concept of flexibility profiles, latent class analysis (LCA) was conducted. The analysis reveals different combinations of flexibility practices. Additionally, multiple correspondence analysis (MCA) was computed to map the underlying distributions and relations. Section 5: The empirical results are discussed and related to the introduced conceptual considerations.
The German model

In the VoC literature, Germany is depicted as a model case of a so-called coordinated market economy (Hall & Soskice, 2001; cf. Amable, 2003; Whitley, 2007). The basic argument implies that institutional conditions in Germany and the USA differ. German firm strategies are expected to differ from those in the USA because institutional conditions support specific firm-level strategies. This juxtaposition has been very influential for international comparisons of foundations of competitive economic successes (Jackson & Deeg, 2008).

While there are variations within the literature concerning how and why firms are connected to the institutional framework of this German model, there is some agreement on the foundations of the general patterns. The model thus consists of specific institutional characteristics (Hall & Soskice, 2001) as well as of corresponding firm-level strategies and practices (Sorge, 1991; Streeck, 1991).

One key component of the German case has been the particular German employment system and a respective labor market structure (see Tüselmann, 1996; Jürgens et al., 2006). On the firm level the respective employment practices are generally understood to rely on the long-term commitment of employers and employees. Traditionally, German firms are expected to draw on internal flexibility practices to cope with volatile economic environments (Streeck, 1991). It is argued that external flexibility is foreclosed institutionally. The default flexibility practices in this perspective are the shifting of (so called polyvalent) qualified workers from one workplace to another or simply demanding overtime from the employees at hand.

Flexibility and Diversity

Building on early seminal contributions (Streeck, 1991; Herrigel, 1996) the VoC approach has catalyzed and partially incorporated the debate about the German model of capitalism. VoC is introduced as a firm-centered approach with companies as primary economic agents (Hall & Soskice, 2001). However, key assumptions are made on the level of entire national economies. The actual distribution of patterns on the firm-level is not central. Hall and Soskice (2001, p. 34) acknowledged the existence of regional as well as sectoral layers that increase diversity and argue that institutional structures do not fully determine corporate strategies. At the same time the authors maintain that, on a national level, the average firm is pushed towards specific strategies. The extent of variations and its implication for the national institutional framework argument were not addressed.

Recently, a number of studies has emphasized the role of diversity within market economies (Herrmann, 2008; Crouch et al., 2009; Lange, 2009; Aoki & Jackson, 2008 also Herrigel, 1996, 2010; Kirchner, Beyer, & Ludwig, 2012). A general finding of this literature is that various strategies can be found, conflicting with the general prescriptions of the German institutional framework and the theoretically ex-
pected patterns. For some cases a strong local embeddedness is the source and cause of alternative strategies. Other examples are characterized by the reach of international markets or industry models (Herrmann, 2008; Crouch et al., 2009; Crouch & Voelzkow, 2009).

Firm-level variation within national frameworks poses a fundamental challenge to basic theoretical pillars of the VoC literature (see Barry & Nienhueser, 2010). The majority of studies in the field of VoC related literature is based on case studies or macro data. Thus, there is a significant lack of quantitative firm-level research. From the existing studies alone it is difficult to grasp the actual scope of the national institutional framework debate in general and for the German model argument in particular. The current state of the German model needs to be measured and mapped in order to advance the debate.

Obvious starting points for mapping the current state of the German model are basic economic segments in respect of industries and firm size. There is a strong research tradition that has dealt with industry or sectoral diversity as being rooted in so called macro cultures (Abrahamson & Fombrun, 1994) or industry cultures (Schreyögg & Grieb, 1998; Bühler, Cachelin, & Maas, 2010; see also Krause, 2013). Scholars of this literature argue that common cultural schemes provide default strategies or organizational practices in particular industries. Firms will stick to common patterns because those are generally expected or alternative patterns are not considered to be tolerable alternatives.

Complementing the idea of industry cultures as one layer of a given nation’s institutional framework, firm size should be emphasized as another important factor of diversity. Berghoff (2006) stressed that within the VoC-debate there has been a bias towards large firms. Other authors have also raised the importance of smaller firms for employment and economic activity in Germany (see also Streeck, 1991; Herrigel, 1996, 2010). Berghoff (2006) acknowledged that beside some similarities between larger and smaller companies, substantial differences can be found as well. He argued that family owned and family operated small and medium size enterprises (SMEs) with a cooperative orientation towards their workforce and strategies of long-term quality competition comply with the traditional model of German SMEs. In contrast German SMEs are less well included in the industrial relations system than their larger counterparts. So far, the default applications of the VoC argument have generally underestimated the importance of SMEs for Germany’s industrial power.

In the light of the current discussion, an instrumental theoretical concept needs to address organizational adaptation in ambiguous, layered, potentially overlapping and contradicting institutional environments. The VoC literature lacks a comprehensive theoretical concept that relates assumptions about general default strategies to empirical findings of diversity. A solution to this problem of diversity is a perspective of multi-level embeddedness of organizations. This issue relates to current
findings that is carried out in the field of innovation research that has identified specific industrial sub-sectors within national economies (Hirsch-Kreinsen, Ittermann, & Abel, 2012). To capture basic institutional segments underneath or across national economies, the concept of societal sectors proposed by Scott und Meyer (1991) is helpful. The societal sector approach refers to the economist’s concept of industry that is built on the notion of substitutability of product or service and demand interdependence. The concept can also be extended to other interconnected organizations that follow a similar shared orientation. Accordingly, the different parts and sub-parts of the industry-categories or overlapping firm size classes can be treated as distinct societal sectors within a given national institutional framework.

Changing Models: Advancing External Flexibility Until the 1990s

The traditional German model concept was developed to account for the situation in West Germany in the 1980s. It has been observed that the state of the German model has been shaped by significant changes since then. Accordingly, the VoC assumptions can only be treated as a theoretical starting point for an evaluation of the current state of the German model in terms of flexibility. In recent years, a fundamental evolution or erosion of the traditional German model has been observed by several authors (Beyer & Höpner, 2003; Kitschelt & Streeck, 2004; Beyer, 2007; Bosch, Haipeter, Latniak, & Lehndorff, 2007). The economic crises in 1992/3 and the socio-economic effects of the reunification process as well as the forces of globalized markets and their effects on production and innovation models have been identified as underlying causes of organizational changes of German firms (Bosch et al., 2007).

On the institutional level, especially the employment system is believed to be subject to a process of liberalization (Hall & Thelen, 2009; Schneider & Paunescu, 2012) that results in a growing dualism in the German labor market. Insider and outsider distinctions that have traditionally characterized the German economy (Gallie, 2007) become more pronounced as a consequence of policy reforms (Palier & Thelen, 2010; Hassel, 2012). The growing dualism as a consequence of institutional change has its counterpart on the firm-level. Here an increased externalization of flexibility (Davis-Blake & Uzzi, 1993; Kalleberg, 2001) can be observed. Two developments on the firm-level mark this substantial shift away from previous internal flexibility practices, which were traditionally believed to be characteristic for the German economy. These are the growth of temporary agency work (TAW) (Zeitarbeit or Leiharbeit) and the outsourcing of firm functions that were previously provided internally:

(i) Temporary Agency Work (TAW): The growth in non-standard employment forms poses a challenge to traditional strategies (Bellmann, Hohendanner, & Kühl, 1993; Kalleberg, 2001) can be observed. Two developments on the firm-level mark this substantial shift away from previous internal flexibility practices, which were traditionally believed to be characteristic for the German economy. These are the growth of temporary agency work (TAW) (Zeitarbeit or Leiharbeit) and the outsourcing of firm functions that were previously provided internally:

2008; Lengfeld & Kleiner, 2009). Especially TAW shows a considerable difference to standard employment as it lacks a reliable mutual expectation of continued employment (see Ashford, George, & Blatt, 2007). While absolute numbers for temporary employment are still relatively low, Germany has experienced steady growth, particularly since 2004. Even the last economic downturn has only temporarily interrupted this development (see Bouncken, Bornewasser, & Bellmann, 2012).

Being a resource for short term organizational flexibility is an important reason but not the only one. There are many different reasons for firms to use TAW (Alewell & Hauff, 2011, p. 15). While some firms employ high qualified workers as a source of short-term competence, others introduce TAW as part of their recruitment strategy or as vacation replacement for regular employees. TAW thus has become an important employment strategy element (Nienhüser, 2007). However, Holst, Nachtwey, and Dörre (2010) delineate the usage of TAW as a significant shift in general employment practices. The authors emphasize that it has a disciplining effect on the core work force. Following this argument, TAW also appears as a fundamental misfit considering the assumption of long-term strategies and a system built on worker loyalty and commitment that has traditionally been at the core of the German model.

(ii) Outsourcing: Alongside shifting employment patterns and especially the reorganization dynamics in the 1990s, a concentration on core competences has been promoted (Kinkel & Lay, 2003). In contrast to the theoretical attention paid to outsourcing in the general debate on workplace transformation and socio-economic changes, very little solid data is available concerning the actual extent and its effects. The few available studies show that a substantial number of firms has outsourced different functions to subcontractors (Kinkel & Lay, 2003). However, it has also been observed that the outsourcing trend stagnated in 2000 (Görzig, Kaminiarz, & Stephan, 2005).

Similar to temporary agency work, a variety of reasons for outsourcing can be found. Many firms subcontracted service functions that were once part of the company manly for reasons of cost-cutting. This applies to many auxiliary functions such as canteen, security or cleaning services. But this also includes aspects that are closer to the core business such as development or production activities and IT services (see Kinkel & Lay, 2003; Görzig et al., 2005). Thus, for many firms outsourcing decisions pose general strategic alternatives predominantly concerning non-core functions. The debate furthermore emphasizes the importance of outsourcing for relocating firm functions (to other countries) (Ahlers, Öz, & Ziegler, 2007; Kinkel 2 Other forms of so called “atypical” or “non-standard” employment forms (Ashford et al., 2007) are often found to serve many purposes other than organizational flexibility – e.g. part time work as a result of gender-arrangements and fixed-term contracts as a form of extended trial period for younger employees (Szydlik, 2008; Dütsch & Struck, 2011; for international perspective see Marsden, 2010). Other forms of non-standard employment may contribute to a general climate of increasing employment instability.
Maloca, 2010). In terms of flexibility though, the practice of outsourcing to subcontractors in order to cope with temporary increased workload is central. This aspect has not been in the focus of previous research.

**Relating Flexibility Practices Introducing Flexibility Profiles**

Flexibility has been a key issue for employment studies for a long time. Thus, arguments can be built on the findings and conceptual considerations of existing research. For scholars of organizational flexibility, it is not “big news” at all that there are different patterns of flexibility. It is one shortcoming of the VoC advocates and the related literature not to include existing findings in this field systematically and not to relate the theoretical assumptions to firm-level evidence.

Dealing with different flexibility practices eventually raises questions about their relation. Several authors have proposed concepts to classify different flexibility practices. One of the earliest and widely cited schemes has been proposed by Atkinson (1984; cf. Kalleberg, 2001). The author distinguishes functional and numerical practices as well as internal and external practices of flexibility. Crossing both dimensions, a simple two-by-two table of possible sub-categories is produced (see Table 1). Other authors have proposed more comprehensive taxonomies encompassing further practices and sub-categories (see Keller & Seifert, 2006; Hohendanner & Bellmann, 2007; Dütsch & Struck, 2011). While those approaches might offer more differentiated depictions of flexibility practices, the original internal-external/functional-numerical table is sufficient for this paper. It includes the basic dimensions that are more or less shared by all other approaches.

**Table 1: Classification of flexibility practices**

<table>
<thead>
<tr>
<th></th>
<th>Numerical</th>
<th>Functional</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Internal</strong></td>
<td>Working Time (overtime,</td>
<td>Shifting of workers between</td>
</tr>
<tr>
<td></td>
<td>short-time work, ...)</td>
<td>workplaces</td>
</tr>
<tr>
<td><strong>External</strong></td>
<td>Temporary Agency Work (TAW)</td>
<td>Outsourcing to subcontractors</td>
</tr>
</tbody>
</table>


Following the introduced table a shifting of workers between different workplaces such as different production lines or tasks areas can be categorized as a practice of internal-functional flexibility. Working time flexibility can be understood as internal numerical practice. As outlined above, these two internal flexibility practices are viewed as basic pillars of the German model on the firm-level (cf. Streeck, 1991). TAW, in contrast to these traditional practices, constitutes an important example of external-numerical flexibility. Analogical, a major external-functional practice of flexibility is posed by outsourcing activities that had been carried out within the firm previously.
To understand the new role of TAW and outsourcing on the firm level, it is necessary to relate it to other flexibility practices (see Kalleberg, 2001). In the current literature, there is a substantial lack of empirical evidence in both national and international research concerning the possible combinations of different flexibility practices (see most recently Dütsch & Struck, 2011). The few studies that were undertaken usually investigated the direct relation of particular flexibility practices (Hohendanner & Bellmann, 2006; Dütsch & Struck, 2011). Using regression analysis in large samples of firms, it is tested whether particular flexibility practices are characterized by a direct substitutive or complementary relation. In contrast to these previous approaches, this paper follows the idea of particular organizational configurations (see Fiss, 2007). The configuration of particular firm-level practices can be an indicator for a particular firm-level profile. Rather than testing for associations throughout entire populations, it is here proposed that populations – like industries or national economies – contain distinct firm-level profiles of flexibility that combine flexibility practices in a particular way. So, this approach departs from the substitutive-complementary-research tradition by understanding flexibility configurations as basic segments within a given population. This paper proposes that each configuration is potentially characterized by a specific substitutive or complementary relation among the included flexibility practices. Accordingly, the idea of specific configurations of flexibility practices as flexibility profiles is put forward here.

Overall little research on configurations of flexibility practices has been undertaken. One exception is a recent study on the basis of the European Company Survey 2009 (ECS) (Kerkhofs, Román, & Ester, 2010). Using latent class analysis, the authors identified five flexibility clusters. The results show two profiles of high, two of moderate and one of low flexibility. The study confirms the assumption that firms fall into specific segments across and within countries. However, the variety and large number of flexibility practices investigated by Kerkhofs et al. makes it difficult to assess the results and draw general conclusions. The study also did not include external-functional flexibility activities in terms of outsourcing.

Also, from the existing literature we know little about the strategic importance of flexibility practices. Alongside with many other existing approaches the ECS-study (Kerkhofs et al., 2010) comes with a major limitation: A general basis of the investigations is the measuring by the current usage on the firm-level. As pointed out above, what can be labeled as flexibility practice may serve very different purposes—e.g. the usage of TAW as such says little about its relevance to increase firm flexibility. In case flexibility is understood as something that is swiftly used to compensate for unexpected demand shifts, assessing its general strategic relevance is limited.³ While a given practice might be important for the flexibility strategy in general, it is

³ The so-called reference date method ("Stichtagsmethode"), for example used in the IAB-establishment panel, is the 30th of June each year.
due to the precise situation (in the moment of the survey) whether or not a practice is actually utilized. Measuring only the current usage potentially underestimates the actual strategic relevance. Therefore, the attention needs to be focused on the importance of a given set of flexibility practices for the actual purpose to gain flexibility on the firm-level.

**Identifying and Analyzing Flexibility Profiles**

Considering the conceptual foundations and existing findings, the relation of different flexibility practices in Germany is not comprehensively mapped yet. The importance of TAW but especially the role of outsourcing and its relation to other flexibility practices remains unspecified. According to the conceptual considerations above and the outlined research gap a quantitative analysis of establishment data was conducted.

**Data and Latent Class Analysis (LCA)**

The quantitative analysis builds on a CATI (computer assisted telephone interview) telephone survey which was conducted in the second half of 2010. The sampling criteria included the following characteristics: all German establishments with more than 20 insurable employees (“sozialversicherungspflichtige Beschäftigte”), more than three years old and from either (a) four subcategories of manufacturing, (b) information and communication (I&C) industry or (c) financial and insurance activities (FIA) industry (according to NACE Rev. 2, see eurostat, 2008). To oversample larger establishments a stratified sampling procedure was employed using industry codes and three size classes (20-49, 50-249, 250 and more). The attained response rate was about 21.1 percent and the retrieved N comprises about 990 valid cases. Limited by the mentioned sampling criteria the retrieved data set is representative for Germany.

The empirical strategy pursued here follows the methodological agenda of organizational configuration research. However, the default method of clustering (cf. Fiss, 2007) comes with substantial weaknesses (Wiggins & Ruefli, 1995). Recent developments of latent class analysis (LCA) have provided statistical tools that outperform common cluster analysis (Magidson & Vermunt, 2002). Additionally, external dependencies of the configurations in question can be modeled using covariates (Collins & Lanza, 2010). The same method can also account for potential bias due to stratified complex survey data.

As a consequence of the methodological argument made in the previous section, the analysis needs to be based on indicators that relate particular flexibility practices to an explicit gain of flexibility. Also, the critique above demands a measurement of

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4 The original sample covers 10 percent and the realized sample covers about 2 percent of the whole underlying population. Cells that were filled with less than 20 cases at the midpoint of the survey process were oversampled to realize sufficient numbers.
the importance rather than the current usage in order to complement existing findings. In the CATI questionnaire the respondents were asked to evaluate the importance of several flexibility practices in situations of workload change. This included: (a) flexibility via working time arrangements, (b) flexibility via shifting workers between workplaces, (c) flexibility via outsourcing of previously internally provided functions and (d) flexibility via TAW. The answer scale ranges from one to six – with one indicating “very important” and six “not important”.

Latent class analysis was performed in order to reveal distinct profiles (Eid, Langeheine, & Diener, 2003; Geiser, Lehmann, & Eid, 2006; for variable descriptions see Table 5, Appendix). To account for the stratified sample property of the data base and to control for basic determinants of the classes, covariates were introduced (establishment size, industry, establishment is an independent firm or part of a larger corporation). The calculated class solutions were evaluated on the basis of several criteria. In accordance with current literature, the sample adjusted BIC value was used to determine the final number of classes (see Nylund, Asparouhov, & Muthén, 2007). The results suggest a four-class solution to be best suited.

LCA Results: Four Flexibility Profiles

The basic characteristics of the four profiles proposed by the LCA are depicted in Table 2. A summary of flexibility dimensions and identified profiles is depicted in Table 3 and in Table 4 additional information on industry and size distributions is reported. The characteristics of the identified flexibility profiles can be summarized as follows:

Table 2: Flexibility profiles and means of importance by flexibility practices (standardized results)

<table>
<thead>
<tr>
<th>Profiles</th>
<th>Dual</th>
<th>Internal</th>
<th>Low</th>
<th>External</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Working Time flexibility</td>
<td>0.6</td>
<td>0.2</td>
<td>-1.2</td>
<td>-1.2</td>
</tr>
<tr>
<td>(b) Shifting of workers between workplaces</td>
<td>0.2</td>
<td>-0.1</td>
<td>-0.6</td>
<td>-0.5</td>
</tr>
<tr>
<td>(c) Flexibility via outsourcing</td>
<td>0.3</td>
<td>-0.4</td>
<td>-0.5</td>
<td>0.2</td>
</tr>
<tr>
<td>(d) Flexibility via Temporary Agency Work</td>
<td>0.7</td>
<td>-1.1</td>
<td>-1.1</td>
<td>0.6</td>
</tr>
</tbody>
</table>

Source: CATI Data Set 2010, own calculation of means by flexibility profiles. For purpose of interpretation variables where transformed. Table includes standardized variables [zero equals average value of variable], with reversed coding [higher value: higher importance; lower value: lower importance].

5 To obtain stable LCA model solutions, the original 1-6 scale used in the questionnaire was simplified to a 1-3 scale combining two scale steps each (important: 1, 2; undecided: 3, 4; not important: 5, 6).
lower value: lower importance. **Bold print:** for emphasis of relevant differences for interpretation

### Table 3: Flexibility profiles by flexibility dimensions

<table>
<thead>
<tr>
<th>External flexibility</th>
<th>High</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Internal flexibility</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dual flexibility profile</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Internal flexibility profile</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>External flexibility profile</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low flexibility profile</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Own depiction

### Table 4: Distribution of flexibility profiles across industries (in percent)

<table>
<thead>
<tr>
<th>Profiles</th>
<th>Dual</th>
<th>Internal</th>
<th>Low</th>
<th>External</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Industry</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufacturing “M_1” [NACE: C 10-12]</td>
<td>22</td>
<td>62</td>
<td>0</td>
<td>15</td>
<td>100</td>
</tr>
<tr>
<td>Manufacturing “M_2” [NACE: C 13-18]</td>
<td>42</td>
<td>44</td>
<td>0</td>
<td>14</td>
<td>100</td>
</tr>
<tr>
<td>Manufacturing “M_3” [NACE: C 19-25]</td>
<td>53</td>
<td>30</td>
<td>0</td>
<td>16</td>
<td>100</td>
</tr>
<tr>
<td>Manufacturing “M_4” [NACE: C 26-33]</td>
<td>56</td>
<td>33</td>
<td>1</td>
<td>10</td>
<td>100</td>
</tr>
<tr>
<td>Information and Communication “I&amp;C”</td>
<td>9</td>
<td>36</td>
<td>46</td>
<td>9</td>
<td>100</td>
</tr>
<tr>
<td>Financial and Insurance Activities “FIA”</td>
<td>4</td>
<td>0</td>
<td>93</td>
<td>3</td>
<td>100</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Profiles</th>
<th>Dual</th>
<th>Internal</th>
<th>Low</th>
<th>External</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Size</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>20-49 employees</td>
<td>29</td>
<td>48</td>
<td>15</td>
<td>9</td>
<td>100</td>
</tr>
<tr>
<td>50-249 employees</td>
<td>48</td>
<td>20</td>
<td>19</td>
<td>13</td>
<td>100</td>
</tr>
<tr>
<td>250+ employees</td>
<td>66</td>
<td>12</td>
<td>8</td>
<td>14</td>
<td>100</td>
</tr>
<tr>
<td><strong>Percent of all cases in the sample</strong></td>
<td>40</td>
<td>33</td>
<td>16</td>
<td>11</td>
<td>100</td>
</tr>
</tbody>
</table>


- **Dual flexibility profile:** Cases of the first class describe a flexibility profile that is determined by the highest levels of importance for all four items. Thus this profile combines the practices from the internal and external dimensions of flexibility. With about 40 percent of all cases it is also the most widespread profile. Regarding industry and size, the **Dual** profile is dominant in two sub-industries of...
manufacturing: the manufacture of Chemicals, Pharmaceutics, Rubber, Basic Metal (NACE: C 19-25) and the manufacture of machinery and equipment (NACE: C 26-33). The Dual profile is most prominent in larger establishments with more than 49 employees.

- Internal flexibility profile: In comparison the second flexibility profile displays a high importance of the two internal practices. At the same time both external practices are on average of lower importance. With 62 percent a majority of cases in the manufacture of food products, beverages and tobacco (NACE: C 10-12) is assigned to this profile. Also for one further sub-industry of manufacturing (Manufacture of Textiles, Wood, Paper - NACE: C 13-18) the Internal flexibility profile is also the most frequent profile. For cases from the I&C industry it is the second most frequent profile with 36 percent. It is also the dominant profile for smaller establishments with 20 to 49 employees.

- Low flexibility profile: The third flexibility profile is characterized by the lowest average importance levels of all four flexibility practices in question. A major share of 93 percent of all cases from the FIA industry belongs to this profile. The Low profile also covers the majority of cases in the I&C industry, whereas it is almost completely irrelevant in the manufacturing sector. The Low-profile cases challenge the traditional approaches as they indicate a segment of structural in-flexibility in terms of the observed items. It can be found more often in smaller establishments.

- External flexibility profile: The fourth and last flexibility profile revealed by the LCA is defined by a high importance of the two external flexibility practices TAW and outsourcing. The levels of these two variables are similar to those of Dual profile cases. Yet, both internal variables show considerably lower average values. With a 11 percent share of all cases this profile is the least widespread. It is most present in larger manufacturing establishments.

These findings reported here are supported by a similar basic distribution found in the ECS-study by Kerkhofs et al. (2010). Using different flexibility practices and a different sample, the authors also found a high/low-classification along with patterns of substantial specialization on either external or internal flexibility practices.

**MCA Results: Analyzing the Distribution of the Four Flexibility Profiles**

The LCA revealed basic differences across industry and size groups. In order to revel further underlying distributions and the relations alongside other variables were mapped using a multiple correspondence analysis (MCA) (Greenacre, 1993; Le Roux & Rouanet, 2010). This illustrates the properties of the four flexibility profiles and uncovers the segments within the observed population.

A MCA transformed the associations of categorical variables into a two-dimensional space where the proximity of values depicts the level of association - the closer, the
stronger the association. In addition to industries and establishment size, further variables were introduced to account for general characteristics of the four flexibility profiles. This includes (1) whether or not the establishment is family owned or owner managed, (2) a variable measuring whether the establishment is part of a bigger company or a single establishment company and (3) a categorical variable of export share. The MCA yielded two dimensions. The x-axis (59 percent of the inertia) predominantly accounts for the sectoral differences between manufacturing and non-manufacturing cases. The y-axis (21 percent of the inertia) mainly points out the differences in establishment size.

**Figure 1: Flexibility profile triangle (MCA plot including own drawings)**

Source: CATI Data Set 2010, own calculation, original STATA plot plus grey triangle added for interpretation. Coding of Export: No Export: 0%; Low Export: 1-15%; Medium Export: 16-30%; High Export: >30%. Additional Note on MCA details: N = 873; Total inertia: 0.13; Method: Burt; adjusted inertias

The MCA results are depicted in Figure 1. The distribution of the different categorical outcomes roughly resembles a triangle shape. The top right corner illustrates that the Dual and External profiles are associated with larger establishments and
manufacturing industries as well as increased export shares. Thus, the top end of the triangle represents the core areas where the traditional German model would be expected by VoC literature. Contradicting the theoretical VoC assumptions, the data implies that especially large German manufacturing firms are currently using external flexibility practices. To a large extent external flexibility is here combined with internal forms in the Dual profile.

The lower right corner shows the a cluster around the Internal profile. This profile is associated with smaller, single establishment companies, owner managed and family establishments and low export shares. This indicates a particular SME approach to flexibility. In contrast to large establishments, there is evidence for an SME model that does not attribute increased importance to external flexibility. This profile relies predominantly on working time flexibility and the shifting of the workforce between workplaces. In respect to flexibility practices this profile still appears to be in line with the theoretical assumptions of the traditional German model.

