2003 Volume 24, Number 1, ISSN 1649-248X

THE IRISH JOURNAL OF Management incorporating IBAR

Special issue based on selected best papers from the 2002 Irish Academy of Management Conference

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This book was typeset by Ashfield Press for

Blackhall Publishing
27 Carysfort Avenue
Blackrock
Co. Dublin
Ireland

e-mail: info@blackhallpublishing.com
www.blackhallpublishing.com

ISBN: 1 842180 00 0

A catalogue record for this book is available from the British Library.

Printed in Ireland by
[NAME OF PRINTER]

Irish Academy of Management

University College Dublin University of Ulster University of Limerick

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THE IRISH JOURNAL OF
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IRISH BUSINESS AND
ADMINISTRATIVE RESEARCH

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Boundaries and Interfaces in Management

THOMAS O'TOOLE AND DENIS HARRINGTON

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Introduction

The fifth annual conference of the Irish Academy of Management (IAM) was hosted by the Business School at Waterford Institute of Technology in September 2002. The conference theme was boundaries and interfaces in management and 125 papers were presented spread across all management disciplines and across seven parallel tracks at any one time. Four symposia sessions were hosted – one in HRM, one in management education, one in enterprise, and one in information systems education for managers. A guest lecturer replaced the traditional plenary session and Professor Gerry Johnson, Professor of Strategic Management at the University of Strathclyde, gave the inaugural lecture on "reviewing strategy" through the lenses of design, experience and ideas. The first recipient of the best paper award was Mike Milmore of the University of Gloucestershire for a paper on strategic recruitment and selection. The winner of the postgraduate paper prize was Pauline Grace of Dublin City University with a paper on gauging the institutionalisation of performance pay. A special presentation was made to Jim Walsh of University College Cork at the conference dinner in recognition of his service to the academy. In all, around 160 delegates attended the conference from all over Ireland and overseas, making the conference an international one with a distinctive local flavour!

The papers in this volume represent a subset of 49 submitted for review for the special conference issue. The reviewers faced a hard selection decision but the work was done. In addition, the task of reviewer for the conference itself was also substantial. The academy, the conference team and the editors appreciate all the work. The company sponsors of the conference included Honeywell International Technologies Ltd – Garrett Engine Boosting Systems, Allied Irish Banks PLC, C&C Showerings, Waterford City Council, Project Management Group, Waterford Chamber of Commerce, Guinness UDV, Waterford Crystal, Cement Roadstone Holdings Ltd, Kelliher Electrical, The Irish Times, Irish Independent and Irish Examiner.

Boundaries and Interfaces in Management

The theme of the 2002 conference and of this special issue is boundaries and interfaces in management. Much creative and innovative practice takes place at the margin or at the boundary across and within organisations. This is also reflected in academic work and research into topics that examine organisational processes and systems that cut across definitions and are by definition multi-functional. The papers in this volume clearly reflect the conference theme and the diversity of the management discipline. Addressing boundary and interface research may require a collaborative spirit among researchers and in practice. Boundary and interface issues usually require partnership processes to address them and co-operation to gain the 'whole picture' insight needed. Managers may be better set-up to achieve this collaborative endeavour as they are used to working in team environments, but those who work in research and in academia may be just beginning to develop approaches that can access multiple points of view from within and outside their institutions. At one level, the criteria used by national funding agencies will drive some of this effort.

Boundaries are defined in many ways: as entities that separate different activities, people, processes; as invisible patterns that define how organisations structure and relate to one another; as context, emerging and shifting with the pace of organisational change (Yan and Louis, 1999; Ashford, Kreiner and Fugate, 2000). For our purpose we define boundaries as separating organisational activities, process and people into distinct 'units', so, for example, a department is a unit, as is a specific process. These boundaries have become a focus of top management – how to shape and shift them to suit organisational needs and how to create an organisation that is border-less in its internal operation. Boundaries are the invisible lines that divide one actor or process from another and can be a major implementation barrier in creating new learning routines and in managing change. Interfaces sit across boundaries and are defined as 'flows' across boundaries: for example, communication is an interface mechanism and the intensity of communication may be an indicator of the strength of the interface between two actors, or activities, or departments. The interface is the 'what' – the content of the interaction between activities, actors and processes. Interface content is often identified by examining the roles of parties on either side of an interface; these roles define their inputs and suggest the rationale for the interface. In many organisations quality interfaces between units is not easily achieved and many political barriers get in the way of maximising interface value.

This volume contributes to the boundaries and interfaces debate through the investigation of specific themes common to a group of papers even though the papers are presented in discipline order. These themes are:

- The relationship between headquarters and subsidiary;
- Interfaces between systems and people;
- Organisational boundaries and barriers in the adoption of new practices;
- Managerial role perceptions and actions;

- Changing boundary patterns over time;
- The 'real' organisation and the theoretical other expressed in the dominant managerial paradigms;
- Interface contexts especially in the wider network external to the firm.

The Selected Papers

PATRICK GUNNIGLE and his colleagues consider the significance of US foreign direct investment (FDI) in Ireland. The writers argue that while the importance of FDI in Ireland has been clearly delineated, there are deficiencies in the examination of its impact on Irish management practices. The contribution considers the human resource management and industrial relations practices in US-owned subsidiaries and seeks to evaluate the diffusion of specific US management techniques and practices in Ireland. The paper presents preliminary findings from detailed case studies of four Irish subsidiaries of major US MNCs and highlights the need for the development of a framework for the evaluation of the impact of US MNCs on the business systems in Ireland.

JUSTINE HORGAN and **PETER MUHLAU** address the area of high-performance human resource practices (HPHR) in Ireland. Within the paper, a model is proposed to examine the HPHR diffusion process. Specifically, the process is conceptualised in two stages: the former depicting the initial decision by particular companies to adopt HPHR primarily for efficiency reasons and the latter stage as that occupied by 'rational imitators of the early adopters', companies wishing to signal their status as high performers. The model is tested using cross-sectional data from a reported survey of companies in Ireland. The findings raise some interesting insights on HPHR adoption and suggest important avenues for further research in the area.

KEVIN MURPHY and his colleagues focus attention on the topic of performance ratings and highlight the direct effects of rater goals and the climate of the group in which ratings are obtained on rating behaviour. The researchers sought to examine the link between rater goals and performance in a series of studies linking ratings of goal importance with teacher ratings. The studies reported suggest that raters who view the same performance samples, but who tend to emphasise different rating goals provide systematically different ratings. In this sense, performance ratings and rating goals are linked to and possibly influenced by the perceptions of the climate of the unit in which the performance ratings are obtained. The findings carry important implications for the nature and practice of performance appraisal in organisations as conflicts between the appraisal system and the ways raters use such systems can limit the effectiveness of performance appraisal.

ADRIAN THORNHILL and **MARK SAUNDERS** examine employees' reactions to strategic change in a public sector context over a prolonged period. The writers also explore the usefulness of an organisational justice perspective to explain the nature of the reactions uncovered. This is undertaken in the context of an organisation, which had experienced a major planned change. Using case study data collected from employees, the context and nature of the processes of change are seen to be important in the application of the organisational justice theory in practice. The value of the organisational justice framework is also evaluated in relation to its ability to predict outcome effects that result from organisational change. The framework offers an important means to explore and understand employee reactions to strategic change and, in conclusion, the writers highlight additional areas warranting further research.

The interface between the management of human resources and organisational strategy is the subject of a paper by **MIKE MILLMORE**. In the account, recruitment and selection, as a component of human resourcing, is investigated to assess the extent to which its practice evidences strategic alignment. The writer presents a model against which the strategic nature of recruitment and selection is analysed. Using data from 108 diverse organisations, it is shown that a clear boundary exists between traditional and strategic recruitment and selection practice. This is noteworthy particularly given the primacy afforded to strategic thinking and management within the literature and highlights a dichotomy between human resourcing rhetoric and reality. The paper concludes by proposing additional areas for research to explore the reasons behind any lack of strategic alignment in organisational recruitment and selection practice. Mike's paper was the overall winner of the "best paper award" at IAM 2002.

PAULINE GRACE examines the reasons underlying the uneven spread of performance pay using case study findings from subsidiaries of a multinational industrial gases manufacturer. Using data from one Irish site and two British sites of the organisation, the writer suggests that factors such as work process and occupational composition affect the perceived appropriateness of performance pay. The case findings point to the importance of commitment in the form of management continuity and staff involvement in the implementation of performance pay. Pauline's contribution was winner of the "best postgraduate paper" at the IAM 2002.

MAIREAD BRADY considers information technology assimilation from a marketing perspective. While much has been contributed in this area in recent years, there are still issues that need to be overcome before the full potential of IT can be achieved. In addressing this apparent deficiency within the literature, the contribution presents findings from a study of IT assimilation within the marketing departments of a selection of the top 500 companies in Ireland. The findings suggest that while IT requirements are central to relationship marketing practice, there are a number of barriers that inhibit successful assimilation. The paper concludes by highlighting such barriers and the need to address key challenges in facilitating effective IT assimilation in organisations.

Adoption and implementation of information technology is also the theme of a paper by **TOM EGAN, STEVEN CLANCY** and **THOMAS O'TOOLE**. Their research, which was conducted over a two-year period as part of a wider EU-funded programme (WIRECOM), assessed IT usage in 100 SMEs in the south-east region. The company audits were followed by case analysis of selected companies in an attempt to distinguish *adopter* from *non-adopter* companies. The research revealed that the most important variable found to distinguish the high-adopter companies from the others was the support afforded by the senior team to IT strategy implementation. The study also showed that all of the adopter companies found the cost of adopting IT and the compatibility of IT innovations with existing systems to be important factors affecting their ability to adopt IT. The findings raise important implications for both SME sector organisations and the government, and the writers conclude with important avenues for further research.

BREDA MCCARTHY also focuses attention on the SME sector and within her paper seeks to explore the impact of the entrepreneur's character on the development of strategy in small-to-medium-sized firms. This is an important area for research given the deficiencies in the treatment of the possible interactions that might exist between entrepreneurial types and the strategic choices they make. The research uncovered two main types of entrepreneurs – the pragmatist and the charismatic entrepreneur – which resulted in different types of strategic behaviour. The study raises some interesting questions, namely: do charismatic founders rely more on informal social networks and transform them into financial networks? Do pragmatists rely more on formal networks? Do pragmatists see business start-up as an investment, rather than a way of life? The contribution will doubtless stimulate further research in the area.

THOMAS LAWTON focuses attention on the low-fares airlines business and makes the case for adopting a proactive approach when operating under conditions of uncertainty. While many firms adopt a 'siege mentality' when faced with market uncertainty and decline, the writer argues that periods of uncertainty need not be a time for retrenchment for all companies. Instead, opportunities can present themselves for firms that are financially sound and operationally efficient. In illustrating the argument, the paper examines the strategic management principles and operational processes of leading low-fare airlines. The writer suggests that low-fare airlines outperform their full-fare rivals because of the success of their cost-reduction ethos and their proactive approach to corporate strategy during market turbulence and industry crisis. Drawing on a wide range of studies in the area, the paper also sets out best practices for airline management and for business management more generally.

DEREK O'BYRNE and **DUNCAN ANGWIN'S** contribution points to the importance of understanding what happens to organisational boundaries as companies embark upon integrating an acquisition. As the writers remark, in firm sub-unit terms, the greatest boundary challenge occurs when a company is acquired or merged and must combine with counterparts in the other firm. This can lead to radical changes in the working landscape and result in alterations to existing and established boundaries. The reported study focuses on two sets of combining sub-units within the merger of two national organisations. The study revealed that the level of integration achieved varied across the sub-units with differences emerging in the extent to which the boundaries of each sub-unit changed during the process. The findings also suggest that understanding boundaries can have a positive effect on the chances of integrating merging units effectively. The paper concludes with some interesting avenues for further research.

RAY GRIFFIN addresses the issue of subsidiary divestment. While there is an abundance of research dealing with subsidiary strategies and subsidiary roles, little attention has been given to the issue of subsidiary divestment. This paper reports findings of a case study investigation over a five-year period of an individual subsidiary's response when threatened with divestment. The findings suggest that our current understanding of the triggers for divestment fail to capture the complexity of divestment decisions. Equally, there are issues in how both HQ and subsidiary management interpret these triggers and how the resulting political and sense-making processes of both types of manager determine the outcome of divestment decisions. The paper concludes by discussing the potential managerial implications of the work and suggests areas warranting further research.

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US Multinationals and Human Resource Management in Ireland: Towards a Qualitative Research Agenda (1)

PATRICK GUNNIGLE, DAVID G. COLLINGS, MICHAEL J. MORLEY, CATHERINE MCAVINUE, ANNE O'CALLAGHAN AND DEIRDRE SHORE

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INTRODUCTION

US-owned multinational corporations (MNCs) are dominant actors in the world economy and are particularly significant in the Irish context. This paper profiles US foreign direct investment (FDI) in Ireland, focusing specifically on human resource management (HRM) and industrial relations (IR) in US-owned subsidiaries. Drawing on an ongoing qualitative study, we identify and explain the main HRM and IR themes pertinent to researching the dynamic between centralised control and subsidiary autonomy in the management of US MNC subsidiaries in Ireland.

THE SIGNIFICANCE OF THE MULTINATIONAL CORPORATION

The main means by which organisations can significantly internationalise their operations are through acquisitions, mergers and joint ventures, and by establishing greenfield site facilities. Of course there are other means by which firms may engage in international business, such as licensing/franchising and service arrangements. However, the term "multinational" is generally applied to those engaged in FDI whereby the MNC has a controlling interest in foreign companies. FDI has been described by Daniels and Radebaugh (1995: 17) as the "highest commitment a domestic company can make in international business because it usually involves not only the infusion of capital but also the transfer of personnel and technology".

Multinational corporations are not a homogenous group of companies who operate on a worldwide basis. What we would consider to be a MNC can range in size from vast corporations such as General Electric comprising different divisions and businesses with numerous subsidiaries around the globe to smaller privately owned firms operating in one core business area with a small number of international subsidiaries. In total though, MNCs exert a huge economic and political influence. Their immense economic power is reflected in Anderson and Cavanaghs' (1999) finding that the 100 largest multinational corporations now control about 20 per cent of global foreign assets. The UNCTAD (2001) estimates that total FDI in 2000 amounted to a record US$1.3 trillion, driven by some 60,000 MNCs and their 800,000 affiliates abroad. FDI is, however, unevenly distributed geographically, with the world's top 30 host countries accounting for 95 per cent of total FDI inflows and the world's top 30 home countries generating approximately 99 per cent of outward FDI stocks (Gorringe, 1999). Looking specifically at US MNCs, it is estimated that they employ over 7 million people worldwide and approximately 2.5 million of them in Europe (UNCTAD, 1996; Ferner and Quintanilla, 1998). As a consequence, we find that MNCs have acted as key drivers in the increased internationalisation of business. Indeed, Ferner and Hyman (1998: xiii) have labelled MNCs "…the dominant actors in the internationalisation [sic.] process".

In this process of internationalisation, HRM/IR considerations emerge as a key concern, not least because at the micro-level HRM/IR can act as a key source of competitive advantage, while at the macro level it influences the regulation and operation of labour markets. A specific and long-standing debate in this context concerns the extent to which HRM and IR approaches in MNCs are embedded in their home country business system and thus form the core of HRM/IR practices in foreign subsidiaries (Beaumont, 1985; Chandler, 1990; Edwards, 2000; Ferner and Quintanilla, 1998; Gunnigle, 1995; Tregaskis et al., 2001). Indeed strong institutional 'embeddedness' is seen as particularly characteristic of US MNCs (Ferner et al., 2001a). For example, Schlie and Warner (2000: 34) posit that:

> American management values may be derived from deep-rooted societal norms endemic in their specific national culture, comprising a national business system … Built on a free and capitalist system emphasizing property rights, the key features of American management contain a strong commitment to individualism and universalism.

It is hardly surprising therefore that HRM and IR in MNCs has become an area of considerable debate and interest. Because an MNC transcends national boundaries they often seek to develop complex organisation and decision-making processes to deal with the challenge of operating in differing political, social, economic and regulatory contexts.

Multinationals and Industrial Policy in Ireland

The attraction of FDI represents a key plank of Irish industrial policy. Inward-investing firms are offered an attractive package of financial incentives – most particularly low levels of tax on profits – and a range of other attractions such as its young workforce and comparatively unregulated industrial relations environment (see, for example, Gunnigle and McGuire, 2001). Ireland has been particularly successful in attracting FDI with the result that our economy is significantly more reliant on MNC investment than any other EU nation. We currently have a total of 1,225 overseas firms employing approximately 138,000 people with a particular focus on electronics, pharmaceuticals, software and internationally traded services (see Table 2.1). Even allowing for the recent downturn in FDI activity, MNC subsidiaries here employ approximately one-third of the industrial workforce and contribute approximately 55 per cent of manufactured output and a staggering 70 per cent of industrial exports (Tansey, 1998; also see Hannigan, 2000). In 2000 the FDI sector exported over 47 billion in goods and services and generated direct expenditure within Ireland of some 14 billion (IDA Annual Report 2001). According to a recent 62-country study, Ireland is now the world's most globalised economy, ranked ahead of countries seen as having open economies, such as Singapore (3rd place) and New Zealand (19th place) (Brown, 2002).

US-owned MNCs account for a high proportion of this activity. OECD data indicate a threefold increase in FDI inflows to Ireland during the 1990s, with the US accounting for almost 85 per cent of all such inflows (OECD, 2000; see also Tables 2.2 and 2.3). The significance of US FDI in Ireland was most pointedly highlighted in the *Economist's* (1997) finding that almost a quarter of US manufacturing investment and some 14 per cent of all FDI projects into Europe in the period 1980–1997 located in Ireland, while some 40 per cent of all new US inward investment in the electronics sector located here.

Table1.1: FDI by Sector 2001

	No. of Firms	Employment
Electronics and Engineering	341 (28%)	62,987
Pharmaceutical and Healthcare	130 (10.5%)	20,854
Miscellaneous Industry	104 (8.5%)	7,363
Textile and Clothing	23 (2%)	2,690
International and Financial Services	627 (51%)	44,115
Total	**1,225**	**138,009**

Source: Industrial Development Authority (preliminary figures).

Table 1.2: FDI by Ownership (number of firms) 2001

US	518	(42.3%)
Germany	164	(13.4%)
UK	162	(13.2%)
Rest of Europe	274	(22.4%)
Far East	55	(4.5%)
Rest of the World	52	(4.2%)
Total	1,225	

Source: Industrial Development Authority (preliminary figures).

Table 1.3: FDI Inflows to Ireland 1990–1998 (IR£ Million)

	1990	1991	1992	1993	1994	1995	1996	1997	1998
Total Inflow	125	232	221	261	207	235	360	383	415
1990 (Base Year = 100)	100	186	177	209	166	188	288	306	332
US Inflow	65	113	135	192	153	184	300	323	324
1990 (Base Year = 100)	100	174	208	295	235	283	461	497	498

Figures compiled by data published by OECD
Source: International Direct Investment Statistics Yearbook 2000, OECD: Paris

Recent Developments

Given Ireland's reliance on FDI, especially by American multinationals, it was predictable that the impact of the dot.com downturn and aftermath of 9–11 would have important knock-on effects in Ireland. Over the past eighteen months or more, we have seen clear evidence of a major fall-off in both US FDI into Ireland and of the economic difficulties of many US MNC subsidiaries here. This evidence is particularly stark in the information and communications technology (ICT) sector. Taking as an example the review of severance settlements conducted by *Industrial Relations News* (*IRN*), we find that in 2000 there were six reported settlements comprising approximately 1,000 job losses while in 2001 there were eighteen such settlements comprising over 3,600 job losses (IRN 2002). Among the notable cases was the closure of Motorola's Dublin manufacturing plant with a loss of 750 jobs and Gateway's decision to close its European Headquarters in Dublin with a loss of 900 jobs. Many other MNCs have also reported job losses over the past two years, such as Thermoking, Nortel, Medtronic, Boston Scientific, Flextronics and Honeywell. A less predictable impact of events in the US has been its detrimental effect on indigenous firms in the ICT sector. Many of these firms were heavily reliant either on sales into the US or to US-owned firms in Ireland. The recent past has seen a number of company closures in this sector such as those at Ebeon, Nua, Formus Broadband and Breakaway Solutions, while one of Ireland's 'stars' in the software sector, Baltimore Technologies, has severely cut back its operations.

While the picture is certainly much bleaker than in previous years, some firms appear to have weathered the downturn reasonably well. A particular case in point is Dell Computers, which has continued to grow employment. The company did, however, make a decision to let approximately 200 employees go as part of "an aggressive management of operating expenses" (Sheehan, 2001). Nevertheless, the overall trend in employment in Dell has been upward. There have been a number of job announcements over the recent past, such as that of Prumerica Systems (450 job expansion in Donegal), Travelsavers International (115 new jobs in the Shannon Free Zone) and MBNA (500 new jobs in Carrick-on-Shannon). Most significantly, Intel, one of the largest US subsidiaries here, recently confirmed that it is pressing ahead with the construction of its new state-of-the-art fabrication plant ("Fab 24") involving an investment of more than 2.2 billion and widely seen as a vote of confidence in the future of the high technology sector. This facility will employ 1,000 extra staff, bringing Intel's total workforce in the Ireland to approximately 4,200 (Smyth, 2002). At an aggregate level, the IDA reported a slowing of job losses in 2002 (down from 17,800 in 2001 to 14,700 last year). New FDI projects also increased by 33 per cent in 2002 (IDA, 2003). The pharmaceutical/healthcare sector appears to represent the strongest potential growth area, with the internationally traded services sector also performing reasonably well (IDA, 2003).

A Significant Change in Industrial Policy?

In evaluating the nature of changes in the FDI sector, it is critical to understand the broader context of Irish industrial policy. Numerous commentators have noted that Ireland embraced an 'industrialisation by invitation' policy from the early 1960s. Much of the foreign industry attracted then was high-volume assembly-type manufacturing seeking to benefit from the country's low-cost labour and incentive package of financial grants and low corporation tax. Many of the firms in this wave of FDI have now closed and/or moved production to lower cost locations, particularly Asia and also Central and Eastern Europe. While the past decade or more has seen a huge growth in FDI, especially in the ICT sector, we have concurrently witnessed a progressive trend of firms transferring production abroad. For some years, the industrial promotions agencies have forecasted that Ireland's success in attracting new greenfield start-ups from abroad will recede and they have changed their overall strategy in two significant regards by:

1. Shifting the emphasis away from attracting new greenfield start-ups towards the retention of existing MNC facilities through facilitating the Irish subsidiary moves up their corporation's 'value chain' by producing higher margin products or services and developing greater product development and research capacities.
2. Placing a greater emphasis on regional balance in the geographic distribution of FDI (essentially encouraging FDI projects to locate outside of Dublin and major industrial centres into more economically disadvantaged regions).

These changes embrace an important HRM dimension. It is clear that Ireland's recent economic development has meant that labour costs have increased significantly. Consequently, it is widely accepted that if Ireland is to retain its position as a leading European location for FDI, then it must seek to attract firms whose products/services have a lower labour cost component and provide a business environment where the Irish subsidiary can successfully carry out higher order production or service activities. Labour availability has also become more problematic, as unemployment levels have fallen from close to 20 per cent in the mid 1980s to just approximately 5 per cent currently. This has occurred during a period when Ireland has experienced relatively large-scale net inward migration, especially since 1996. The net inflows of 84,000 people over recent years stand in marked contrast to the net outflows of 160,000 experienced in the mid to late 1980s. There is now relatively little scope for increased participation by males in the labour force, while female participation rates have increased significantly over the past decade.

Despite the tight labour market, the implications of the policy change concerning subsidiaries moving up their corporation's chain are evident in FDI patterns over the past year. Here Abbott Laboratories is an important case in point. This US firm specialises in pharmaceuticals, nutritionals, hospital products and diagnostics. Employing some 70,000 employees around the world, its Irish operations employ some 1,800 employees at three main locations in the 'economically disadvantaged' border, midland and western region. Having opened its first manufacturing plant in 1974 the Irish subsidiary has seen the transfer of production of a number of its product lines to Hungary, a decision based on the lower cost of production there. However, employment has not fallen in Ireland as it has successfully attracted new 'higher margin' products. More significantly, the company recently opened its first pharmaceuticals facility in Ireland and also invested in new equipment to increase the capabilities of some of its other Irish plants. A somewhat similar trend was evidenced in Nortel, where following the announcement of 150 job cuts, the position of another 250 employees working in research and development was reinforced with the reconfirmation of an announcement in September 2001 that the research and development facility was effectively being upgraded (*IRN*, 2001). Boston Scientifics' International Product Development Centre in Galway is another example of this reorientation. We can also identify other recent FDI decisions which reflect this policy change, such as the establishment of new 'bio-pharmaceutical' plants by GeneMedix in Tullamore and Genzyme Corporation in Waterford, the latter involving an investment of up to €250m with the capacity to generate 480 jobs over five years.

HRM and IR in US MNCs: The Need for Qualitative Insights

Despite the importance of FDI in Ireland, we have little empirical data on its impact on Irish business or on management practice here. Our research aims to redress this deficiency by providing qualitative insights on the dynamic between centralised policy determination and subsidiary autonomy in the management of HRM and IR in US MNC subsidiaries in Ireland, and evaluating the diffusion of specific US management techniques and practices here. Our research seeks to inform two key questions which have been relatively under-explored in the research to date: first, how far the influence of the US business system shapes HRM/IR in US MNCs in Ireland, and second, how HRM and IR practices are transmitted to/from subsidiaries, and how they are implemented (cf. Ferner, 1997; Edwards, 2000; Edwards and Ferner, 2002). The broad objectives of the study are to:

- generate detailed case studies which help us better understand the logic underlying the commonly reported distinctive characteristics of HRM and IR in foreign subsidiaries of US MNCs;

- explore the mechanisms whereby distinctive characteristics are transmitted from the parent company and are reproduced in the subsidiary;
- ascertain how far such distinctive characteristics can be explained by reference to the US business system;
- explore and explain patterns of variation in behaviour among different kinds of US MNCs;
- evaluate the extent to which US MNCs act as a potential source of HRM/IR innovation (in what areas, and by what means, do innovations occur?) or disruption (e.g. trade union suppression/exclusion) in the Irish business system.

This research specifically focuses on the processes by which MNCs decide on the balance between implementing approaches that conform to the norms of their host environment and pursuing more distinctive and standardised approaches in subsidiaries. Our data are derived from detailed case studies of HRM and IR policies and practices in four Irish subsidiaries of major US MNCs (Pharmaco, Healthco, Itco and Compuco). These companies are all significant employers in the Irish context and have a combined workforce of over 11,000. The organisations were chosen to represent a cross-section of industrial sectors and consideration was given to spatial distribution and date of establishment of the Irish operations. Each case study involved a series of in-depth interviews with (a) all of the top management team in each firm, (b) a selection of middle and front-line managers/team leaders and (c) a selection of employees and/or employee/trade union representatives.

In evaluating the potential contribution of this research, we can point to a number of areas of impact. Looking at the international sphere we find that while a body of literature on MNCs and HRM/IR exists, this is overwhelmingly based on survey data (see, for example, Bartlett and Ghoshal, 1989; Guest and Hoque, 1997; Brewster, Mayrhofer and Morley, 2000). While this is beneficial in identifying generic patterns of MNC behaviour in host countries and differences in HRM/IR practice between MNCs of different nationality, it is of limited use in identifying the main explanatory factors behind different patterns of behaviour and cannot inform the particular processes by which HRM/IR approaches are developed and implemented.

As indicated above, this paper does not focus on presenting our research findings but rather seeks to identify and explain the main HRM and IR themes pertinent to researching the dynamic between centralised policy determination and subsidiary autonomy in the management of US MNC subsidiaries in Ireland. We now consider the principal themes explored in each case and later we will outline some preliminary findings.

Researching MNCs: Issues of Process and the 'Big Picture'

As indicated earlier, a key concern that has informed our research is the need to understand the various process issues related to HRM and IR practice in MNC subsidiaries, particularly:

- the degree of *centralisation* and *formalisation* in relations between subsidiary and HQ;
- the *framework of management control*, particularly issues related to reporting conventions and financial controls;
- the *transmission mechanisms* whereby HRM and IR policies and practices may be transferred from HQ to subsidiaries, for example policy directives, dissemination of corporate culture, and the use 'benchmarking' comparisons (cf. Ferner and Edwards, 1995).

In investigating these issues we have sought to address broader 'big picture' questions evident in the extant literature on HRM and IR in US MNCs, most notably the idea of embededdeness, namely the extent to which US firms are influenced by the significant and distinctive characteristics of the American business system/form of capitalism (Edwards and Ferner, 2002). Ferner (1997) identifies such characteristics as including the early development of mass production and use of innovative management approaches to serve mass markets; the 'restrained' role of the state in regulating business and employment matters, the flexible labour market model, the 'short-term' emphasis in the nature of financial markets and the conflictual evolution of labour-management relations (also see, Jacoby, 1997; Edwards and Ferner, 2002).

In addressing the transfer of HR and IR practices, our objective is to look in detail at the substantive areas of HRM in each case study and to focusing on variations in transfer and adaptation of practices and on how formal policies are implemented in practice. This brings a 'micro-political' lens to bear on our attempts to decipher the processes of negotiation between corporate, divisional and subsidiary-level decision makers. As indicated above we also seek to explore the particular processes and transmission mechanisms by which different HRM and IR approaches are exported to Irish subsidiaries. Our aim is twofold: firstly, to identify what, if anything, is particularly American about processes used; second, we examine how this operates in practice, including, for example, any obstacles and constraints and the political interplay involved. In evaluating the balance between centralised policy-making and subsidiary autonomy, we focus on investigating the contention that American companies tend to be relatively more centralised, standardised and formalised in their management of HRM and IR and also the potential dynamic for oscillation between centralised and decentralised approaches (Ferner, 1997; Ferner, Quintanilla and Varul, 2001; Muller-Camen et al., 2001).

In interpreting these case findings our objective is to identify patterns of HRM and IR in US subsidiaries in Ireland and explain such patterns by reference to potential 'varieties of Americanness', evident in the literature (cf. Ferner, Quintanilla and Varul, 2001). Specific areas of interest in this regard include the so-called, country-of-operation effect, specific models of 'Americanness' [?] and other related factors such as the capacity for strategic choice and impact of sectoral influences. These are briefly considered below.

First, we examine the so-called *country-of-operation effect* where we attempt a systematic exploration of the differential impact of Ireland's national-institutional setting on the behaviour of US MNCs. Key criterion of use in evaluating the *country of operation* effect include the density of labour/IR regulation and impact of US capital on host economy (Ferner, 1997). Of specific import in the Irish context are its low corporation tax regime and the relatively toothless recent 'right to bargain/union recognition' legislation (see D'Art and Turner, 2002; Gunnigle, O'Sullivan and Kinsella, 2002).

Second, we consider the incidence of so called '*welfare capitalism*' and other *models of 'Americanness'* [?] in MNC operations here. Welfare capitalism developed in the US in the early 1900s and views the industrial enterprise as the source of stability and security in modern society, (Jacoby, 1997; 1999a). Ferner, Almond et al. (2001b: 6) note that welfare capitalism was based "on a philosophical opposition to unionism (e.g. Foulkes, 1980), and the belief that the firm, rather than trade unions, the state, or other third parties, should provide for the security and welfare of workers". Employers put their ideas into practice by cleaning up their factories, forming company unions, constructing elaborate recreational facilities, paying good rates of pay and providing job security, all of which were introduced with the specific intention of keeping unions at bay (Jacoby, 1999a; Ferner, Almond et al., 2001b). Welfare capitalism evolved quickly and by 1914, the National Civic Federation cited 2,500 firms persuading some form of welfare capitalism (Jacoby, 1997: 13). The Depression of the 1930s, however, resulted in a change of direction for American labour relations. Firms were forced to cut wages, reduce workforces through mass redundancies and discontinue welfare programmes. Workers became disenchanted and searched for new ways to safeguard their security (Jacoby, 1999a) and managements' right to manage was no longer accepted without question (Colling, 1999). The labour policies introduced under the New Deal were designed to add a degree of stability to union-management relations in the US and for the first time American labour had a legally guaranteed right to organise and strike under the Wagner Act of 1935 (Kochan et al., 1986; Wheeler, 1993). Collective bargaining served as the most important source of innovation in employment relations for the following two decades (Kochan et al., 1986). After the Second World War, a consensus emerged amongst academics and practitioners that the progressive non-union company had become a 'social dinosaur' and that collective bargaining combined with statutory labour market regulation represented the future in terms of employee relations (Jacoby, 1999b). Jacoby (1997) argues, however, that welfare capitalism never disappeared at this time, it simply 'went underground', and in the 1940s and 1950s companies like Kodak, Thompson Products and Sears Roebuck developed policies designed to resist incursions from organised labour and the state, and to sway public opinion in favour of business. Jacoby's thesis is that these companies cleared a path for the new wave of non-union companies which emerged in the 1960s and 1970s when economic circumstances changed and companies found the employment cultures which had developed during the previous era of collective bargaining to be intolerable (Jacoby, 1999b; Colling, 2001). Increasing emphasis on HRM practices combined with flexible technologies and job redesign in US firms in the 1980s and 1990s meant that firms increasingly followed the path carved by Kodak and IBM. One of the primary underlying premises of this research is that the relatively light institutional regulation of American system (compared with, for example, Germany or Japan) has given rise to a variety of models of American management (Ferner, 1997; Edwards and Ferner, 2002). In the IR field an important distinction has been drawn between the unionised, 'New Deal' IR model and a variety of non-union models of which sophisticated 'welfare capitalism' is among the most significant among major MNCs (Kochan et al., 1986; Jacoby, 1997; 1999a; 1999b; Edwards and Ferner, 2002). More recently it appears that there has been a 'blurring' in the boundaries involving both a decline in the New Deal model and challenges to welfare capitalism from intensifying international competition and the rise of 'shareholder value'.

Clearly, an extremely important influence on the management approach of MNCs is the impact of *industrial sector*. Our case analyses evaluate the nature of each relevant industrial sector and consider the influence of sectoral imperatives on HRM and IR. In so doing, it is important to bear in mind that institutionalist analysis tells us that sectoral governance systems vary markedly between different national business systems. Thus our case analyses attempt to examine the complex interaction between sector and national institutional environment. The aim is first to see how sectoral origin gives rise to distinctive varieties of 'Americanness' in US multinationals and, second, to look at the way in which the Irish host environment processes and assimilates sector-specific influences within US firms.

Finally, we note that different MNC subsidiaries may vary in terms of their *capacity for strategic choice* (cf. Kochan et al., 1986). Our case analyses attempt to draw together arguments about the power of subsidiaries to resist or modify corporate initiatives, or indeed to set the agenda themselves. Here we explore such issues as the ability of subsidiaries to draw resources from their local environment; the way in which they are able to exploit the regulatory constraints of the host system; and their capacity to generate policy initiatives that may be subsequently taken up by the global company through a process of 'reverse diffusion' (Edwards and Ferner, 2000).