In accordance with the descriptive findings presented above, there is a distinct flexibility profile outside the well-known manufacturing approaches - the Low profile in the bottom left corner. The prevalence in non-manufacturing industries indicates other flexibility practices in those domains, which are not addressed by the basic flexibility concepts employed in the CATI survey. Information and communication (I&C) establishments are situated between the Low and the Internal profile. This reveals a tendency of an overlapping association with these two profiles in this particular industry.

**Conclusion**

This paper conducts a comprehensive analysis of how different flexibility practices are combined by German firms forming particular flexibility profiles. The conceptual approach builds on the VoC literature and the related research, which suggests the existence of one dominant German firm-level model focusing on internal flexibility. A latent class analysis (LCA) of four basic flexibility practices was conducted and revealed four coexisting flexibility profiles: Dual, Low, Internal and External. The findings map significant diversity within the German institutional framework.

The Dual flexibility profile cases attribute high importance to both internal and external flexibility practices. The large 40 percent share of Dual profile cases implies a widespread shift within the core areas of the German economy. This finding is substantially different to the theoretical expectations derived from the traditional German model literature. The External flexibility profile attributes similarly high importance to TAW and outsourcing. This profile also conflicts with the traditional model assumptions. The Dual and External profiles are mostly presented in larger and manufacturing cases. The findings suggest that the core of the German economy has reoriented towards new transformed path relying on external flexibility via temporary agency work and outsourcing. By combining internal and external
practices, the *Dual* profile presumably marks an evolution from the internal flexibility focus in earlier periods. The *Internal* flexibility profile, however, follows the traditional mode. It can be found predominantly in smaller establishments.

With the *Low* flexibility profile, a substantial manufacturing/service-industry differentiation was revealed. This profile can be found predominantly in the two included service sector industries. This finding implies that traditional flexibility strategies of manufacturing firms do not apply to service sector firms in the same way. The information and communication industry flexibility orientations partially overlap with those of smaller manufacturing establishments. However, the financial and insurance industry appears to follow a distinctly different flexibility model. To a certain extent, the *Low* flexibility profile poses a challenge to flexibility research in general because those cases do not exercise the central flexibility practices investigated in this empirical analysis.

Recent empirical findings have pointed out the significance of diversity within national economies (cf. Herrmann, 2008; Crouch et al., 2009; Lange, 2009; Aoki & Jackson, 2008; Kirchner et al., 2012). In accordance with the conceptual approach developed in this paper, diversity of flexibility profiles is understood as an effect of distinct societal sectors within the German model. This term builds on the notion of macro or industry cultures and underlines the fact that firms are embedded in particular segments of industry and firm size. The embeddedness in different societal sectors thus explains fundamentally different approaches to flexibility in one national institutional framework. Sectors are layers underneath or across national institutional frameworks. This concept allows to account for the multi-level embeddedness in firms in a given national economy.

The results indicate that small manufacturing firms are part of a different societal sector compared to banks or large manufacturing firms. Each societal sector is characterized by a stronger or weaker relation to a specific flexibility profile. The findings show that there is a significant large/small-differentiation in terms of flexibility profiles within the manufacturing sector. This underlines critical reviews of the existing VoC literature and confirms the importance of SMEs for an empirically grounded analysis of the current German model (cf. Berghoff, 2006). With this large/small-differentiation along the *Dual*, *External* and *Internal* profiles, the results indicate the existence of a specific SME sector within the German institutional framework. Therefore it can be assumed that large and small firms each follow different development paths, which has been observed for corporate finance models as well (Deeg, 2001; Bluhm & Martens, 2009). At the same time differences in flexibility profiles in the FIA industry and in the I&C industry seem to reflect fundamentally different industry cultures, which also prescribe default approaches to flexibility.

The results presented also contribute to the discussion about the externalization of flexibility and a growing dualism on the German labor market. Traditionally, Ger-
man firms were believed to rely on long-term employment perspectives and internal flexibility practices. With the rise of TAW and outsourcing, external flexibility was introduced into the German model. The findings presented in this paper reveal a dominant pattern and distribution on the firm-level that corresponds with the current analysis of the national institutional framework (Palier & Thelen, 2010; Hassel, 2012). The majority of cases in the core manufacturing industries are combining internal and external flexibility practices. Far from a radical brake towards external flexibility German firms seem to have incorporated external flexibility practices into the traditional organizational models. A question for further research will be whether external practices of flexibility might have been integrated by a process of layering (Streeck & Thelen, 2005) combining old and new elements into a transformed German model - on an institutional as well as on a firm-level.

References


tionserhebung 30). Karlsruhe: Fraunhofer ISI.


Appendix

Table 5: Description of the manifest variables from the latent class analysis

<table>
<thead>
<tr>
<th>No</th>
<th>Variable name</th>
<th>Obs</th>
<th>Mean</th>
<th>SD</th>
<th>Min</th>
<th>Max</th>
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<tbody>
<tr>
<td>1</td>
<td>Working Time flexibility*</td>
<td>981</td>
<td>2.27</td>
<td>1.45</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>2</td>
<td>Shifting of workers between workplaces*</td>
<td>983</td>
<td>2.81</td>
<td>1.33</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>3</td>
<td>Outsourcing*</td>
<td>981</td>
<td>3.86</td>
<td>1.51</td>
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<td>6</td>
</tr>
<tr>
<td>4</td>
<td>Temporary Agency Work*</td>
<td>984</td>
<td>3.77</td>
<td>1.79</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>5</td>
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<td>0.10</td>
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<td>1</td>
</tr>
<tr>
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<td>Industry: M_2</td>
<td>988</td>
<td>0.10</td>
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</tr>
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<td>Industry: M_3</td>
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<tr>
<td>8</td>
<td>Industry: M_4</td>
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<td>0.41</td>
<td>Binary</td>
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<td>1</td>
</tr>
<tr>
<td>9</td>
<td>Industry: I&amp;C</td>
<td>988</td>
<td>0.09</td>
<td>Binary</td>
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<td>1</td>
</tr>
<tr>
<td>10</td>
<td>Industry: FIA</td>
<td>988</td>
<td>0.12</td>
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<td>1</td>
</tr>
<tr>
<td>11</td>
<td>Size: 20-49</td>
<td>988</td>
<td>0.26</td>
<td>Binary</td>
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<td>1</td>
</tr>
<tr>
<td>12</td>
<td>Size: 50-249</td>
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<td>0.46</td>
<td>Binary</td>
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</tr>
<tr>
<td>13</td>
<td>Size: 250+</td>
<td>988</td>
<td>0.29</td>
<td>Binary</td>
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<tr>
<td>14</td>
<td>Owner managed</td>
<td>983</td>
<td>0.55</td>
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<td>0</td>
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</tr>
<tr>
<td>15</td>
<td>Family owned</td>
<td>983</td>
<td>0.53</td>
<td>Binary</td>
<td>0</td>
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</tr>
<tr>
<td>16</td>
<td>Single establishment company</td>
<td>979</td>
<td>0.58</td>
<td>Binary</td>
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<td>17</td>
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<tr>
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<tr>
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<td>978</td>
<td>0.14</td>
<td>Binary</td>
<td>0</td>
<td>1</td>
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</table>

Legend: not weighted; *Importance for flexibility in case of a workload shift, (original) coding: 1: very important, 6: unimportant. Binary coding: 1: Yes, 0: No. For industry coding see above
Employer behavior ("Arbeitgeberverhalten") plays an essential role when it comes to understanding Human Resource Management (HRM). However, rather few studies actually seem to take the concrete behavior of organizations as employers into account. Instead, German textbooks and journals are replete with examples of “good practices” in HRM. We argue that, as a result, there is a growing discrepancy between HRM in research/teaching and practice, which unquestionably is a problematic development in an applied science like HRM. Based on our analysis of five leading German textbooks on HRM and five volumes of the German Journal of Research in Human Resource Management (2005-2009), we highlight current gaps in the academic discussion and we derive some theses concerning the current state of the discussion. Finally, we discuss our findings and highlight some avenues for further research in our field.

Key words: HRM, employer behavior, textbook analysis, bad practice

Introduction

Human Resource Management (HRM) is an important academic discipline, which is institutionalized at most business schools around the world. Journals dealing with HRM rank at high positions in the VHB JourQual-Ranking and have considerably high Impact-factors. Research on HRM ranges from identifying best practices in separate domains such as recruiting, trainings, incentives and appraisal to examining the impact of creating firm-specific and idiosyncratic bundles of interdependent HR practices in a certain HRM-system on creating competitive advantage (for a current overview, see Reichel & Mayrhofer, 2009). However, the identification of optimal bundles of HR practices and the question for consistency in employer behavior seems to be an important issue only for researchers from Great Britain or the US (cf. e.g. Baron & Kreps, 1999). Although it is obvious that employer behavior ("Arbeitgeberverhalten") needs to be taken into account when it comes to under-
standing Human Resource Management, few studies from German researchers explicitly address the question, which behavior entrepreneurs and enterprises actually show in their role as employers. Instead, German textbooks and journals are replete with examples of “good practices” in HRM (cf. the results of our analysis in the third section of this paper). “Bad practices”, which ultimately lead to a deterioration of working conditions for a large number of employees and which employers regularly use in order to preserve flexibility or to maximize profit, are frequently neglected in research; even though such practices often are heavily discussed in the media. As a result, there seems to be a growing discrepancy between HRM in research/teaching and practice. In a special forum in the Academy of Management Journal on “the separate worlds of academics and practitioners in human resource management”, Rynes, Giluk, and Brown (2007, p. 987) argued that, “the gap between science and practice is so pervasive that some have despaired of its ever being narrowed”. Unquestionably, this is a problematic development in an applied science like Human Resource Management.

In this paper, we take a look at the role of employer behavior in research and teaching in Germany and Austria. Based on our analysis of five leading German textbooks on Human Resource Management and five volumes of the German Journal of Research in Human Resource Management (“Zeitschrift für Personalforschung”; ZfP) (2005-2009), we highlight current gaps in the academic discussion. The results of our illustrative analysis show, that even though research on employer behavior is essential to understand HRM, it is a widely-neglected issue. The paper is structured as follows: In the next section, we define the notion of employer behavior and we discuss recent developments in employer behavior, which occurred during the last years and decades. Subsequently, we examine how scholars approach employer behavior in research and teaching. Finally, we discuss our findings and derive implications for future research. We argue that future research has to account for employer behavior in order to close the gap, which is currently to be seen between science and practice.

Understanding Employer Behavior

Defining employer behavior: Employer behavior (“Arbeitgeberverhalten”) is a term, which is often used in everyday (German) language, but hardly defined in the literature on HRM. In this section, we define the term in the way we will use it throughout the paper. We integrate two different aspects into our definition of employer behavior. These aspects are the behavior and behavioral patterns, which a firm displays in its role as employer on the one hand and characteristics of the employer as a political and social actor on the other.

Behavior and behavioral patterns: Scholars frequently refer to employer behavior by describing specific practices, measures, or tools. Examples for such frequently described practices are the annual appraisal interview, which is an element of the man-
agerial function of executives or the hiring interview, which is an element of the organizational HR selection strategy. On their own, such practices are separate activities, which do not tell much about how the employer understands its role vis-à-vis its employees. What matters more is the entirety of such singular practices and how they are interrelated, because employers always exercise multiple practices at the same time. In the literature, there are different approaches towards how separate practices should be combined. The best practice-approach suggests that certain HRM-practices always lead to firm success (e.g. Pfeffer, 1998). The best fit-approach suggests that success is the result of the firm’s use of consistent bundles of HRM-practices, which have to be internally aligned (internal fit) and embedded into the corporate strategy (external fit) (MacDuffie, 1995; Kepes & Delery, 2007). However, in any case the sum of a firms HRM practices and partial strategies (e.g. selection, appraisal, training) constitutes its HRM system, which provides a rule-based framework that serves as a means to govern the employees’ operative and learning behavior and is the expression of its HRM strategy (e.g. Kang & Snell, 2008).

The employer as an actor: Regarding the employer as an actor is necessary to understand employer behavior. Employers usually exercise HRM practices to achieve specific (strategic) aims (Schuler & Jackson, 2007). Employers can for instance conduct annual appraisal interviews for compensation purposes, or they can use it for motivational purposes. They can use it, because it is regarded as a symbol of professional work and therefore for reasons of ensuring legitimacy, or because it is required by law – as it is the case for the public service in Austria. The integration of the employer as an actor into our definition of employer behavior enables us to consider for instance (1) the employer’s aims and goals behind the use of certain practices or strategies, (2) the employer’s basic attitude towards employees and policies in use (e.g. emphasis on flexibility), and (3) the situational conditions (e.g. firm size, industry, ownership structure, etc.), that shape its behavior. To conclude, employer behavior includes behavior as well as the subject of this behavior, which attributes meaning to its behavior.

Changes in employer behavior: During the last decade, which is characterized by two major economic crises with a short period of recovery between them, employer behavior has changed strikingly; this applies especially to employer behavior concerning employment policy and compensation practices. Numerous employers started to implement new practices and to pursue new strategies, which can be regarded as a result of changing circumstances and emerging business trends (for an overview of current trends in European HRM, see Mayrhofer & Brewster, 2005). These changing circumstances include a shortage of skilled labor, rising cost pressure, changing ideas about justice and fairness, and perceived lower levels of commitment and loyalty of employees. In order to stay competitive (or for reasons of profit maximization) many German firms, especially small and medium-sized enterprises, have resigned from the tariff commitment with the aim of not having to back decisions on
current tariff developments ("Tarifflucht") (Kohaut & Schnabel, 2003). This development further accelerates the deterioration of working conditions especially for unskilled labor. Consequently, we can currently witness changes in employer behavior:

First, organizational employment policy is changing. For example, the role of short-time work as employment policy has changed significantly. After the burst of the dot com-bubble at the beginning of the new millennium, hire and fire was the strategy of choice for many employers. However, the last economic crisis was rather characterized by the increasing relevance of short-time work and the use of practices that enable firms to preserve flexibility in order to react to future crises (see for a critical overview, Kaiser, Müller-Seitz, & Ringlstetter, 2005). Employers used a decrease of working hours to adapt to financial pressure and declining demand, especially in the segment of skilled labor (Oechsler, Reichmann, & Mitlacher, 2003). Yet, employers still try to secure some flexibility by using subcontracted labor in areas of lesser strategic relevance to the firm (Mitlacher, 2005). Contingent workers at the strategic periphery of the organization are made redundant, whenever firms perceive the need to do so. Additionally, employees at the strategic periphery are confronted with a deterioration of working conditions (Schramm & Schlese, 2005). Some organizations have been in the media, because they fired some employees and offered them new contracts through personnel leasing agencies ("Personalverleiher"). However, signing such new contracts usually implies significant wage reductions for the employees.

Additionally, an increasing number of employers offer only temporary contracts to new employees in order to preserve flexibility. This holds true especially for unskilled labor, where such practices have already been employed before, but also for skilled labor, where we can observe increasing numbers of highly educated people in precarious employment situations, e.g. through using practices that urge employees into new forms of self-employment (Pernicka & Mühlberger, 2009). Similarly, organizations offer minibigs and internships, especially to students, who receive less compensation than long-term full-time employees. In many cases internships are not paid at all (Benkhoff & Hermet, 2008). Finally, organizations increasingly outsource tasks that have been completed in-house before, to external providers, which employ employees at lower costs and often also poorer working conditions (Purcell, Brooke, & Lucas, 2011).

Second, in the area of organizational compensation policies, we can also witness the enforcement of many practices, which are less directed towards reducing costs and more towards manipulating behavior. Some of the contemporary developments are striking, especially with regards to findings on organizational justice (Pfeffer & Sutton, 2006). For instance, many organizations communicate the expectation to their employees that they have to perform extra work without extra pay. Organizations in the finance sector award some of their executives and key employees additional pay-
ments in the form of bonuses. Most large firms have adopted payment schemes for top-executives, which enable those executives to increase their income far disproportionately compared to the rest of the workforce (cf. Schmidt & Schwalbach, 2001). This practice prevails, despite of critical comments in science and society concerning its appropriateness and effectiveness (e.g. von Eckardstein & Konlechner, 2008). Additionally, many organizations in the financial industry have also introduced performance-based pay for customer consultants, which have hitherto usually been paid a fixed salary, to better influence and control their behavior. As a result, there is also a passionate debate as to how certain compensation systems can also provide organizational decision-makers with disincentives (Bebchuck & Fried, 2005).

Third, other questionable practices concern the issues of preserving power and perceived lack of loyalty and commitment. They also deserve attention. Recently, even large firms tried to prevent that works councils are set up (cf. Hucker, 2010). In some cases, the weapon of choice to do so is firing people, who actively engage in fighting for (legally protected) co-determination, usually for spurious reasons. Few organizations even spied on their employees without their knowledge. They installed hidden cameras or engaged detective agencies to control their employees.

The practices described above are just some well-known examples of current trends in HRM. Every once in a while, media such as television, radio, or newspapers report about some of those developments and capture the attention of society and politicians. However, those are just single practices. How the complete HRM systems of the organizations, that employ such practices look like and which role those practices play for their overall HR-strategy and their business models is hardly reported.

Some of the examples of changing employer behavior mentioned above obviously represent practices, which negatively affect employees in various ways. They affect them as firm-specific resources on the one hand and as autonomous subjects on the other. The negative impact on employees occurs on various levels. Employees are constrained in their legal rights, their energy and labor capacity, their health and their commitment and loyalty vis-à-vis their employer. Consequently, those practices are the manifestation of non-sustainable HRM, which approves or at least accepts physical and mental fatigue of the firm's workforce. Despite of their undisputed relevance, only some of those practices play more or less important roles in current research in the field.

To conclude, we can assume that the public is well informed about some aspects of employer behavior. The media regularly report about the practices used, especially if they display a high potential of creating public arousal. However, the information conveyed usually is of fragmented nature and does not necessarily tell much about the strategic function and value of such practices for the firms, which use them. Additionally, developments in other fields, such as work design, which are less likely to
create excitement, are less reported and therefore also less likely to be discussed in society, politics, and academia. In the next section, we will examine how employer behavior is perceived and described in HRM research and teaching.

**Employer Behavior in Research and Teaching**

We assume that employer behavior is a central matter in HRM. If this assumption holds true, then we expect that the current developments outlined above find their expression in relevant textbooks and journal publications. In order to validate our assumption, we review five leading German textbooks on HRM as well as five volumes of the German Journal of Research in Human Resource Management (“Zeitschrift für Personalforschung”; ZfP) (2005-2009). Our analysis focuses on the questions whether and/or how employer behavior is captured conceptually and which forms of employer behavior are discussed. Our analysis serves the purpose to identify how employer behavior is conceptualized in current literature.

**Textbook analysis:** For our textbook analysis, we use five textbooks on HRM, which are established since at least ten years and have been published in various editions. We chose the textbooks based on their diffusion within the German-speaking world and the reputation of the authors.¹ The authors and/or editors of the textbooks were or are chairs of University Institutes of Human Resource Management in Germany and Austria. Our textbook sample consists of:

- Jürgen Berthel/Fred G. Becker, Personal-Management, 9th Ed., 2010
- Walter Oechsler, Personal und Arbeit, 8th Ed., 2006
- Hans Gerd Ridder, Personalwirtschaftslehre, 3rd Ed., 2009

We analyzed the content of the textbooks by using the method of qualitative content analysis (Miles & Huberman, 1994; Mayring, 2003). We focused on the question, which topics the authors examine in detail and whether there are more or less common gaps in the textbooks. In particular, we investigated whether employer behavior in its entirety is examined in the textbooks, whether “bad practices” in HRM play a role in HRM teaching and whether current empirical phenomena are depicted in the textbooks.

**Journal analysis:** The sample of our journal analysis consists of five volumes (2005-2009) of the German Journal for Research in Human Resource Management

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¹ We certainly acknowledge that employer behavior is made subject to discussion in all of those textbooks at least to a certain extent and that employer behavior is discussed also in other textbooks on HRM and specific aspects of HRM (e.g. Martin & Nienhäusser, 1998; Neuberger, 1994).
Admittedly, five volumes are a rather small sample of research publications. Nevertheless, the ZfP is the only scientific journal in the German-speaking world, which focuses exclusively on research in HRM. Thus, we expect the ZfP to represent the current profile of research in HRM in the German-speaking countries.

In order to conduct our analysis, we had to specify selection criteria for employer behavior, because all of the articles make at least implicit references to employer behavior in varying intensity. We derived the following two criteria based on our understanding of employer behavior, which is outlined above:

1. In order to be classified as employer behavior-relevant article, the article in question addresses one practice or several practices and interrelates it or them either (a) to other practices or strategies (conjunction aspect) and/or (b) to factors which determine the behavior of the employer (e.g. basic attitudes, values and norms, aims and goals, situational factors such as industry, firm size, profit situation) (explanation aspect) and/or (c) to its or their effects on the firm or its employees (impact aspect).

2. In order to be classified as employer behavior-relevant article, the article in question addresses aspects of conceptualizing HR strategies and/or methods to analyze HR strategies.

Based on these criteria, we analyzed the five volumes of the ZfP according to whether the articles published during this period make references to employer behavior. Additionally, we analyzed, if the articles of our sample make references to bad practices in HRM.

Results

In the following section, we present the results of our textbook and journal analyses by formulating several theses. Consequently, we summarize our findings regarding the contemporary reception of employer behavior in research and teaching, also by formulating theses.

Results of the Textbook Analysis

1. Main content of the textbooks is a description of ideal-typical practices and their theoretical explanation and justification: All of the authors extensively portray single HRM practices in various activity areas in the latest edition of their textbooks. In doing so, most authors discuss separate functional strategies of organizations (e.g. induction strategies or human resource development strategies in Berthel and Becker). However, those separate practices are rarely discussed in their entirety and interconnection. Additionally, empirical results, which serve to illustrate how firms actually use the characterized practices, are presented only very sporadically. One notable exception is Oechsler, who uses
empirical data (e.g. concerning personnel costs, unemployment rates, demographic structures) to highlight some empirically relevant phenomena for future protagonists in HR departments.

2. “Bad practices” such as the ones we outline above, are rarely depicted. The authors do not link their deliberations to ongoing public discussions: Illustrations and concretizations of practices are almost exclusively based on examples from large and established companies, which are well-known for using “good practices”. Additionally, ethical consequences of employer behavior are rarely discussed. For example, the downsides and disadvantages of certain practices, which serve to secure organizational flexibility, for the firms’ employees are usually neglected.

3. Bundles of separate practices into strategies are seldom discussed. The authors occasionally give recommendations concerning the fit between firm strategies and HRM strategies, but usually on an abstract level and without further specification of how exactly this fit is designed: Ridder, as an example, presents a theoretically sound outline of the central HRM issues, but he discusses how separate HR practices can be strategically bundled only on a very abstract level. Similarly, the separate HR practices, which are discussed in the various chapters of Kasper and Mayrhofer’s edited volume, also do not become interlinked to HRM strategies. As a consequence, the employer with its idiosyncratic features as an actor is rarely addressed in the textbooks of our sample. Such idiosyncratic features can be basic attitudes, values and norms, goals and aims or situational factors (e.g. firm size, ownership, industry, economic situation). Berthel and Becker mention in this regard that basic attitudes of decision-makers are important for strategy development. However, they do not further explain what that means precisely. Additionally, the authors give hints about how to develop HR strategies (p. 679), but they do not substantially describe or discuss how such strategies could be designed. In Drumms textbook, we find a differentiation of HR strategies on the basis of factors such as the firm’s profit situation, size, industry, or culture (p. 581). However, he does not examine the question, how such strategies are actually designed.

4. Occasionally, the legal conditions, which are the basic framework for managing human resources, are precisely described as formal rules. However, empirical statements concerning the questions if and how employers actually adhere to those rules are missing: In some of the textbooks of our sample the legal foundation for HRM is rather ignored (e.g. there is no respective chapter in Kasper and Mayrhofer’s edited volume). In others we find more or less detailed characterizations of this framework (cf. e.g. the detailed description of the legal foundation for HRM in Oechslers textbook). However, empirical results regarding the question which role employers and employees actually play in filling this framework with life usually are neglected. Some authors describe the legal
rights and dues of the works council, however they remain relatively silent about empirical findings concerning conflict and cooperation between works councils and the management of the firm (e.g. Drumm).

5. Most authors neglect the topics of employment policy and work design: This development is insofar surprising, as organizational employment policies are intensively discussed in the public and by legislators. However, some authors discuss this topic only in a superficial manner, others ignore it completely. The neglect of work design is insofar remarkable, as some decades ago the issue was at the heart of the “humanization of work”-debate and it is still a highly relevant topic today.

Results of the Journal Analysis

1. At the moment, there are no efforts to create taxonomies in order to classify employer behavior: We find that one third of the examined articles deals with employer behavior in a certain way. More precisely, based on the criteria for detecting employer behavior, which are outlined above, we find that approximately three out of four articles deal with employer behavior according to the first criterion and that approximately one out of four articles deal with employer behavior according to criterion two. The most heavily discussed practices in connection with employer behavior are recruiting, compensation, human resource development, employment policy, and leadership. However, all of the articles regard only very narrowly defined aspects of employer behavior.

2. There is a higher probability that articles, which apply qualitative research methods deal with employer behavior than articles which are based on quantitative studies: We find a tendency towards more comprehensive explanations in articles based on qualitative studies. We can assume that methodological rigor in qualitative studies implies that researchers have to develop a more comprehensive view of the employer as an actor and on the conditions which shape employer behavior.

3. Authors do not discuss bad practices in human resource management: Despite of a relatively high numbers of articles dealing with issues such as employment policy and compensation, none of the current trends in employer behavior, which we cursorily described above, is examined in one of the articles. Instead, research seems to ignore such developments and continue to focus on success stories and good practices in HRM.

Summary and Consolidation of the Findings

Our findings show that some of the new developments in the field of HRM, which occur in real life, have not yet been subject to empirical research and are not included in some of the leading textbook on the topic. To summarize, we can deduce four
theses from our findings and we pose some questions in order to stimulate future research.

HRM does not include the employer as an actor

The characterization of the employer as an actor and the connection to its behavior is only, if at all, of superficial nature. However, including the employer as an actor into the analyses of current developments in HRM could stimulate further insights into the field and provide answers to various questions. Some of those questions include differences of firms in various industries such as retailing, banking, or transportation. How does employer behavior differ within those industries? How could such differences be explained? Which business models do employers pursue for which reasons? To answer some of those questions, future research will have to deal with employer behavior more intensively.