Having examined some of the key macro-level themes, which underpin our research, we now outline the key operational HR and IR areas which we investigate in each of our cases and in so doing we also provide some preliminary findings from our case analyses.

HRM and IR Policy and Practice in US MNC Subsidiaries in Ireland

Union Recognition and Avoidance and the Role of Collective Bargaining

Synthesising the literature on the impact of MNCs on HRM and IR, we find evidence that MNCs can act as both a source of innovation and disruption in host country practice (Gennard and Steur, 1971). There is a broad consensus that MNCs have been an important source of innovation in management practices in Ireland, particularly in the application of new HRM/IR approaches and in expanding the role of the specialist HR function (Murray, 1984; Gunnigle, 1998; Ferner and Quintanilla, 1998; Ferner and Varul, 2000). For example, MNCs have been associated with innovation in areas such as the diffusion of so-called 'high commitment' work systems (Mooney, 1989) and performance-related pay (Gunnigle, Turner and D'Art, 1998). However, it is equally clear that that MNCs pose particular and unique challenges in the HRM/IR sphere, such as their potential for altering the balance of bargaining power (through, for example, threats to close subsidiaries or switch investment to other locations) and, more generally, their capacity to challenge, and potentially undermine, pluralist industrial relations traditions (Guest, 1987; Gunnigle, 1995; Ferner and Hyman, 1998).

Probably the most pertinent manifestation of this challenge is the increased tendency for MNCs establishing in Ireland to do so on a non-union basis. Trade union recognition has recently become an area of very significant debate in Ireland, largely due to the fall in density since the early 1980s and the concomitant rise in union avoidance strategies, particularly among the MNC sector. While the decline in union density reflects the impact of a confluence of factors, it is clear that the FDI sector has played a significant contributory role. Current statistics indicate that between 1980 and 1999, trade union density[2] fell by approximately 17 per cent. In discerning the impact of the FDI sector on union density, an important issue is the pattern of union recognition itself. A study of firms in the manufacturing and internationally traded services sectors, which established at greenfield sites over a ten-year period 1987–1997, found a particularly high incidence of union avoidance: 65 per cent of firms were non-union (Gunnigle, O'Sullivan and Kinsella, 2002). Non-unionism was most prevalent amongst US MNC subsidiaries in the ICT sector, a factor commonly attributed to both the prevalence of a unitarist managerial ideology among US-owned companies and also to the competitive nature of the technology sector and consequent managerial preference for maintaining high levels of numerical and functional flexibility.

However, the idea that MNCs undermine pluralist IR traditions is at odds with much of the early research which found little difference between larger indigenous firms and MNCs in their IR practices. For example, Enderwick (1986) found no evidence that MNCs operating in Ireland were reluctant to recognise or deal with trade unions (also see Kelly and Brannick, 1985). Undoubtedly this finding was related to the role played by Ireland's industrial promotions agencies, which since the 1960s had assumed responsibility for wooing FDI to Ireland. In the 1960s and 1970s these agencies promoted union recognition among new inward-investing firms, specifically by arranging introductions to trade union officials and encouraging MNCs to conclude recognition agreements with trade unions prior to start-up. These studies formed the basis for what was termed the 'convergence thesis': namely that the IR policies and approaches of MNC subsidiaries here, including those from the US, would be largely similar to host country practice, characterised then by widespread trade union recognition among larger firms and the widespread utilisation of collective bargaining, particularly among manual and craft categories (see Kelly and Brannick, 1985). This 'convergence' thesis has now come under challenge as a result of the emergence of a considerable body of research pointing to the predominance of *country-of-origin effects* (Ferner, 1997). This school argues that MNCs, most especially US MNCs, are now less likely to adjust their IR approach to local (host country) norms and more likely to impose practices and polices similar to those in the parent company (Roche and Geary, 1995; Turner, D'Art and Gunnigle, 1997a; 1997b). The most significant evidence in this regard concerns the growing pattern of trade union avoidance among MNCs, especially US subsidiaries in 'high tech' sectors as outlined above (McGovern 1989; Gunnigle 1995; Gunnigle, O'Sullivan and Kinsella, 2002). A change in the pro-union recognition stance of Ireland's industrial promotions agencies undoubtedly contributed to increased union avoidance among inward-investing firms. Since the 1980s these agencies have adopted a more neutral position, indicating to inward-investing firms that they have the freedom to recognise or avoid trade unions (McGovern, 1989; Gunnigle, Turner and D'Art, 1997). A variety of factors contributed to this important change, most significantly increased international competition for FDI and Ireland's increasing focus on the ICT area, specifically US MNCs in the electronics and software areas. These sectors of the US economy are widely seen as hotbeds of opposition to union recognition (Lawler, 1978; Foulkes, 1980; Kochan, Katz and McKersie, 1986; Beaumont, 1987).

Preliminary findings from our research confirms that union avoidance tendencies of US MNCs in the ICT sector were both Itco and Compuco were staunchly non-union, a finding consistent with the Irish and international literature (Gunnigle, MacCurtain and Morley, 2001; Jacoby, 1997). While one of these firms appears to be a stereotypical model of sophisticated welfare capitalism, the other, which operates largely on the basis of a low-cost competitive strategy, seems to follow a more conventional union suppression model. It may be significant that both of these companies established in Ireland since the 1980s, because by then setting up on a non-union basis had become an accepted pattern of MNC behaviour in Ireland (Gunnigle, 1995). Both Pharmaco and Healthco provide a contrast on this dimension, having established in Ireland in the period from the late 1960s to the mid-1970s, a period when inward-investing MNCs predominantly recognised trade unions, mostly as a result of being actively advised to do so by the various industrial development agencies (see Gunnigle, O'Sullivan and Kinsella, 2002). Looking at the nature of IR in these two firms we find what appears on initial review to be a relatively conventional picture, reflective of the convergence thesis outlined earlier. In all of their early manufacturing facilities both Pharmaco and Healthco recognised trade unions representing manual and craft categories. Pay and other major IR issues in these facilities are handled via collective bargaining, conducted separately for each of these employee categories and handled mostly on a plant-by-plant basis.

However, by far our most significant finding in the IR sphere is the fact that where these companies have established new facilities in Ireland they have done so on a non-union basis. The concurrent adoption of union recognition and avoidance in sister plants represents something of a departure in the Irish context. We know that union de-recognition, which Bassett (1986) identifies as the "sharpest form" of union avoidance, is quite uncommon in Ireland, although the UK witnessed some important cases since in the 1980s (Salamon, 2000). While neither the Pharmaco or Healthco cases entail de-recognition, they are examples of so called 'double-breasting' arrangements, whereby multi-plant organisations opt to recognise trade unions in some (longer established) plants but not in other (more recently established) plants (Kochan et al., 1986; Beaumont and Harris, 1992). In addition to the progressive trend of increased union avoidance among new MNCs in Ireland discussed earlier, any widespread use of 'double breasting' among older MNCs would create additional problems for trade unions here, particularly given the recent industrial policy focus on getting existing MNCs to deepen their roots in Ireland. Additionally, the adoption of union avoidance strategies by both these leading US MNCs with a pre-existing record of dealing with unions gives support to the argument that host country effects are increasingly being overridden by country of origin effects in regard to HRM practice in US MNCs (Roche and Geary, 1994; Turner, D'Art and Gunnigle, 1997).

Pay and Performance

As with the issue of union avoidance, the comparatively light nature of labour market regulation in the US and other broader characteristics of the American business system mentioned earlier, have facilitated the development of a distinctively US approach to pay and performance management, largely centred on the premise that rewards (particularly pay) should be contingent on some measure of an individual's performance in their job. This approach often conflicts with the IR traditions in many European countries, including Ireland, where pay increases for large segments of the workforce are agreed via collective bargaining and applied 'across the board' to workers independent of their level of performance (see, for example, Gunnigle, Turner and D'Art, 1998). In our case investigations we explore the extent and process by which the US approach to reward management is transferred to the Irish host environment. Our preliminary research indicates that collective bargaining was used as a means of determining wage rates among unionised employees in both Healthco and Pharmaco firms while performance-related pay based on periodic performance reviews was used among non-union staff. We also found that both companies enjoyed a reputation for delivering pay increases for unionised employees which were above the national norm. Performance-related pay was used for almost all employee categories in both our ICT firms.

Other Important HRM Themes

A key area where US MNCs are often thought to employ a standard corporate policy is in the *management of managers* (Ferner, 1997; Evans, Pucik and Barsoux, 2002). For example, Ferner (1997) argues that as early internationalisers, US firms were to the fore developing co-ordinated policies for managing and developing its 'international managers' to facilitate the management of its international operations. The area is often linked to the development of centralised policies in related HR areas such succession planning, performance-related pay and the dissemination of 'corporate culture'. The issue of *corporate culture* clearly merits investigation in its own regard, being widely seen as a key priority in the operations of US MNC subsidiaries abroad (Ferner, Almond et al., 2001a; Ferner, Quintanilla and Varul, 2001; Muller-Came et al., 2001). Suggested common mechanisms for the culture transfer include explicit statements of 'mission', 'vision' and 'values', management/employee development programmes and the deployment of expatriates in subsidiary operations. Indeed the role of *expatriates and expatriate development* is a long-established area of research interest in relation to HRM in MNCs, relating as it does to questions concerning the extent of international co-ordination and control in this area (e.g. Pelmutter, 1969, Tung 1982). Our preliminary evidence indicates a low level of utilisation of expatriate personnel, with just one of our four case firms relying to any significant extent on expatriates. This finding is in line with Harzing's (2001) recent findings that US MNCs deploy expatriates to a comparatively lesser extent than MNCs from other countries and, where deployed, this tends to be for reasons of knowledge transfer or lack of qualified host country personnel. Broadly consistent with other literature on international HRM, our case data also point to the deployment of expatriate managers in the start-up phases of the respective operations, the majority of whom subsequently returned to headquarters or moved to other units within the international corporation. The exception among our case firms was Itco, a company which is commonly identified in the literature as using expatriate assignees on a large-scale basis, for reasons of knowledge transfer but also as a means of culture dissemination.

An emerging theme in the international HRM literature and one which is specifically linked to US MNCs is that of *workforce diversity*, namely the extent and utilisation of policies which explicitly address gender and ethnicity in employment. This has for some time been an important issue in the US business context and our investigations in Ireland allow us to evaluate the extent to which specific US pressures and institutional arrangements may establish a HR agenda which may be applied in Irish subsidiaries. Ferner et al. (2001) identify an emphasis on workforce diversity as one of the most common characteristics of HRM in US multinationals. In our Irish cases we investigated the nature of corporate policy on diversity and the extent to which this was applied in the Irish subsidiaries. Diversity did not emerge as a significant issue to date in either Pharmaco or Healthco. However, it does appear to be a major issue in both Itco and Compuco. Indeed in Compuco a board-level position of Vice-President, Diversity, was recently created, highlighting the emphasis on diversity in this company. It is significant that in Ireland the focus was primarily on gender diversity, in contrast with a greater focus on ethnic diversity at the corporate (US) level.

Conclusion

In this paper we have attempted to outline the significance of FDI, particularly US FDI, in Ireland. We also noted the changing nature of Irish industrial policy, specifically in the context of the current difficulties in the US economy, and the increasing focus on 'moving up the value chain'. We then outlined and explored HRM and IR themes considered central to researching the dynamic between centralised policy determination and subsidiary autonomy in the management of US MNC subsidiaries in Ireland. We found that much of the extant literature suggests that US firms remain embedded in the US business system and that this will be evident in the HRM and IR policies and practices in their foreign subsidiaries. Our future research will concentrate on exploring this and related themes and developing a framework for evaluating the impact of US MNCs on HRM and IR, as well as more generally on management practice and the business system in Ireland.

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1. This paper focuses specifically on HRM and IR practice in Irish subsidiaries of US MNCs. However, this Irish study forms part of a larger European study covering four countries – Germany, Spain, the UK and Ireland. The overall project is co-ordinated by Professor Anthony Ferner, De Montfort University, and involves researchers from De Montfort, Kingston and Warwick Universities, UK, University of Trier, Germany, and IESE Business School, University of Navarre, Spain, in addition to the University of Limerick, Ireland.

2. Employment density: the percentage of civilian employees in the labour force (excluding the self-employed, security forces and assisting relatives) who are trade union members.

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The Adoption of High Performance Human Resource Practices in Ireland: An Integration of Contingency and Institutional Theory

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ABSTRACT

Advocates of the high commitment or high-performance model of HR practices (HPHR) argue that this model is universally 'best', as it exhibits the potential to outperform all other models of HPHR practice (Appelbaum and Batt, 1994; Pfeffer, 1994). Some studies indeed support this claim, indicating a positive effect of these practices on performance indicators such as productivity and quality (for example Arthur, 1994; Ichniowski and Shaw, 1995; Kalleberg et al., 1996). If these practices are even partially as effective as they are claimed to be, then they should be of great appeal to a wide array of companies. Yet rather than a rapid diffusion, an increasingly routine finding is that the take-up of these practices appears to remain low (Wood and De Meneze, 1998; Roche, 1999; Osterman, 2000; Cappelli and Neumark, 2001).

To explain this apparent reluctance in HPHR adoption, two prominent issues are considered: first, the contingency literature highlights the role of strategic integration, which sees one area of company activity, say HR management, being influenced by and reflecting the goals of another, for example, the company's business and/or production strategies (Schuler and Jackson, 1987; Arthur, 1992; MacDuffie, 1995, Wood, 1999); second, a principal assertion of the neo-institutionalist perspective is that under conditions of high uncertainty the assumption that companies are predominantly guided by efficiency concerns can be misplaced (Meyer and Rowan, 1979; Haunschild and Miner, 1997; Shaw and Epstein, 2000). For example, in the early stages of diffusion, the effectiveness of new practices is as yet, for many companies, unclear. Under such circumstances, these companies are more likely to be reluctant to adopt HPHRs.

In this article, we present a theoretical approach that integrates both the contingency and neo-institutional perspectives. The model depicts the process of HR institutionalisation as an unfolding process, in which the diffusion of HPHR practices takes place in two stages: An early stage depicts the decision by certain companies to adopt HPHR as being guided primarily by efficiency goals. This early stage is considered to drive the institutionalisation of these practices. A later stage depicts another group of companies who, as rational imitators of the early adopters, are willing 'to jump on the bandwagon'. Here a central hypothesis is that companies mimicking the HR activities of others will washout or water down the effects driven by 'efficiency' concerns.

The models are tested in the cross-section using data from a recent company survey on human resource and work organisation practices in the Republic of Ireland. The article outlines the results of the data analysis: the data confirm the contingency component of the model as well as provide support for the expected interaction between companies' efficiency goals and mimicking activities on HPHR use.

INTRODUCTION

Increasingly, scholars agree that the strategic management of human resources is an important means to gain that all-important 'competitive edge'. Although the definition of strategic HPHR differs between studies (Becker and Gerhart, 1996), they all have in common the idea that a bundle of human resources practices such as, training programmes, incentive systems, selectivity practices, sharing arrangements and practices, that enhance communication and integration, improve employee and company performances.[2] Empirical evidence from the US suggests that strategic HPHR practices exhibit substantial 'bottom line' effects (for example MacDuffie, 1995; Huselid, 1995; Delery and Doty, 1996; Ichniowski et al., 1997; Huselid and Becker 1997; see also Wood, 1999). These performance effects are attributed to the mutually reinforcing or complementary relationship that exists between HPHR practices. These findings suggest that companies can make a substantial difference to their operations by adopting HPHR and, on the face of it, one would therefore expect companies to adopt the full complement. But empirical evidence suggests that this is not necessarily so. Firstly, it appears that the take-up of these strategic HPHR practices among companies has been modest (Osterman, 2000; Cappelli and Neumark, 2001; Wood and De Menezes, 1998 for the UK). Furthermore, rather than the full-complement of HPHR being the norm of adoption, empirical studies repeatedly find hybrid forms of HPHR, i.e. forms that are comprised of a mixture or a selection from, rather than the full set of HPHR (Arthur, 1992; MacDuffie, 1995; Ichniowski et al., 1997).

These results are mirrored by the Irish discussion. On the one hand, companies in Ireland that adopt the high-performance HR bundle exhibit better performance in terms of job performance and employee discipline and product quality and innovativeness (Horgan, 2003). In spite of the costs associated with this HR approach, these companies tend also to have better performance in terms of profitability and market share (Horgan, 2003). On the other hand, the diffusion of these practices in Ireland appears to be somewhat limited (Gunnigle et al., 1994; 1997; Geary, 1999; Roche, 1999; Roche and Geary, 2000). Moreover, there are only a few indications that these practices are applied in a systematic fashion (McCartney and Teague, 2001; Geary and Roche, 2001). Most of the companies using HPHR practices appear to adopt them sporadically rather than systematically (Horgan, 2003).

The Irish discussion of the adoption and diffusion of these practices has mainly dealt with two issues: first, it has been examined whether these practices are more prevalent in new and non-unionised establishments where managerial discretion may not be constrained by established patterns of personnel management and collective agreements (Gunnigle et al., 1998; Roche, 2001; D'Art and Turner, 1999); second, the role of the multinationals in the diffusion of these practices has been scrutinised (Turner et al., 1997; Geary and Roche, 2001; Turner et al., 2001; Roche, 2001). With respect to both issues the data have been inconclusive and the findings controversial.

In this article, we focus on a different issue of the diffusion process of HPHR practices. According to the internal fit perspective, these companies appear to be opting for a form of HPHR that exhibits a limited performance complementarity potential. If the key "high performance" ingredient of the full HPHR complement is a high degree of internal consistency, why is it that companies nevertheless choose less than the full HPHR complement? In this article, we sketch a simple model of the diffusion of HPHR practices that explains why, despite this set being inferior in terms of performance implications, some firms would nevertheless adopt a selective rather than a full HPHR set. We distinguish between two stages of diffusion. In the first stage, HPHR entrepreneurs induce pioneering companies to implement HPHR as their human resource strategy. Only companies for which HPHR promises to yield substantial performance benefits will buy-in at this stage. As contingency theory would predict, those companies whose business strategy matches HPHR will be early adopters. In the second stage, another group of companies, as rational imitators of the early adopters, are willing to jump on the bandwagon. By adopting HPHR, the early-adopter has not only reduced the highest uncertainty associated with the new HPHR activity, but thanks to their performance success, this adoption has also earned HPHR considerable prestige and status. It is suggested that under such conditions, despite the lack of a technical or efficiency rational, companies are expected to find the reputation gains that HPHR have accrued over time to be a desirable attribute for their company's operations. Finally, the model outlines how the motivations of these two types of company can result in different forms or versions of HPHR being chosen.

In the first part of this article, this diffusion model is developed. In the second part of the article, empirical hypotheses derived from the model are tested using cross-sectional data from a recent survey among companies in Ireland. The discussion and summary of the model and the empirical findings conclude the article.

A Model of the HPHR Diffusion Process

In order to understand how organisational practices such as HPHR disseminate, a useful approach is to construct a general model, which, by abstracting from historical contingencies, can examine the common mechanisms that underlie many diffusion processes. In this article, we develop such a model in an informal fashion. This model depicts the process of HR diffusion as an unfolding process that takes place in two stages. The early stage depicts the decision by certain companies to adopt HPHR as being guided primarily by efficiency goals. During this early stage, the reputation of these practices is established. The later stage depicts another group of companies who, as rational imitators of the early adopters, are willing 'to jump on the bandwagon' in order to signal their status as high performers.

Early Diffusion Stage

The adoption decision of innovative organisational practices such as HPHR can be understood as a rational decision where managers trade-off the costs and benefits of adopting HPHR. In particular, during the earliest stages of the diffusion of innovative organisational practices, the rationality of the adoption decision is limited by considerable information deficits. Managers are expected to be unfamiliar with these HR practices, their understanding of the potential contribution that these practices can make to their company's performance is expected to be poor and they are expected to lack the training and knowledge to implement and 'run' these practices. The problem thus far is that potentially interested companies are not sufficiently informed or motivated to consider the HPHR option. In the early stages of the diffusion process of organisational practices, the unawareness and uncertainty regarding the related costs and benefits are substantial obstacles to be overcome (Rogers, 1995). Hence if the diffusion process is to advance, the involvement of an actor to make a critical intervention is needed: these circumstances require an actor who has a structured entrepreneurial goal, one that is prepared to actively define, justify and push the strategic value of new forms or sets of practices (DiMaggio, 1988; Clemens, 1993).

In recent decades, the role of the HR profession has developed such an entrepreneurial profile. The focus of the HR profession has increasingly been to achieve a high status within companies. In doing this, its formula has been to offer its skills, knowledge and competency as a crucial service to companies. The profession's claim has been that effective HR management makes a substantial difference to the company's 'bottom line' and thus to its ability to compete. In advancing the profession's claim, HPHR features as the decisive HR solution. Consequently, the HR profession as a collective actor has been willing to develop the concept of HPHR as a form of strategic human resource management, it has acquired the competency to implement this HR system and has actively promoted its adoption among companies. The HR profession, however, does not exhibit the status or power to make the final decisions regarding HPHR adoption.

During the earlier stage of the HPHR diffusion process, the risk involved in implementing the practices, despite the entrepreneurial efforts of the HR profession, is nevertheless high and companies are therefore understandably reluctant to adopt. The relative newness of the practices means that companies cannot gain from the success or failure experiences of other companies. This begs the question which type of company will be willing to bear such risk. Only those companies that perceive a considerable gain to be made from adopting HPHR will do so. A useful starting point to understand which companies will gain most by adopting a HPHR strategy, is to examine the extent of fit that can be achieved between the company's competitive strategy and HPHR (i.e. question of external fit). The company's ability to sustain profitability in the face of competition depends upon how well the company implements its 'competitive strategy'. In the following we proceed from Porter's distinction between two alternative competitive strategies – the cost minimisation and differentiation strategies (Porter, 1980; 1985).[3] These strategies require very different HR inputs (Arthur, 1992).

Firms can compete on the basis of low cost and being a low-cost producer in its industry. A firm engaging in cost reduction is one that claims its market position by undercutting the price at which its rivals can bring their product to the market. Depending upon the extent of commitment to being a cost-leader, the sources of cost advantage will vary; one source of advantage will be to focus on bringing a 'no-frills' product or service to the market. This requires reliable yet uncomplicated production technology and basic work production arrangements. As production techniques are well specified, relatively narrow and routine, the necessity for a sophisticated labour input is minimal. All in all, this approach demands little by way of initial training, little if any technological change and the costs related to the development of employee involvement needs are negligible (Arthur, 1992).

Alternatively, the firm can strive to be relatively unique in its industry along a dimension that is valued greatly by the customers of its product or service. This can imply emphasising the uniqueness of the product itself, the delivery system through which it is sold, the marketing approach or even by focussing on providing a particular product to a 'niche' market. The differentiator's quest to reflect the demands and changes of market conditions will rely strongly on its capacity to be innovative and flexible (Porter, 1980). To this end the human resource input will be a decisive part of delivering a high degree of employee expertise, skill, flexibility and the levels of creativity that are essential for high innovation. As a particular premium is placed on preparing and motivating employees to apply a much-needed 'smart' and high work effort, the company will need to establish a culture distinguished by norms of hard work and co-operation.

For the differentiator, high levels of HR input are required to deliver a favourable company performance outcome and it is this keen interest in stimulating employee performance that is expected to persuade the differentiator to adopt at the early diffusion stage: for example, from the recruitment stage, the procedures and practices implemented by the company when screening and selecting candidates will help to identify those who exhibit the knowledge, skills, experience and work attitudes that are considered desirable by the company. After recruitment, HPHR can continue to play a decisive role: through its role in training, compensating and promoting employees, HPHR co-ordinates the human resources that will be required for the firm to achieve this. The attraction of HPHR for the differentiators lies in its potential to reach all aspects of the company – from production, development and design to the marketing, distribution and sales of the firm's product or service. If HPHR delivers its potential, the advantages to be realised for the differentiator renders the early mover strategy not only an innovative but also a highly competitive activity. For companies pursuing a cost minimisation strategy, in contrast, HPHR is most likely to be regarded as fanciful promulgations! For these companies, HPHR does little more than increase labour costs with little or no promise of returns in terms of an enhanced productivity.

Later Diffusion Stage

Many diffusion processes result in an S-shaped diffusion curve. After an initial stage of slow adoption, the rate of adoption then rapidly increases. Later when a substantial share of the population has adopted the innovation, the rate of adoption decreases continuously. Hence the number of adopters per time unit approaches a normal curve resulting in the familiar S-shaped curve of cumulative adoption. This typical pattern resembles many epidemiological processes and a mechanism similar to contagion, such as the spread of information via a network, has been invoked to account for this shape (Coleman et al., 1966; Burt, 1987; Valente, 1994).

In the case of HPHR, we assume that such a process of interaction-based imitation is not necessarily the most important one. The number of previous adopters can affect the likelihood of current HPHR take-up in ways that do not presuppose direct contact between early and late adopters. For example, population ecologists studying the development of organisational forms (Hannan and Freeman, 1989; Hannan and Carroll, 1992) and organisational practices (Ahmadjian and Robinson, 2001) have pointed to a recurring pattern of the 'legitimacy' of organisational forms and practices increasing as a function of previous adoption. This legitimacy facilitates access to valuable resources that permits the further growth of the population. For the spread of HPHR we assume that a similar process of reputation building accounts for both an increase in the diffusion speed in this later stage as well as for the emergence of hybrid types that are characterised by the selective take-up of HPHR practices.

When the effects of practices or technologies are poorly understood, copying the example of other, successful companies provides a good, low-cost heuristic for finding a valuable solution (March and Olsen, 1976; Haunschild and Miner, 1997). However, this mimicking of successful companies is not only rational as a search heuristic but the ideas and beliefs about HR practices can secure a 'legitimate' status which brings also benefits other than those arising from a HR-business strategy fit. For example, Westphal et al. (1997) found that companies using the same practices as others improve the company's general reputation, as evidenced by the ratings of a national accreditation organisation. During the early stage of diffusion, HPHR becomes associated with both improved employee and company performances and thus earns a favourable reputation. Based on the success of early adopters, HPHR becomes recognised in the wider business community for being a successful and innovative approach. An example of how this occurs can be seen when one considers how the early adopters' experience with HPHR is evaluated by institutions whose influence is widely felt in the business community, i.e. lending institutions and other larger companies (e.g. as customers). As an important financial resource, the evaluations of these institutions are very serious for companies (for example, as a source of advice, the company is eager to incorporate its recommendations). Banks, having observed early adopters and their success with the use of HPHR means that these practices become associated with being the practices of productive companies and evaluated as practices that promote company performance. Consequently, companies that resemble early adopters will be most likely to be classified as belonging to the 'prosperous' set and thus become serious contenders for financial support. Regardless of the actual potential of HPHR for non-differentiator companies, the success of early adopters is noted and evaluated by significant observers as 'best practices'. With such 'signalling' value for banks and other resource points, all companies using HPHR can gain from the increased reputation effect. As Shaw and Epstein (2000) have shown, the reputation of companies and management can be enhanced by the adoption of popular management techniques even if they do not make substantial economic contributions. Hence HPHR becomes valuable to the company in a way that is quite different from benefits derived from the HR-business strategy fit. Once the experiences of early adopters become dissipated, later adopters will look to 'best practices' in order to avoid the reputation of an out-of-date, old-fashioned or fading company.

Low differentiators, not relying on a differentiator-HR input fit, lack any incentive in the early stages to adopt HPHR. But as the practices acquire a 'best practice' effect for all companies, benefits can be gained by now jumping on the bandwagon: adopting the latest and most innovative of HR techniques is likely to be met with the seal of approval and to evoke confidence as it indicates a high management quality. Thus, in the later stage, the profile of adopters will be less characterised by a differentiation strategy as low differentiators now also adopt in order to reap the reputation benefits of HPHR adoption.

Studies on the relationship between types of HPHR and performance have shown that the adoption of the full set of HPHR practices is necessary to gain substantial performance improvements (Ichniowski et al., 1997; Horgan, 2003). This is because these practices are mutually reinforcing and supportive. Lacking these complementarities, the take-up of single practices or of a selective set of the practices, does not yield significant performance effects. As a consequence it is expected that companies either adopt the full set of HPHR practices or they do not adopt at all. This theoretically expected bi-modal distribution of HPHR has not been substantiated empirically; rather, there appear to be companies that opt for some, in part substantial HPHR investment, but without adopting the full set of HPHR practices. This selective take-up could be a rational, profit-maximising strategy for those companies for which the performance implications of HPHR are secondary. If the selective set of HPHR practices is sufficient to secure reputation gains, 'reputation seeking' companies may opt for a selective set that requires less investment and commitment than the full set: when organisational practices are adopted for this signaling value these practices can be seen as operating as a type of façade which leaves the internal workings of the company largely untouched (Meyer and Rowan, 1977; Meyer, 1979).

To recapitulate the model, in the early stage of HPHR diffusion, lack of awareness and information prove to be the principal obstacles to the take up of these practices. The intervention of actors such as the HR entrepreneurs, having high stakes in ensuring that these practises are diffused, proves to be crucial to promoting the concept of HPHR among companies. However, even if aware of the HPHR option, only companies that have the resources to bear the costs and risks of HPHR adoption and that will benefit greatly from the potential gains of HPHR will adopt these practices. Since HPHR is expected to improve the motivation, commitment and skill of the workforce, HPHR is of particular value to companies pursuing a 'differentiation business strategy'. Companies pursuing a cost minimisation strategy, however, reject the HPHR option. Hence we expect that:

- in the early stage of HPHR diffusion, companies that pursue a differentiation strategy are more likely to adopt HPHR;
- in the early stage of HPHR diffusion, contact with HR profession will strengthen the disposition of 'differentiators' to adopt HPHR;
- companies pursuing a cost minimisation strategy are unlikely to adopt HPHR.

As a result of the success of early adoption, the rate of diffusion increases in the next stage. Although 'differentiators' will still comprise the lion share of HPHR adopters, the ongoing process of the institutionalisation of the strategy also brings with it incentives for those companies less dependant on employee input, to adopt the strategy. Having earned the reputation of being innovative and performance enhancing, HPHR becomes a signal of company success and competitivity for outsiders with a limited knowledge of a company's capabilities. Even companies that do not have an 'efficiency rationale' will adopt HPHR in order to enjoy the reputation gains.

These companies do not, however, necessarily require the full HPHR set. Because outsiders have only a limited insight into the company's activities, a selective set of highly visible and fashionable practices and a less consistent application may be sufficient to convince such outsiders of the 'high performance' nature of the company.

- In the later diffusion stage, the relationship between differentiation and HPHR adoption will weaken.
- In the later diffusion stage, differentiation companies will adopt a full-version of HPHR and non-differentiators will adopt a 'selective' version of HPHR.

This model describes a diffusion process that develops over time. A rigorous test of this model would require longitudinal data and preferably panel data. However, provided that the HPHR diffusion process has progressed beyond the early stages, the model also permits the derivation of hypotheses that can be tested cross-sectionally. In the next section, we introduce the data used to illustrate the model as well as outline the operationlisation of key concepts. Cross-sectional hypotheses will be developed in the subsequent section.

Data and Operationalisation

The data used to test the hypotheses were obtained from the Careers Management 2000 survey in Ireland. This data were collected during July–October 2000 as part of an ongoing international study on human resource and career management practices, by the Interuniversity Center for Social Science Theory and Methodology (ICS), University of Groningen in co-operation with the Institute of Interdisciplinary Management, London School of Economics (Horgan, 2003). A detailed questionnaire covering a range of human resource practices was sent to senior management/human resource offices in companies in manufacturing and services industries of the Republic of Ireland. The initial mailing was followed up with the sending of a reminder letter (for details of the data-collection procedure, see Horgan, 2003). A total of 81 usable questionnaires from companies with 50 plus employees were returned. The survey response rate of 9 per cent is somewhat below the average of some other postal surveys. This response rate is, however, within the range that is typical for international studies with this data collection method (for example, Harzing, 1999) and considering that the questionnaire used was of substantial length. A comparison of the size and industry composition of the sample with the targeted population, with the Census of Industrial Production (only manufacturing) (CSO, 2000) and with the targeted population of the larger Cranet E. Survey of 1995 (Heraty and Morley, 2000) gave no indication of response bias (Horgan, 2003).

Key Concepts

HPHR

HPHR is operationalised by the extent to which companies use the following practices:

1. *Use of Incentives*: this refers to the importance of performance and skill in determining the compensation and promotion opportunities given to core employees.
2. *Training*: the extent to which firms provide in-house or external training to their core employees.

3. ***Selection***: the extent to which companies apply rigorous selection criteria in the recruitment and promotion of their core employees.
4. ***Guidance***: the extent to which companies provide core employees with guidance and support in the development of their jobs and careers
5. ***"Gifts"***: the level of pecuniary and non-pecuniary benefits provided by a company to its core employees.

Types of Adoption

In the model outlined above, a distinction has been made between three types of HPHR adoption: ***non-adoption***, adoption of the ***full HPHR*** set and adoption of a ***selective HPHR*** set. Using cluster analytical methods, Horgan (2003) demonstrated that companies in Ireland apply three generic types of HPHR. One type sees each of the HPHR practices extensively. These companies are considered to be *full adopters* of HPHR. A second group of companies invest in many, but not all, of the HPHR practices. These are referred to as the *selective adopters*. The third type is characterised by their remarkably low use of HPHR practices. We regard these to be *non-adopters*. Eleven companies are full adopters (13.6 per cent), 34 companies are selective adopters (42 per cent) and 36 companies are non-adopters (44.4 per cent) (see Appendix for some details).

Business strategy: In operationalising the business strategy the widely applied typology developed by Porter was followed (1985). As elaborated upon earlier, according to this typology, companies compete either by becoming the lowest cost producer of a product or service (cost-minimisation strategy) or by differentiating themselves from other competitors on the basis of product quality or innovativeness (Differentiation strategy). We adapted the instrument suggested by Dess and Davis (1984) to measure these different business strategies (see Appendix for items and psychometric attributes).

HR exposure: The data unfortunately do not contain elaborate measures of the degree of exposure to the HR profession such as the extent of integration of HR networks etc. As a proxy for this we use the status of HR management in the company as measured by the involvement of HR management in decision-making and the position of the HR manager in the company hierarchy (see Appendix for specific item details).

Company co-orientation: Since the data are cross-sectional, time-dependent aspects can only be measured indirectly. In the model, it is assumed that the successful implementation of HPHR leads to reputation of HPHR as 'best practices' and transforms HPHR partially into a signal of innovativeness and management capability. We use the degree of company co-orientation as an indirect measure of a company being in the second stage of HPHR diffusion as it captures the degree of exposure to the reputation of HPHR practices. Companies with a high co-orientation (i.e. that benchmark their HR activities, that orientate themselves towards presumed best practices and that are, in general, aware of the HR management of other companies) are more likely to be reputation sensitive than other companies when determining their HR strategy (see Appendix).