Employees and employment law do not play prominent roles in empirical research

The German system of co-determination is characterized by the prevalence of works councils in many organizations and the existence of representatives of the employees in supervisory boards of incorporated enterprises. No matter, whether these elements of co-determination are perceived as an enhancing or a restraining factor in employer behavior, how works councils or employees’ representatives in the supervisory boards interact with employers, how they influence the implementation of HRM strategies, and how they cooperate or refuse to cooperate with HR-managers, are central questions of crucial importance for HRM. However, despite of their relevance for HRM those questions are, in the best case, introduced in sociological research on industrial relations, but widely ignored in HRM research and teaching.

Organizational employment policy and work design do not play prominent roles in empirical research

Although there are some prescriptive indications concerning employment policy offered in the analyzed textbooks, there are few statements concerning the actual gestalt of employment policy systems. Additionally, just like research on the interplay between works councils and employers, research on work design and the organization of work is left to industrial sociologists, despite of being a core issue in HRM.

Research on HRM has a good practice-bias, i.e. it ignores bad practices

At the moment, various practices in HRM are heavily discussed in the public. Those practices, described above are not sign of sustainable HRM. On the contrary, they can rather be regarded as practices, which frequently aim at short-term success, on the expense of the motivation, job-satisfaction, and even health of the employees. It is remarkable, that neither the textbooks nor journal publications deal with
such bad practices, which are observable empirical phenomena. The question, why this is the case, remains.

**Discussion and Conclusion**

In this paper, we characterize some current developments in HRM. Our analysis of HRM textbooks and journal articles shows that especially in the German-speaking world, so far, many of those developments are widely ignored in HRM research and teaching. Usually, employers are not regarded as actors, which pursue specific aims with their behavior, and they are therefore excluded from researchers’ analyses. However, recent discussions in science, business and society show that there are reasonable causes to do so. Our analysis shows that many bad practices in HRM are not reflected in research and teaching. On the one hand, some of the currently employed practices, which undermine the motivation and even the health of the workforce are not discussed. On the other hand, some of those practices have found their way into journals and textbooks, but are not framed as bad but rather as good practices. Examples for this paradox can be found in the literature on Strategic Human Resource Management (SHRM) (Baron & Kreps, 1999; Ridder, Conrad, Schirmer, & Bruns, 2001). Some researchers on SHRM, for example, claim that organizations (employers) should actively use methods of segmentation to determine how to shape their relationship to employees, which are of varying importance for them (e.g. Lepak & Snell, 1999). But how should we consider strategic recommendations, which suggest creating precarious employment situations for most employees, at least for those, who are rather at the periphery than at the core of the organization? Similarly, research on bundles of HRM-practices claims that organizations need to create and use various, internally consistent bundles of HRM-practices for different (especially: differently important) groups of employees (Kepes & Delery, 2007). But what if some of those bundles include or even totally consist of bad practices, which undermine the motivation, freedom or even health of certain groups of employees?

There certainly are also limitations of our analysis. Using only small samples, i.e. five textbooks and five volumes of a journal, may bias the validity of our analysis. Additionally, using the method of qualitative content analysis implies subjectivity in assessments. However, if we accept the tendency of our findings, implications for future research and teaching would involve emphasizing employer behavior more directly.

Teaching quality suffers, if scholars are unable to convey to students, how employers act and behave in real life and if the examples used in teaching are detached from empirical reality (Cohen, 2007). Consequently, students will find it harder to comprehend certain topics and they will become de-motivated and not prepared for their future role as protagonists in HRM. Teaching as well as research run the risk of becoming irrelevant, when they start to neglect typical and frequently used...
practices in HRM, especially when these are non-sustainable and sometimes even ethically questionable. Scholars lament in this vein, that an increasing number of practitioners ignores insights derived from research on HRM (Rynes, Colbert, & Brown, 2002). This development is not only due to communication problems between practice and science (cf. Scholz, 2008, p. 5-11), but also a clear manifestation of the limited relevance of most current research in HRM. Despite of controversial views concerning whether the rigor-relevance gap is bridgeable at all (Hodgkinsson & Rousseau, 2009; Kieser & Leiner, 2009), the developments highlighted in this paper are highly problematic for an applied discipline such as HRM.

The limited relevance of current research also becomes apparent in the light of missing empirical work regarding the factual consequences of employer behavior on the workforce. However, those consequences need to be considered in order to analyze the sustainability of HRM. Additionally, research on HRM will have to turn towards practices-in-use with special emphasis on the context in which such practices are employed and analyze their impact on the attainment of a firm's objectives and their impact on other stakeholders. To do so, more explorative studies, especially case-based research, building on qualitative research methods, will be necessary. It is questionable, whether managers or members of HR-departments, who seem to be the central respondents for contemporary research, are the most appropriate informants for such purposes. Instead, employees and their representatives as well as Top-Management could become more and more valuable and non-biased (or at least: differently-biased) respondents for some research questions. Obviously, it is easier to gather (and present) data, which shed a very positive light on firms than to gather data concerning questionable practices in human resource management. In particular, we see two reasons for this. First, it is easier for researchers to gain access to successful organizations. We suggest therefore using ex post analysis of cases or using various data sources as means to also illustrate “bad practices” in HRM. Second, researchers are, at least to some extent, prisoners of their research fields, in such a way that they tend to be cautious in generating and pursuing critical research questions in order not to lose access to the field. However, this difficulty must not lead to ignoring such “bad practices”, especially in teaching. Finally, we assume that self-perception of HR researchers plays a central role regarding the question for the focus of their research. At the moment, there seems to be a lopsided view concerning HR practices, with a sharp focus on the firm and its HR managers and a neglect of the respondents of such practices. Reflecting those tensions can become a first step in addressing central but under-researched questions in HRM.
References


A broad spectrum of theories from different disciplines is portrayed in contemporary HRM (as a discipline of business administration). Theories from psychology, sociology, and economics correspond to the variety of problems addressed in HRM which are again situated at different levels of analysis, namely on the individual, group, and organizational level. A narrow focus solely on economic approaches, as sometimes suggested in personnel economics, is therefore not sufficient.

Instead, the contemporary “rational choice” approach may serve as a “new” basis for the discipline. The approach stems from economics and sociology and, as an offspring of these, combines elements of action and structure in its basic explanatory models. Also it is able to explain effects that emerge on the system or macro level. In-depth explanations allow model building at different levels of analysis, namely on an environmental, organizational, and individual level, which can be seen as a major prerequisite of explanations in HRM. In addition “rational choice” is conscious of the ignorance of its underlying action theory and this exposes it to the body of physiological and psychological knowledge. Anomalies of classic economic theory can therefore be restricted, for instance by using the method of decreasing abstraction. The method of decreasing abstraction serves as a basic principle or heuristic device for model building, in order to separate “rational choice” from traditional anti-reductionism.

This article introduces basic elements of the modern “rational choice” approach: the macro-micro-macro model of explanation, homo socio-oeconomicus as a model of man and exchange theory as a baseline model of aggregation. A final summary discusses research questions and applications of “rational choice” in HRM.

Key words: Rational Choice, Economic Sociology, Micro-macro-link, Homo Socio-oeconomicus

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** “Pourquoi pas” or “Why not” is the title of a French movie released in 1977 and directed by Coline Serreau. It describes a relationship of three people. Such a “ménage à trois” stands up for discussion in this article as well, even though it evolves between disciplines. As in real life, one of the actors is paid more attention than the other.

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Approach

Ever since Pareto’s (1935) distinction, it has generally been agreed, that the field of economics should concentrate on rational action; other areas of social science, i.e. sociology should concentrate on irrational behavior. However, economics is a broad field. Therefore, it is hardly surprising that economists who are confronted with irrational human behavior or deviations from the perfect model of purposeful and rational behavior wrangle with Pareto and, in particular, with his line of distinction. Critical calls were confronted with only modest appreciation, if they were heard at all, when they suggested that unrealistic assumptions about behavior were required in order to deliver economic or normatively speaking “good” explanations (Friedman, 1953). Academics in Business Administration, dealing with innovation, marketing, organization or human resources and phenomena like decision behavior, informal organizations or HRM abandoned the economic paradigm and searched for more feasible theories in other disciplines.

The historical development of HRM is not the topic of this article. However, we need to stress that we are talking about a process of convergence towards neighboring disciplines, notably (social) psychology and (organizational and industrial) sociology, which represent a “long wave” of historical ideas: Simon’s (1955) revolutionary work “A behavioral model of rational choice” was published half a century ago. Since then, considerable progress has been made in both theory and empirical knowledge. And this holds true for all levels of HRM research – for the individual, group and organizational level. Worth mentioning amongst others are motivation, learning and stress theories, theories about group dynamics, power and management as well as theories about organizations and their environments. Furthermore, it is worth emphasizing tendencies towards empirical social research which evolved at the same time as behavioral science.

Economic theory was “exported” once again into HRM with the rediscovery of institutions in economic research and the development of appropriate models, such as property rights, transaction costs and information asymmetry, which all facilitated the explanation of the failure of the free market model of traditional economics (Coase, 1960, Alchian & Allen, 1972). Criticism from business administration that human resources academics lacked economic background and that the adaptation of theories from other disciplines caused little more than interdisciplinary dilettan-
tism only increased the influence of economics.\(^1\) Personnel economics (Lazear, 1996; Sadowski, 2002) may be called the rearguard of this new “economic imperialism.”

Conquerers are usually confronted with resistance. While representatives of New Institutional Economics tried to keep in touch with HRM, above all via the psychology of individual decision behavior and economic sociology (Kabst, 2004), most personnel economists remained ignorant to the theoretical and empirical fund of knowledge of their own discipline. Whether this is – in the long-run – a successful strategy to attain hegemony in the field of ideas will be left up to scientific historians. However, in my modest view success is much more likely if one bases his arguments in an agreeable way without always expecting agreement. As there were and still are good reasons why some disciplines of business administration, and especially such ones like HRM, are no longer willing to rely on economics unconditionally, it may be a reasonable proposal to underpin HRM with a theoretical basis which takes into account the fragmentation of the discipline and the individual results of each fragment. What we are talking about, finally, is nothing less than the “unity of social science.”

Such a proposal is up for discussion in this article. The contemporary version of “rational choice” in sociology once again aims at merging together knowledge of different social sciences following the tradition of Max Weber’s “understanding sociology”.\(^2\) The initiators of the program can be found in scientific theory (Popper, 1994; Albert, 2003), economics (Akerlof, 1984; Becker, 1976), sociology (Boudon, 1981; Coleman, 1984) and organizational theory (March & Simon, 1993; Olson, 1965). The main representatives of the approach are Esser (1999), Kirchgässner (1991), Lindenberg (1985) and Swedberg (2003) (amongst others). This may suffice to locate the program, as we are not discussing positions of individual authors in this article but the overall framework of the program. This framework can be summarized by three main points because codification is well advanced: The standard model of explanation also called the macro-micro-macro model (chapter 2), the

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1 For the German discussion see Ordelheide, Rudolph, and Büsselmann (1990). In the German case, one needs to consider that business administration is not organized within business schools but is studied within a department. The subject of business administration is not multi-disciplinary and aligned around the subject matter of the firm as it applies to the study of public administration in Germany and in an anglo-american Business School, but German business administration departments raise the claim of unity in the understanding of the discipline. This type of organization undoubtedly has some advantages. However, the coherence gained can cause difficulties, if for example academics in HR have to deal with let’s say formal models of HR planning and anomalies in group decision processes simultaneously.

2 Different labels can be used to describe the program. Labels like “new micro-sociology”, “new micro-economics” or “economic sociology” can apply. The author tends to prefer the name “socio-economics” which describes the theory more accurately as being on a borderline between economics and sociology. Due to didactical demarcation, we keep the label originating from action theory.
model of man in “rational choice” (chapter 3) and exchange theory as the most popular model of “aggregation” (chapter 4) are discussed in the following chapters. The article concludes with reflections on possible HR-applications of the framework (chapter 5).

**The “Macro-Micro-Macro” Model**

The following thoughts might be trivial from an economist’s view. As far as economics is concerned it has never aimed at the explanation of individual behavior but at collective or social results of individual decisions. Price theory can be considered a standard economic example. Price is determined by the interaction of demand, i.e. a buyer with preferences and a defined budget, and supply, i.e. goods with certain costs of production and distribution. From a psychologist’s view the concentration on the micro-macro transition may be incomprehensible. From his view, collective effects of individual behavior are taken for granted but his prime interest is in individual outcomes in response to certain, even collective stimuli. As a result, it is hardly surprising that it was left to sociology to explain macro-micro transitions more precisely (Alexander, Giesen, Münch, & Smelser, 1987).

“Rational choice” in this interpretation can be seen as an elaboration of different lines of what has been called “methodological individualism”: Explanations aim at collective results of individual behavior, not at individual behavior itself. This is nothing new for the field of HRM. A typical example is the explanation of how motivated individual behavior can be transformed into collective performance which again serves the aims of the organization.

**Figure 1: The macro-micro-macro model**

The macro-micro-macro model (Figure 1, Boudon, 1981; Coleman, 1990) represents the common glue of explanations proposed within the theoretical framework of „rational choice“; it serves as the core element of the theory. Structural variables describe the social situations of actors and represent the starting point of explana-
tion. Individual behavior is then explained in respect to the circumstances it is situated in. Again, this requires an individual action theory. According to Lewin’s (1951) programmatic formula which defines behavior as a function of situation and person, this can be characterized as the social-psychological part of the model. However, the explanation of individual behavior is not an end to itself. Individual behavior serves as a basis for the explanation of intentional and/or unintentional collective and/or emerging effects. This part of the model corresponds to the example of economic price theory. Therefore, the theory does not choose the direct path between social situations and collective results which is usually preferred by macro theories of sociology and economics; instead, it follows the rules of methodological individualism and disaggregates the task into three relatively autonomous steps: the logic of the situation, the logic of selection and the logic of aggregation.

1) The logic of the situation – a concept which can be traced back to Poppers’ (1994) thoughts on social theory – combines the macro level of the action system with the micro level of actors. To this purpose so-called bridge assumptions must be stated, i.e. more or less abstract and typical assumptions which characterize the social situation from an actors’ points of view. In the simplest case of completely informed actors, one can assume that the actors know their objective behavioral options. The bridge assumptions can then be refined step by step in order to depict subjective components of the observed situation. For example, concepts of socialization and learning theories can be included in order to model positional and dispositional effects on behalf of the actors under study. It will often be impossible to adequately refine the bridge assumptions because of “missing data” or “missing information” on individual views of the logic of the situation. However, as we are not talking about individuals and their idiosyncratic characters but about collective explanations, for “economic” reasons knowledge about typical views and typical actors is regarded as sufficient for model building.

2) The logic of selection depicts the nomological core of the model. From a methodological point of view this step implies the choice of an action theory which connects actors and actions on the micro level of explanation. Typically, “rational choice”-theory draws on different versions of valence-expectancy theory which is well known and acknowledged in economics as well as in psychology and sociology. The choice of SEU-theory (Subjectively-Expected-Utility) is frequently appropriate but not compelling. Above all, the “rational choice” approach formulates a number

3 An axiomatic version of subjectively-expected-utility theory (SEU-theory), an expression which is often used synonymously for valence-expectancy theory, can be traced back to von Neumann and Morgenstern (1972). Schoemaker (1982) gives an overview of the various versions of the theory. Heckhausen (1989) summarizes findings from motivation theory in this regard. It is worth mentioning that the so-called VIE-theory by Vroom (1964), which is widely accepted and used in behavioral HRM and Organizational Science, is likewise only a special variation of SEU- or valence-expectancy theory.
of criteria the chosen action theory should comply to (Wippler & Lindenberg, 1987):

- According to its nomological status the action theory should possess a high degree of generalization and contain little information about the individual.

- It must be able to consider structural conditions of actions, i.e. it must allow the formulation of bridge assumptions in the modelling of the logic of the situation; it should also enable the modelling of collective results of actions.

- Assumptions should not be axiomatically fixed by premises such as complete information; it should always be possible to integrate or to model assumptions derived from physiological and psychological theories. Furthermore, the amount of “ignorance” of the action theory should be made explicit, so that more complex assumptions can enter the model, e.g. using the method of decreasing abstraction (Lindenberg, 1992).

- Finally, action theory should consider the underlying model of man, namely homo socio-oeconomicus. It must take into account the free will of individuals and that individuals are resourceful (see chapter 3).

These rules can be interpreted as methodological guidelines for the construction of explanations or models. They help to balance out the conflicting goals between the explanation of individual actions and the logic of aggregation (in principle, the former implies the explanation of every individual action, while the latter can only consider typical actions). Thus, the rules require that shortcomings of the action theory are made explicit so that it can be refined if necessary.

3) The most decisive step is the logic of aggregation. So-called transformation rules are needed, so that individual interaction processes can be modeled. Depending on the system under study formal aggregation models such as election rules may be appropriate. In many practical cases in HRM simple additive models are sufficient, for example in the case of collective phenomena such as turnover, absenteeism or participation in training courses which can be modeled by simple rates or quota. In many cases, the logic of aggregation will have to take into account combinations or the conjunction of individual actions. In these cases, assumptions must be made on how individual actions influence each other in the process of aggregation. Diffusion, game or exchange theories may be helpful in this regard. One very popular model is exchange theory (see part 4). However, exchange theory is only one aggregation model which is frequently used due to its manifold applicability. Further standard models of aggregation include resources allocation models (Coleman, 1975, Vanberg, 1982) which explain why individuals join up to form associations or organizations. Another example is made up by “threshold models” (Granovetter, 1978) which come into use when collective panics, revolts or also fashions are to be modeled.
By now it should have become clear that the “rational choice” approach in HRM focusses on collective phenomena of organized actions. Thus, in this respect it is close to personnel economics. However, “rational choice” approach is aware of the ignorance of its underlying action theory and is therefore open to integrate findings from social-psychological theories. In more detail, this means that the ignorance of the action theory in use is made explicit and methodological rules, like the method decreasing abstraction, can be used to avoid the introduction of (psychological) ad hoc assumptions – which are common in standard economic research. The method of decreasing abstraction protects the core of the argumentation, namely the action theory in use, and first of all recommends improvements in the logic of aggregation and the logic of the situation. But, in order to eliminate major anomalies of explanation it opens the nomological core to physiological and/or psychological findings. For this purpose, it is necessary and indeed possible to extend the macro-micro-macro model of explanation by a further (in-depth) level of analysis. Thus, “rational choice” is separated from anti-reductionism – which has a long history in social science from Durkheim (1982) to Popper (1969) – without giving up the independence of social explanations.

Such in-depth explanations, which – as proposed by Coleman (1990) – further differentiate the self in an object self and an acting self, will apply, in my view, only to few applications in standard HRM. As HRM considers organizations and the markets and environment the organizations operate in, it will be more important to use in-depth explanations to bridge the gap between environment, organizations and individuals and to develop unifying models of explanation. How do organizations (meso level) act in respect to globalization processes (macro level) and which options are chosen by its members (micro level) which, in turn, effect the strategy of the organization (meso level) and the process of globalization (macro level)? These are relevant questions HRM is confronted with. The example proves that it is possible to integrate environment, organizations and individuals in explanations within a “rational choice” framework. Generic or dynamic explanations, which are scarce in today’s HRM, are possible if several macro-micro-macro explanations are connected in series.

Homo Socio-oeconomicus

In particular researchers from behavioral sciences loathe a solely rational model of man. Even reformist movements in the line of the so-called new economic institutionalism could not change this attitude. While the “traditional” homo oeconomicus of the standard micro-economic literature was depicted as a “heartless calculating machine”, the “new” and strictly opportunistic homo oeconomicus in institutional economics is pictured as a bunch of no-gooders, which spoils the next generations of academics and business men (Pfeffer, 1994).
So, let’s recapitulate: It was less a problem with the “old” homo oeconomicus, whose only joy in life was money, that he would have sold his mother-in-law at the next best opportunity – and therefore no rationally thinking economist would have wanted such a chap as a son-in-law, as Boulding (1969) once remarked. The “old” and under-socialized homo oeconomicus would not have come into the awkward situation of selling his mother-in-law as he was a devout single. The problem of economics with its pupil was that he could only survive within the perfect markets of neo-classical standard theory. Social autism of homo oeconomicus clearly marked the boundaries of economic thought. This became clear with reflections on market failures, e.g. in the context of environmental pollution. The awareness of market failures directed the attention of (welfare) economics not only to the overlooked marginal conditions necessary for perfect markets to function – property rights, lacking transaction costs and perfect information (Coase, 1960) – but blessed traditional homo oeconomicus with a few new abilities as well. In imperfect markets it is no longer sufficient to be able to calculate and maximize but also to negotiate and undergo tactics. Opportunism (Williamson, 1985) – which incorporates calculation as well as cunning – does not make the chap any kinder but keeps him functioning in imperfect markets. In addition, economists like Arrow (1963), Downs (1957) or Becker (1976) used their theoretical repertoire to analyze non-economic institutions like politics, education or even families. The extension was only enabled because homo oeconomicus besides money got used to the maximization votes, investments in education and finally in social approval as well. New micro-economics thus once again discovered characteristics which classical institutionalists like Smith (1911), Veblen (1924) or Schumpeter (1942) had already known. The way from the maximization of profits to the maximization of utility and the so-called assumption of “alchianesque” utilities (Alchian & Allen, 1972) have definitely been further prerequisites of the new institutionalism in micro-economics.

There was a parallel discussion in sociology about the model of classical structural functionalism, homo sociologicus. He was used to dealing with expectations as he met social norms and institutions and he appreciated societal values which guided his behavior in the form of deeply internalized standards (Parsons, 1962; Kluckhohn, 1962; Dahrendorf, 1977). Unfortunately, homo sociologicus as a member of the upper middle class (Mills, 1959) did not get in contact with constraints and calculation seemed disrespectful to him. This made it even more difficult for theorists to analyse daviating behavior. Homo sociologicus does not break rules: he does not buy more than he can pay for, does not embezzle money and does not rob banks (Diamond, 1971). Thus, this over-socialized representative (Wrong, 1961) of the weird and spooky men in the social sciences accentuated the limitations of sociological action theory in a prominent way. Critics such as Homans (1964) pleaded for a

4 This applies as well, if for different reasons, to the traditional homo oeconomicus, to which Diamond refers here. See the discussion in Williamson (1985), from where the reference to Diamond was taken.
reorientation of action theory almost half a century ago. Homans connected the recollection of rational action in sociological theory to an address for the extension of the utility concept. Homans argued for a revival of a homo calculus who besides material values appreciated social values as well. Thus, he thought of a theoretical man whose behavioral spectrum ranged from altruism to hedonism, and who in respect of the economic principle did not waste his scarce resources.

The models of man in the tradition of these thoughts have been codified in different ways. Meckling (1976) as an economist suggested REMM as an orientation for new micro-economics. The Resourceful, Evaluating and Maximizing Man combines characteristics of homo oeconomicus and homo sociologicus. Lindenberg (1985, 1990), a sociologist, adds two further assumptions: restrictions, which may be trivial to economists and which of course do not only mean material but also social restrictions, and expectations, which specify the calculating characteristic more precisely (see Figure 2). This new man of the social sciences, who is known as RREEMM in accordance with his characteristics, or homo socio-oeconomicus (Weise, 1989), has already established himself in the middle of economics and sociology. Within “rational choice” RREEMM purely serves to exemplify methodological rules, namely the method of decreasing abstraction, and the assumptions of the underlying action theory.

The utility concept must be explicated with homo socio-oeconomicus as a model of man. This is of great importance, as economists, usually confronted with market exchange, tend to keep the utility concept unspecified and instead to draw back on money as a transaction medium (implicitly assuming that somehow “everything” can be exchanged for money). Sociologists on the other side must fill the utility concept. Various suggestions have been made to bring theory into the construction of so-called bridge assumptions (Kelle & Lüdemann, 1995). Lindenberg (1996) for example draws on the classical Scottish moral philosophers and suggests two major goals – physical well-being and social approval. Matiaske (1999) argues for situational explanations of utility and refers to content theories of motivation. Regardless of the suggestion one chooses: It is important to replace the “empty” utility concept by empirically testable hypotheses. However, preferences should be held constant in both versions (March & Simon, 1993), even if one does not have to
assume that preferences change just as slowly as the Rocky Mountains (Stigler & Becker, 1977).

The resistance RREEMM is confronted with while he is trying to merge some common aspects of economics and sociology is hardly understandable. Resistance arises especially with the assumption of “resourcefulness” which is sometimes interpreted rather one-sided and biased as within new institutional economics for example. The transaction cost approach as well as information economics interpret resourcefulness as a kind of economics of “lying and deceiving”. Especially the transaction cost approach as proposed by Williamson (1985) encouraged such an interpretation by defining opportunism as intentional actions like misleading, distorting, hiding, blurring or concealing. The often strongly biased assumptions on the resourcefulness of homo-socio-oeconomicus may help explain the vehement reactions against it.

From a theoretical point of view the biased interpretation of “resourcefulness” cannot be justified. Homo socio-oeconomicus does not only use his “new” autonomy for dirty tricks; he also lures and attracts and he knows that friendliness and trust may be better means to an end than unfriendliness and mistrust. One could summarize these types of behavior – which are quite the opposite of the standard interpretation of opportunism – as self-motivated altruism because they are enacted in favor of somebody else in order to achieve one’s own goals. Even “true” altruism or on the other side of the behavioral spectrum sadism are possible behavioral alternatives. In these extreme versions of resourcefulness ego knows the utility function of alter and incorporates it into his own one, thereby increasing or reducing the utility of alter without respect of his own costs. But above all such a model demands a large amount of information about the actors which is inconsistent with the methodological rule that the action theory should be restricted on only few assumptions about actors. One will frequently operate with a simple version of an egoistic but neither jealous nor caring actor (Matiaske, 1999).

It is important to note that in particular Williamson (1985) – who may be characterized as the main proponent of the opportunism assumption and who has been strongly criticized for it – justifies the assumption implicitly with the commitment or liability of the economist towards the economic subjects. Because opportunism potentially can occur actors are usually well advised with the rule of the transaction approach to inform themselves ex ante and to safeguard themselves ex post. The line of argumentation is the same as the advice that a mother gives her son about not to get involved with girls, well knowing that one of the girls could be the most wonderful daughter-in-law in the world. After the wedding the same mother should tell off her son if he does not undertake a marital agreement but follows the romantic ideal about loyalty and devotion. One central problem of the biased interpretation becomes obvious if one imagines that fathers advise their daughters the same thing. But it is neither the right time to speak of young and rebellious attitudes towards
over-caring parents in regard of the reproduction of society nor do we have the time to discuss the utility that business people could achieve if they ignored the advice of economists. It should be documented however, that transactions always affect at least two actors.