Empirical Hypotheses

For those companies that pursue a differentiation strategy and hence are most dependent on a high-quality human resource input, HPHR will be most beneficial to their operations in terms of performance. Regardless of whether they adopt HPHR in the early stage or wait until the beneficial effects become evident, these differentiators will in each case choose to adopt the full set in order to realise the complementarities among the HPHR practices. Hence, we expect:

The more a company is committed to the use of a differentiation strategy, the more likely the company will adopt the full set of HPHR practices.

In contrast, the competitive advantage of companies that follow a cost minimisation strategy relies on minimising the costs of products of moderate quality and sophistication. Consequently, these companies will be reluctant to take on the extensive investments required for the implementation of HPHR. Hence, we expect:

The more a company is committed to the use of a cost minimisation strategy, the less likely the company will adopt HPHR practices.

That HPHR has earned a favourable reputation during the later stage means that companies are now provided with a new reason to consider HPHR adoption. As a consequence, the adoption rate is expected to increase in the second stage. Companies with a high co-orientation are more receptive to the promise of acquiring the legitimacy and status associated with the use of HPHR. Thus we expect:

The higher the co-orientation of a company, the more likely the company will adopt either the full or the selective set of HPHR practices.

Particularly in the first stage of the diffusion process the promoting activities of the HR profession are necessary to induce differentiator companies to bear the risk involved in HPHR adoption. The increased adoption probability in the initial stage by differentiation companies that have strong HR connections, accounts for a higher share of these companies being among the adopters for most of the diffusion process. Hence we expect in the cross-section that:

The more exposure a company has to the HR profession, the stronger the relationship between differentiation and full adoption will be.

The adoption of selective sets of HPHR practices was explained by the model as being a strategy by companies to capture the reputation benefits of HPHR adoption but have little interest in the performance effects that are associated with the full set of HPHR. The adoption of the selective set of HPHR is therefore expected to be most likely among reputation-seeking companies with little commitment to a differentiation strategy. Thus:

Companies that combine a high co-orientation with a low commitment to a differentiation strategy will predominately adopt the selective set of HPHR practices.

Econometric Specification

The appropriate regression model for multiple qualitative outcome variables with individual (i.e. company) attributes as predictor variables is the multinominal (or generalised) logit model (Greene, 2000: 859–62). The estimated equations provide a set of probabilities for the three adoption modes of the companies with attributes xi. When j=0 is full adoption (the reference category), j=1 indicates non-adoption and j=2 represents selective adoption, the probabilities are:

$$\Pr(Y = j) = \frac{e^{ß_j x_i}}{1+e^{ß_1 x_i} + e^{ß_2 x_i}} \text{ for } j=1,2,$$

$$\Pr(Y = 0) = \frac{1}{1+e^{ß_1 x_i} + e^{ß_2 x_i}} \ .$$

The marginal effects of the characteristics on the probabilities are

$$\partial_j = \Pr_j[ßj - \overline{ß}\,],$$

i.e. the probability of outcome j times the difference between the estimate for j and the average estimate for j= 0 to 2.

Beside the company attributes for which hypotheses have been formulated a vector of controls for company heterogeneity has been added. This vector includes company size (logged), company age (logged), percentage of unionised employees and sector dummies.

Results

Table 3.1 reports the results of two multinominal regressions of the three types of human resource system adoption. The full adopters of HPHR are the reference category. The first part of each model contrasts full adopters with non-adopters (1=non-adopters 0=full adopter). The second part of the models contrasts the full adopters with selective adopters (1=selective adopters 0 = full adopters). The first model contains only main effects. The second model incorporates the relevant interaction effects. The first three hypotheses relate to the main effect model. The second model treats the next two hypotheses regarding interaction effects. Table 3.2 reports the marginal effects of the variables of interest.[4]

Table 3.1 Multinominal Regression of HR Resource System Adoption

	Model 1					Model 2				
	Low		Selective			Low		Selective		
	ß	S.E.	ß	S.E.	x_2	ß	S.E.	ß	S.E.	x_2
Intercept	3.07	1.72	3.85	1.66	7.1	2.96	1.74	3.85	1.67	6.8
Process industry	.61	1.32	-.22	1.39	1.0	.83	1.36	-.41	1.41	2.0
Food & misc. industry	-.06	1.06	- -2.14	1.36	4.7*	-.09	1.13	-2.17	1.43	4.4
Service industry	.10	.37	.40	.35	3.1	.09	.39	.43	.37	3.6
Log size	-.57	.36	-.54	.33	3.3	-.58	.37	-.61	.34	3.7
Log age	.41	.44	.34	.45	0.9	.37	.46	.38	.47	.08
Unionisation	1.07	1.13	-.33	1.15	3.4	1.22	1.17	-.41	1.19	4.2
Cost minimisation	.63	.47	.21	.40	2.3	.69	.49	.25	.42	2.4
Differentiation	-.87	.57	-.44	.54	2.9	-.62	.77	-.04	.81	2.7
HR exposure	-.28	.48	-.48	.46	1.4	-.01	.68	-.39	.68	2.5
Co-orientation	-.82	.55	-.19	.56	4.7*	-.97	.64	-.19	.65	7.3* *
HR prominence x differentiation						-1.00	.69	-.23	.60	3.5
Co-orientation x differentiation						.26	.67	-.52	.68	3.8
c2 (df) (p)	39.8 (20) (.005)					44.5 (24) (.007)				
McFadden R2	.246					.276				
n	80					80				

The first hypothesis derived from the model is that a higher differentiation score is associated with an increased probability of full adoption. The estimate (bNA) indicates a positive relationship between differentiation and full versus non-adoption. This estimate is weakly significant (p=.062). Differentiation is also positively related to full adoption when compared with selective adoption although the estimate not significant (bSA; p = .21). These point estimates translate into the following marginal effects: a one-unit increase in differentiation results in an increase in full adoption by 7.3 per cent points while the percentage of non-adopters diminishes by 8.7 per cent.

The second hypothesis is that a higher cost minimisation score will increase the probability of non-adoption. The relevant parameter estimates are in the expected direction (bNA ; bNA - bSA). The estimate of the regression of non-adoption is weakly significant (p =.092); as an additional logistic regression on selective versus non-adoption showed, cost minimisation also discriminates weakly significantly (p=.098) between these two types (not reported). The point estimates imply that a unit change in cost minimisation accounts for about 15 percentage points more non-adopters (selective adopters 10 per cent less selective adopters, 5 per cent less full adopters).

The third hypothesis states that company co-orientation will increase the likelihood of both selective and full adoption. The estimates are in the expected direction. As far as the contrast between non- and full adoption is concerned, the estimate is weakly significant (p=.067). For the contrast between non-adoption and selective adoption, the estimate is even significant (p=.049) as was demonstrated by an additional logistic regression between these two types (not reported). A unit change in company co-orientation increases the number of full adopters for about 6 percentage points and the number of selective adopters for about 7 percent.

Table 3.2 Marginal Effects (approximately; Dp)

	Non-Adopters	Selective Adopters	Full Adopters
Model 1 (Main Effects)			
Cost minimisation	.154	-.101	-.053
Differentiation	-.087	.013	.073
HR prominence	.013	-.057	.044
Co-orientation	-.130	.071	.057
Model 2 (Interaction Effects)			
Cost minimisation	.170	-.118	-.049
Differentiation	-.120	.086	.034
HR exposure	.020	-.111	.081
Co-orientation	-.169	.097	.062
HR prominence x differentiation	-.183	.118	.062
Co-orientation x differentiation	.156	-.157	.001

The fourth hypothesis is that the prominence of a HR department reinforces the relationship between full adoption and differentiation. In accordance with this expectation the estimate for the product term between HR prominence and differentiation is negative and weakly significant (p=.073) for the comparison between non- and full adopters. Moreover, the estimate for this product term for the comparison between selective and full adoption is also negative, but as expected, it is more so for the comparison between non- and full adoption. The effect of differentiation on full adoption increases thus by about 6 percentage points by a unit change in company co-orientation. A simultaneous unit change of differentiation and company co-orientation increases the incidence of full adoption by almost 18 percentage points (.062 + .081 + .034).

The fifth hypothesis states that company co-orientation reinforces the negative effect of differentiation on selective adoption. In accordance with these expectations, the odds of selective versus full adoption are decreased (although the estimate is insignificant: p=.23) and the odds of non- versus selective adoption are even significantly decreased (p=.031; additional logistic regression). However, the odds of non- versus full adoption increase slightly. These point estimates imply a one-unit decrease in differentiation substantially changes the effect of company co-orientation on the selective adoption of HPHR, by almost

16 percentage points. A unit increase of company co-orientation combined with a unit decrease in differentiation results in a 17 per cent higher probability of selective adoption (.097 - .086 + .157). The results, however, also indicate that the effect of differentiation and co-orientation on full adoption is only additive, summing up to almost 10 percentage points (.034+.062+.001).

Discussion

Despite the fact that, increasingly, evidence suggests that HPHR has a substantial impact upon company performance, it appears that the take-up of these practices is nevertheless limited. Moreover, although evidence points to the full version of HPHR being the most effective, the pattern of use among companies suggest that hybrid forms of HPHR are also prevalent. In this article a model of the diffusion of HPHR that can explain these stylised facts was developed. In this model, two stages of diffusion are distinguished: the first sees diffusion of HPHR being driven primarily by efficiency considerations. Here, companies pursuing a differentiation strategy find HPHR most promising for their operations and are thus willing to bear the risk of adopting what, at this stage, are relatively unknown practices. The successful adoption of these pioneering companies sets the stage for the second wave of take-up. Increasingly HPHR becomes associated with astute company practice. Furthermore, its use becomes a signal of the quality and innovativeness of company management. Consequently, companies that were before now unconvinced, at this stage find merit in the benefits to be gained from the favourable reputation of these practices. Not being in the position to make use of the full system, however, these companies opt rather for a more selective HPHR version.

Like many sociological diffusion models, this model rests on the assumption that adoption rates of innovative practices are a function of the degree of diffusion (i.e. the number of previous adopters). However, this model combines the economic idea of profit maximisation and the sociological idea of an institutionalisation process in a novel manner. While economic models generally assume that either the costs of innovations decrease due to economies of scale or that the use value of the innovation increases with the number of previous adopters due to network externalities, sociological models argue that a substantial number of previous adopters induce other firms to follow their example.

Furthermore, this model yields a number of non-trivial implications. First, the model suggests that the relationship between HPHR and performance follows a U-shaped curve over time. In the early stage, the performance outcomes are expected to improve over time as differentiation companies learn how the practices can be best implemented and combined for optimum results. In the second stage, the performance outcomes are expected in the aggregate to deteriorate as reputation-seeking companies jump on the bandwagon. This has as a consequence that the average match between business strategy and HPHR is less optimal. Second and related to the previous point, the predictability of adoption also follows a U-shaped curve with time. Throughout the early stage, the relationship between differentiation and HPHR adoption strengthens due to the increasing number of differentiation companies that adopt these practices. Once the reputation benefits become apparent, the profile of adopters becomes less clear as the motivation to adopt becomes more heterogeneous. A third implication of the model is that various forms of HPHR take-up are expected to emerge over time: while companies in pursuit of the employee performance potential of HPHR are expected to embrace the *full* HPHR system, the less extensive *selective* HPHR system is expected to be taken on by reputation seekers. Finally, the model can be easily extended to account for 'fads' or hypes in human resource management: The high degree of diffusion in the second stage can be seen as a temporary popularity of the practices that will not last. In a third stage of the model, when the weakened association of HPHR with performance and management capability becomes apparent and the signal value of HPHR fades, a substantial number of companies are expected to jump off the bandwagon.

Using cross-sectional data from a recent survey among Irish companies, some hypotheses derived from the model were tested empirically. The first set of hypotheses concerns the impact of a company's business strategy on HPHR adoption. Support was found for the hypothesis that companies pursuing a differentiation strategy are likely to adopt the full range of HPHR practices as well as for the hypothesis that companies emphasising cost minimisation as the principal component of their business strategy, are reluctant to invest in HPHR. The exposure to previous adoption was measured by a company's co-orientation to the activities of other companies. Here we found in accordance with our expectation that co-orientation is associated with both full and selective HPHR adoption. Further, the data evidenced that companies that combine a strong co-orientation with a low degree of differentiation predominately adopt a selective version of HPHR. Thus the data provide support not only for the roles played by efficiency and interdependence in HPHR adoption but also confirm that these processes are not independent of one another. The empirical study also has its limitations. In the first sample in particular the number of full adopters is relatively small, limiting the significance of the results. More importantly, a rigorous test of the model would require longitudinal data about HPHR adoption. The data and the empirically tested hypotheses pertain to the cross-section.

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1. The authors have contributed equally to this article. They would like to thank the anonymous reviewer for his/her helpful suggestions regarding an earlier version of this work.
2. Less clear, however, is whether employee welfare, in particular the quality of working life, are also enhanced by this human resource approach (see Osterman 2000; Appelbaum et al., 2000 for the US; Ramsay et al., 2000 for UK; Godard 2001 for Canada).
3. Although a number of typologies have been developed to describe companies' business strategies, that developed by Michael Porter (1980; 1985) is arguably the best known and is widely used by both business policy and industrial relations (Hambrick, 1983, Dess and Davis, 1984; Miller and Friessen, 1986; Kochan, Katz and McKersie, 1986; Sorge and Streeck, 1988; Arthur, 1992).

4. The marginal effects have been calculated using the approximation: Dp=p (1-p)b for the calculation of the change in the conditional probability. From the conditional probabilities, probabilities have been determined using Bayes rule.

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Appendix

In the human resource literature hierarchical clustering is the most common technique used to derive bundles or types of different human resource management (for example, Arthur, 1992; MacDuffie, 1995; Ichniowski et al., 1997). Using the five dimensions, a two-stage clustering procedure that combined hierarchical clustering with a k-means clustering procedure was conducted. Hierarchical clustering was used to profile the cluster centres and to identify any obvious outliers. In order to optimise the clusters, the cluster centres identified by the hierarchical method were then used as the initial seed points in a k-means clustering procedure. This combination helps to avoid the weakness of k-means clustering where the iterative algorithm becomes 'stuck' in a local minimum. Ward's method was chosen as the hierarchical clustering algorithm. This analysis was conducted by pooling the samples of Irish and Dutch companies. Variance analytical criteria pointed to a six-cluster solution and this solution has been validated for both countries (Horgan, 2002).

Table 3.3 Types of HPHR Adoption

HPHR	Clusters					
Dimensions	Full Adopters	Selective Adopters		Non-Adopters		
	n=11; 13.6 %	n=34; 42.0%		n=36; 44.4%		
	n=11	n=16	n=18	n=7	n=18	n=11
Incentives	.94	.55	.49	-1.82	-.11	-.47
Training	1.13	-.26	1.29	-.76	-.68	.03
Gifts	.56	.84	.03	-.66	-.94	.75
Guidance	1.99	-.06	-.15	-.60	-.53	.13

Table 3.3 presents the cluster centres of the six-cluster solution. One cluster is comprised of companies that exhibit consistently high scores across all HPHR practices. This cluster is considered to be a ***full adopter*** of HPHR. Eleven companies in Ireland are Full adopters (13.6 per cent) Two further clusters are comprised of companies that invest in many, but not all, of the HPHR dimensions: one of these offers high levels of incentives, training and selectivity programmes but little in terms of gifts or guidance; the second, invests in the use of incentives, gifts and selectivity. These are referred to as the ***Selective adopters***, to which 34 companies belong (42 per cent). The remaining adoption type, the ***Non-adopters,*** is represented by three clusters. All three are remarkable in their low use of HPHR practices. Together, 36 companies belong to this group of non-adopters (44.4 per cent). For further details see (Horgan, 2003).

Further support for the classification has been sought in a nomological validation. As theoretically anticipated the full-adopters exhibit by far the best employee performance and strong complementarities between the HPHR practices. The Selective adopters lack these complementarities (Horgan, 2003). This is consistent with the theoretical argumentation developed above that companies dependant on high-quality employee input will avail of the full set of HPHR practices.

The ***cost minimisation*** variable has been operationalised differently for the Ireland and Netherlands sample. For the Ireland sample, the following items were used: "*How important are the following items in determining the business strategy of this company?*" (i) Providing products at prices below those of competitors' prices; (ii) Cost containment (1= not important; 5= very important).

The price-undercutting item was considered the item is closest to Porter's concept of companies competing by price war. A correlational analysis revealed that as expected, the four cost-management items used in the Netherlands' questionnaire are indeed more highly correlated with one another than with the price-undercutting item. This high intercorrelation between the items indicates that it is indeed feasible to consider them as a differentiation of the general cost containment item used in the Ireland questionnaire. In order to minimise the differences between the scales that would be used for the data analysis, it was decided that the price-undercutting item remain unchanged and that the cost management items be re-weighted. The summated scale Netherlands *Cost minimisation* scale has a Cronbach's alpha of α =.70 and for the Ireland scale it is α=.51.

Differentiation business strategy: The operationalisation of the differentiation business strategy involved the use of the following items: "*How important are the following items in determining the business strategy of this company?*" (i) To improve the quality of product or service; (ii) To improve the range of product/service; (iii) To customise product/service; (iv) To develop innovative product/service; (v) To switch quickly between production of different product/service requirements; (vi) To produce product/service for the higher-priced segments of the market; (vii) To develop new techniques and methods to market our products; (viii) To penetrate/develop new markets. The Cronbach's alpha for merged data set is .72, for the Ireland set .77 and the Netherlands set is .71. For Ireland, the correlations between the business strategy scales is $r = -.01$ and for the Netherlands $r = .28$ ($p<.01$).