This is exactly the problem with the usual assumption about opportunism. It is not only the perception of human behavior that is severely biased. Much more biased is the use of this assumption in many studies of contemporary personnel economics. Literature is crowded with blue and white collar workers who do not work for the good of the business (at least not only) but solely pursue their own interests and tend to shirk. Managers on the other hand, who build up their careers on the backs of their employees, HRM departments, who exploit staff due to advantages in legal knowledge, or principals, who force agents to make morally questionable decisions, are no typical subjects of research. This ignorance towards phenomena of a misuse of power is however, not an inherent problem of rational action theory in general. The contemporary “rational choice” theory follows the maxim of relational analysis and considers power phenomena systematically in models of macro-micro-macro transition.

(Social) Exchange as a Standard Model of “Micro-Macro Transition”

The economic argumentation is based on exchange: Economics operate with the model of market exchange which is bound to certain and highly sophisticated social and societal prerequisites. As we know nowadays, thanks to new institutional economics, the functioning of the market exchange model implies a functioning legal system, a perfect system of informational and logistic infrastructure as well as market participants who stick to the codex of honorable business men. But trade was already carried out long before international trade agreements, container shipments and the internalization of universal social standards were established. And after all, wholly non-economical interactions – for example the exchange of messages, recognition or gifts – can also be interpreted as exchange actions. And corresponding exchange theories can be found in disciplines such as social anthropology, social psychology or sociology as well. Therefore, exchange can be called the basic paradigm of the social sciences (Matiaske, 2003).

Non-economic exchange theories are built on different theoretical grounds. For example, they are dependent on normative rules of honor (Mauss, 1989), structural conditions of relationship (Levi-Strauss, 1971) or learning theories (Homans, 1974). Modern sociological versions of exchange theory – Emerson (1962), Blau (1964) and Coleman (1972, 1990) in particular – are routed somewhat deeper in economics. Contemporary versions of sociological exchange theory share the basis of methodological individualism and the rationality assumption with economics and the more general “rational choice” approach. Because these models, and this
can only be outlined here, can be applied to various forms of social interactions, exchange theories are often used in the modeling of micro-macro transitions.

As the discussion about the (at first different) underlying models of man converges in economics and sociology, the debate on the (initially common) exchange theory seems to head in different directions. Economic debates increasingly focus on the forgotten parameters of the market place and thus piece by piece create a more realistic market model; the sociological discussion on the other side comes close to an ideal market place. The mathematical model in Coleman’s version of social exchange can be interpreted as the sociological reinvention of the Walrasian market model. And also the emerging effects of power are treated very differently. While prices and values are core issues discussed in economics, sociological exchange theories emphasize power and inequalities of power and thus social influence. Another difference lies in the assumption of a general transaction medium.

While economics tacitly relies on money and more and more explicates the marginal parameters of the market, as, for example the legal system, contemporary sociological exchange theory concentrates on the lack of a universal transaction medium like money within social exchange relationships. Because money is not required in social relationships and a safeguarding legal framework is lacking, structural equivalents must be invented to ensure and to enable exchange. Sociological exchange theory, in the tradition of classical thoughts on means of social interaction (Parsons, 1977), refers to trust and social relationships in the form of social capital, which replace money as the universal medium of exchange (Matiaske, 1999). These informal types of media in social exchange equal the formal media money and legal system in economic market exchange. However, the basis of the action theory is the same in economic and social exchange models.

Therefore sociological exchange theory systematically integrates the category of social capital (Bourdieu, 1979, Putnam, 2000). On the one hand, social capital is considered in models of social exchange via individual (trustworthy) relationships which an actor is provided with (Marsden, 1983, Yamaguchi, 1996). On the other hand, the collective interpretation of social capital is integrated in general agreements on norms (Coleman, 1988), especially the universal norm of reciprocity (Gouldner, 1960). In respect of the research methods used contemporary sociological exchange theories integrate concepts of social network analysis (Wasserman & Faust, 1997). In a theoretical sense they reflect exchange relationships as socially embedded relationships (Granovetter, 1985).

Thus, the circle is complete, as new institutional economics reflects on the social embeddedness of economic exchange relationships due to notoriously incomplete contracts on the one hand side and limits of the classical paradigm of goods-money exchange in the building of long-term and trustful relationships on the other hand side (Furubotn & Richter, 1997). It is to be hoped that the parallel discussions in different disciplines contribute to the breaking down of interdisciplinary hurdles.
Or in a slightly different way: It is to be desired, that the gains achieved by an interdisciplinary program may exceed the distinction based gains from isolated disciplines, which are solely built on rents from disciplinary barriers.

**Summary**

HRM can probably gain more than other disciplines of business administration – such as decision theory, marketing or organization theory – by turning to the contemporary “rational choice” approach. Considering the splintered array of multiple disciplinary approaches in HRM the discipline has always been struggling for recognition as a discipline in itself. At present there is a strong movement towards a rather narrowly interpreted basic economic paradigm, which at the same time means giving up the relationships built up to the neighboring disciplines of psychology and sociology. However, there have been “good reasons” for turning the back on economics as a basic discipline and these reasons cannot be neglected because of a simple call for disciplinary solidarity; just as well there have been “good reasons” for HRM to remain a part of the field of business administration. Turning to the “rational choice” approach would relax this tension at a somewhat higher level of abstraction. The “rational choice” approach as a framework or guideline for research in the social sciences is able to integrate the central problems of HRM – man and organization – on the explicit basis of an action theory thereby focussing on aggregated effects of individual actions.

The macro-micro-macro model of explanation of “rational choice” considers the most typical problem of HRM, namely the aggregation of individual actions within and related to organizations. In this, the theory treats all “actors” the same without regard of the levels or stages they are acting on, which does not just mean progress in a theoretical but also in a normative sense. The approach does not reduce men in organizations to economic or psychological (calculating or stimulus-reflex) machines but considers men as endowed with will, creativity and resourcefulness. Apart from this, contemporary action theory allows for the adaptation of psychological findings via multi-layered in-depth explanations without giving up the autonomy of social phenomena. To be succinct, the “rational choice” approach opens opportunities for new insights into old problems and for the exploration of new ones thereby integrating the current theoretical and empirical knowledge of the HRM discipline. The following concluding examples may help to clarify this hypothesis:

- The closely related fields of work motivation and performance incentives schemes are usually examined from different disciplinary angles within HRM. Researchers from the behavioral sciences focus on (intrinsic and extrinsic) motivation, economists investigate the effects of (material) incentives. But topics closely related like, for example, organizational commitment are neglected from both sides, left up to specialists or transferred to other disciplines. The “rational choice” ap-
proach proves itself capable to systematically analyze the social embeddedness of work relationships on the basis of an explicated action theory and thus to provide a new (or first?) solution to the mystery Barnard (1938) left to HRM and organizational researchers. To interpret work relationships as kinds of gift exchange (Akerlof 1982) with regard to a model of man who strives for physical well-being as well as for social approval, is not only metaphorically but also systematically possible.

Ever since Lewin’s (Lewin, Lippit, & White, 1939) revolutionary studies, research on leadership has been influenced by his point of view that research on leader traits and leadership styles, with regard to changing environments, would deliver insights into management activities and thus leadership success. But one-sided research on the influence taking of leaders on their staff neglects that leaders may be led by their subordinates as well and that there are certain leadership structures among subordinates, too. A reformulation of the research problem in terms of exchange theory (first versions were submitted by Hollander, 1958, Graen, 1969, Zalesny & Graen, 1995, or Matiaske, 1995), considers the complex structure of relationships between all actors involved. This point of view brings new life to the concept of co-operative leadership because co-operation is no longer treated as a personal trait leadership style, but as an emergent and measurable result of a network structure on the macro level.

Finally, on an organizational level questions arise about the diffusion of HR practices and politics within the context of globalization. Also on the level of the organization and close to knowledge sociology the “rational choice” approach renders explanations which might be helpful in the explanation of adaptation processes concerning US-American HR practices and politics in “old” Europe (Gooderham, Nordhaug, & Ringdal, 1999).

The examples may clarify the potential of the “rational choice” approach. There is no doubt, that it will be no easy task to apply or realize the outlined program. However, this paper is not meant to be a simple recommendation of a “ménage à trois” of sociology, economics and psychology for HRM research. The “rational choice” approach does not only lure and entice but it is also a big challenge. In sociology, the approach has already passed the borders of economic sociology and is now striving to conquer “soft” fields such as cultural sociology – so let’s see what happens to HRM.

References


Jörg Freiling*

RBV and the Road to the Control of External Organizations**

Although primarily focusing on the internal resource endowment of the firm, RBV has the potential to address the firm’s embeddedness in the business environment as well. At present, RBV research lacks a sound understanding of the development of competitive advantages in industries. A change regarding the unit of analysis, however, allows for considering causes and effects on the micro and the macro level as well. The paper stresses the entrepreneurial dimension of RBV and the firm’s impact on the environment by comparing RBV and RDA reasoning. Using the explanatory power of the isolating mechanisms and applying system dynamic modelling, it turns out that RBV can move into the direction of a ‘New IO’.

Key words: Resource-based View, resource dependence approach, structural school, process school, inter-organizational dependence, power, entrepreneurship theory, open system view, system dynamic modelling

Introduction

When we regard the development of research on strategic management in the last three decades we can identify a certain kind of paradigm shift (Kuhn, 1962). Whereas the 1980’s were dominated by industrial organization (henceforth IO, see in particular Porter, 1980), in the 1990’s the so-called ‘resource-based view’ (henceforth: RBV) became more and more powerful and, after all, the dominant framework (Bresser, Hitt, & Nixon, 2000; Foss & Ishikawa, 2007). In more recent times the situation did not change at all and the RBV became an established part of management theory with a considerable impact on other sub-disciplines of business studies as well (Acedo, Barroso, & Galan, 2007). However, the state of resource-based research is not satisfactory in every regard. Basic problems as to terminology, causal structures, and grounding in the philosophy of science still exist. Moreover, the RBV seems to offer an enormous exploratory power that is still unveiled. Some scholars point to the potential to contribute to a ‘new’ theory of the firm (Conner, 1991), others advocate the opportunity to build a new ‘IO’ in resource-based terms, and we argue that RBV can stand to benefit considerably from an extension that takes the embeddedness of the firm in markets, industries, and the business environment into account. At least regarding the last point little has been done so far. We argue that the very nature of RBV allows for a balanced view that considers the

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internal peculiarities of firms in terms of the resource endowment as well as the external circumstances. Pfeffer and Salancik (1978) developed the resource-dependence approach (henceforth: RDA). Although RDA is principally different from the RBV reasoning including the entire set of assumptions and causal structures, there is still much to learn and to consider from this prominent stream of research. A core aspect is that firms typically depend on external assets. However, a firm with an idiosyncratic resource endowment is in a position to exert power on other players in the market as well. This motivates us to formulate the basic idea of Pfeffer and Salancik (1978) the other way around: from an external control of organizations to a control of external organizations from the perspective of the firm. Obviously, these aspects are two sides of the same coin. This is one more argument to apply this reasoning in RBV.

Thus, it is the purpose of this paper to build a bridge from RBV to some of the basics of RDA thinking – but without trying to marry or merge these different approaches due to incommensurability issues. The research question is how (far) firms can get control of the external environment based on the given resource endowment in resource-based terms. The answer rests on conceptual considerations in connection with theory application and theory development. In this sense, the paper starts with a brief review on resource-based research (section 2). Section 3 directly ties in this train of thoughts when we dwell on actual problems of the RBV. These problems are obstacles of RBV’s further development. It does not make sense to touch on all the given shortcomings in this paper. Thus, we focus on a bunch of problems in connection with the myopic view of the RBV on the business environment. In this regard, there is much to learn from RDA reasoning which is subject to section 4. The more resource-based research tries to scrutinize the firm’s environment, the more important is the industry as another ontological unit. This goes along with methodological issues as to the consideration of co-evolution of the firm and the environment (section 5). A brief outlook, focused in particular on the theoretical implications of the considerations, finishes this paper (section 6).

**The State of the Art of Resource-based Research**

Many scholars regard the Wernerfelt (1984) paper as the ‘birth’ of the resource-based view. Although we can hardly regard Wernerfelt as the ‘father’ of RBV, he was the first one who coined this term. Many other scholars prepared the ground for a resource-based view and a dynamic capability perspective and it is well worth the effort to regard the historical roots of the current debate on resource-based management. In this context, the question is still open whether RBV is rooted in economic classic or neoclassic, respectively. Given the considerable differences of these two research traditions, the recognition of the grounding is meaningful, indeed. Surprisingly, this question did not really come to an issue, yet.
Whenever scholars try to relate RBV to the neoclassical theory, they predominantly refer to the debate on superior rents in competition and sustaining competitive advantage, achievable by utilizing the potential of unique resources and enabled by factor market imperfections (Barney, 1986; Conner, 1991; Peteraf 1993; Foss, Knudsen, & Montgomery, 1995). Although the rent discussion can be principally traced back to the seminal work of Ricardo (1817) as one protagonist of classic theory, many of the main RBV scholars apply neoclassical reasoning and methodology. Thus, the neoclassical impact on RBV is evident. However, the point made in this paper is that this grounding can be misleading if we want to capture the very nature of resource-based and competence-based thinking. What is the problem with applying neoclassical thinking? Firstly, neoclassical theory refers to the market equilibrium in connection with the model of perfect competition – a situation where no superior rents are possible anymore. Secondly, neoclassical theory treats the external environment as given so that adaptation is the only way to survive in competition. Thirdly, evolution does not play a role since neoclassical theory assumes immediate transitions: Time does not matter. Fourthly, neoclassical theory regards firms as more or less homogenous entities and does not shed appropriate light on idiosyncrasies. All in all, a resource-based perspective with neoclassical roots allows only for a rather static (at best comparative static) and little entrepreneurial view. This does not fit perfectly to the basic ambition of the founders of resource and competence research.

Regarding some cornerstones of the development of the economic classic, we can find some interesting aspects relevant to the research question of this paper. Basically, the emergence and existence of unique resources and dynamic capabilities has very much to do with the division of labour. Some firms are more competent than others because they manage the coordination of skilful employees in a better way. At first glance, this could lead us back to Adam Smith. However, to refer to the advantages of the division of labour is only an early step to an entire understanding of resources and capabilities. Dividing and alertly unifying the work seems to be a much more demanding issue, as Babbage (1963) and List (1909) pointed out. In particular List introduced the ‘law of the confederation of productive forces’ which implies that productivity not only depends on the division of labour but also on linking the different activities. This unification of the productive forces, carefully monitored by the entrepreneur, is according to List the only way to fully exploit the opportunities of the division of labour. This reasoning forecloses two aspects of the recent debate on resources and competences: firstly and on a more operational level, the effectiveness and efficiency of inter-personal coordination according to the firm’s objectives that causes interconnectedness and social complexity (Dierickx & Cool, 1989); secondly on a more strategic level the alert and entrepreneurial behaviour navigating the firm through the tough competition – probably with the opportunity to shape the external environment rather than to adapt to it.
The points live up in later publications paving the way to RBV. Selznick (1957) pointed to entrepreneurship in the context of capabilities and Penrose (1959, p. 25) raised the coordination issue once again: “A firm is more than an administrative unit; it is also a collection of productive resources the disposal of which between different uses and over time is determined by administrative decision.” In her seminal work, Penrose stressed that the availability of resources is not enough to be successful. Resources need to be accompanied by the ability to make productive use of them – a standpoint that is already very close to the competence movement in the 1990’s. After the growth debate, the considerations of Selznick and Penrose did not receive much attention for a longer time. However, in the 1970’s organizational capabilities came into play again (Andrews, 1971; Rumelt, 1974; Hofer & Schendel, 1978): “(...) the key building blocks of strategy (...) may be the organization’s distinctive competences (...) and its ability to use these competences to create major competitive advantages (...)” (Hofer & Schendel, 1978, p. 66). It is obvious that these contributions, at least, prepared the ground for a fertile development of both resource-based and competence-based research and the final breakthrough in management theory in the 1980’s and 1990’s (see in this regard e.g. Lippman & Rumelt, 1982; Rumelt, 1984; Wernerfelt, 1984; Barney, 1986; Prahalad & Hamel, 1990; Grant, 1991; Peteraf, 1993; Teece, Pisano, Shuen, 1997).

In a nutshell, RBV’s ‘seed phase’ consists at least of two sub-phases: a ‘pre-seed’ step in the 19th and 20th century and the seeding in the 1950’s with a considerable impact on all steps following up. Moreover, the current state of RBV is considerably influenced by ideas belonging to the tradition of the economic classic. This goes along with significant implications:

- Disequilibria play a much more vital role.
- The business environment is not treated as given. Voluntarism pervades the relationship between the firm and the environment, although principally the firm’s embeddedness may not be ignored (moderate voluntarism).
- Thus, entrepreneurship matters. Entrepreneurial thinking and action is an important driving force of bringing firms into favourable positions – including the exploration and exploitation of crucial resources and competences.
- Transformation (of inputs to produce a competitive output) and transaction are equally important when explaining performance. In this context firms have to make an alert use of both intra- and inter-organizational division of labour.

Although economic classic is in no way a homogeneous body, we can identify some important commonalities that are different from neoclassical theory. Both streams of economic theory play a role in the development of RBV. However, by scrutinizing the impact of these two theoretical streams on the development of RBV after its ‘constitution’ in the 1980’s as outlined above, we can refer to Schulze (1994) who identified two schools of thought: the structural and the process school. We propose

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that the schools differ considerably regarding the basic reasoning and the grounding in economic theory. Moreover, we argue that the actually more relevant track of the process school provides us with the opportunity to understand the firm's role in competition more comprehensively. Based on important cornerstones of the economic classic this track allows for addressing the impact of firms on external organizations and, thus, to address power relations similarly to the reasoning of Pfeffer and Salancik (1978).

What precisely do the above-mentioned schools of thought look like? Schulze (1994) argues that the structural school focuses on the problems of identifying resources that can generate rents, whereas the process school touches on creating resources to bring firms in favourable positions. In more detail, the structural school, building on the work of e.g. Barney (1986, 1991), Dierickx and Cool (1989), Wernerfelt (1984), is consistent with neoclassical theory, as Schulze (1994) points out. Following this way of thinking, the sources of change are assumed to be exogenous and managers are well advised to look for valuable resources that do not lose their value in situations close to equilibrium and help to realize land or Ricardian rents. The well-known ‘VRIO’ (value, rareness, imperfect imitability, organizational specificity) criteria (Barney, 1991) apply to those resources. In such cases, managers cannot actively create these resources since they are bound to market conditions. It turns out that this school of thought is predominantly deterministic, focuses on the exploitation of valuable resources, and is less entrepreneurial. However, one entrepreneurial task that should not be ignored is the (manager’s superior ability of) recognition of valuable resources based on accumulated knowledge and experience. Mirroring this school of thought against the Burrell and Morgan (1979) taxonomy of organization (and management) theories, the functionalist orientation transpires: The functionalist paradigm according to Burrell and Morgan (1979) rests on objectivism and the “sociology of regulation” (not the sociology of radical change). The main objective is to optimize the utilization of resources in a ‘given’ environment. Order and stable structures surround this viewpoint.

The process school (e.g. Prahalad & Hamel, 1990; Grant, 1991; Teece et al., 1997; Eisenhardt & Martin, 2000) is different in many regards: Most important, this view is not deterministic. Although firm’s embeddedness in markets cannot be ignored, the firm itself is equipped with power to change situations in favourable ways. Insofar we can assign this viewpoint to moderate voluntarism. Accordingly, entrepreneurial action is possible in many ways and, as practiced, has an impact on competition. Since many entrepreneurial firms make different moves in competition, competition itself is less predictable and market dynamism becomes a pervasive feature of economic life. Although history matters we cannot definitely say how far valuable resources of the past will be relevant in present and future markets as well. Inversely, core competences can turn to core rigidities (Leonard-Barton, 1992) – in particular in case of high commitments, specific resources and low levels of flexibility. Core task is, thus, the development of resources and capabilities that re-

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spond to present and future market challenges. A proactive resource building provides the firm with the opportunity to generate options and to increase strategic flexibility. Schulze (1994) refers to three big managerial issues: (1) learning new ways to manage the available resources, (2) developing the resource endowment and, in particular, new resources and capabilities, and (3) achieve a (dynamic) match between the external conditions and the resource endowment. This goes along with the need to invest just in those assets that are, at present, not valuable in terms of Barney's (1991) ‘VRIO’ framework. It is rather obvious that entrepreneurial thinking plays a vital role in this school. It turns out that this school of thought has not much to do with neoclassical thinking. The impact of the economic classic on this school, however, is highly visible. Insofar we should, apart from Schulze (1994), avoid using the rent metaphor in this reasoning since the entire rent debate stems from neoclassical roots. When analyzing the positioning of the process school in the Burrell and Morgan (1979) taxonomy, certain differences to the structural school are evident: The focus is more on dynamics and, in particular, on a subjectivist point of view that stresses voluntarism instead of determinism. In sum, the process school belongs to the ‘interpretive paradigm’ which implies a different theoretical background and typically the use of other methods (more qualitative than quantitative methods). Table 1 provides an overview of the most striking differences of the process school compared to the structural school.

Table 1: Structural versus process school of RBV

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Structural School</th>
<th>Process School</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reasoning &amp; methodology</td>
<td>closeness to neoclassical theory</td>
<td>closeness to parts of the economic classic</td>
</tr>
<tr>
<td>Market process versus market equilibrium</td>
<td>equilibrium orientation</td>
<td>disequilibrium orientation (market process)</td>
</tr>
<tr>
<td>Relationship between the firm and the environment</td>
<td>rather deterministic</td>
<td>rather voluntaristic</td>
</tr>
<tr>
<td>Research paradigm</td>
<td>functionalist paradigm</td>
<td>interpretive paradigm</td>
</tr>
<tr>
<td>Focus</td>
<td>identification &amp; exploitation of resources</td>
<td>creation &amp; exploitation of resources</td>
</tr>
<tr>
<td>Role of entrepreneurial action</td>
<td>moderate</td>
<td>decisive</td>
</tr>
<tr>
<td>Managerial issues</td>
<td>striving for resources with ‘VRIO’ attributes</td>
<td>striving for flexible and valuable resources</td>
</tr>
</tbody>
</table>

While we have already introduced the prehistory of RBV with the pre-seed and the seed phase, the differentiation according to Schulze (1994) is – although rather sketchy in character – useful to understand the further development. The structural school dominated RBV’s early years whereas the process school became more powerful in recent times. Thus, the structural school can be regarded as third step in RBV’s development while the process school is step four. Both schools are impor-
tant for an entire understanding of the RBV although they are rather different in character. This conclusion already leads us to another question: What is state of the art of resource-based research and what are the most pressing problems and challenges?

**Blind Spots and Terra Incognita of the Resource-based View**

In the last years, many scholars critically examined RBV’s state of the art (e.g. Foss, 1993, 1997; Priem & Butler, 2001). In this section, we intend to briefly summarize the most important points and to add some open questions to the discussion that pave the way to the core issue of this paper. When responding to the current problems of RBV research, we firstly need to address the issue of RBV’s fragmentation. RBV seems to represent a very ‘broad church’. Scholars formulated many different views in the past, such as: resource-based view, resource advantage theory (Hunt, 2000), dynamic capability view (Teece et al., 1997), competence-based view (Sanchez, Heene, & Thomas, 1996), and knowledge-based view. This implies the integration of approaches from different realms that are not commensurable in every regard and hamper sound research from the viewpoint of the philosophy of science (Knudsen, 1996; Freiling, Gersch, & Goeke, 2008). The different theoretical grounding of the schools of thought as outlined in section 2 is only one proof in this regard. Schulze (1994) asks in this respect reasonably whether it is possible at all to develop a ‘grand’ resource-based theory.

Different from that, the whole resource-based research suffers from an insufficient grounding in the philosophy of science. The set of antecedents is neither uniform, nor clear or undisputed (Foss & Knudsen, 2003). Moreover, the causal structures often appear to be vague, incomplete, or tautological in character (Priem & Butler, 2001). As for the causal chains, many scholars still believe in the competitive power of intangible assets although this category is very heterogeneous and does not really tell us much about the reasons for a general significance. Moreover, it is still unclear what drives processes of resource and competence development. In particular, the role of entrepreneurial action that is relevant to a complete understanding of RBV as mentioned above is still open.

Basically, RBV allows for the consideration of evolutionary aspects in management. Teece, Rumelt, Dosi, and Winter (1994) clearly pointed out that history matters and many other scholars touched on the fact that firms follow idiosyncratic paths of organizational development (e.g. Dosi, 1982). RBV considers the time dimension explicitly. However, there are many more aspects in this context to be taken into account. In particular, the lag structures of organizational development are not sufficiently researched so far. Internally it takes time to develop competences. Externally it is quite uncertain how fast a competence will unfold its competitive impact (and increase the firm’s power). To build and to utilize resources and competences is a time-consuming process with an uncertain end. It seems that we need more (so-
phisticated) methodological backup to respond to this challenge of modelling. This may help us to overcome another problem of RBV: the limited prognosis validity. RBV is powerful as long as performance of the past is subject to explanation. In case of predictions the situation turns. Although firms might have a grasp of the potential of their resources or competences, it is hard to say how they might perform. This leads us to a serious blind spot of resource-based research: RBV typically focuses on the resource endowment and, thus, on internal circumstances. Competition, competitors, and customers do not play – besides some exceptions (e.g. the open system view according to Sanchez & Heene, 1996) – an important explicit role (Foss, 1997). It would be desirable to take into account at least competitor’s moves more thoroughly to overcome this myopia. This implies to adopt a co-evolutionary view that scrutinizes the trajectories of the firm and the rivals as well. Once again, sound methodological support comes to an issue.

We argue that such co-evolutionary considerations could bring RBV into a favourable position, since an aggregated view of the evolution of competition vis-à-vis the firm’s development opens the door to an industry analysis. By now, RBV made its way as an alternate program to the IO-rooted ‘market-based view’. However, RBV only provides us with an interesting theory of competitive advantage but, at least by now, not with a ‘New IO’. Little has been done so far to proceed in this direction (Conner, 1991; Warren, 2008) although RBV basically seems to be in a position to address industry structures and dynamics.

As far as it is possible to analyze and understand competitive interaction and dynamics we can identify those firms driving the industry development and at the same time recognize the firms which are driven. To some extent this discussion rests on the kind and extent of entrepreneurial behaviour of firms in markets. These issues, however, directly tie in with a debate on power constellations in markets and industries – an issue that is explicitly addressed by the resource dependence approach (Pfeffer & Salancik, 1978) as well. Although actually not playing a significant role in resource-based research, power issues do not need to be a blind spot of RBV since resources and competences are important drivers of dependences and power asymmetries in competition. Hence, the follow-up considerations dwell on this aspect in more detail in order to overcome this open problem and to connect RBV with basic RDA considerations.

**The Resource-based View on the Path to the Environment**

In RBV the relation between the firm and the environment differs from the market-based view considerably. Whereas the market-based view assumes determinism and, consequently, claims an adaptation of the firm to the environment that is treated as given, RBV prefers a more balanced view as to the firm/environment relationship. Prahalad and Hamel (1990) pointed out that firms are able to shape the markets of the future and developed a model of three different phases of competition with two
phases before the first market transactions start (Hamel & Prahalad, 1994). They stress the necessity to behave entrepreneurially by anticipating up-and-coming needs in the future and by pro-actively configuring a responding strategic architecture as a frame for the value-added system to be built in collaboration with suitable strategic network partners. The proactive building of competences based on alert first moves in the market allows for structuring future markets as more or less unstructured arenas and to set standards in competition.

This basic reasoning tackles the attainment of power of firms in competition. However, the question arises what kind of power we talk about. Pfeffer and Salancik (1978) highlight in particular ‘hard’ sources of power based on the availability and control of critical resources which we need to take into account below. However, sociological theory tells us more about the different sources of power. Referring to the seminal work of French and Raven (1959; Raven 1965), the most important — and more or less ‘soft’ — sources are (1) reward and coercive power which are two sides of the same coin, (2) legitimate power, (3) referent power, (4) expert power, and (5) informational power. Are these bases of social power relevant to RBV considerations, too?

It goes beyond the purpose of this paper to treat this question at length. However, just a brief discussion reveals the RBV’s implicit closeness to power issues: Starting with the basic understanding of competences, we can summarize that they denote a repeatable, knowledge-based, and rule-based ability to sustain coordinated deployments of assets and resources in ways that should help a firm to achieve its goals (Sanchez et al., 1996). The fact that competences rest on (often tacit) knowledge of different people who share this knowledge for the purpose of task fulfilment indicates that asset mass effects (Dierickx & Cool, 1989) are possible. Alert first movers who develop a sound strategic architecture according to Hamel and Prahalad (1994) have the chance to trigger a process of creative destruction in the sense of Schumpeter (1934). Firms that are in a position to structure new markets and to set standards can undoubtedly accumulate power. This power is in particular informational power because it rests on superior knowledge and wisdom. Moreover, the competent treatment of value-added challenges requires expert power that emerges over time and is subject to self-reinforcing processes.

Are these two bases of power the only ones that are addressable from a resource-based point of view? Referring to Schumpeter (1934) once again, the answer is no: The power of the innovative entrepreneur is only to some extent reducible to his superior judgment regarding the identification of promising innovation projects among the numerous inventions available to him. Having selected the innovative endeavours, the entrepreneur has to overcome the various modes of intra- and inter-organizational resistance. This typically requires other sources of power according to French and Raven (1959) and Pfeffer and Salancik (1978) as well: Taking a closer look at the environment, the innovative firm has to attract alliance and network
partners as well as customers. We know from von Hippel’s (1986) debate on lead users how attractive it can be for both the firm and the customer to collaborate on an innovative solution for the market. Lead users feel particularly attracted since they face pressing problems that can be solved by R&D partnering. From their point of view, the participation in such an innovation process is vital to increase the competitiveness. Once the firm signals the possibility of overcoming the lead user’s problems, the respective reward power turns out. This power rests not only on complementary value-added resources and competences but at the same time often on the firm’s reputation so that the customer can stand to benefit from a co-operation with a named supplier. The last consideration is already close to referent power. If e.g. lead users or other customers in business-to-business markets feel committed to a supplier due to its high reputation – which is often observable in case of competent firms –, then this kind of power works. As a result, resources and competences bring firms in powerful positions and help to address many of the typical bases of power. Economic as well as sociological reasons play a role. Besides the economic power of resources and competences as to the value-added process, the social relations of the firm to the environment (Granovetter, 1985) seem to produce social capital that, among other factors, rests on reputation and trust.

Having addressed power issues in RBV is only a first step. But what is the particular input of RBV to the debate on power and dependency, in particular regarding the firm’s control of external organization? To develop a resource-based view on power and dependency one should take into account the RDA perspective for comparison reasons.

The RDA (Pfeffer & Salancik, 1978; van Gils, 1984) assumes firms in a position of scarce assets. Bottlenecks can be blown over by exchange with third parties. However, this state implies the firm’s dependence on the environment. The more the firm tries to access external assets, the more dependent the firm will be. The dependence rests on (1) the importance of the assets involved, (2) the discretion over asset allocation and use, and (3) the concentration of asset control (Pfeffer & Salancik, 1978). According to that, firms are well advised to develop means that avoid too extreme kinds of dependence and help to offset the loss of autonomy. Although a perfect autonomy is completely out of reach from the RDA angle, a firm is able to achieve states of ‘countervailing power’ (Galbraith, 1967). Typical strategies in RDA terms are (a) the absorption of critical assets by means of integration and (b) the creation of a negotiated environment by cooperation (Pfeffer & Salancik, 1978). This sketchy overview of RDA reasoning already reveals that firms are by no means powerless in the face of dependence on external assets and external organizations. However, at this point the differences compared to RBV become obvious. But what does the RBV angle on the control of external organizations look like?

Regrettably, RBV failed to develop an unanimous understanding what a resource really is. Apart from Wernerfelt (1984), we cannot use the term resource without a
reference to the explanandum of RBV, i.e. to explain performance (-relevant) differences among firms by the unique availability of resources and competences. Thus, a resource is to be differentiated from the assets mentioned above when introducing RDA reasoning. Resources can be understood as those assets that have undergone a firm-specific upgrading process and should contribute to the firm’s actual and future competitiveness (Freiling, 2004). This terminological issue is not unimportant since the firm’s survival finally depends on resources and competences providing the firm with a unique endowment that should contribute to competitiveness. Thus, in case of external access to assets the firm is still in charge to manage the upgrading and refinement process in order to achieve states of at least competitiveness and – even better – sustaining competitive advantage. What Cohen and Levinthal (1990) pointed out with regard to the integration of knowledge is relevant to accessing other kinds of assets as well: Cohen and Levinthal introduced the construct of ‘absorptive capacity’ that is made up of three components: (1) recognizing (the value of) external knowledge, (2) assimilating it, and (3) applying it to commercial ends. Whereas the first two steps are integral part of RDA reasoning, step three is worth mentioning explicitly. The application of the integrated assets is a procedure that turns assets of the more or less homogeneous kind into those that are firm-specific and synergetic. In other words, the last step is vital to understand why some firms are able to generate superior value in competition.

Besides that, RBV stresses internal processes of asset upgrading and refinement much more than RDA does. This is not surprising in the face of the different ambitions of the theories. However, internal resource accumulation and competence building is a process that can reduce dependence on external organizations considerably and at the same time cause a state of dependence of external organizations on the firm. This is particularly the case if core competences are available, as e.g. Hamel and Prahalad (1994) pointed out by referring to the miniaturization competence of Sony. RBV argues that these effects are possible thanks to certain isolating mechanisms (Rumelt, 1984) that work. In this context, the asset interconnectedness and the social complexity in connection with the accumulation of tacit knowledge (Dierickx & Cool, 1989) are the reason for the achievements.

Regarding the internal upgrading and refinement processes as a direct basis for the accumulation of power it makes sense to differentiate among three kinds of assets. Moldaschl and Fischer (2004) point out, that assets differ significantly depending on the logic of use. Firstly, finite assets such as machines, materials or equipment are scarce and exhaustive so that managers are well advised to use them as parsimonious as possible. Secondly, regenerative assets are not necessarily subject to depreciation as long as they are used according to the principles of sustainable management. Not only renewable primary products belong to this category but for instance the work of employees, too. Finally, the generative assets differ considerably from the two above-mentioned categories since in case of usage their value increases. The other way around, if these assets are not regularly in use it is possible that they will lose...
parts of their value. Notably, knowledge, experience, intuition, trust, brands, and competences belong to the generative assets. As for issues of organizational dependence these generative assets are meaningful. A firm that invests in generative assets is able to generate resources and competences of strategic importance. This reduces dependence on third-parties and at the same time increases the expert, informational, reward, and referent power of the firm. Although the creation and upgrading of these assets is typically not independent from the environment (e.g. reputation is an asset that depends on the other party’s perception and interpretation), the internal development and not the external acquisition is the most decisive step to achieve competitiveness.

Compared to RDA, RBV enables us to understand resource dependence issues in a different way as for other cornerstones of the debate. In this regard RBV reminds us that both the acquisition of external assets and the development of resources and competences internally should not only be evaluated from the firm’s point of view. Sometimes the quality or speed of asset management is simply not sufficient to withstand competitive pressures. Insofar all the steps of managing assets, resources, and competences are to be compared to the development of rivals. In this context, it is not only the competitive element that distinguishes RBV from RDA but also the path dependent analysis. The decisions of the past create a certain resource endowment and come along with organizational commitment (Ghemawat, 1991). This status quo determines to a large extent what the firm is able to do in the future and pave the way for asset mass efficiencies (Dierickx & Cool, 1989). These synergetic effects may improve the power position of the firm. A crucial next step in resource-based research is the analysis of the co-evolution of firms in an industry in order to compare the resource and competence building in particular concerning pace, specificity, and flexibility. Such co-evolutionary analyses are useful since sometimes the resource development of rivals in competition is convergent because knowledge diffusion equals the positions of the different firms whereas in other cases the situation is diverging: one firm becomes so strong in terms of the resource endowment thanks to self-reinforcing effects that no other competitor is able to follow. The competition for standards in many high-tech industries is one example among others. In section 5 we will refer to the usefulness of a co-evolutionary view again when we introduce methodological considerations.

To some extent, RBV gets closer to RDA thinking over time. In particular Dyer and Singh (1998) developed a ‘relational view’. They argue that alliances and networks are critical but less understood units of analysis – in particular in case of comprehending competitive advantages. Due to the fact that dynamic markets require both specialization and flexibility single firms are often overtaxed when it comes to building and sustaining competitive advantage in those settings. Networks, however, offer a background that is often fertile enough to pool and refine resources and competences of different partners – regardless the threat of opportunistic behaviour, e.g. in case of learning races (Hamel, 1991). This shows a mutu-
al dependence of firms in networks as the ‘meso level’ in industries. Obviously, the RBV logic in particular of the structural school – with strong emphasis on the firm as the unit of analysis and the anchor point of competitive advantage – is too myopic in turbulent environments where the trade-off between high (asset) specificity and high flexibility can only be managed by strategic collaboration. The process school, instead, is much more open for these ideas. This brings thinking in terms of a ‘negotiated environment’ to RBV, so that finally absorption (acquisition), cooperation, and internal development are RBV’s answers to the question of providing critical resources to survive in competition. This answer is similar to RDA but goes beyond.

Each of the three above mentioned options more or less comes along with cooperation. Nevertheless, this dependence on third-parties is in almost every case a matter of reciprocity so that the considerable power of the individual firm transpires. This reciprocity implies that the partners involved have something meaningful to give and to take. Because of this, resource ties develop and keep the network together for some time.

The maybe most delicate question in this context is the kind of mutual dependence and reciprocity since the state itself is by no means new or surprising. As for the kind of mutual dependence it is crucial (a) to differentiate among symmetric and asymmetric states and (b) to take into account the development of dependence relationships in a path related context. What does RBV offer in this respect?

- Firstly, RBV reminds us to identify strategic resources available to the network in the face of the intended or realized competitive advantage. Once aware of these critical resources that are typically based on specification, upgrading and refinement processes, ownership issues matter. The more the property rights – as a crucial isolating mechanism according to Rumelt (1984) – of the respective resources are united in the hands of a single firm, the more powerful this firm will be and the more this situation creates asymmetrical dependence. Once again it turns out how far expert and informational power matter. Expert power in particular stems from tacit knowledge and the mastering of complex and dynamic routines (Pentland & Rueter, 1994), whereas informational power rests on the availability of superior explicit knowledge on the market, the business environment, and the internal conditions of the firm (e.g. transactive knowledge – cf. Austin, 2003).

- Secondly, the discussion on the isolating mechanisms of RBV provides us with the construct of the interconnectedness of assets (Dierickx & Cool, 1989). Once developed for the context of intra-firm asset bundling, interconnectedness plays a vital role as for the dependence issue in networks, too. It is not enough to make resources and competences available to a network – they have to be connected with other resources and competences of the partners as well so that synergies can evolve due to embeddedness reasons. Thus, to integrate assets, resources, and
competences according to the strategic goals of a network becomes a second delicate challenge and a chance for firms in the network to improve their power position because not every firm is competent enough to manage this integration process in structural and personal regards. Thus, the power constellation depends on this issue as well.

The competitiveness of the entire network not only rests on resources and competences inside the network. Moreover, external assets are necessary as well. This issue traces us back to, thirdly, the discussion on the absorptive capacity (Cohen & Levinthal, 1990). Those network partners can improve their power position and reduce unfortunate states of dependence by recognizing, assimilating, and exploiting external knowledge to commercial ends from the network’s perspective. The same holds true as for other kinds of external assets available to the network. Firms with a superior absorptive capacity have the chance to improve their power position within the network and, thus, to reduce the problem of asymmetrical dependence. This absorptive capacity is by no means to be treated as given but typically grows over time due to learning processes.

To conclude, RBV provides us with constructs to scrutinize dependence on external organizations and with means to manage related challenges. Most importantly, RBV sheds light on the opportunities to control external organizations within and without the own strategic network based on the power available by the resource and competence endowment. Moreover, and by now not sufficiently elaborated, the process school of RBV stresses the need for entrepreneurial thinking and acting to structure the environment according to firm-specific goals. This comes along with crucial implications: If we conceptualize entrepreneurship according to Freiling (2008), then entrepreneurial action comprises the permanent renewal of the firm as a system, the exploitation of the given ‘infrastructure’ and the protection of the firm from negative consequences of uncertainty. Performing the innovation function allows for system renewal whereas system exploitation rests on the coordination function internally (e.g. managing the division and the unification of labour according to List, 1909) and the arbitrage function externally. Finally, by executing the risk management function the firm is able to respond to exogenous and behavioural risks. As a matter of fact, the simple execution of one function is not enough to unfold the available potential. Therefore, an alignment of the four functions is necessary in order to improve firm’s position in the industry, to reduce unfavourable dependences and to increase the available power. The entrepreneurship element in RBV shows again the necessity of managing the firm’s interface to the environment.

The considerations reveal that we need frameworks in order to structure the complexity of the relationship between the firm and the environment (structural aspect) and to understand the dynamics of dependence and power constellations in industries. Two selected frameworks are introduced in the next section that addresses methodological implications of the debate.
RBV’s Methodological Back-up

In order to understand the firm’s embeddedness in the environment and to specify the kind of relationships to third-parties, we make use of a framework developed by Sanchez and Heene (1996). The respective model comprises an open system view on the firm. Figure 1 illustrates the firm’s principal openness by highlighting four striking interfaces.

**Figure 1: The firm as an open system (Sanchez & Heene, 1996, p. 41)**

The first interface directly affects the strength of the value-added system of the firm in the grey dotted area of Figure 1: Almost every value-added system faces bottlenecks. In many cases, they cannot be overcome fast and easy without external support. Accordingly, the firm has to access firm-addressable assets for the purpose of strengthening the value-added system. As competitors might plan to acquire the same assets, entrepreneurial action is required in order to recognize them earlier than others and to integrate them for application to commercial ends. The second interface refers to the firm’s boundary to the market. Having used the value-added system – be it alone or be it already in collaboration with customers (cf. the lead user debate as mentioned above) – the firm has to prove itself in transactions with customers. The demand itself is, thus, an important (external) asset the suppliers strive for. The interaction with the customers continues when we regard the feed-
back loop in Figure 1 (third interface): Customer (dis-)satisfaction, remarks on the solutions received, or simply advices as information run back to the firm and represent important input to modify the entire system for the purpose of maintaining or increasing competitiveness. Finally, the fourth interface reveals the dependence of the firm on external advice. Although performing the entrepreneurial functions, the entrepreneurial mindsets often need refreshment, encouragement, or simply new ideas how to do the business. As a consequence, this external input can have substantial impact on the strategic logic and the management processes.

The open system view structures the interfaces to the environment and at the same time stresses the need for entrepreneurial action to provide resource and competence building with an appropriate sense of direction. So doing, firms get into positions making the best of their embeddedness in the environment and the respective dependences.

However, the open system view focuses on the firm as the unit of analysis. In the next step, we introduce a methodology that goes beyond these more structural considerations in order to address network, market, or industry dynamics by analyzing the process dimension. In this sense, system dynamic modelling appears to be useful to understand both the micro- and macro-level of an industry. Forrester (1961) and – much later – Sterman (1989) belong to the protagonists of system dynamics. In an RBV context, e.g. Sanchez and Heene (1996) and Warren (2008) applied system dynamic thinking. We draw upon system dynamic modelling and try to make use only of this technique in RBV. What are the reasons for doing so?

- System dynamic modelling allows for an analysis of complex, non-linear systems and its elements.

- Based on an understanding of the drivers of a system like an industry (or a network) we are able to simulate a potential run of events. This makes it easier to recognize future scenarios and, therefore, to overcome the limited prognosis validity of RBV.

- At the same time, system dynamic modelling rests upon closed (and non-tautological) cause and effect loops and allows for a consideration of recursive relationships of constructs under scrutiny. This is useful in cases where reality reveals that there are no clear structures consisting of independent and dependent variables – a not very unlikely case.

- It is a core ambition of system dynamic modelling to take the time dimension into account. Often it takes a long time until a certain development comes to perceivable outcomes. Such lags are explicitly considered in any relationship of the model.

- System dynamic modelling seeks to take into account the most important productive and destructive forces of a certain development. Accordingly, the mod-
elling consists of reinforcing and balancing loops. The interplay of the different loops explains the direction of the run of events.

Finally, this methodology is useful to take the firm’s and the rival’s action into account, so that a path related co-evolutionary analysis is possible.

Figure 2 contains an overview of a – only for illustration reasons – very simplified model in the context of this paper. It is obvious that by the application of modern software much more complex structures with the respective equation systems can be considered.

**Figure 2: A system dynamic model of resource-based competition and power**

In the middle of the model we find the firm and its rivals in resource-based competition. All the firms in an industry are involved in resource and competence building. Reinforcing loop R1 indicates that entrepreneurship as conceptualized above activates the productive forces of the firm so that with a certain time lag an upgrading process increases the value of the resource endowment. As a consequence, the power and the performance over time increase. The same holds true for the rivals (reinforcing loop R2). Regarding only these two loops one could assume a permanently increasing intensity of competition and a continuous nurturing of the resource endowment of all parties. This, however, would be far away from reality. As Figure 2 shows, there are not only reinforcing loops but at the same time balancing loops. Just for the purpose of illustration, balancing loop B1 could be looking like
that: The more the resource endowment of the firm becomes powerful, the more other suppliers will start benchmarking activities in order to find out the roots of success. Thus, a knowledge diffusion process will be started or reinforced, respectively. As a consequence, the firm’s isolating mechanisms will lose their power so that imitation and substitution of valuable resources by the rivals will be easier day by day – with a final impact on the resource endowment. Again, time lags occur. Balancing loop B2 applies inversely to the rivals’ processes.

System dynamic modelling in an RBV context therefore allows for scrutinizing power related processes at both the firm and the industry level. Just this very simplified model reveals that power in competition as well as the intensity of competition can be addressed. Interestingly, this model shows that firms need to take care of the speed and intensity of their entrepreneurial action and their activities in the realm of resource and competence building: More of it is not simultaneously better. If e.g. a firm starts an innovative endeavour of competence building, after some time the rivals will be seriously affected and maybe merge their productive forces in order to be ready for a counter-attack. Firms have to consider this and recognize that it can be better to ‘let sleeping dogs lie’.

Implications and Outlook

Priem and Butler (2001) asked whether RBV is a useful perspective for strategic management research. Barney (2001) responded by saying ‘yes’. Although RBV does not represent a homogeneous body (Acedo et al., 2007) and many of the objections raised are justified, we can conclude that, in sum, the perspective has still enormous potential to develop. Why?

Firstly, it is possible to consolidate and improve the theoretical grounding of RBV. This requires going some steps back to the RBV basics in philosophy of science because otherwise the descriptive and analytical problem cannot be fixed. In this context, the basic question arises whether to refer to economic classic or neoclassical theory and to think more in terms of disequilibria or in equilibria (cf. Foss & Ishikawa, 2007). From the perspective of the topic of this paper applying process school’s thinking appears to be more useful. However, whether applying structural or process school do not make a difference regarding the basic work in RBV to be done. Facing the numerous problems of RBV as a theory, Sydow (1992) introduces in a more general context four options: (1) fast forgetting, (2) improving, (3) combining or (4) re-conceptualizing. Option (1) is no alternative regarding the enormous explanatory power of RBV. Option (2) is only adequate in case of minor improvements. RBV’s problems, however, are more complicated. Option (3) is no primary alternative since the actual problems were not really fixed. Insofar a re-conceptualization (option 4) deems adequate and can be combined with option 3 later on when the problems are dissolved. First attempts have already been made in this regard (Teece et al., 1997; Helfat et al., 2007; Foss & Ishikawa, 2007; Freiling et al.,
2008). After a re-conceptualization it is possible to locate the theory in the realm of organization and management theories in order to find out the paradigm, RBV belongs to. So doing, we can identify theories that can be combined with RBV without problems of incommensurability because the entire theoretical basics are compatible. With regard to the topic of this paper it appears to be useful to connect RBV with entrepreneurship theory to build the missing link from resource availability to resources in use. The execution of entrepreneurial functions contributes to activating resources and competences, to overcome rigidities, and to enable upgrading processes. Most recently, some papers deal exactly with this issue (e.g. Alvarez & Busenitz, 2001; Foss & Ishikawa, 2007). In this connection, the economic classic comes into play again.

Secondly, RBV represents a theoretical framework that has the potential to go beyond a theory of competitive advantage. RBV is already on the way to become a theory of the firm since explanations of the nature of the firm are different from other theories (e.g. Conner, 1991). However, and this is one outcome of this paper, RBV provides an opportunity to understand economic activities simultaneously on the micro, meso, and macro level and can make, therefore, first steps in the way to become a ‘New IO’. Admittedly, there are many more steps to be taken but at least at this point we should not neglect or underestimate this interesting opportunity. In this regard, system dynamic modelling equips us with methodological means to better understand the complexity of even turbulent industries. Finally, in connection with entrepreneurial thinking based on the theory of entrepreneurial functions and by applying consequently the own causal structures, RBV is in a position to address phenomena of power and dependence in a similar way compared to RDA (Knyphausen-Aufseß, 1997) but with some important peculiarities. Among them, we find path related developments, co-evolution, and reciprocity.

References


Werner Nienhüser*

Resource Dependence Theory – How Well Does It Explain Behavior of Organizations?**

This article evaluates to what extent Resource Dependence Theory (RDT) is able to explain organizational processes and structures. The evaluation criteria are the empirical corroboration of the theory, its information content and generality, but also how realistic the assumptions of the RDT are. The evaluation shows that the theory is empirically well confirmed. On the whole, Resource Dependence Theory significantly contributes to explaining behavior, structure, stability, and change of organizations.

Key words: Resource Dependence Theory, power, behavior of organizations

Introduction

This article deals with the question to what extent Resource Dependence Theory (RDT) is able to explain behavior of organizations. Behavior is understood here in a wide sense, it includes actions and decision making as well as “non-decision-making” (Bachrach & Baratz, 1977) and results of decision making and actions, like organizational structures. Differences in the behavior of organizations can be traced back to differences in management decisions which are influenced by external and internal agents controlling critical resources. Those who control critical resources have power, and power influences behavior. RDT also claims to be able to explain how different organizational structures emerge, for example why and how the multidivisional form was created, but also why and under which conditions mergers of firms take place. A theory should cover as many aspects of organizational behavior as possible, and not be limited to specific resources or selected strategies or structures. RDT is such a general approach, claiming considerable explanatory power.

I will proceed in the following way: First of all, I will describe the basic assumptions of the theory. Then I will outline main empirical results and discuss central objections to the theory. Finally, I will make a final appraisal about the explanatory power of the theory. The empirical corroboration (cf. for this and other criteria

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Bacharach, 1989) is in the forefront of this article. Alongside the empirical validity, I will take into account the following evaluation criteria: first, the information content because if a theory does not exclude any event it does not make sense to carry out an empirical test. A second important issue is how many facts can be explained by the theory, i.e. whether the theory can account for few or very many dimensions of the behavior of organizations. Finally, it is important, how close the propositions are to reality. With this I mean whether RDT is based on a realistic picture of actors and the organization (the assumption of strong rationality, e.g., is a less realistic one).

**Background and Basic Ideas of Resource Dependence Theory**

**Background**

The concept of the “Resource Dependence Perspective” (1978) gained public awareness through the book by Jeffrey Pfeffer and Gerald Salancik “The External Control of Organizations. A Resource Dependence Perspective” and became widely accepted in the Anglo-American discussion. The fact that Pfeffer and Salancik’s book (1978) was republished unrevised (with a new introduction) in 2003 is not the only factor that speaks for its importance. According to citation analyses by Üsdiken and Pasadeos (1995) and Gmür (2002) the publication by Pfeffer and Salancik (1978/2003) belongs to the most frequently quoted works. In the important volume edited by Scott (1994) called “Organizational Sociology”, RDT is one out of a total of seven theoretical approaches discussed. It also has a place within a much-heeded review by Wright and McMahan (1999) on theoretical perspectives of HR strategies. In addition to this, there are many empirical works which means that one can estimate the relative strength of its explanatory power.

A fundamental assumption of Resource Dependence Theory (RDT) is that dependence on “critical” and important resources influences the actions of organizations and that organizational decisions and actions can be explained depending on the particular dependency situation. The following sketch of the RDT relies essentially on the book of Pfeffer and Salancik as both authors have tried to systemize and integrate all their theoretical ideas and empirical results published in various articles into one comprehensive theoretical approach.