HR prominence: To measure the two as was measured by the following items: (i) "*In this company, major organisational decisions are usually made* (a) without (=0) or (b) with (=1) input from the HR/Personnel function?"; (ii)"*On the organisation chart of this company, the top HR/Personnel manager...*" (a) reports directly to the CEO (=3); (b) is two levels below the CEO (=2); (c) is more than two levels below the CEO (=1); (iii) "*In this company the CEO meets with the senior HR/Personnel Officer...*" (a) Infrequently (=1); (b) occasionally (=2); (c) frequently (=3).

Company Co-orientation: In order to measure the extent to which companies are influenced by the practices that significant other companies use, two variables were used. These variables were summated to comprise the index. The items used were as follows: (i) "*How important are the HR practices that other competing companies are following in determining the HR programme implemented in this company?*" (1= not important; 5=very important). To measure the extent to which companies referred to a set of 'best practices' used by other companies the following item was incorporated into the questionnaire: (ii) "*How important are the 'best practices' of other companies in determining the HR practices that are implemented in this company?*" (1=not important; 5=very important).

Unit climate, Rater Goals and Performance Ratings in an Instructional Setting

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Abstract

A series of studies was conducted to analyse the relationships between rating behaviour, rater goals and contextual variables, namely unit or class climate. Cleveland and Murphy (1992) suggested that errors and inter-rater disagreements in performance ratings could be understood in terms of differences in unit climate and the goals pursued by raters. In two studies, substantial correlations were found between self-rated goals and evaluations of instructor's performance; our second study provided evidence that goals measured before raters have an opportunity to observe performance are related to ratings obtained after observing instructor performance. A third study investigated Murphy and Cleveland's (1995) proposal that contextual variables, specifically organisational climate, affect rating behaviour. To test this hypothesis, data reflecting perceptions of the climate of college level courses and ratings of instructor performance were collected. Ratings of participative and cooperative climates showed a strong relationship with student ratings of instructors' performance. Average correlations between climate and ratings are substantially larger than those between rater goals and ratings; the mediation hypotheses tested in this study were not supported. Results of the three studies are discussed in relation to past research.

Unit Climate, Rater Goals and Performance Ratings in an Instructional Setting

Traditionally, theorising about the performance rating process has suggested that there exist observable and measurable objective differences in performance and that performance ratings are an appropriate method to measure that reality (Judge and Ferris, 1993). In this tradition, performance appraisal has been treated as a measurement process, where the main focus is to collect reliable and valid measures of performance (Murphy and Cleveland, 1995). From this perspective, research has typically focused on improving rater ability, for example how to make raters more accurate (Bernardin and Beatty, 1984; Banks and Murphy, 1985; Harris, 1994). Rating problems are typically considered to result from poor rating scales or a lack of rater training. While it is certainly true that taking this perspective can lead to heightened understanding of the performance rating process, it ignores other sources of rating variance, such as rater goals and characteristics of the work context, which also hold an important role in the performance ratings process.

Murphy and Cleveland (1995) suggest that it may be better to think of the performance rating process as a goal-directed communication process. These authors suggest that when evaluating performance, raters attempt to use the ratings they assign to communicate information consistent with their personal interests. This idea is important because it implies that raters are not always motivated to provide accurate ratings. Rather, raters consider the consequences of rating in a particular manner and adjust the ratings to facilitate the attainment of their personal goals (for example, the goal of helping a particular subordinate to earn a promotion). Longenecker, Sims and Goia note, "Accuracy is not the primary concern of the practicing executive in appraising subordinates. The main concern is how best to use the appraisal process to motivate and reward subordinates" (1987: 191). To gain a deeper understanding of performance ratings, it is crucial to consider the rater goals and the context (for example, climate) within which raters evaluate performance.

Bjerke, Cleveland, Morrison and Wilson (1986) point out that the choice of exactly what message the rater communicates with performance ratings depends both on the goals being pursued by rater and the context in which rating occurs. If the impact of rater goals on performance ratings is not considered, consumers of performance appraisal information will not gain an accurate understanding of the messages communicated by the performance rating process (Newman, Kinney and Farr, forthcoming). Further, Murphy and Cleveland (1995) suggest that contextual variables, such as perceptions of climate, also may influence ratings. To date, little empirical research has examined these relationships. The purpose of the current paper is to present three studies examining the relationships among contexts, goals and ratings. Two studies investigate the links between rater goals and performance ratings. A third study examines the link between unit climate, rater goals and evaluations.

Raters who Pursue Different Goals Give Different Ratings

Several theories of personality, motivation and leadership focus on the role of goals in directing and energising behaviour (for example, Miner, 1984; Dweck and Leggett, 1988; Locke and Latham, 1990; Cropanzano, James and Citera, 1992). Goals are central to modern theories of work motivation (Roberson, 1989; Locke and Latham, 1990; 2002) and they provide a key to understanding both levels of effort and strategies for performance in achievement-oriented situations (Dweck and Leggett, 1988). Goal-oriented frameworks have proved useful for predicting the performance and biases of financial analysts (Cianci, 2001), for understanding grade expectations in the classroom (Gaultney and Cann, 2001), and for understanding practice and participation in sports (Nasir, 2000).

Locke and Latham (2002) summarise three decades of research on goal setting. Their review makes several points that are useful for understanding the role of rater goals in performance appraisal. First, goals define end states that individuals hope to accomplish. As Cleveland and Murphy (1992) note, supervisors in organisations may have more important goals in mind when completing performance appraisals than simply providing accurate ratings (see also Murphy and Cleveland, 1995). Thus, inaccurate or distorted ratings might not be an indication that raters cannot accurately evaluate performance. Rather, they may be an indication that raters are trying to do something other than simply record employee performance when completing their ratings.

Second, goals are likely to have subconscious effects, but on the whole, people appear to be conscious of and able to describe the goals they are pursuing. Studies of performance evaluation in the military (Bjerke et al., 1987) and of executive appraisal (Longenecker et al., 1987) suggest that decision makers can articulate, after the fact, the goals they pursued when making decisions about their subordinate (which can often be at odds with the goals of the organisation). Locke and Latham's (2002) suggests that raters might be able to identify the goals they are pursuing at the time they complete appraisals, or even before they make decisions about others' performance. This suggests that it is reasonable to attempt to obtain information from raters about the goals they intend to pursue when completing performance evaluations and that information about these goals should help to predict the ratings they actually give.

Murphy and Cleveland (1995) note that it can sometimes be difficult to isolate the effects of rater goals on ratings, because rater goals appear to be influenced by the ratee's level of performance (see also Kerst, 1993). That is, raters appear to pursue different goals when evaluating truly good performers (for example, they might use ratings to try to maintain current performance levels) than when evaluating truly marginal performers (for example, they might inflate their ratings in an attempt to encourage better performance). Rater goals are also probably influenced by a number of contextual variables, especially those that have to do with ongoing and expected future relationships between the rater and the ratee. Thus, for example, raters who supervise a group of mainly good performers may focus their rating behaviour on maintaining that high level of performance and they may be less inclined to give ratings that highlight differences in ratees' performance (Murphy and Cleveland, 1995). Raters may be reluctant to give low ratings (even when they are richly deserved) if they believe that those ratings will lead to resentment, decreased motivation and even worse performance in the future.

One way to disentangle the influences of rater goals and ratee performance levels on ratings is to hold ratee performance constant, by examining the relationships between goals and performance appraisals provided by raters who are asked to evaluate the same ratee. It is well-known that if several raters are asked to evaluate the same ratees, their ratings are likely to vary (Thornton, 1980; Bernardin and Beatty, 1984; Harris and Schaubroeck, 1988; Bretz, Milkovich and Read, 1992; Viswesvaran, Ones and Schmidt, 1996; Conway and Huffcutt, 1997; Gregarus and Robie, 1998; Murphy, Cleveland and Mohler, 2001). Research and theory reviewed by Cleveland and Murphy (1992) suggest that this variance might sometimes be a reflection of the different goals pursued by different raters. In particular, if two raters emphasise different goals when completing performance appraisals, they will tend to give systematically different ratings.

The first two studies presented here examine the links between rater goals and performance ratings assigned to instructors in end-of-term teacher ratings. All raters in each class have multiple, similar opportunities to view the same sample of performance and all raters in each class evaluate the same ratee. If the traditional psychometric model is correct, differences in the ratings assigned by different students should be independent of any differences in rater goals, reflecting random measurement error. If the goal-oriented approach described above is correct, information about the goals pursued by different raters who are evaluating the same sample of job performance should account for variance in their ratings. Thus, the main hypothesis of these first two studies is: H1 – measures of the rating goals most strongly emphasized by raters will account for a substantial portion of the variance in the performance ratings they assign.

Following the theoretical lead of Locke and Latham (2002), we hypothesise that goals precede and have a causal impact on ratings. The design of our first study does not allow us to evaluate this possibility, but our second study includes time-lagged data that allow us to determine whether goals assessed before performance is observed and evaluated predict evaluations after a substantial period of performance observation.

STUDY 1: METHOD

In our first study, we obtained measures of rater goals from students in several college classrooms at the same time as end-of-term teacher evaluations were completed. After students provided their regular teacher evaluations, we asked them to complete a questionnaire that evaluated the extent to which raters considered each of several goals when rating their instructor.

Procedures and Participants

Students in seven separate classes (N ranged from 19 to 187), each with a different instructor, were asked to complete the questionnaire in class at the same time they completed a standardised University-wide, end-of-term teacher evaluation form. Participants were assured that their responses to both the teacher evaluation form and the goal questionnaire were anonymous, and questionnaires were counter-balanced (that is, half of the questionnaires asked about goals first, then about instructor performance, the other half asked about instructor performance first). Each participant provided ratings for only one instructor.

We obtained usable questionnaires from 895 respondents (338 male, 500 female, 58 did not indicate gender).

Goal Questionnaire Development

A nineteen-item questionnaire was developed to assess the goals pursued by raters in evaluating their instructors. In developing our questionnaire, we used items and item statistics from a study by Kerst (1993), which investigated performance rating as a function of rating purpose, ratee performance level and rater goals. As part of her study, Kerst asked managers and supervisors in a mid-sized organisation to generate examples of goals they might pursue when completing performance evaluations. She then had other supervisors retranslate the goals into categories based on the purpose for which appraisals may be conducted (to provide feedback or to make administrative decisions) and the performance level of the ratee (poor, average, outstanding). Although anecdotal studies of rater goals exist (Bjerke et al., 1987), Kerst's study is unique in the sense that it provides a systematic record of rating goals articulated by actual users of performance appraisal. We used a sample of rating goals articulated by supervisors and managers as the basis for creating a rating goal questionnaire.

We selected nineteen goal statements from Kerst's (1993) study (rewording some slightly to fit the teacher rating context) that: (a) spanned the range of goal types and levels included in that study, and (b) were most consistently scaled with regard to the type of goal and performance levels they corresponded to.

The nineteen goal items presented in Table 4.1 could be grouped on a conceptual basis around four main themes.

1. Eight of the items described goals that related to identifying the instructor's weaknesses (items 1, 3, 5, 6, 11, 12, 13 and 18; Cronbach's alpha = .91);
2. Six items described goals that related to identifying and conveying information about strengths (items 4, 8, 9, 15, 16 and 17; Cronbach's alpha = .74);
3. Three items dealt with providing fair and informative ratings (items 2, 7 and 14 Cronbach's alpha = .60);
4. Two items dealt with motivating ratees (items 10 and 19; Cronbach's alpha = .67).

A confirmatory factor analysis suggested that this model fit the goal rating data very well (GFI= .98, NFI= .97, RMSEA= .08), and we created scales to represent each of these correlated factors.

In this study, participants were asked to indicate the extent to which they agreed with the statement that each of the nineteen goals influenced or was important in the evaluation of their instructor's performance, using a scale from 1 (strongly disagree) to 5 (strongly agree).

Measures of Instructor Performance

The teacher evaluation form used by the university included three items that referred specifically to the effectiveness of the instructor and/or the course

("Overall, I would rate this course as good"; "The teacher organized the course effectively"; "Overall, I would rate this teacher as good"). In addition to these three items, we asked students to complete a one-item overall rating of their instructor's performance in the course ("The instructor performed very well in this course"). Ratings on all four items were highly correlated and a four-item composite provided a highly reliable index of instructor performance (Cronbach's alpha =.94).

Results

Table 4.1 lists the means, standard deviations, and the correlations with composite performance rating for each of the nineteen goals. Table 4.2 lists means, standard deviations, and correlations of the four rating goal scales with performance ratings, as well as the intercorrelations among these scales.

Relationship between Goals and Ratings

Ratings of the importance of the nineteen goals were significantly and substantially related to performance ratings in six of seven classes (one class had only nineteen students, making it impossible to fit a regression model with nineteen predictors); shrunken $\underline{R}^2$ values ranged from .15 to .61, with a median value of .49. Scores on the four goal scales were also significantly related, albeit less strongly, to ratings in all of the classes, with $\underline{R}^2$ values ranging from .07 to .36, with a median value of .16.

We next examined relationships between goals and performance ratings in the total sample, using hierarchical regression. We first entered a set of dummy-coded variables representing the seven instructors and found that differences in instructors/courses (instructors are nested within courses) accounted for 18.7 per cent of the variance in teacher ratings. We then entered ratings of the importance of the nineteen goals and found a significant and substantial increase in the percentage of variance explained (incremental $\underline{R}^2$=.31). We used the same procedure to examine the predictive power of the four goal scales, independent of any differences across courses in mean performance ratings, and found a significant and substantial increase in the proportion of variance explained (incremental $\underline{R}^2$=.24).

Discussion

This study provides empirical support for Cleveland and Murphy's (1992) hypothesis that information about the goals pursued by raters can be used to predict the performance ratings they assign. Depending on the method of analysis, $\underline{R}^2$ values ranged from the .20s to the .30s, indicating relatively strong links between goals and ratings. Raters who emphasised different goals did seem to assign different ratings to the same teacher's performance. Although goals probably are affected by the performance of the subordinate, it is likely that the goals pursued by raters also reflect some stable rating tendencies that are not solely a function of the ratees or the rating context (Dweck and Leggett's 1988; Murphy and Cleveland, 1995). Our second study investigates the relationship between goals measured prior to observing the ratee's performance and ratings obtained after observing the ratee's performance.

STUDY 2

In Study 1, ratings of goal importance were collected at about the same time as ratings of instructor performance, which could possibly lead to inflated estimates of their relationships. This research design does not allow us to determine whether rater goals are an antecedent or a consequence of the rater's overall evaluation of the instructor's performance. For example, it is plausible that a student who has already formed a somewhat negative opinion about his or her instructor's performance will tend to rate goals that refer to identifying the instructor's weaknesses as being important. What is needed is a longitudinal design, in which information about goals is obtained before raters have formed clear opinions about ratee performance. Our second study provides an opportunity to test the hypothesis that rater goals assessed before raters have meaningful information about the ratee's performance can predict the ratings they will give after being exposed to the ratee's performance.

Method

Ratings of goal importance were collected during the first week of the semester (N = 303) and ratings of teacher performance (N = 232) were collected at the end of the semester in five separate courses. We were able to match goal importance and teacher ratings for 186 participants.

Results

All five instructors received very high ratings, with a mean rating of 4.14, and individual instructor ratings ranged from 4.03 to 4.22, on a five-point scale. Differences across instructors accounted for 14 per cent of the variance in teacher ratings.

Relationships between Goals and Ratings

We first examined the relationship between ratings of goal importance collected at the beginning of the semester and ratings of teacher performance obtained at the end of the semester separately in each class. As in Study 1, we found substantial links between goal ratings and performance ratings in each classroom, with shrunken $\underline{R}^2$ values ranging from .23 to .52, with a median of .35 (in one course, there were fewer students than predictors and we were not able to estimate the shrunken $\underline{R}^2$). We next examined relationships in the total sample, pooling across instructors.

As in our previous study, we found a large and statistically significant multiple correlation between the nineteen goals measured at the beginning of the semester and performance ratings obtained at the end of the semester (adjusting for instructor mean differences, the incremental $\underline{R}^2$ = .26). We found significant and moderately large relationships between goal scale scores obtained at the beginning of the semester and ratings collected at the end of the semester (incremental $\underline{R}^2$ = .08).

Discussion

Ratings of goal importance collected at the beginning of the semester, before students have had an opportunity to observe the instructor's performance, predicted ratings of instructor performance collected at the end of the semester. Because all raters in each class are evaluating the same target, this means that raters who entered the semester with different orientations toward performance rating (for example, more emphasis on providing information about ratee strengths, less emphasis on fairness) provided systematically different evaluations of the same instructor's performance.

Our first study documented the correlation between measures of goal importance and evaluations of teaching performance, but because ratings of goals and of performance were obtained at the same time, there is the possibility of a spurious correlation. Our second study helps to rule out this explanation for the goal-rating link and suggests that raters' goal orientations might account for variability in performance ratings that is independent of ratee performance. In particular, ratings of goal performance collected at the very beginning of the semester (before raters have had a chance to observe the ratee's performance) predict end-of-semester performance evaluations. The lag between collecting goal information and performance evaluations virtually rules out the possibility of reverse causation (that is, end-of-semester evaluations collected in Study 2 cannot have a direct causal influence on goal ratings collected at the beginning of the semester and there is too little information available at the beginning of the semester about the instructor's performance to make it likely that evaluations of performance at that early point have a substantial influence on goal ratings). Correlational research, even with longitudinal designs, rarely provides conclusive evidence for causation, but the findings of these two studies are consistent with a model that assumes that rater goals have an impact on the evaluations they provide.