**Basic Ideas**

One can use a diagram by Pfeffer and Salancik which I have adapted slightly in order to more closely depict RDT. It provides a kind of framework, but does not imply any causal propositions. Pfeffer and Salancik do not formulate a system of logically interconnected propositions but present their theory as being an “essay theory”. I will first of all explain the framework of reference and then outline some of the central propositions more closely.
I have extended Pfeffer and Salancik’s diagram (2003) by arrow 2a, the variable “Distribution and control of power outside the organization”, and by relationship number 5. In my opinion, the modified diagram describes the complete picture in the argumentation of RDT better.

(1) Environment as a source of uncertainty and constraint

The central thesis of the theory is as follows: “The central thesis of this book is that to understand the behavior of an organization you must understand the context of that behavior - that is, the ecology of the organization” (Pfeffer & Salancik, 2003, p. 1).

Pfeffer and Salancik (2003, p. 35) criticize the point that the importance of the environment was always emphasized but most theories concentrated on internal processes of resource use instead of considering processes about gaining resources (Pfeffer and Salancik, 2003, p. 3). RDT postulates that the environment provides “critical” resources needed by the organization. To be able to understand organizational behavior one must first of all clarify which resources are the critical ones. “Criticality measures the ability of the organization to continue functioning in the absence of...
the resource or in the absence of the market for the output” (Pfeffer and Salancik, 2003, p. 46). A particular resource may only constitute a very small part of total resource needs or costs, but it is critical if the missing of that resource endangers the ability of the organization to function. However, RDT does not argue that the environment and dependency on critical resources directly influence organizational behavior behind the backs of actors involved. Rather, it makes assumptions about actors and their relation to the environment: the theory assumes bounded rationality which takes into account “the limits in formulating and solving complex problems and in processing (receiving, storing, retrieving, transmitting) information” (Simon, 1957, p. 198). At the same time, one can assume that organizations strive to reduce or avoid uncertainty. “Uncertainty refers to the degree to which future states of the world cannot be anticipated and accurately predicted” (Pfeffer & Salancik, 2003, p. 67). The environment is the central source of uncertainty. The extent of uncertainty varies depending on the distribution of critical resources in the environment. Pfeffer and Salancik interpret uncertainty and those environmental dimensions causing it as being scarce resources and their low concentration as well as complexity in an action theory way: it is always about actors who control resources and about other actors who need these resources which result in varying relationships of dependency. If one organization exists with a vast reserve of resources, this reduces the dependency on and conflicts with other actors. Concentration of resources means above all concentration of power. The fewer the number of resources, the higher the concentration of power in the environment, and the more numerous the connections between actors (i.e. complexity), the sooner conflicts and interdependencies arise and the higher the amount of uncertainty is that needs to be reduced. Uncertainty on its own is not a problem. Only when there is uncertainty and dependence on critical resources the organization is forced to take measures to reduce uncertainty.¹

On the one hand the environment constrains actions in an objective way by the amount of available resources. On the other hand, the distribution of resources in the environments has to be subjectively perceived and interpreted by managers. “The concept of constraint explains why individuals account for relatively little variance in the performance and activities of organizational systems” (Pfeffer & Salancik, 2003, p. 15). The context has a stronger effect than preferences or the will of individuals: “The point is that behaviors are frequently constrained by situational contingencies and the individual’s effect is relatively small” (Pfeffer & Salancik, 2003, p. 16). Pfeffer and Salancik (2003, p. 10) refer to empirical studies (Lieberson & O’Connor, 1972; Salancik & Pfeffer, 1977) showing that variance in political behavior which can be explained by individual differences (by change of managers or majors) are marginal in comparison to variance which can be traced back to differences in the organizational environment. Nevertheless, Pfeffer and Salancik do

¹ It is noteworthy to point out that there are similarities here with transaction cost theory. Williamson (e.g. 1984; 1990) argues that problems arise in the case of high uncertainty and dependency on specific resources in the transaction cost theory, i.e. transaction costs.
not maintain that management is irrelevant to any extent, because decisions and actions are also influenced by subjective perceptions and interpretations of the environment. “Organizational environments are not given realities; they are created through a process of attention and interpretation. (...) Since there is no way of knowing about the environment except by interpreting ambiguous events, it is important to understand how organizations come to construct perceptions of reality” (Pfeffer & Salancik, 2003, p. 13). The social construction of perceptions of reality according to Pfeffer and Salancik (2003) is influenced by information systems available to an organization, which direct attention to certain information, work selectively and influence meaning. Pfeffer and Salancik (2003, p. 13) introduce an aspect that takes the primarily materialistic character of “determined by the environment” away from RDT and places it nearer to neoinstitutional theory (see also discussions by Salancik & Cooper Brindle, 1997). But contrary to neoinstitutional theories, Pfeffer and Salancik count more strongly on the “power mechanism” instead.

(2) Environment and distribution of power

One central hypothesis in RDT says that whoever controls resources has the power over those actors who need these resources. Pfeffer and Salancik (2003, p. 44) refer to exchange theory (Jacobs, 1974; Blau, 1964), and above all to the power dependency theory by Emerson (1962). The theory of Emerson only needs a few statements: (i) The greater the dependency of actor A upon actor B, the more power actor B has over A. “(ii) The dependence of an actor A upon actor B is, (1) directly proportional to A’s amount of motivational investments in goals mediated by B and (2) inversely proportional to the availability of those goals to A outside the A-B relation” (Emerson, 1962, p. 32).

It is assumed that actors want to reduce their dependence (i.e. increase their power) upon others. What can actor A do now to reduce his dependence? He can first of all try to reduce his need, his “motivational investment”, for resources that B controls. Secondly, A can acquire alternative sources of resources. The dependence of A can be further reduced if resources which he controls become more important for B and/or if alternative sources dry up for B.

Pfeffer and Salancik apply these basic propositions to the behavior of organizations: “... in general, organizations will tend to be influenced by those who control the resources they require” (Pfeffer & Salancik, 2003, p. 44). The authors expand on Emerson’s assumptions in two ways: first of all they take the idea of bounded rationality seriously and consider that external demands upon the organization are not always recognized and that demanding actors have to deal with the difficulty to judge whether or to which extent her demand has been met. Thus, the variable “perception” is of great importance for organizational behavior. Secondly, they em-
phasize that a relationship of exchange cannot be reduced to just involving two actors, but the relationship between several actors has to be considered.

Pfeffer and Salancik apply the idea of exchange not only to the relationship between the organization and external actors, but also use to the exchange relationships within the organization. Both departments and individuals exchange resources. Depending on resource control etc., they have more or less power and can influence decisions according to their interests.

(2a) External distribution of power and the management of dependency relationships

Those actors who control a large part of critical resources but do not themselves need any resources from the organization are relatively powerful and will make and want to realize high demands on the organization. The more an organization is dependent, the higher the amount of uncertainty and the more it will try to reduce uncertainties. This is the rationale for the importance of management. Management’s behavior is neither completely determined by the environment (as assumed in simple micro-economic models) nor is it (nearly) irrelevant as in ecological population theories, which reduce the role of management to just some cause for “blind” mutations. Management is not seen by Pfeffer and Salancik as an actor maximizing profit or realizing rational strategies. Management has a “scapegoat” function as well as a decision and legitimizing function (Pfeffer & Salancik, 2003, pp. 18f.) – besides the above-mentioned function of perceiving and interpreting the environment.

The scapegoat function of management can be justified by referring to attribution theories. People assume that managers have more influence on organizational decisions than they actually have. The cause of such attributions lies in the fact that a personification creates a feeling of prediction, control and orientation to action (Pfeffer and Salancik, 2003, p. 16). Discharging a manager may change little on a materialistic level but on a symbolic level it enhances the legitimization and fulfills the demands of important external actors who control resources. If for example a chairman who is made responsible for wrongly aligning a firm’s strategy is discharged this is a signal for potential and current shareholders saying that management is capable of action and that they can thus expect a better return on their shares, this can motivate shareholders to provide the organization with more necessary resources.

A second important function is the decision making and legitimizing function. Management makes decisions on how environmental requirements (and also on internal actors) can be managed and at the same time legitimizes decisions towards stakeholders.

What kind of methods are available to management for handling resources and exchange relationships with the environment? A considerable part of Pfeffer and Salan-
cik's work (2003, pp. 92 ff.) deals with such methods. The first option entails adapting in the sense of organizational compliance: One meets the demands of a particular social actor. However, this strategy is problematic. One not only gives up scope for action but one also increases the probability of further demands and attempts to influence because other actors judge (due to their bounded rationality) the success of earlier attempts at influencing as an indicator for future success. Thus “meek” organizations enhance the probability of further attempts of domination. A second method of action is avoiding influence from the environment. One can avoid demands if one creates the illusion that the demand has already been met, one controls or suppresses certain information or increases the cost of information. One can also try to define criteria by which one measures whether a demand was met or not, one can create information oneself or do PR work by implementing one’s own expert. A third strategy involves managing and avoiding dependence. It essentially means creating alternative resources. The fourth strategy is about managing the conditions of social control: one can try to dominate controllers or reduce their dominance.

Pfeffer and Salancik interpret a variety of concrete organizational actions on the basis of these theoretical considerations: From this point of view a firm’s mergers has to be understood as a means of reducing uncertainty and controlling resources. Vertical integration is interpreted as an extension of one’s own control over resources, horizontal integration as an extended dominance of resource controllers. Other empirically observable strategies aimed at reducing uncertainty and managing the demands of the environment are the use of interlocking boards of directors and the co-option of members of influential organizations in these boards. For example, organizations, boards of directors, and supervisory boards of banks co-opt in order to better gain help to deal with financial uncertainty. Thus, the composition of boards reflects the composition of critical resources needed for the organization’s survival (Clegg & Rura-Polley, 1998, p. 538).

Pfeffer and Salancik sketch a range of propositions as to how organizations can react to influence attempts but they do not develop systematic propositions about under which conditions which action occurs. They are quite clear with regard to the factors explaining the attempts to influence one or more organizations on another. One factor is the expected success, and the success of past attempts to influence is an indicator for the expected success probability (Pfeffer & Salancik, 2003, p. 95). Another factor explaining the extent of interorganizational attempts of influence is the distribution and the control of critical resources. The more an organization A controls resources which are critical for B, the more A tries to influence B and the more B complies to A’s demands (all things equal). But the question under which circumstances organizations comply to or try to avoid attempts of influence, is not answered by systematically derived propositions but only by describing possible actions and giving illustrative examples.
(2b) Internal distribution of power

Stakeholders are not only to be found outside the organization. Actors within the organization control important resources, too. One of the main hypotheses in RDT states: “Those sub-units most able to cope with the organization’s critical problems acquire power in the organization” (Pfeffer & Salancik, 2003, p. 230). For instance, if firms are affected by massive changes in the law, then their internal legal departments are most probably relatively powerful. If product demand is unstable and frequent product changes have to be made then it is probable that the marketing and technical department are more powerful. A further hypothesis says that organizational sub-units try to extend their power over and beyond their contribution to safeguarding of resources for the organization. If environmental changes occur, the dominant sub-unit is not necessarily interested in making everyone aware of these changes to the environment, in case this change might endanger the current power structure (Pfeffer & Salancik, 2003, p. 234). Members of powerful sub-units will thus try to influence any information seeking criteria there might be. These criteria will direct perception to environmental segments which are favorable for the powerful sub-unit as it can make a contribution to the reduction of uncertainty resulting from these segments.

(3) The connection between distribution of power and executive succession

“To say that organizations are externally controlled or constrained (..) does not specify how. (...) The mechanism is that of executive succession (...)” (Pfeffer & Salancik, 2003, p. 225). “(...) it is likely that power will be used to influence the choice of top administrative personnel” (p. 236). Those who possess great power will prefer to select someone to fill a position who is able, in their opinion, to maintain and enhance their power. Another rationale for this hypothesis is a psychological effect. People tend to prefer people who have similar backgrounds to them (Pfeffer & Salancik, 2003, p. 236), i.e. marketing specialists prefer marketing specialists, lawyers prefer lawyers etc. (Westphal & Zajac, 1995). Pfeffer and Salancik insinuate that attempts to maintain power contribute to the survival of the organization, but only as long as there are no major changes in the environment. At the same time, guarantee of survival is definitely a secondary condition for deciding who will fill executive positions. The reproduction of one’s own power is at the forefront of the minds of those in power. The result of the decision can be conducive to organizational goals under certain conditions, although this was not necessarily intentional or was at least unimportant at the outset.

(4 and 2b) The connection between management structure, distribution of power, and decisions or organizational structures

By controlling resources, powerful external stakeholders influence the filling of important positions of the organizations’ dominant coalition. It is realistically assumed
that the interests of powerful decision makers are more likely to be realized than other interests. The decisions lead to actions and organizational structures that suffice power interests and also efficiency interests of dominant coalitions. The efficiency of the organization is thus (only) a means to an end, for the purpose of retaining power. At the same time, actions meet requirements of important suppliers of resources and thus contribute to providing the organization with critical resources and ensure survival of the organization.

(5) Feedback effects

Pfeffer and Salancik (2003) do not use an arrow in their diagram to show a feedback effect, but it is clear that, according to their central arguments, decisions and actions in organizations have a feedback effect, i.e. above all on the resource situation and the demands of powerful groups. Organizations are considered as not being able to balance themselves out again every time by perfectly working feedback effects. There is not always an equilibrium. Thus, actors within organizations may secure their power if they succeed in detaching themselves from the environment and external as well as internal stakeholders. In extreme cases, this can lead to the demise of the organization if it can no longer secure critical resources.

Relationships to Other Theories

There are at least two different kinds of relationships of RDT to other theories. I will not discuss this aspect extensively, except to mention two points: First, RDT explicitly draws on more general theoretical ideas, that is to say, the vertical dimension of relationships to other theories. Second, there are several overlaps with other theories concerning terminology and content, this is the horizontal dimension.

With regard to the first point, the vertical dimension, RDT represents an application of more general theoretical ideas to a specific problem. This is the case for most organizational theories where RDT has its foundations especially in social exchange theory. Pfeffer and Salancik explicitly refer to theories relating to social exchange and power as applied by Emerson (1962), Blau (1964) and for example by Thompson (1967), Hickson, Hinings, Lee, Schneck, and Pennings (1971) and White (1974) to problems in organizational theory (Pfeffer, 2005, p. 441). Insofar one may say that RDT is based on well-elaborated and widely accepted theoretical core hypotheses. Or to put it the other way around, all criticism against social exchange theory (e.g. Cropanzano & Mitchell, 2005) also hits RDT. The horizontal dimension of relationships to other theories refers to overlaps between RDT and other theories at the same level. The most obvious, at least terminological relationship exists with the Resource Based View (RBV) (Barney, 1991). In the centre of both perspectives is the assumption, that the control over critical resources of one focal organization is the most important determinant of firm behavior. There are similarities, and some scholars (e.g. Knyphausen-Aufseß, 1997; Medcof, 2001) argue that RDT
and the RBV could and should be combined. But there are also differences between
the two approaches: RDT stresses the external environment, it explains actions and
reactions of organizations to the demands of the external (to some extent: internal)
environment. RDT aims to explain differences in market behavior, but also in organ-
izational structures. The most important mechanism used to explain differences in
the behavior of organizations is power (and its equivalent: dependency). In contrast,
the RBV focuses on internal, scarce and inimitable resources (Barney, 1991). Firms
controlling such resources are supposed to gain a competitive advantage in the mar-
ket. The main mechanism is profit-seeking behavior. That means there are at least
two main differences between RDT and the RBV: First, RDT has a stronger exter-
nal perspective, the RBV a more internal perspective. Second, different assumptions
on theoretical mechanisms are used for developing explanations. And third, RDT is
a more descriptive, explicative and value-neutral (or critical) approach. The RBV, in
contrast, is more prescriptive, which is understandable because it has been de-
veloped and is embedded in the discursive context of strategic management.

Because of a lack of space, I can not discuss similarities and differences with regard
to other theories, like transaction cost economics (Williamson, 1985, cf. Tremblay,
Côté, & Balkin, 2003) or institutional theory (Scott, 1995; for a short discussion
Pfeffer, 2005, p. 448ff.). To put it very briefly: The dependent and independent
variables of RDT, transaction cost economics and institutional theory are quite sim-
ilar, but the theoretical mechanisms (the moderating variables) are different: power
versus efficiency versus norms and values as “social forces”.

Empirical Corroboration

It is not possible to test such a complex theory like RDT in its entirety because it
consists of many hypotheses. Thus, empirical results will only be related back to sin-
gle hypotheses. One can differentiate between three groups of empirical studies in
relation to RDT: first of all, studies done by Pfeffer and Salancik and other scien-
tists who work closely with them and can be directly related to statements in the
theory, and secondly studies carried out outside this group of scholars and referring
explicitly to RDT, and thirdly studies that were carried out in another context but
which can be interpreted within the Resource Dependence Theory. I will only
sketch out such studies here that directly relate to RDT and to its most important
propositions.

A central proposition states: Organizations (or organizational sub-units) controlling
resources that other actors need have power over these actors.

Resources on which power is based can of course differ considerably from case to
case. The work of Provan, Beyer, and Kruytbosch (1980) is one example of a study
which analyses the relationship between resource control and power. They examined
the relationship between non-profit organizations and their umbrella organization
financing them and conclude, in agreement with RDT’s assumptions, that power
over an individual organization is larger the more resources it controls. Resources are relationships that an organization has in a particular community. Resources increase the more connections it has to the elite in the community, the more connections it has to other member organizations (e.g. via personal contacts), and the more their services are in demand within the community. An organization with these characteristics therefore controls valuable resources for the umbrella organization and is more independent and thus more powerful.

Burkhardt and Brass (1990) examine knowledge as a resource of individuals in companies and their positions of power. From a network analytical point of view, they suspect that those people that adopt and use new technologies first have a more central network position and are more often asked for advice and possess a stronger position of power. The results confirm this proposition (using a survey of 81 people in a company at four different times).

Saidel (1991) presents further results which support RDT. In a survey of over 80 non-profit and 73 state organizations he found a correlation between the importance of a controlled resource and the influence of the organization controlling this resource.

A second, closely related proposition is: The larger the dependency on resources of actor A from actor B, the more likely A is to meet the demands of B.

A row of studies confirm this proposition with regard to the relationship between organizations on one hand and customers and suppliers on the other hand.

In a study of Israeli managers (Pfeffer, 1972a) found a positive correlation between the share of turnover, which the company attained by selling products to state organizations, with the willingness to meet demands (hypothetically named to those surveyed) of state actors.

In surveys which analyzed exchange relationships between traders of agricultural products and their main suppliers (producers of tractors) there was proof of a correlation between perceived resource dependency and perceived influence of suppliers (Skinner & Guiltinan, 1986; see also Armstrong-Doherty, 1996). Provan and Skinner (1989) also likewise examined producer-trader relationships on how dependency on an actor influenced his opportunistic behavior (on opportunism see Williamson, 19852). The results show in accordance with RDT that the tendency to behave in an opportunistic way decreases with increasing dependency. Meznar and Nigh (1995) show that companies are in a stronger position to defend themselves from the demands of others the more important the resources are for the others.

2 These results also illustrate that opportunism refers to a general behavioral tendency, whereas it depends on situational circumstances whether opportunistic behavior occurs. This is what Williamson (1985) means by “strategic behavior” motivated by self-interest seeking.
Salancik's findings (1979) show that women are thus supported more in firms that are dependent on jobs from state organizations. Those firms more dependent on such jobs are more likely to meet demands of state organizations for equal rights than the less dependent ones.

Morgan and Milliken (1993) found a positive (although low and insignificant) correlation between the proportion of women in an organization and its “family friendly” policy. However, one must critically note that the proportion of women should only have an influence if the female labor force is a critical resource. But this assumption is not always true: If sufficient labor is available (related to a certain job or number of jobs) then women's demand for “family friendly” human resource policies are less likely to be met than in a situation in which the available workforce only consists of a few females. Thus, it is also plausible for this reason that in a similar survey in which the rate of unemployment was controlled for, a significant positive effect of the proportion of women employed (Goodstein, 1994). If we assume that female managers represent a critical resource, then we should find a (stronger) positive effect of the proportion of female managers and family friendly practices. This assumption is supported by the results of Ingram and Simons (1995). According to this study, the proportion of female employees shows a negative (insignificant) effect overall but a positive (notably likewise insignificant) effect of the proportion of women at an executive level.

If power increases the probability that demands will be met then one can assume that employees’ wages increase, all other things equal, the more powerful they are (see also Balkin & Bannister, 1993). The results of Pfeffer and Davis-Blake (1987) confirm this assumption. Jobs which are more important in private and state colleges and universities, e.g. whose job holders control more resources, receive higher salaries compared to the average (see Hambrick & Finkelstein, 1995, for similar results).

The connection “resource control creates power” also applies according to RDT for relationships between departments in organizations. A number of studies are available on this subject. For example, university departments (faculties) that require important resources for the university are given more internal resources than other departments that generate fewer and less important resources (Salancik & Pfeffer, 1974). Long before RDT became popular in the Anglo-Saxon world, Hickson et al. (1971) formulated and studied the conditions for the power of departments (Hinings, Hickson, Pennings, & Schneck, 1974).3 These are above all the uncertainty about future events, combined with the ability of a department to overcome this uncertainty, as well as the non-replaceability of a unit and centrality (i.e. the extent of connections to other units). These propositions have been confirmed in several studies (Hinings et al., 1974; Saunders & Scamell, 1982; Lachman, 1989).

3 In the year 1976, Gerald Salancik spent some time with David Hickson’s team at Bradford University, see Clegg and Rura-Polley (1998, p. 538).
A third important proposition can be phrased as follows: uncertainty triggers off strategies to reduce uncertainty.

This proposition has above all been tested in the fields of mergers, interlocking boards of directors, and organizational structures. But apart from this, there are studies which analyze the reactions of founders of firms to dependency on important workers and to control of resources in the form of suppressing new technologies. Let us examine these studies more closely.

Pfeffer (1972b) showed in empirical tests that mergers occur more often in industries highly dependent on resources and where uncertainty is high. Uncertainty is especially high when markets are concentrated to a moderate extent. Uncertainty is low when the market is highly concentrated because only a few actors are involved and their behavior can be observed, predicted and be coordinated comparatively easily. Uncertainty is low even when the market is not very concentrated due to low interdependency. Only for medium concentration are there many actors where their actions have to be predicted or coordinated and at the same time there are so few in the sense that one cannot reduce resource dependency by switching suppliers. Finkelstein (1997) replicated Pfeffer’s study (1972b), relating to the period from 1948 to 1969, and ascertained additional data for the period up until 1992. The correlations are nearly identical for the period surveyed by Pfeffer and his results can be confirmed when controlling for other influencing factors for mergers (see Butler & Sohod, 1995, for further results). Palmer, Barber, Zhou, and Soysal (1995) examined how resource dependency affects the probability for friendly or hostile takeovers. According to RDT, so the authors say, one would expect that firms with an unfavorable position in the dependency network welcome takeovers because they can improve their position, and thus friendly takeovers should be more probable. On the other hand, autonomous, strongly independent firms should have less of an incentive to be taken over and defend themselves which makes a hostile takeover more likely. However, according to the authors, the findings only partially support these propositions. Casciaro and Piskorski (2005) have reformulated central propositions of RDT and tested with data on interindustry mergers and acquisitions among U.S. public companies in the period from 1985 to 2000. They conclude that their reformulated RDT model is a “powerful explanation of interorganizational action” (p. 167).

Interlocking boards of directors constitute a strategy to reduce uncertainty in the same way. According to Pfeffer’s (1972c; 1973) findings, size and composition of the board of directors are affected by resource dependency. The probability of cooptation increases with the extent that an individual controls resources and thus reduces uncertainty. The results of the study by Lang and Lockhart (1990) support this assumption: The stronger an industry is deregulated, the larger is its resource depen-

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4 This is similar to an oligopolistic situation. In their book Pfeffer and Salancik (2003, p. 175) refer explicitly to oligopolies and oligopoly theory.
dency and the more there is board interlocking (see also Schreyögg & Papenheim-Tockhorn, 1995). Hillman, Shropshire, and Cannella Jr. (2007) find that the likelihood of female representation on boards of directors is higher in larger organizations, in industries with more female employment and in organizations with a higher number of linkages to firms with female representation on the board. They argue that large firms have a higher need for legitimacy. The larger the female employment bases the higher the need for legitimacy in the eyes of potential and current employees. The rationale for the linkage or network effect is the assumption that the exchange of information and the diffusion of diversity practices is enhanced between companies with female representation on the board.5

Tolbert (1985) examined the connection between resource dependency and organizational structure. The proposition based on RDT is as follows: The greater the resource dependency, the more the organization can differentiate itself according to this dependency. But she does argue, relating back to the neo-institutional approach (Scott 1995), that this proposition is only valid under certain conditions. One cannot always expect differentiating out; only when this structure can be reconciled with the leading views on “right” structures. The results confirm her opinion. Tolbert interprets the results as limiting the validity of RDT. Such an interpretation seems to me to be questionable however, since RDT determines that valid norms and values should be included as constraints. However, most of Pfeffer’s surveys mainly concentrate on “objective” aspects and do not include such factors although the later very clearly neo-institutional studies by Salancik (e.g. Salancik & Goodrick, 1996) are different. Thus, Tolbert’s intent to give RDT a materialistic meaning is not quite suitable.

Baker and Aldrich (2003) examined how company founders react to the dependency on employees who possess qualifications as critical resource. There are two patterns of human resource politics which confirm the assumptions of RDT: For one, employers create alternatives for “irreplaceable” staff by recruiting further suitable staff and thus reducing their dependency. On the other hand, they make such powerful staff dependent on the organization by better fringe benefits and other financial sources of motivation. Interviews also clarify that the motives of entrepreneurs match those assumed in RDT, but this has relatively rarely been tested empirically.

Strategies to reduce dependency or to increase resource control are manifold. How much control can be attained depends on the particular area of resources. One interesting and important strategy was studied by Dunford (1987). The aim was to

5 The resource-based view would interpret strategies at the level of single organizations differently from RDT: It implies that organizations seek to develop strategic, inimitable competencies, whereas RDT theorists would tell us that organizations try to reduce their uncertainty and dependence. The assumption of RDT seems to be more general, that is, to develop inimitable resources is only one of several strategies to reduce uncertainty. Thus, the potential explanation power of RDT is higher.
find out whether and how companies gain control over new technologies and information about these technologies. Dunford analyzed cases in which technological patent and conflicts between competitors had been taken to court. The result was that companies tried to retain control over inventions although they do not always fully use them themselves. They really only want to prevent other firms from using them and not only let inventions be patented but also buy patents and let all new technologies around them be patented to prevent e.g. machines with similar functions from being replicated and used. Together with other companies they create patent pools, keep information secret, muffle the interest about new inventions by launching negative information etc. Dunford unfortunately does not investigate under which conditions, which type of strategy and to which extent it occurs, although this work does point out that it is necessary and possible depending on the area being examined to deduct different forms and shapes of resource control and thus to make the theory empirically fruitful.

A fourth proposition is: Implementing “correct” strategies to reduce uncertainty has a positive effect on organizational performance.

According to this proposition, successful organizations should have different, more strongly “interweaved” connections between management and control instances than those less successful. Pfeffer (1972c) indeed finds that firms that correspond rather with a “optimal” board structure and size are more successful. Boyd (1990) also finds that the correlation between uncertainty and stronger interlocking boards of directors are stronger in “high performing” firms. Sheppard (1995) tested whether those companies who survive or do not survive differ in the variables that RDT highlights as being essential for a firms’ performance, i.e. on procuring critical resources. It is shown that the amount of controlled resources, the number of personal interconnections that a company has (number of board members in other companies), but also the stability of the industry (low uncertainty) has positive effects on the ability of a firm to survive.

A fifth proposition can be phrased like this: Powerful actors use their power to their advantage; that also means that they try to extend their power over and above their contribution to resource control. Their power is reinforced and it cannot be reduced again easily by changes in resource demands of the organizations.

Various studies (Pfeffer & Salancik, 1977; Salancik & Pfeffer, 1980; Allen & Pani-an, 1982) have proven that powerful actors in firms have a longer period of service to the firm than those less powerful. It seems obvious that they are needed for longer due to the functionality of the resources controlled by them and thus they remain in the organization for longer periods of time. One cannot discount the fact that powerful managers can better defend themselves when environmental change occurs and they retain their positions for longer, using their abilities to secure resources. One study by Boeker (1992) shows that this affects resources and thus creates attempts to stabilize power. Boeker analyses the connection between
low performance and the dismissal of senior managers in a total of 67 companies over a period of 22 years. He finds that low performance increases the probability for a change in management, but powerful managers are more likely to be in a position to retain their jobs. The conditions under which this is the case are also given (Boeker, 1992): Managers are more likely to stay in their positions the more capital they have invested in the company, the more the company's capital owned by others is spread (i.e. the less powerful other actors are, because opposition is harder to organize and faces a more difficult task if capital is spread widely rather than in a limited way), and finally the lower the number of external members on the board, and the larger the number of management members who the CEO recruited himself. These results are so close to RDT that one hardly needs to interpret them anymore.

Fligstein (1987) analyzed 100 of the largest companies in the US from 1919 to 1979 and asked, among other things, why the number of presidents from the Financial Department has increased. In general, as Fligstein notes with a view on RDT, those people who control critical resources become president. The resources that are critical change within the course of time. On a company level, strategies and structures require a certain knowledge. People who possess this knowledge are promoted with a higher probability. This proposition is confirmed. However, there are institutionalized ideologies that are influential, independent of “knowledge promoting” strategies and structures. The more companies think that one must have a president with a financial background, the higher the probability that such a position will be filled by a corresponding person. Hambrick (1981) argues that not only the environmental situation influences power, but that one must also consider the connection to the corporate strategy. He could confirm empirically that the power of top management is larger, the more the combination of strategy and environment requires certain qualifications.

There are further empirical works which can be related to the above-mentioned propositions, but these are mainly descriptive case studies, e.g. about the resource and power relationships between airlines in the South Pacific (Taylor & Kissling, 1983), about the power of churches (Jun & Armstrong, 1997), about the fusion of educational institutions in Great Britain (Chadwick, 1997), or about union mergers in the British and Australian Radio and Film Industry (Campling, Cook, & Michelsen, 1998). In addition, there are studies that examine the effects of resource dependency when implementing practices such as Total Quality Management in Retirement Homes (Zinn, Weech. & Brannon, 1998) or “just in time” (Handfield, 1993).

Table 1 summarizes the most important empirical results. I do not describe the differences in methods (qualitative or quantitative), samples, statistical methods, effects etc. This is first and foremost due to a lack of space but I would also like to avoid the impression that the results of this very heterogeneous collection of empiri-
cal studies could be interpreted in a meta-analytic way. One has to take the whole pattern into account, not just the effects on average.

<table>
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<tr>
<th>Propositions</th>
<th>Most important results of empirical studies</th>
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<tr>
<td>Organizations (or organizational sub-units) controlling resources that other executives need have power over these executives.</td>
<td>The more relationships a non-profit organization has in a particular community, the higher its power (Provan et al., 1980)</td>
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<td>Positive effect of the importance of a resource controlled by an organization on the power of this organization (Burkhardt &amp; Brass, 1990; Saidel, 1991)</td>
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<td>The larger the dependency on resources of actor A from actor B, the more likely A is to meet the demands of B.</td>
<td>Positive relationship between the share of turnover of sellers and the willingness to meet demands of buyers (Pfeffer, 1972a)</td>
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<td>Positive relationship between perceived resource dependency and perceived influence of suppliers (Skinner &amp; Guiltinan, 1986; Armstrong-Doherty, 1996)</td>
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<td></td>
<td>Dependency reduces opportunistic behavior (Provan &amp; Skinner, 1989)</td>
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<td>The more important the resources an enterprise controls are for others, the stronger is the position to defend themselves from the demands of others (Meznar &amp; Nigh, 1995)</td>
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<td>Firms more dependent on jobs from state organizations are more likely to meet demands of state organizations for equal rights (Salancik, 1979)</td>
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<td>The higher the proportion of women in an organization the higher the likelihood of a “family friendly” policy (positive effect: Morgan &amp; Milliken, 1992; Goodstein, 1994; negative but insignificant effect of the proportion of female employees, but a positive, insignificant effect of the proportion of women at an executive level: Ingram &amp; Simons, 1995)</td>
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<td>The higher the power of employees, the higher are their wages (all other things equal) (Pfeffer &amp; Davis-Blake, 1987; Hambrick &amp; Finkelstein, 1995)</td>
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<td>Departments that require important resources are given more internal resources than other departments (Salancik &amp; Pfeffer, 1974; Hinings et al., 1974; Saunders &amp; Scamell, 1982; Lachman, 1989)</td>
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<td>Propositions</td>
<td>Most important results of empirical studies</td>
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<td>Uncertainty triggers off strategies to reduce uncertainty.</td>
<td>Mergers and acquisitions</td>
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<td>Median concentration in industries (that means: high uncertainty) leads to mergers (Pfeffer, 1972b; Finkelstein, 1997)</td>
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<td>The higher the resource dependency the higher the probability for friendly or hostile takeovers (Palmer et al., 1995, but only partial support for the proposition)</td>
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<td>Resource dependency has an effect on interindustry mergers and acquisitions (Casciaro &amp; Piskorski, 2005)</td>
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<td><strong>Interlocking boards of directors</strong></td>
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<td>The probability of cooperation of an individual increases with the extent that an individual controls critical resources (Pfeffer, 1972c; 1973)</td>
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<td>The stronger an industry is deregulated, the larger its resource dependency is and the more there is board interlocking (Lang &amp; Lockhart, 1990)</td>
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<td>Large firms with a high proportion of female employees have a higher need for legitimacy in general and with regard to their potential and current female employees. Thus, these firms show a higher likelihood of female representation on boards of directors (Hillman et al., 2007).</td>
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<td><strong>Organizational structure and strategies</strong></td>
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<td>Connection between resource dependency and organizational differentiation (mixed results: Tolbert, 1985)</td>
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<td>Companies gain control over new technologies and information about these technologies to reduce dependency or to increase resource control (Dunford, 1987)</td>
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<td>Company founders react to the dependency on employees who possess qualifications as critical resource by reducing their dependency (Baker &amp; Aldrich, 2003)</td>
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<td>A fourth proposition is: Implementing “correct” strategies to reduce uncertainty which has a positive effect on organizational performance.</td>
<td>Positive effects of resource control strategies and structures on organizational performance or survival (Pfeffer, 1972c; Boyd, 1990; Sheppard, 1995)</td>
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<td><strong>Powerful executives try to extend their power over and above their contribution to resource control. Their power is reinforced and it cannot be reduced again easily by changes in resource demands of the organizations.</strong></td>
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<td></td>
<td>Positive effect of dependency of financial resources on the social structure of presidents in large US companies (Fligstein, 1987)</td>
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<td></td>
<td>The power of top management is higher, the more the combination of strategy and environment requires certain qualifications (Hambrick, 1981)</td>
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Discussion

Empirical Confirmation of RDT

Overall, empirical studies support RDT, but very often one finds only very weak effects and a very low proportion of explained variance. But this is not very different from other theories.

A lot of confirming work has been done by Pfeffer, Salancik or from a number of various scientists associated with them or with their theory (as pointed out by Clegg & Rura-Polley, 1998, p. 540). Studies which test RDT in a strict sense, in particular in comparison to other theories, are limited (Pfeffer, 2003, p. xx, xvi; Casciaro & Piskorski, 2005, p. 167). This situation hardly differs from other theories. One could understand the study of Tremblay et al. (2003) as an exception, because it tries to test agency, transaction cost and resource dependence theory. But the empirical measures are only loosely related to the theoretical constructs of these theories, and Tremblay et al. (2003) combine the propositions of the three theories mentioned above rather than to test them as “competing explanations”. Also, others combine RDT with different theories (for instance Buvik & Gronhaug, 2000, and Buvik & Reve, 2002, with transaction cost theory and Corcoran & Shackman, 2007, with institutional theory). One reason for missing comparative theory tests may be that one can hardly show with one and the same set of data that for example transaction cost theory is correct and RDT is wrong.

That we do not find so many empirical tests of RDT respectively negative results may be due to another reason. Whoever has gained data with a RDT backdrop and then established that his explanation failed with the aid of RDT will not be very motivated to publish these results. And journals are reluctant to accept statistically insignificant, falsifying research results (Begg & Berlin, 1988). There are more reasons for theory tests being generally “weak”. Data is frequently too unspecific because it has been collected for other purposes and measures are often “far off” from the theoretical constructs of RDT. Central concepts like “uncertainty” are banished into a black box (Clegg & Rura-Polley, 1998, p. 541).

Conceptual Criticism

The empirical test of theories is only one - if undoubtedly the most important - of many quality criteria. At the same time, there are other important criteria such as the logic of the line of argument, the matching of the theory and its propositions to other tested and more general theories, the ability of the theory to explain in comparison to other theories, its information content and its generality. With this in mind there are a number of objections towards RDT. I will illustrate these points of criticism mentioned in the literature, discuss, elaborate, and finally assess them.
Power or efficiency?

One objection profusely made by Donaldson (1995), an advocate of contingency theory, focuses on the prominent relevance of power structures and processes and the thus resulting ignorance about economics, costs and efficiency actors to explain company behavior (similar to Williamson, 1995, p. 235). Donaldson (1995, pp. 135f.) criticizes that Pfeffer and Salancik do not sufficiently justify why organizations should be viewed mainly as political systems and not or to a lesser extent as technical and economic systems. In particular, economic factors were disregarded to explain mergers. Donaldson (1995, p. 152) argues that economic theories where costs and efficiency are at the center of attention and not uncertainty or power could also explain many other phenomena just as well or even better than RDT. In addition to this, empirical studies do not measure resource dependency but simply the exchange of goods as usual in economic theory and thus it could be economic and not political power motives that caused the correlation reported in empirical studies (Donaldson 1995, pp. 149f.). This is in my opinion an objection to be taken very seriously, but it is only relevant if one isolates the studies about company mergers from the other work by Pfeffer and Salancik. At the end of the day, and Donaldson is right about this with regard to the empirical studies on mergers, Pfeffer and Salancik only assume that propositions are valid for political power mechanisms in their work about company mergers but do not measure power directly or admonish them in their empirical studies to the “black box”. However, in other works they try to test propositions about power mechanisms and their relevance for the explanation of organizational actions, processes and structures (e.g. Salancik & Pfeffer, 1974; Pfeffer & Moore, 1980). Empirical results suggest that power mechanisms cannot be ignored without giving an explanation. To Donaldson, especially the prominent relevance of power is clearly a penetrating thorn in his functionalistic flesh: He also believes the propositions about the distribution of power within an organization are wrong. He sees the distribution of power as the result of a rational process geared to organizational goals and not the product of an informal, political struggle for power (Donaldson, 1995, pp. 156f.). Donaldson clearly differentiates between “rational = nonpolitical” on the one hand and “irrational = political” on the other hand. However, Pfeffer and Salancik are just about to give up this simple point of view. First of all, by no means they deny that egoistic actors orient their interests around organizational goals. Organizational goals (let’s assume for once that they exist) create constraints, a type of “corridor” for egoistic actions. At the same time, actors try to assert their interests and it is in my opinion unrealistic to assume that power is not used in this situation. Secondly, Pfeffer and Salancik explicitly say that the distribution of power is at least partly or sometimes functional to realizing organizational goals. Actors are more likely to receive and retain power if they can attain critical resources, and the critical resources are functionally related closely to organizational goals. However, distribution of power is not always positively functional. It can also reinforce itself and be dysfunctional. The criticism by...
Donaldson is thus in my opinion not very convincing as Pfeffer and Salancik are specifically not taking the tortuous path of crating a dichotomy of “political irrational” versus “nonpolitical rational” structures and processes.

One objection which can hardly to be taken seriously is Donaldson’s criticism of the world-view of Pfeffer and Salancik’s work and their opinion about managers “... the background world-view behind resource dependence theory is the New Left counter-culture of the sixties” (1995, p. 135) and their view about organizations and their managers being cynical because they overstress the negative aspects of organizations and their actions. Since the validity and not the motivation for the construction of propositions are important, I do not count these claims as being an argument (even if Donaldson were right with regard to the background world-view). However, this does not devalue any other of Donaldson’s arguments in any way.

What are resources? What is power?

Two interconnected objections can be analyzed here: on the one part the exclusive confinement to material resources and on the other part the ignoring of power structures which are not only related to objective resources.

The objection that the RD perspective mainly concentrates on material resources (Tolbert, 1985) is not wholly true. The exclusion of resources other than material is not mentioned in the theory. It is true, that in empirical studies generally symbolic resources are not taken into account. Basically, it would not be a problem in my opinion to observe authority likewise as a resource, and there are efforts to extend the theory to symbolic resources (Johnson, 1995).

Clegg and Rura-Polley (1998, p. 541) criticize that RDT was based wrongly on too narrow a concept of power over controlling objective resources: Resources but also alternatives and interests are “socially constructed”. This criticism is at least partly appropriate: RDT comes too short if one interprets it in a too materialistic or objective way. One cannot only limit oneself to the objective side if one wants to understand processes about power. Because the interests and values of actors but also the resources and resource alternatives are represented in a cognitive way, and these cognitive maps are influenced by socialization processes, for instance - they are socially constructed. By assuming bounded rationality, it follows that organizations, and to be precise: individuals in organizations, must estimate and put a value to resources in dependency situations. This estimation is frequently difficult to make and not precise. These estimates and evaluations in turn influence power relationships (Bacharach & Lawler, 1976). Underestimates of one’s own and overestimates about the resources of others lead to increased “perceived” dependency and thus to power advantages for others. A manipulation of perceived importance of resources can be used as an instrument of power. In the somewhat technically sounding theoretical language of Emerson’s exchange theory: If actor A can create the illusion for actor B that the resources controlled by A are especially important and in addition convince
B that those resources controlled by B are especially unimportant for A then the perceived and thus action-relevant dependency of B on A increases. In the first case A changes the preferences or values of B, in the second case, the knowledge of B about the values of A (Walton & McKersie, 1965, for collective actors).

Including perception, interpretation, and attribution processes and their influence as a means of carrying out power is thus already established in RDT or in its respective core theory (Salancik & Cooper Brindle, 1997, p. 116; Pfeffer, 1981). Criticism is less aimed at the theory itself. It more so applies to empirical studies. It would be worth exhausting the potential of RDT more in the future.

Information content: overall acceptable, questionable in part but can be improved

On the whole, the information content of RDT is acceptable. Thus, the propositions can be tested empirically. However, some basic assumptions are indeed problematic, the content of the information is dangerously low. For instance: Pfeffer and Salancik say that in case of changes in the amount or distribution of critical resources in the environment a) one should expect changes in the distribution of power, but it could also be the case, that b) actors are so powerful beyond their pure control of resources that they are able to withstand the changes. But under which conditions do changes lead to (a) or (b)? Precise statements are lacking here although they could be made if one would take into account the above-mentioned work by Boeker (1992) about the conditions under which managers can “stay”. RDT theorists should thus pre-determine which resources are critical in which situation and then predict which people in which positions control these resources. In less successful or even bankrupt organizations there should be a lower correlation between resource control and power than in successful organizations.

A proposition that is similarly problematic is the following one: Organizations fit into their environment or they change the environment. The content of information in this statement is less than in most varieties of contingency theory which ignores that organizations influence their environment and due to this limitation has more information content. More precise statements are necessary in RDT. It should be determined under which conditions organizations fit into, resist or change the environment etc. A starting point can be found in Oliver (1991) who systematically elaborates a typology of (re-)actions of organizations to changes in the environment.

**Summary**

This article wanted to clarify to which extent RDT can explain behavior of organizations. A theory’s potential and real explanation power can be assessed at best by assessing whether core propositions are informative or not, applicable to a large number of phenomena, realistic and empirically tested – or at least testable - and confirmed.
The information content in RDT is only problematic for some but at the same time important propositions. Thus, it is necessary to create more precise propositions about which conditions are required for organizations to fit into their environment, to resist or to actively change their environment. Such propositions are available (Oliver, 1991). Further adaptations of RDT could easily refer back to this. The relationship between securing resources and power also has to be clarified. The specification needs requirements under which the power of certain actors either decrease due to their discontinued contribution to securing resources and organizational goals, or when actors “retain their power” even with a decreasing contribution. Fligstein (1987) and Boeker (1992) have developed some propositions which could be integrated into RDT. This means the information content can be increased.

The range of phenomena that can be explained by RDT, is quite broad. As RDT is based on assumptions on exchange processes in general, various phenomena of firm or organizational behavior can be explained. The area of application of RDT should roughly correspond with that of transaction cost theory. Thus, there are surveys which investigate the emergence and change of organizational structures, how relationships are built between organizations (such as mergers but also customer and supply relationships etc.), how resources are allocated within organizations, how boards are structured etc., phenomena for which RDT does not have a collective noun but which should correspond to what one would call “institutional arrangements” in transaction cost theory (Williamson, 1985).

The realisticality of the basic assumptions is high for the following reasons: RDT does not view organizations as formations with homogeneous interests but assumes different interests that lead to conflicts in which the actors within and outside the organization use their power to realize their interests. The power mechanism, striving for retaining and extending power, plays a large role without ignoring the importance of efficiency. For actors to retain power, a minimum measure of efficiency or at least effectiveness it is necessary. To give an example: a company which can no longer attain goals cannot provide management with any positions, management loses its power (at least in this company). RDT is also realistic about the role of management: The ability of management to act is limited by resources. Apart from this, RDT assumes that bounded rationality applies for managers: the perception of the environment is directed and filtered by cognitive structures which are learnt through socialization and cognitive capacities to process information are seen as limited. Thus, it is not environment or resources that determine how organizational core groups decide or act, but cognitively and socially constructed environment. One further point that contributes to the theory being true to life: The organization is not viewed as simply adapting to a more or less “dynamic” environment. Rather RDT assumes that organizations create their environment too, change, disprove resistance etc. It would be very strange in my opinion if one should explain the behavior of multinational corporations with hundreds of thousands of employees and
profits which exceed the GNP of states by a theory that assumes that organizations purely adapt to their environments.

The empirical corroboration is exceedingly good, empirical results support RDT propositions on the whole. One must still point out that other theories are usually surrounded by a wreath of empirical results that support them since comparative theory tests and real attempts of falsification appear relatively infrequently (in organizational research as in other sciences). But those few studies that include alternative explanations to RDT (especially Tolbert, 1985; Fligstein, 1987; Palmer et al., 1995) reach conclusions that partially or in connection with other variables (above all legitimacy) support RDT.

On the whole, Resource Dependence Theory thus significantly contributes to explaining behavior, structure, stability, and change of organizations. In short: it can explain behavior of organizations well.

References


Resource Dependence Theory – How Well Does It Explain Behavior of Organizations?


Kirsten Foss, Nicolai J. Foss*

The Next Step in the Evolution of the RBV: Integration with Transaction Cost Economics**

This essay addresses the role of transaction cost economics (TCE) in advancing the resource-based view. In particular, it is argued that TCE has the potential to remedy a number of weak spots in the RBV, such as the absence of attention in the RBV to the interaction between value creation and value appropriation. This and other weak spots in the RBV stem from not taking account of transaction costs to a sufficient extent. Integrating TCE with the RBV adds new insight into the analysis of sustained competitive advantage.

Key words: The resource-based view, transaction cost economics, sustained competitive advantage

Introduction

For a long time, the strategic management field was fairly sympathetic to work in economics on transaction costs and their role in structuring economic organization.1 At least until the mid-1990s, many accepted that “[w]ithin strategic management, transaction cost economics is the ground where economic thinking, strategy, and organizational theory meet” (Rumelt, Schendel, & Teece, 1994, p. 28). In particular, the work of Oliver Williamson (Williamson, 1975; 1985) was heavily cited and used. However, during the 1990s, transaction cost economics (henceforth, “TCE”) became increasingly subject to critical discussion, and even became something of a favorite Prügelknabe for many a strategy scholar. Writers associated with resource-based, capabilities, knowledge-based, etc. approaches have been particu-

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1 In addition to Williamson’s work, this kind of work also includes other parts of new institutional economics, notably property rights economics (e.g. Barzel, 1997), as well as various contributions to contract theory (e.g. Holmström & Tirole, 1989; Hart, 1995). In the present paper, I refer to all of this work as “transaction cost economics.” This may be somewhat imprecise, but may be defended by “new institutional economics” being a much less well-established term in strategic management than transaction cost economics. See Furubotn and Richter (1997) for a general presentation of the new institutional economics.
larly vocal critics, and have explicitly used the critique of TCE as a starting point for developing their own approaches to the firm (e.g. Kogut & Zander, 1992; Conner & Prahalad, 1996; Ghoshal & Moran, 1996). In complete contrast to these writers, the central contention of this paper is that the resource-based view (henceforth, the “RBV”) needs transaction cost insights in order to take the next step in its evolution. Note that the attention in this paper is on what may be called the “pure” RBV, exemplified by such writers as Barney (1991) and Peteraf (1993), and not on the various related approaches such as dynamic capabilities or competence approaches.

For the purposes of this paper, we take TCE to be founded on the notion that there are costs of exchanging, protecting and capturing property rights (Barzel, 1997). Property rights over resources consist of the rights to consume, obtain income from, and alienate these resources. Less abstractly, transaction costs depend on, for example, such transactions characteristics as specificity and measurability. Agents are assumed to try to economize with these costs. This involves choices between alternative contracts, governance structures and institutions for organizing transactions with different characteristics. While this characterization of course includes Williamson’s approach, it is not restricted to it. In fact, it is arguable that over-concentration on the part of the critics of TCE on specific (Williamsonian) parts (i.e. opportunism and asset specificity) the overall body of TCE arguments has led to a corresponding lack of appreciation of the large potential reach of basic TCE arguments in strategy research (Foss, 2003).  

It will be argued in this paper that TCE arguments are fundamentally important to strategy research in general, and to the RBV in particular. In order to develop this argument, we first briefly assess the RBV, and identify a number of weaknesses in the present version of this approach that may be ascribed to insufficiently taking account of transaction costs (“The Resource-based View: Key Tenets, Recent Evolution, and Selected Weaknesses”). We then sketch a transaction cost research program that harmonizes with the RBV, and suggests specific ways in which TCE furthers RBV (“Enter Transaction Costs”).

The Resource-based View: Key Tenets, Recent Evolution, and Selected Weaknesses

Key Tenets of the RBV

The dominant contemporary approach to the analysis of sustained competitive advantage is the RBV, initiated in the mid-1980s by Wernerfelt (1984), Rumelt (1984) and Barney (1986), and further developed by these and other writers. Eco-

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2 Admittedly, transaction cost scholars themselves are partly to blame, because most applied TCE in economics as well as in management studies has only pursued a Williamsonian research agenda, with its over-riding emphasis on asset specificity and opportunism.
nomic equilibrium, particularly in the form of “competitive equilibrium” (i.e. equilibrium under perfectly competitive conditions), is central in this approach (Foss, 2003). Indeed, it is arguable that it is not until the advent of the RBV that the key issue of strategic management becomes framed as the problem of achieving sustained competitive advantage in the sense of earning efficiency rents in equilibrium.\(^3\) In developing this view, the RBV owes a heavy debt to the Chicago School in industrial organization, as has been argued elsewhere in some detail (Foss, 2000; 2003).

The fundamentals of the RBV are now familiar, and may be very briefly stated by means of the reference to Peteraf’s (1993) excellent summarizing paper.\(^4\) This is a paper in which the equilibrium orientation of the RBV are very clearly brought out, right down to the accompanying diagrams that illustrate competitive advantage in terms of a conventional demand and supply apparatus where a firm is portrayed as having a sustained competitive advantage because of lower costs of production due to some inimitable technological resource (as in Lippman & Rumelt, 1982).

According to Peteraf, resources yield a SCA to the firm that controls them when they meet four conditions:

\[ \text{… four conditions underlie competitive advantage, all of which must be met. These include superior resources (heterogeneity within an industry), ex post limits to competition, imperfect resource mobility and ex ante limits to competition.} \]

While heterogeneity is not precisely defined in Peteraf (1993), indications of its meaning are given by arguing that resource bundles differ across firms in terms of efficiencies and that these different efficiencies give rise to different levels of value creation. These efficiency differences may translate into differences in rents. While heterogeneity is the condition under which a firm may generate a rent/differential profit, the remaining three conditions are sufficient to realize these rents and make them sustainable. Thus, “ex ante barriers” means that factor markets do not appropriate all of the rent from a resource (Barney, 1986); “imperfect mobility” means that not all of the rent differential is eliminated through factor market competition (i.e. factors appropriating all of the surplus); and the condition of “ex post barriers”

\(^3\) This is a special case of a broader view that “[t]he field of strategy is concerned with the conditions under which the microeconomic equilibrium of homogenous firms with zero profits can be overcome” (Knott, 1998, p. 3).

means that the rent differential is not eliminated through product market competition (e.g. Dierickx & Cool, 1989).  