Relationship between Organizational Climate, Rater Goals and Performance Ratings

Murphy and Cleveland (1995) argue that performance appraisal cannot be adequately understood outside its organisational context. These researchers classify contextual factors into a continuum from proximal to distal factors. According to Murphy and Cleveland, "*Proximal* factors are those that impinge directly on the individual rater, whereas *distal* factors affect the rater indirectly" (1995: 32). Distal factors include climate perceptions, which are hypothesised to affect the behaviour of raters and ratees through intervening variables, such as standards of performance. Below, we suggest that climate may also affect rating behaviour, possibly as a result of the influences of climate on rater goals.

According to Litwin and Stringer (1968), organisational climate describes a quality of the work environment perceived by its members that influences expectancies and incentives. These authors propose a model that defines organisational climate as an intervening variable, mediating between organisational system factors and motivational tendencies. System and leadership features are seen as generating an organisational climate, which in turn arouses or suppresses particular motivational tendencies. It seems reasonable to expect that perceptions of organisational climate, generated from system features and other contextual factors, may similarly arouse or suppress raters' motivational tendencies in the form of rater goals. These goals, in turn, affect rating behaviour.

Murphy and Cleveland (1995) suggest that organizational context in which rating occurs is a major determinant of goal-oriented rating behaviour. Consistent with Litwin and Stringer's (1968) theory of organisational climate, they suggest that contextual information from the environment of the organisation, such as climate and culture, is integrated and interpreted by raters to formulate goals. According to these researchers, "…culture might determine what approach to appraisal and what behaviours are evaluated positively or negatively in the organization" (1968: 227).

It may be possible that rater goals reflect perceptions of the rating environment, namely climate, thereby acting as an intervening variable, mediating the affect of climate perceptions on performance ratings. Therefore, in this study it is predicted that perceived climate will not only affect ratings directly, but that the influence of perceived climate on performance ratings will be mediated by rater goals.

Study 3: Method

Measures

In order to assess perceptions of climate, Ostroff's (1993) measures of co-operative climate and participative decision-making climate were used. The decision-making climate scale comprises four items measuring student voice in decisions that are made regarding the class (α = .73), whereas the co-operative climate scale measures mutual helpfulness among students and between the students and the instructor, as well as the patience and listening behaviour of the instructor (13 items, α = .86).

Study 3 employed the same measures of instructor performance (α = .93) and rater goal importance (weakness goals α = .71, strength goals α = .64, fairness goals α = .33 and ratee motivation goals α = .62) as did Studies 1 and 2.

Procedure

As with Study 2, the measurement of goal importance (N = 631) was separated in time from ratings of teacher performance (N = 592); these two sets of measures were obtained two weeks apart. Ratings of climate for participation and cooperative climate (N = 631) were collected contemporaneously with the goal importance measures three weeks prior to the end of the semester, while performance ratings were made at the end of the semester. Climate, goal importance and teacher ratings could be matched for 523 participants, representing fifteen courses/fifteen instructors.

Results

In this design, raters are nested within both courses and ratees. Thus, the design factors of course-level climate and ratee are perfectly confounded, which prohibits the unambiguous use of cross-level modelling of the relations between unit-level climate and individual-level ratings in this data. Rather, the critical issue addressed by this study involves the variability of ratings *within ratees*: the source of variance that is generally considered error under true score theory. As such, we sought to demonstrate covariance of individual-level climate perceptions and individual-level ratings and rater goals within-classes.

Homogeneity of Ratings within Classes

Estimation of between-instructor/between-class versus within-instructor/within-class variability in climate perceptions, goal importance and performance ratings can provide a guide to understanding the multi-level nature of these constructs. As can be observed in Table 4.3, one-way ANOVA and eta squared values indicate substantial between-instructor variability compared to within-instructor variability for both climate measures and performance evaluations, but less so for goal ratings. This result suggests that climate and teacher ratings are a course-level construct that vary across courses, whereas rater goals vary as much within courses as between them.

Relationships among Climate Perceptions, Goals and Ratings

Our next step was to examine relationships between facets of climate, rater goals and ratings. Although the most statistically powerful test of these relationships would come from calculating correlations for all 523 participants combined across all fifteen courses, doing so would confound relationships at the class level with those at the individual level (Rousseau, 1985; George and James, 1993; Ostroff and Harrison, 1999).

Because this study is primarily focused on within-class variance in ratings of a single ratee, it was appropriate to analyse the relationships among variables within each class separately and then to aggregate results across replications. In order to estimate correlations among climate perceptions, rater goals and ratings made on a single ratee, weighted mean correlations from the fifteen classes were estimated using meta-analysis. Results of these analyses for all variables appear in Tables 4.4a and 4.4b.

The average correlations between climate and performance ratings (Mr values are .42 and .46 for decision climate and cooperative climate, respectively) are substantially larger than those of rater goals with performance ratings (Mr estimates for rater goals range from .13 to -.04). Correlations among climate facets (Mr=.64) and among goal types (Mr estimates range from .26 to .53) were generally stronger than those between climate perceptions and goals (most mean correlations between climate and goals were below .20). Co-operative climates were more strongly related to rater goals of 'identifying strengths' and 'rating fairly' than were decision-making climates. Correlations involving 'identifying weaknesses' goals were not homogenous across classes/studies, with significant Q values suggesting possible moderators for nearly all of the relationships involving weakness goals.

Tests of Moderation and Mediation Hypotheses
Murphy and Cleveland (1995) suggested that the influence of distal antecedents (for example, organisational climate) on rating behaviour may be mediated by more proximal antecedents, such as rater goals. The theoretical explanation noted earlier for climate effects on rating behaviour implies that climate may also moderate the influence of goals on rating behaviour, such that rater goals more strongly affect performance evaluations when climate is perceived to be participative.

In order to test the mediation hypothesis, performance ratings were regressed on rater goals, on raters' climate perceptions and then on both rater goals and climate perceptions. These regression analyses were based upon the meta-analytic correlations in Table 4.4 (cf. Viswesvaran and Ones, 1995). Multiple $\underline{R}^2$ for goals was .05, for climate was .24 and for goals and climate together was .255 (all statistically significant for $\alpha = .05$). The large increase in $\underline{R}^2$ with the addition of climate perceptions to the regression equation ($\underline{R}^2$ change = .21) indicates that goals do not mediate the influence of climate on performance ratings, as the distal-proximal model of rating behaviour (Murphy and Cleveland, 1995) would suggest. Rather, the small increase in $\underline{R}^2$ with the addition of rater goals ($\underline{R}^2$ change = .01; NS) is consistent with the interpretation that rater climate perceptions may mediate the influence of rater goals on rating behaviour.

In order to test for possible interactions of climate and rater goals on ratings given, cross-product terms were tabulated. Moderation hypotheses were tested on the combined matrix of correlations across all fifteen classes (N = 523). When cross-product terms between the two climate scales and the four goals scales are added to rater goals and climate in the regression equation, $\underline{R}^2$ increased by a non-significant amount (R^2 change = .01; NS), failing to support the moderation hypothesis.

Discussion

The results of this study are clear. Measures of climate and performance vary substantially across instructors, whereas measures of goals do not. This is the result that would be expected given our understanding of rater goals as individual differences of the raters themselves, which are not influenced by the ratee about whom the performance judgements are made.

Study 3 also shows that the relation of performance ratings to climate perceptions is much stronger and more consistent than the relation of rater goal importance to performance ratings, with confidence intervals for the latter relation including zero in the case of two goals: (a) identifying ratee weaknesses and (b) giving ratings fairly.

Our data suggest that co-operative climates support rater goals such as 'identifying strengths' and 'wanting to rate fairly'. Perhaps the link between co-operative climate and identifying strengths is the result of employee appreciation for the manager/instructor's patience and helpfulness (which are likely to be considered strengths). Another partial explanation is that individuals in an environment that they perceive to be mutually helpful are more accustomed to giving positive feedback as part of the normal communication in that setting. Intentions to rate fairly fit with the due process metaphor and may reflect a desire on the part of raters to reciprocate the consideration and patience afforded by the instructor throughout the semester. The finding of an association between course climate perceptions and rater goals indicates that some types of rater goals may depend upon the context within which the ratings are made and also may result in part from a matching of particular goals to particular ratees. While the latter explanation is unsupportive of our theory and inconsistent with the results of Study 2 (in which rater goals independent of ratee behaviour influenced ratings), the idea that rater goals may change to suit the context is an interesting prospect that merits future study.

One unexpected finding from Study 3 was that climate perceptions appeared to mediate the influence of rater goals on performance ratings. Three alternative explanations might be used to explain these unexpected findings. First, climate perceptions may be an active mechanism through which rater goals impact the evaluations raters give. Specifically, raters who begin with the rating goals of identifying strengths and weaknesses may selectively attend to positive and negative aspects of performance, respectively, in alignment with their goal orientations toward rating. This selective attention and interpretation could result in the emergence of more positive or negative perceptions of course climate, which then contribute to the positive or negative ratings summoned when evaluations are elicited in class. Another explanation for the mediation finding relates to the fact that the effects of rater goals on performance ratings were small even before climate was introduced to the regression equation and that a small decrease in unique R square would be expected even in the absence of a substantive mediation process. Essentially, it did not take much to make the small effect of rater goals become non-significant and the small drop in R square that changed the level of statistical significance of rater goals when climate was introduced could easily be attributed to the low-level multi-colinearity between the climate and goal measures, which were measured with common methods. Finally, for the job being studied (university instructor), it may make sense to think of the measures of climate perceptions as measures of specific aspects of performance. For instance, whether the instructor is patient and listens to students may be considered an aspect of the criteria on which teachers should be rated when overall evaluations are made. If not a job requirement, engendering class participation and helpfulness may at least be considered a form of contextual performance (Borman and Motowidlo, 1993). If the ratings of climate perceptions in this study were indeed considered by students to be specific aspects of the more general construct of 'overall performance', then climate and performance ratings may simply represent two overlapping criteria that are each predicted by rater goals.

Overall Discussion

This set of studies has led to several findings regarding the role of goals and context in the performance rating process. First, Studies 1 and 2 test the hypothesis that performance ratings can be better understood if the goals that raters pursue are considered. These studies show that rater goals predict the evaluations they will give; this finding holds up even when goals are measured well in advance of evaluations of performance. Murphy and Cleveland (1995) predicted strong links between goals and performance ratings; the results of Studies 1 and 2 support this prediction.

Study 3 accomplishes two purposes: first, it provides yet another replication of the rater goals and performance-rating relationship; second, it tests the hypothesis that contextual factors influence performance ratings and that they mediate goal-rating relationships. This study provides evidence that contextual factors do in fact contribute unique variance to performance ratings. However, this study fails to support the hypothesised role of climate as a mediator of the relationship between goals and rating. If anything, our data are more consistent with the hypothesis that goals mediate climate-rating relationships. Future studies should continue to investigate the nature of this goal-climate-rating relationship.

Conclusion

The studies discussed in this report have provided researchers with a platform from which several lines of research can be started. Variables such as rater goals and the rating context have been discussed in regard to performance appraisal for quite some time (Murphy and Cleveland, 1995). These studies represent one of the first empirical tests of the influence of these variables. In that vein, these studies do show that goals and context are important. We are confident that future research will serve to further elaborate on the nature of these effects. Given the ubiquitous use of performance appraisal in organisations, it is time that researchers focus on what these ratings mean. The meaning of performance ratings cannot be understood without consideration of the goals that raters pursue when given ratings and the context in which ratings are given.

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1. If time 2 goals are entered first, goals measured at time 1 account for an additional 19.8 per cent of the variance in ratings, which is also significant. [**Where is note indicator?**]

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Table 4.1 Goals: Importance and Correlations with Performance Ratings: Study 1

Goal		Mean	SD	r[a]
1	Identify areas in which the instructor might need improvement	3.34	1.20	-.10*
2	Rate my instructor fairly	4.29	.98	.43*
3	Identify areas where the instructor needs more training	3.14	1.25	-.01
4	Convey my satisfaction with the instructor's performance	4.22	1.01	.48*
5	Identify areas that the instructor should focus on improving	3.34	1.23	-.06
6	Indicate where the instructor fell short in terms of performance	3.27	1.30	-.10*
7	Give my instructor a rating that s/he will realize is based on performance, rather than my judgment of him/her as a person	4.19	1.08	30*
8	Identify my instructor's strengths and weaknesses	3.81	1.12	.20*
9	Highlight my instructor's performance so that his/her success is visible to his/her department head	3.84	1.16	.34*
10	Improve my instructor's confidence	3.25	1.32	.15*
11	Make it clear to my instructor that there is room for improvement	3.18	1.34	-.16*
12	Identify my instructor's performance deficiencies	3.13	1.33	-.09*

13	Challenge my instructor to improve her/his performance	3.19	1.33	-.07*
14	Clarify expected performance levels to the instructor	3.17	1.27	-.01
15	Evaluate the instructor in a manner that clearly indicates what was done well and what was done poorly	3.25	1.32	.12*
16	Indicate where instructor has exceeded performance expectations	3.81	2.03	.34*
17	Encourage the instructor's current level of performance	3.89	1.09	.43*
18	Encourage the instructor to improve performance	3.32	1.33	-.06
19	Motivate the instructor	3.48	1.26	.22*

a *correlation with performance rating composite*

***[What does this represent?]**

Table 4.2 Correlations between Goals Scales and Performance Ratings: Study 1 [Study 2?]

			Correlations			
Measure	*Mean*	*SD*	*1*	*2*	*3*	*4*
1 Strength scale	3.91	.87				
2 Weakness scale	3.23	1.06	.38*			
3 Fairness scale	3.91	.86	.69*			
4 Motivate scale	3.37	1.12	.47*	.61*	.51*	
5 Performance Ratings	4.38	.85	.42*	-.10*	.29*	21*

* *p < .05*

Table 4.3 Within-Group Homogeneity of Climate Perceptions, Goal Importance and Performance Ratings: Study 3

Climate	*F*	*eta squared*	*med r_{wg}*
Decision making climate	17.8	.29	.77
Co-operative climate	20.9	.32	.95
Ratings of Performance			
Performance ratings	12.9	.24	.85
Goals			
Weakness goals	1.8	.04	.92
Strength goals	2.1	.05	.91
Fairness goals	2.1	.05	.84
Ratee Motivation goals	2.8	.05	.59

Table 4.4a Meta-Analysis Results for Antecedents of Instructor Performance Ratings: Study 3

Correlation with Ratings	*Mra*	*SDweighted*	*95% CI*	*Q*
Climate				
Decision making climate	.42	.18	.35-.49	15.51
Co-operative climate	.46	.15	.39-.53	10.58
Goals				
Weakness goals	-.04	.25	-.13-.04	30.34*
Strength goals	.13	.21	.04-.21	20.95
Fairness goals	.07	.18	-.02-.16	15.10
Ratee Motivation goals	.13	.15	.04-.21	11.02

* *p < .05 df=14, k = 15, N = 523*

a *Mean correlation is calculated using an inverse Fisher Z transformation.*

Table 4.4b Meta-Analysis Results for Climate and Goals: Study 3

Correlations	*Mr*	*$SD_{weighted}$*	*95% CI*	*Q*
Decision making climate – Cooperative climate	.64	.22	.59-.69	28.55*
Decision making climate – Weakness goals	.06	.22	-.02-.14	28.91*
Decision making climate – Strength goals	.18	.18	.11-.26	19.80
Decision making climate – Fairness goals	.09	.14	.01-.17	12.17
Decision making climate – Ratee Motivation Goals	.19	.13	.11-.27	10.49
Co-operative climate – Weakness goals	.09	.22	.01-.17	29.16*
Co-operative climate – Strength goals	.33	.20	.25-.40	24.11*
Co-operative climate – Fairness goals	.22	.18	.15-.30	19.73
Co-operative climate – Ratee Motivation Goals	.17	.15	.09-.25	13.33
Weakness goals – Strength goals	.53	.24	.47-.58	33.54*
Weakness goals – Fairness goals	.49	.18	.43-.55	17.87
Weakness goals – Ratee Motivation goals	.26	.19	.18-.33	20.00
Strength goals – Fairness goals	.51	.16	.45-.57	14.31
Strength goals – Ratee Motivation goals	.34	.15	.26-.41	13.22
Fairness goals – Ratee Motivation goals	.29	.14	.22-.37	11.88

$^*p < .05$ $df=14$, $k=15$, $N = 631$

Exploring Employees' Reactions to Strategic Change Over Time: The Utilisation of an Organisational Justice perspective

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Introduction

This paper presents findings from a longitudinal study examining strategic change in a UK public sector organisation. The study is an extension of the original reported in this journal that focused on the first phase of data collection and analysis (Saunders et al., 2002). The focus of this study centres on employees' reactions to the management of strategic change in this organisation over a four-year period, from 1998 to 2002. The organisation came into being in 1998, following a transformational change imposed by local government reorganisation, and has since been subject to further changes of an incremental nature. Data were first collected in 1999, following the implementation of the change processes that led to the organisation's formation. Data were collected again in 2002, to assess employees' reactions to the subsequent changes that were experienced within the organisation.