Recent Evolution of the RBV

Peteraf’s identification of the four “cornerstones” of sustained competitive advantage provides a first way to put the strengths and weaknesses of the RBV into perspective, as well as to describe the evolution of the RBV.

Heterogeneity. It has often been argued that the work of Penrose (1959) is the single most important precursor of the RBV. In terms of the Peteraf cornerstones distinction, Penrose’s main interest was in pinning out the notion of firm heterogeneity in terms of the services that can be derived from resources, and there is little in her discussion that relates to the other cornerstones. In fact, her work is not about competitive advantage at all. Still, it can be argued that Penrose’s contribution represents the first sustained attempt to argue for the importance to strategic analysis of resource heterogeneity, and that the RBV is thoroughly Penrosian in the sense that it makes the same argument for resource heterogeneity. Given this, the causes of firm heterogeneity have been surprisingly under-researched in the RBV, given that the approach is supposed to start out from this condition, and that part of the marketing effort of RBV scholars has been to argue that the RBV in contrast to industrial organization economics places firm heterogeneity centerstage. It is perhaps telling that a recent special issue of the Strategic Management Journal (October 2003) on the RBV was (sub)titled “Towards a Theory of Competitive Heterogeneity”!

Ex post barriers to competition. Lippman and Rumelt (1982), Rumelt (1984) and Wernerfelt (1984) added the cornerstone of “ex post barriers” (although their respective terminologies differed from this). This gave rise to a spate of work, of which Dierickx and Cool’s (1989) short, but extremely influential, discussion still stands out, and which was taken up with examining 1) the generic mechanisms that may sustain competitive advantage (e.g. Dierickx & Cool, 1989; Reed & DeFilippi, 1990) and 2) classify resources on the basis of their potential contribution to sustainability (e.g. Grant, 1991). Notable empirical work has also grown out of this focus, such as Miller and Shamsie’s (1996) discussion of the sources and sustainabil-

5 Unfortunately, Peteraf is not entirely forthcoming about whether her conditions constitute the minimum set of jointly necessary conditions for SCA, or whether they are individually necessary conditions, or whether they are merely collectively sufficient for SCA. However, she does say that all conditions must be met (Peteraf, 1993, p. 185), that the four conditions are “related”, that heterogeneity is “necessary for sustainable advantage but not sufficient,” and that we require “ex post limits to competition as well.” Because the conditions are related, Peteraf spends some time explaining how the meeting of one condition may mean that another one is also met. She does, however, not say that the four conditions constitute the bare minimum necessary (and sufficient) conditions for SCA, and guards her discussion by saying that the four conditions are “distinct,” yet “related.”

6 For an attempt to contest this view, see Foss (2000).
ity of competitive advantage in the Hollywood film studios in terms of “property-“ and “knowledge-based” resources.

*Ex ante barriers to competition.* Barney (1986) established the cornerstone of “*ex ante* barriers” to competition with his strategic factor market argument, that is, the argument that informational asymmetries are needed to produce that divergence between resource price and discounted net present value that is a condition of competitive advantage. Some of the most innovative recent work in the RBV has been the refinements and extensions of this argument, notably in the works of Richard Makadok (e.g. Makadok & Barney, 2001; Makadok, 2003). Thus, Makadok and Barney (2001) develop the Barney (1986) factor market argument into a story of information acquisition in which the ultimate determinant of competitive advantage is the firm’s skill at researching the future value of resources.

*Immobility.* The perhaps least examined cornerstone has, until rather recently, been that of “immobility.” The notion that those input owners whose services are regularly acquired by the firm (notably employees) have bargaining powers and that the distribution of these powers determine how surplus is split, surfaced rather lately in the RBV (although Wernerfelt, 1989, was quite explicit about it). Russell Coff’s (1997; 1999) work in particular has drawn attention to this. Lippman and Rumelt (2003a) show how game theoretical bargaining theory may inform an RBV perspective on how rents are split between resource owners.

Thus, it is apparent that some of the cornerstones have attracted more attention than other ones, and that the theoretical evolution of the RBV during the last twenty years is a matter of 1) gradually expanding the understanding of the determinants of sustained competitive advantage in the sense of incorporating more determinants and 2) refining the analysis of each individual determinant (i.e. “cornerstone”). The RBV has not yet completed this evolution. Thus, disproportionate attention has been paid to, notably, the “*ex post* barriers to competition” condition, usually in the form of trying to clarify which resource attributes make resources costly to imitate. However, as will be argued, the understanding of this condition is still incomplete.

### Some Shortcomings of the Resource-based View

Looking back at the twenty years of evolution of the RBV, it is easy to jump to the conclusion that the application of economic equilibrium theory (of the specific Chicago School variety, e.g. Demsetz, 1973) in many ways furthered the field by reconciling strategic management and industrial organization economics in a way entirely different from Michael Porter’s (1980). It expanded the vocabulary and the

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7 Perhaps this is because immobility is hard to distinguish from factor market competition, and may be placed under “*ex ante* barriers to competition.” Surprisingly, while bargaining power has been important in connection with “immobility,” it has played no role in connection with the “*ex ante* barriers to competition” cornerstone (leading to the incorrect conclusion that with perfect factor markets, the supply side will always appropriate all rent).
toolbox of the strategy field significantly by introducing efficiency rents, factor market imperfections, costly-to-imitate resources and other Chicago insights. However, this came at a price: Unwanted excess baggage was also introduced in the strategy field.

The excess baggage in question is the competitive equilibrium (or “perfect competition”) model with its many constraining assumptions (Hayek, 1948; Machovec, 1995; Makowski & Ostroj, 2001; Foss, 2003). The competitive equilibrium that are used in RBV core contributions (such as Lippman & Rumelt, 1982; Barney, 1991; Peteraf, 1993) may not entirely be of the perfect competition textbook variety. For example, some superior technology may be costly to imitate (Demsetz, 1973; Lippman & Rumelt, 1982) or there may be some asymmetric information in factor markets (Demsetz, 1973; Barney, 1986). Still, the basic model is one of instantaneous market clearing in markets populated by traders with no bargaining power, and firms that – within a given industry – are essentially identical. We can see the legacy of the competitive equilibrium model in a number of the shortcomings of the RBV.8

No theory of the firm. The view of the firm in the competitive model is what Williamson (1996) calls the “production function view,” which is an important part of the neoclassical theory of production, as stated in basic economics textbooks. While this view has been contrasted with the RBV (e.g. Conner, 1991), it is not clear what exactly is the difference between saying that the firm is a production function and saying that the firm is a bundle of resources. True, “resources are heterogeneous” in the RBV whereas “inputs are (usually) homogeneous” in the production function view. But the latter assumption is simply made for calculational convenience. The production function describes the relation between inputs, that is, resources, and output, and such a production function may of course be constructed for any firm (Wernerfelt, 2003). It is not logically committed to an assumption of resource homogeneity. In fact, some of the critical assumptions of the production function carry over to the RBV.

From a TCE point of view, there are two problems with the production function view. First, it contains no predictions with respect the optimum scope of the firm (Teece, 1982; Williamson, 1996).9 Second, it assumes what should be explained, namely that input factors (resources) are optimally used inside a firm. Because its view of productive activities is not essentially different from that of the production function view, the RBV similarly contains no implications for the optimum scope of the firm and similarly works from the assumption that resources are optimally

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8 Foss (2003) discusses other shortcomings. Lippman and Rumelt (2003b) focus on the partial equilibrium nature of much RBV reasoning.

9 Relatedly, it is hard to see what is distinctly resource-based about Conner and Prahalad’s (1996) “resource-based theory of the firm,” which is essentially an application of Coase (1937) and Demsetz (1991).
used inside the firm. Differences in competitive advantages are therefore not a matter of how well resources are organized or managed, but of the inherent efficiencies of the resources that firms control. This means that there is little or no attention to the managerial task or to organizational matters in the RBV. To talk of the “resource-based view of the firm” may therefore be a bit of a misnomer, because the RBV says very little about firm organization and because it is not clear how the view fundamentally differs from basic economic production theory.

Neglect of the interaction between value creation and value capture. It is a key insight of economics that determining the size of the pie is something different from dividing the pie, and that dividing the pie may influence the size of the pie. Economists often conceptualize this insight – which, as we shall later see, only holds true if (some) transaction costs are positive – in terms of interaction between allocation (creating value) and distribution (dividing value). It is crucially important for understanding the economic implications of reward systems and the allocation of property rights. Much of the modern economic theory of the firm revolves around it, the “hold up problem” (Hart, 1995; Williamson, 1996) being an important manifestation of the expected sharing of surplus impacting on the creation of that surplus (through the effect on investment incentives). And, yet, it is an insight that is conspicuously and surprisingly absent from the RBV.¹⁰

Important recent work by Russell Coff (1997; 1999) and Lippman and Rumelt (2003) has done much to introduce and refine the understanding of how rents are split through bargaining processes between the various resource owners. However, even this work fails to connect the splitting of rents to the creation of rents. There are a number of unfortunate consequences of this. First, incentives for creating value are not fully understood. Second, the dissipation of value caused by resource owners fighting for larger distributional shares cannot be represented. Third, the notion that value may be created by “getting the incentives” right and by reducing dissipation of value cannot be captured by the RBV.

Incomplete identification of relevant resources. Because of the above points, the RBV identifies only a subset of the resources that may be strategically relevant, that is, cause those efficiency differences that may give rise to sustained competitive advantages. Thus, implicit adherence to the production function view means that there can be no differences in the efficiency with which resources are managed and organized. And neglect of the interaction between value creation and value capture means that firms cannot gain a sustained competitive advantage from better controlling dissipation and offering better incentives. Thus, HRM practices or reward systems disappear from the set of potentially strategic resources. So do seemingly mundane practices, such as packaging, sorting, etc.

¹⁰ In fact, it is possible to go further, and argue that value creation itself has been somewhat neglected in the RBV (see Priem & Butler, 2001a; 2001b; Bromiley & Fleming, 2002; Foss, 2003).
To illustrate, consider the strategy that a major player in the World's diamond industry, the DeBeers cartel has adopted for organizing sales to its customers. The customer informs DeBeers of his or her wishes with respect to the number and quality of stones. DeBeers then offers the customer a packet of stones, a “sight,” that roughly corresponds to the customer’s wishes. The sight is offered on a “take-it-or-leave-us-permanently” basis. The price is calculated on the basis of the gross characteristics of the stones, and no negotiation over the price is possible.

Economists (Barzel, 1982; Kenney & Klein, 1983) writing from the perspective of transaction cost economics argue that these practices — that look conspicuously like monopolistic abuse — are instruments of maximizing the created value in firm-customer relations by reducing the costs customers otherwise would have expended on sorting and negotiating. Sorting and bargaining costs are effectively eliminated, so that DeBeers’ practice maximizes the total created value that the parties to the transaction can split between them. Similar arguments apply to practices such as pre-packaging of food or block booking in the movie industry (Barzel, 1982; 1997; Kenney & Klein, 1983).

Such arguments are instances of the broader TCE proposition that agents when faced with potential reductions in the value they can derive from transactions will put mechanisms — such as sales practices (e.g. packaging and sorting), contracts, governance structures, organizational types, institutions — in place that reduce (if not eliminate) those losses by influencing the incentives of the participating agents (Akerlof, 1984; Hart, 1995; Williamson, 1996; Furubotn & Richter, 1997). Williamson (1994) thinks that choices relating to these mechanisms are so fundamental that “economizing is the best strategy.” Presumably this is because governance and contractual choices are ubiquitous, must be made by all firms, and can have important impact on performance, whereas strategizing, which appeals to a market power perspective, is only open to major players (Teece, Pisano, & Shuen, 1997, p. 513). Whatever that may be, the implication for the RBV seems clear: If a resource is “anything that may be thought of as an advantage to a firm,” the above mechanisms may be resources.

Summing Up

The above shortcomings are selected ones in the sense that they have been chosen to illustrate a point; namely, that neglect of transaction costs leads to an incomplete understanding of the cornerstones of competitive advantage. Thus, firm and resource heterogeneity is under-estimated because the absence of transaction cost reasoning in the RBV means that not all relevant resources are identified (or, if they are identified, it cannot be adequately explained why they are valuable) and that firms operate at the frontier of their production possibility sets. Heterogeneity can only be ascribed to differences in firms’ endowments (Foss & Knudsen, 2003), not to the way in which these resources are organized and managed. Because the interaction of
value creation and value appropriation is not explicitly addressed the feedback loop from (expected) *ex post competition* to value creation is not addressed. *Ex post competition* is limited to competition in terms of imitation and substitution (Barney, 1991), and the (*ex post*) capture of value represented by moral hazard and adverse selection is not addressed (Foss & Foss, 2004), because these phenomena can only take place in a positive transaction cost world. The Barney (1986) strategic factor argument (i.e. *ex ante barriers to competition*) is developed without reference to transaction costs. Etc.

As Coase (1992, p. 716) notes: “Businessmen in deciding on their ways of doing business and on what to produce have to take into account transaction costs … In fact, a large part of what we think of as economic activity is designed to accomplish what high transaction costs would otherwise prevent.” Transaction costs should be an integral part of strategic management. In particular, the following section discusses how transaction cost notions may further the RBV and contribute to remediating the above shortcomings.

**Enter Transaction Costs**

The RBV and TCE

The argument that the RBV may be furthered by TCE insights is not a new one *per se*. To mention just a few examples, Rumelt (1984) argued “... it appears obvious that the study of business strategy must rest on the bedrock foundations of the economist’s model of the firm” (1984, p. 557), by which he meant Williamsonian TCE. Teece’s (1982; 1987) work on corporate diversification and the organization of the innovative process made use of both TCE and RBV arguments. Mahoney and Pandian (1992) argued that the TCE and the RBV were broadly complementary. Williamson (1999) sketched a number of ways in which a contractual (TCE) focus may strengthen RBV reasoning. Madhok (2002) made related points, but from the point of view of the RBV rather than TCE. Following up on these methodological arguments, a number of recent contributions have integrated RBV and TCE insights in concrete empirical applications; for example, Silverman (1999) developed an integrated RBV-TCE framework in his approach to corporate diversification. The present application of TCE to the RBV is, however, entirely different from the arguments in these papers.

Expositions of economic approaches to strategy often begin from the logic of the competitive equilibrium model (e.g. Oster, 1999). One or two monkey wrenches ② some kind of transaction or at least information costs - are then thrown into this perfect machinery so as to “explain” competitive advantage. However, as Makowski and Ostroy (2001: 529) note, “[w]ith the standard model as the point of departure, the simplicity of price-taking behavior leaves the perfect competitor unprepared for the entirely new strategic considerations he confront when transaction costs are positive.” Therefore, the relevant “imperfections” are introduced in a highly selective
manner. For example, asymmetric information may be invoked on input markets, so that firms may acquire inputs at a price below their discounted net present values (Barney, 1986). Or, firms entering an industry may draw from a distribution of technologies of different efficiencies, efficiency differences being sustained in equilibrium through invoking costs of imitating (superior) technologies (Lippman & Rumelt, 1982). It has been argued elsewhere (Foss 2003) that an adherence to this approach has caused some of the shortcomings of the RBV, including not sufficiently taking note of transaction costs.

Coasian Methodology

The present approach (see also Foss, 2003; Foss & Foss, 2004) instead adopts a Coasian approach to reasoning about the causes of real-world phenomena in which there is no specific assumptions about, for example, market structure. Boundary conditions instead relate to the presence of transaction costs. More specifically, essentially the same strategy that Coase (1937; 1960) followed is advocated here for strategic management research: Examine an extreme setting (i.e. the Coase theorem setting) to see what this tells us about the phenomenon that we are interested in understanding (i.e. the firm (Coase, 1937), the law (Coase, 1960) and strategic management (this paper)), and then demonstrate that this understanding is furthered by the introduction of transaction costs, in fact, that transaction costs are necessary to make sense out of the relevant phenomenon.

A major point in Coase (1960) is that although economists have routinely assumed that transaction costs – that is, the cost of exchanging, protecting and capturing property rights – are zero, they have not really, and certainly not fully, examined the radical consequences of this assumption. In order to drive this point – made in the context of the economic analysis of externalities – home, Coase supplied several analytical innovations.

One is that for many purposes, it is more useful to think of what is being exchanged in markets as property rights rather than physical goods per se. Thus, when a firm buys a machine, its acquisition of ownership to the machine is simultaneously the acquisition of a whole bundle of property rights, such as the rights to use, derive income from, sell the machine, lease it out, etc. These rights are constrained not only by the law, but also by norms and by other means of private enforcement. One of Coase’s most skilled followers, Yoram Barzel (1982; 1997), argues that goods (resources) are composed of “attributes,” that is, different functionalities and uses, and that property rights are defined to such attributes. For example, a Hi-Fi system can be used for playing different kinds of music, for manipulating the level of the bass, for playing loud, and so on. However, the functionality of a Hi-Fi system that allows it to deliver the service of playing extremely loud music may not be realized if the law or neighborhood norms prevent these services. The use rights of the owner
are constrained. Usually, resource attributes are bundled because it would be too costly to specify them all in a contract (Foss & Foss, 2001; 2004).

In the actual world, defining (e.g. writing contracts), exchanging, protecting (e.g. fencing a private parking space) and capturing (e.g. stealing) property rights are costly activities. Coase famously argued that these costs underlie a host of institutions and institutional arrangements, including important aspects of the law. This insight clearly harmonized with his earlier (Coase, 1937) insight that the existence of the firm is rooted in the costliness of the price mechanism. In order to develop this argument, Coase (1960) began from a zero-cost setting, and traced the allocative consequences of different assignments of liability. His conclusion, essentially what became famous as the “Coase theorem,” was that different assignments of liability would not matter to allocative efficiency. The law of liability can only make an allocative difference in a positive transaction cost regime; it has no rationale if transaction costs are zero, just as the firm has no economic rationale under those conditions. The argument here is that exactly the same kind of reasoning may be used to develop insights into the economics of firm strategy, particularly the RBV.

The Zero Transaction Cost Setting

*The Coase Theorem as starting point.* One way of stating the Coase theorem is that in the absence of transaction costs, all the value that can conceivably be created from the exchange and use in production of the available resources in the economy will, in fact, be created. An underlying assumption is that in such a surplus-maximizing equilibrium, players have full information (Barzel, 1997). Therefore, there are no costs of bargaining and of measuring the attributes of resources, and property rights to (all attributes of) all resources are defined and protected at zero cost. Because the costs of exchanging property rights are zero, all property rights to all attributes will be tradable.\(^{11}\) All rights will therefore move to their highest valued uses, so that the total value that resources can create, and which therefore will be imputed to them, will be at its maximum.

If indeed bargaining costs are zero, the issue of value creation can furthermore be separated from that of the appropriation of value. Thus, we may imagine the parties to a contract to follow a two-step procedure in which they first agree on the mix of activities that maximize their joint surplus, and then in the next step split this surplus through the prices and side-payments that emerge from bargaining. How they will split value, that is, how much value each agent can appropriate, will depend on a host of factors, and specific assumptions are necessary to derive insight into this (Lippman & Rumelt, 2003a). Value may be divided in any possible way within the bounds given by opportunity costs and reservation prices. However, the Coase theorem implies that bargaining processes are instantaneous, consume no resources, and

\(^{11}\) For this reason, the very notion of a “resource,” strictly speaking, dissolves in this extreme world. Exchanges will only involve attributes.
that there is no feedback effect from splitting value to creating value. Essentially, this implies that any organizational arrangement will be as efficient as any other (i.e. resulting in the same value creation).

Finally, just as the creation and splitting of value (i.e. the appropriation of value) presents no real problems, in the sense that these are costless processes in the Coasian setting, so the protection of value against other agents’ capture cannot be a problem either. This is because there will be no problem of protecting the value created in the coalition from, for example, would-be imitators, since in a zero transaction costs setting property rights can not only be costlessly exchanged but also costlessly protected (Barzel, 1997). Thus, zero costs of protection imply infinite costs of capturing property rights from other agents.

Strategic management when transaction costs are zero. Much of what we understand by strategic management evaporates in a zero-transaction cost world: Maximum value is created instantaneously, all rent streams are perfectly protected; bargaining over the division of these streams takes place instantaneously and costlessly; there are no problems of implementing a strategy (since organizational costs would be zero), etc. In sum, the creation and appropriation of value pose no problems whatsoever. Arguably, a significant part of the content of strategic management lies in all these processes not being instantaneous, costless and unproblematic. Settings such as the one underlying the Coase theorem (or its distant cousin, competitive equilibrium) leave very little room for genuine strategic choices. Still, a starting point in a situation with zero transaction costs is helpful for at least two reasons: First, it indicates where we should make adjustments to obtain a more realistic understanding of strategic issues. The relevant ”adjustments” are a matter of introducing transaction costs. Second, it provides a benchmark (namely optimum resource allocation/value creation), relative to which we may asses changes in the real, positive transaction cost world.

Implications for the RBV of Transaction Costs

Transaction costs and competitive advantage. The transaction costs of exchanging, protected and capturing property rights both directly and indirectly influence value creation. For example, measurement and bargaining costs directly eat into created value. So do costs expended on protecting property rights. When the latter costs are positive, some agents will expend resources on capturing property rights controlled by other agents. These costs in turn induce “deadweight welfare losses,” that is, some transactions that would have been concluded under zero transaction costs are not carried out (Akerlof, 1984; Williamson, 1996; Hart, 1995). The emphasis on *ex post* competitive imitation in the RBV is one instance of capture of property rights, but there are many others. For example, when forming expectations about future resource values (Makadok & Barney, 2001), managers should not only assess the
imitability of resources, but also the hold-up and moral hazard potential that may be associated with specific resources.

Implication: The contribution to competitive advantage of a resource depends not only on its use and its scarcity and the amount of competitive imitation, but also on the costs of controlling (other) property rights to the resource, that is, transaction costs. Estimating competitive advantages must involve taking such costs into account.

Getting to grips with how transaction costs influence (expected) competitive advantages will allow RBV scholars to establish the link between value creation and appropriation that is currently not explored in the RBV. The reason that it is transaction costs that establish this link (i.e. with zero transaction costs, creating and appropriating value are independent processes). This will bring economic organization (the theory of the firm) much more directly into the picture, because, loosely, contracts and governance structures serve to maximize created value, given transaction costs.

Transaction costs and ex post competition. The general point about the potential importance of transaction costs to resource value also applies to the cornerstone of (barriers to) ex post competition. Of course, costs expended on protecting against competition need to be economized. However, property rights can also be protected through such means as establishing private orderings (Williamson 1996), deterring entry (Tirole, 1988), writing enforceable contracts, adopting sales strategies to avoid adverse sorting, as in the DeBeers example (Barzel, 1982; Kenney & Klein, 1983), and the corresponding costs need to be economized, too. To see that capture goes beyond competitive imitation, consider a hypothetical firm that is launching a new innovative gizmo. It produces the gizmo using very complex resource combinations that because of the complexity are effectively inimitable. The gizmo turns out to be a huge commercial success. Because of the heavy uncertainty and asymmetric information related to the commercial potential of the device, only a fraction of future rents has been appropriated by factor markets. The firm is the only major employer in the area, so employees are rather immobile. Producing the gizmo would seem to be “… a value creating strategy not simultaneously being implemented by any current or potential competitors and … these other firms are unable to duplicate the benefits of this strategy” (Barney, 1991, p. 102), that is, to realize a sustained competitive advantage. However, all employees receive a flat wage and the company does little to monitor the shirking that develops. The shirking eventually becomes so widespread that the company’s profitability is on par with its competitors.

Implication: Sustainability of competitive advantage depends not only on controlling capture in the form of competitive imitation and substitution, but also on other kinds of capture such as moral hazard, adverse selection and hold-up. Estimating sustainability must take such capture and the costs of controlling it into account.

Improved understanding of resource heterogeneity. While TCE like the RBV contains little that helps to explain why firms are ultimately different in the sense that it does not deal with entrepreneurship, it provides insight into heterogeneity
that goes beyond the RBV. Because of its emphasis on property rights, resources are multi-dimensional in the TCE. Thus, a resource is a bundle of property rights to various resource attributes, such as uses and functionalities. Attributes are typically bundled into resources because of costs of exchanging individual attributes, including the costs of protecting these attributes (Foss & Foss, 2001; 2004).

Implication: Resources are not given, but are outcomes of processes of economizing with such transaction costs. Therefore, what is physically the same resources to different firms may economically be different resources, for example, because the relevant firms are not equally capable of protecting the relevant attributes.

For example, licensed technological knowledge may be protected more strongly by one firm than by another firm that also licenses the relevant knowledge. Economically, the licensed knowledge will be different goods.

New resource categories. A TCE perspective directs attention to those resources that may be advantages to firms in the sense that they increase created (and appropriated) value, that is, specific ways of sorting goods (e.g. in the retailing and industries such as fruit and vegetables), sorting customers (e.g. credit classes in banking), contracting, the use of private orderings, etc. (Barzel, 1997; Williamson, 1996). The conjecture here is that these resources are important sources of heterogeneity and competitive advantages in a number of industries. However, they have been largely neglected in the RBV, perhaps because these resources only exist if a positive transaction cost world is assumed.

Conclusions

The RBV has proven to be an influential and useful analytical structure for the analysis of many strategic issues. However, it is also like a ten to fifteen years old building that was built by a few key contractors on a tight completion deadline and on the basis of somewhat different inputs (Foss & Knudsen, 2003). Some of the limitations are beginning to show up. First, the RBV building was constructed on a foundation – the competitive equilibrium model – that makes it hard to extend the building. Second, some essential materials – namely transaction costs – were not used to a sufficient degree. A number of deficiencies have resulted, of which some have been sketched here. Accordingly, the repair effort should be a fundamental one, and will have to be directed at building a better foundation and adding the essential material of transaction costs. The first kind of repair effort has been initiated by Lippman and Rumelt (2003a; 2003b); the second one is that sketched out in the present paper. Future work will concentrate on not just sketching, but actually fleshing out the RBV-TCE synthesis. Among the important problems that must be addressed in such an undertaking are these: First, while TCE illuminates the notion of heterogeneity, does it go far enough? Or does the TEC-argument put the problem only on a higher level, so that the question becomes: Why are firms different in recognizing and managing property rights? Second, the question whether the
practices and instruments for designing property rights fulfil the condition of non-imitability must be addressed.\(^{12}\)

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\(^{12}\) Thanks to the anonymous reviewer for suggesting these challenges.


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