The primary focus of this study is to examine employees' reactions to strategic change over a prolonged period. In this paper, we use the term 'strategic change' to indicate changes related to the strategic development of the organisation. This type of change can be differentiated from others of a more restricted scope and operational nature (for example, Johnson, 1993). As part of this focus, employees' reactions to managerial interventions aimed at managing transformational and more incremental changes are considered. These are operationalised through the following research questions:

1. How do employees' reactions alter in relation to the nature of strategic change?

   The initial approach taken to addressing this question is exploratory although we have also chosen to use organisational justice as a theoretical tool to seek to explain the nature of employees' reactions.

2. This has resulted in a second research question: how useful is an organisational justice perspective to explore and explain the nature of employees' reactions to strategic change?

Organisational justice explores perceptions about organisational decisions, the methods used to make them and the treatment of those affected through three related theories (Greenberg, 1987; Folger and Cropanzano, 1998). The first relates to employee perceptions of outcome fairness, which Homans (1961) labelled distributive justice. The second is procedural justice (Thibaut and Walker, 1975), which focuses on employee perceptions about the fairness of procedures used to make decisions. The third is interactional justice (Bies and Moag, 1986), which focuses on perceptions about the fairness of the interpersonal treatment that employees receive. Organisational justice theory therefore offers a framework through which to explore and understand employees' feelings more fully. As this theory permits the relationships between perceptions about the outcomes of change, the methods used to achieve it and the treatment of those affected to be explored, it provides an important means to explore organisational change and the reactions of those involved in this process.

In this paper, we commence by conceptualising organisational justice theory in relation to change. We then explore the nature of employees' reactions to strategic change that began with a transformational change and was followed by incremental changes in the subsequent four-year period. This leads to an appraisal of organisational justice theory as a framework to explain employees' reactions to strategic change. We conclude with a discussion about the implications for organisational justice theory from this exploration of transformational and incremental types of change.

Conceptualising Organisational Justice

Organisational justice (Greenberg, 1987) focuses on perceptions of fairness in organisations. It seeks to categorise and to explain employees' views and feelings about their own treatment and that of others within an organisation, and is concerned with understanding their subjectively held perceptions resulting from the outcomes of decisions taken in an organisation, the procedures and processes used to arrive at these decisions and their implementation. Organisational justice has developed to offer theories in relation to each of these aspects. Employees' perceptions about the outcomes of decisions taken in an organisation and their responses to these form the basis of distributive justice (Homans, 1961; Leventhal, 1976). Perceptions about the fairness of the processes used to arrive at, and to implement, organisational decisions are the basis of two types of theory – procedural justice and interactional justice (for example, Cropanzano and Greenberg, 1997). We consider each of these types of organisational justice and their relationship to strategic change in turn.

Distributive Justice

Organisational decisions related to strategic change are likely to affect the allocation of resources and the nature of outcomes in organisations. Distributive justice is concerned with perceptions of fairness about organisational allocations and outcomes. In this sense, the concept of distributive justice may provide the basis of an analytical framework that can be used to understand the perceptions of those affected (for example, Cropanzano and Greenberg, 1997; Folger and Cropanzano, 1998) by transformational and incremental change.

Homans (1961) conceived of distributive justice as arising from the outcomes of a social exchange based on inputs made previously. Perceptions about fairness are based on a subjective assessment about outcomes in relation to the costs incurred or investments made in an exchange. Adams (1965) proposed that feelings of inequity would arise where the ratio of a person's outcomes in relation to their inputs from an exchange were perceived as disproportionate, as the result of a comparison with others. This theory allows for the recognition of positive and negative forms of inequity in relation to strategic change. Perceptions of unfairness may lead to positive inequity, where the perceiver feels that others had a greater claim to a particular reward or outcome compared to him or herself. It has been suggested that this can lead to the person feeling guilty. A person experiencing positive inequity may undertake a revaluation of their contribution, to alleviate this feeling. On the other hand, perceptions of unfairness can lead to negative inequity, where the perceiver feels that she or he has a greater claim to a particular reward or outcome in relation to the person receiving this benefit, leading to feelings of anger and possibly alienation. A number of potentially adverse behavioural reactions may follow from this perception, such as reduced job performance, embarking on the use of withdrawal behaviours such as absenteeism and reduced co-operation (Folger and Cropanzano, 1998).

More generally, the distribution of particular change outcomes between occupational groups is also likely to affect perceptions of fairness in relation to their differential treatment. For example, there are likely to be implications for distributive justice where negative outcomes of organisational change, such as increases in workload, disproportionately affect some groups of workers in relation to others (Brockner, 1992). Such a scenario is likely to lead to perceptions of inequity or distributive injustice. It emphasises that distributive justice theory may be applied to situations where organisational outcomes, such as increased workload, are negative and where there is an issue about the distribution of such outcomes. Not surprisingly, studies undertaken in relation to distributive justice have found employees affected are more satisfied by outcomes they judge as fair than by those they judge as being unfair (for example, Cropanzano and Greenberg, 1997).

Perceptions of distributive justice are likely to be based largely on comparisons with others (Adams, 1965; Greenberg, 1987; Cropanzano and Greenberg, 1997). Consequently, perceptions about outcome fairness will not just be related to an absolute measure (for example, that equity will automatically and only arise in relation to the more money or better treatment a person receives) but will also be based on one or more relative, social comparisons. These are termed referent comparisons or standards and influence both the strength of feeling and whether an outcome is seen as fair or unfair. A number of formulations of how such standards are chosen have been advanced in the literature. In particular, a person's perception of outcome fairness may be derived through comparison with specific others working near by. For example, an employee may compare her or his treatment during a change process by observing the way in which co-workers are treated. Such comparisons may also be generalised so that the referent standard becomes an external group (Greenberg, 1987), allowing generalised comparisons to be drawn to those who work elsewhere, in relation to a person's occupational group or in a similar type of organisation. More generally still, an employee may make a comparison to a broader social or societal norm or expectation.

Procedural Justice

Assessments of organisational justice depend not only on perceptions about the fairness of allocations and outcomes but also on perceptions about the procedures used to arrive at such decisions. Procedural justice is concerned with perceptions of fairness about the procedures and processes used to arrive at decisions. Since the conceptual development of procedural justice in the mid-1970s (for example, Thibaut and Walker, 1975; Leventhal, 1976), the importance of this concept for many aspects of human resource management has been recognised (Folger and Cropanzano, 1998). A key finding emerges from numerous studies: decisions based on procedures that are perceived as fair are more likely to be accepted by those they affect than decisions arising from procedures that are not perceived as fair (Cropanzano and Greenberg, 1997). Genuinely fair procedures and processes are also likely to moderate the impact of negative reactions that arise from decisions leading to undesirable employee outcomes. For example, whilst use of redundancies is likely to generate negative reactions, Brockner (1990) concluded that genuine procedures to help those being made redundant should help to generate a perception of fairness amongst those who remain in employment. This type of impact has been termed a fair-process effect, where perceptions about the fairness of the process help promote an acceptance of the outcomes even where these have adverse implications (Folger et al., 1979; Folger and Cropanzano, 1997).

Organisational studies designed to understand the dynamics of procedural justice have focused on the related concepts of voice (Folger, 1977) and process control (Thibaut and Walker, 1975). These concepts are linked to the scope for the subjects of organisational decision making to participate in the process of arriving at, including being able to influence, the decisions that are made. Participation or voice allows those affected to exercise some degree of process control, or personal influence, in relation to the process of reaching a decision (Thibaut and Walker, 1975; Greenberg and Folger, 1983). The ability to exercise process control has been linked to a number of positive attitudinal and behavioural reactions. Davy et al. (1991) found that process control affects perceptions about fairness and job satisfaction positively, which in turn influence levels of commitment to the organisation and intention to stay. Other positive attitudinal and behavioural reactions have been reported in the literature arising from perceptions about procedural justice and the exercise of process control, including improved trust in management and some evidence for increased job performance (for a review see Cropanzano and Folger, 1997).

Leventhal's (1976; 1980) work details other facets that have been found to promote procedural justice. These relate to the consistent application of organisational procedures between individuals and across an organisation, the avoidance of self-interest in the application of procedures, accuracy in their use based on reliable information, scope to evaluate the application of procedures and alter outcomes where necessary, allowing for the representation of differing interests during their use, and the adoption of ethical standards through their use. Representation of differing interests during the formulation of organisational procedures may be seen as being related to the concept of voice, although many of these facets suggest a stage beyond the process of formulating such procedures. These facets therefore point towards and suggest a link with the theory of interactional justice (Folger and Cropanzano, 1998), which we discuss in the next sub-section.

Interactional Justice

Perceptions about the process through which change is managed may be differentiated from justice considerations arising from its implementation. There are two principal aspects to this differentiation. The first of these relates to different stages of the change process. Initially, perceptions about procedural justice will arise in relation to the scope for those who are likely to be affected by a decision to be able to exercise voice and to engage in some level of process control. Those affected may develop perceptions about whether decision-making is just or unjust, depending on whether they are able to exercise voice and whether this is seen to be effective. This perception may inform the way in which they perceive the remainder of the change process. The second aspect of this differentiation relates to the way in which decisions are applied in practice. Change managers may intend their decisions to be interpreted and applied in a particular way. However, those charged with applying decisions might interpret and implement them in a way that contravenes the original intention. This may be related to a lack of clarity about what was intended or because of other reasons such as contravention of Leventhal's (1976) principles relating to the avoidance of self-interest and the adoption of ethical standards on the part of the implementers. In reality, these principles are idealistic and likely to lead to a range of interpretations. However, where principles such as consistency of treatment and post-implementation evaluation are not adequately applied, it may be that biased implementation leads to perceptions of unfairness and injustice.

The stages between which change decisions are formulated and implemented and the scope for different implementation practices to occur in practice suggests the need to differentiate between the structural nature of procedural justice and what has been labelled as interactional justice (Bies and

Moag, 1986). Interactional justice is thus concerned with perceptions about the fairness of the interpersonal treatment received by those affected during the implementation of decisions. This has been identified as being composed of two principal elements relating to the explanations and justification offered for decisions made and the level of sensitivity of treatment of those affected during implementation of decisions.

Justification of organisational change decisions through effective explanations has been found to produce an effect similar to that of process control: justification has been related positively to procedural fairness and, in turn, to intention to stay (Daly and Geyer, 1994). This may be explained through the finding that employees are more likely to accept decisions, even unfavourable ones, when given an adequate and genuine reason for it (Brockner et al., 1990; Brockner and Wiesenfeld, 1993; Daly and Geyer, 1994). These findings point to the central role that effective communication may play in a change management context and are supported by job insecurity theory (Greenhalgh and Rosenblatt, 1984). Appropriately focused and effectively transmitted official organisational communication may help alleviate the sense of powerlessness and perceived threat felt by those who are affected in such a context (Greenhalgh, 1983; Greenhalgh and Rosenblatt, 1984; Brockner et al., 1990; Shaw and Barrett-Power, 1997).

Similarly, the way in which people are treated during a period of change has also been found to affect their perceptions about the fairness of the process (Folger and Cropanzano, 1998). This suggests a clear role for line managers in relation to the development of their subordinates' perceptions about fairness. Part of this will involve communicating decisions, providing reasons for these, and how these will affect the future nature of work for all those in the area that they manage. The way in which these people are treated is therefore likely to have a significant impact on the perceptions that they form about the fairness not only of the process of implementation but also about the decisions that underpin this process.

Data Collection

Data collection was undertaken within the context of the case study public sector organisation that we refer to as "Newcounty", first in 1999 and again in 2002. Newcounty had come into existence on 1 April 1998, as part of the local government reorganisation in England and Wales. This county council was formed as part of a transformational change that involved the division of the previous county and district councils into two new and separate groupings, consisting of a unitary authority and a new county council with district councils. Within this structure, Newcounty was the new county council responsible for provision of education, caring services, police, traffic, road building and maintenance, libraries and strategic planning.

Prior to the creation of Newcounty in 1998, formal communication channels had been set up to keep the previous county council's employees informed of progress. This included a weekly newsletter along with an employee assistance programme to allow employees to seek answers to questions. The timetable against which posts in Newcounty's structure were to be filled was made public in October 1997 with a target date of all posts being filled by Christmas 1997. Posts were filled starting with the top tier of management and working down. Unfortunately, the timetable was delayed, resulting in the last junior posts being advertised between mid-January and mid-February 1998. Consequently, these posts were filled only a few days before Newcounty came into existence. Throughout, formal communication mechanisms such as the weekly newsletter and team briefings were used to keep employees informed about these delays and the reasons for them. Although Newcounty did not officially come into existence until 1 April 1998, prior to its official creation senior officials were increasingly devoting time to ensuring the smooth transfer of services.

Despite this, the creation of Newcounty inevitably involved transformational change as well as uncertainty for those employed by the old county council. Alterations to the geographical area served and the need for new organisational structures created uncertainty regarding continuation of employment, although there had been an undertaking that there would not be any compulsory redundancies. An agreement had also been reached with the Trade Union that the salaries of transferred employees would be protected for three years (until 2001). In the period 1998–2002, Newcounty's senior management team sought as part of their strategy for the new authority to create a "can do" culture in which employees "strive[d] for excellence" in the public services they provided. To support this strategy, further changes were made incrementally. These included changes to the way corporate support systems and procedures such as new employee induction, training and development for all levels and developments in the way front-line and support services were provided within directorates. Changes were also made in response to UK government initiatives agendas such as 'Best Value' and more recently 'Comprehensive Performance Assessment'. Although some of these incremental changes arose in response to issues raised by the transformational change that occurred in 1998, others were made in response to new initiatives that emerged from external influences, often related to governmental initiatives. This first category of incremental change may be related to Dunphy and Stace's (1993) idea of organisational fine-tuning and the second category to their idea of incremental adjustment, where organisational change is promoted by incremental adjustments that occur in the external environment.

At Newcounty's request, the first data collection for this research commenced approximately one year after the county council had been created (May 1999). This focussed upon the transformational changes that employees had experienced in the creation of Newcounty and, in Newcounty's words, allowed "sufficient time for the new county council to settle down". Subsequently, data were collected three years later in May 2002, by which time Newcounty had been in existence for four years. This focussed upon the incremental changes made after the creation of Newcounty.

Data collection at both times incorporated two integrated methods that utilised structured and unstructured approaches: a card sort and in-depth interviews that built upon this first method to collect data. These data were obtained from a random sample of 28 employees in 1999 of whom 13 were subsequently interviewed again in 2002. Where this was not possible, due to the original employee either having left (6) or being unavailable for some other reason (9), a close substitute with regard to work location and level was used. This sample was stratified according to level within the organisation's hierarchy and included employees from each of the five directorates, responsible for Corporate, Educational, Environmental, Financial and Social Services.

The card sort involved consideration of 21 negative and 19 positive possible emotions (Table 5.1) that might be experienced in relation to organisational change. These possible emotions were derived from the psychology and stress literatures (Lazarus and Folkman, 1984; Brockner, 1988; 1990; Brockner et al., 1987; 1992a; 1992b; Brockner and Greenberg, 1990). At each data collection time, participants were asked to "think about themselves in relation to the changes to the organisation" and to sort these emotions into "do not feel" and "feel to some extent". Subsequently each participant was asked to select those emotions that she or he "felt strongly" and from these to identify the top three, those that were felt "most strongly". This was followed by an unstructured interview, of approximately one hour's duration, which focused initially upon emotions that were felt most strongly. The principal aim of each interview was to discover the employee's interpretation of each card selected and to explore the reasons for that emotion in the context of the changes to Newcounty. As part of this process, interviewees were encouraged to describe and discuss their emotions in the context of their own perceptions of the changes. Notes from these interviews were transcribed and analysed using a process of categorisation to search for key themes and patterns (Dey, 1993). Analysis subsequently sought to interpret these key themes and patterns according to the facets of organisational justice theory. This methodology enabled employees' perceptions about organisational change to be described and explored from a grounded and subjective perspective and subsequently interpreted within the framework of organisational justice theory (Cropanzano and Greenberg, 1997).

Employees' Reactions to Strategic Change Over Time

Data from the two card sorts provided an overview of employees' reactions to the transformation associated with the creation of Newcounty (1999) and subsequent incremental changes. In overall terms, consideration of employees' three most strongly felt emotions indicates that respondents were more likely to feel positive than negative about both types of change. Initial examination suggested that this had remained consistent between 1999 and 2002, irrespective of the type of change or any variation in managerial interventions to seek to manage these changes. Of these emotions, 62 per cent represented positive feelings in relation to the changes in 1998–9, compared to 68 per cent in relation to the changes leading up to 2002 (Table 5.1). However, closer examination of this table shows that there had been changes in both the positive and negative emotions felt "most strongly". In 1999, at least one quarter of respondents selected one or more of the emotions, 'positive', 'determined' or 'involved'. In contrast, in 2002, 'determined' was selected by nearly one-third of respondents with 'involved' being selected by at least a quarter of respondents. The number selecting the emotion 'positive' had declined by two-thirds, whilst those selecting 'secure' had risen from one to five respondents. In 1999, 38 per cent of the emotions selected represented negative feelings; the emotions 'frustrated' or 'under pressure' each being selected by one-quarter of all respondents. In 2002, 32 per cent of the emotions selected were negative, the only emotion selected by over one-quarter of respondents being 'frustrated'. Although the number of respondents selecting 'under pressure' and 'powerless' had declined since 1999, there was a corresponding increase in those who selected 'concerned' and 'resigned'. This suggests that employees' reactions to changes and the reasons for these might differ between 1999 and 2002.

Table 5.1 Respondents Selecting Each Emotion as One of Their Three Most Strongly Felt

Negative emotions	Number of times selected		Positive emotions	Number of times selected	
	1999 (n=28)	2002 (n=28)		1999 (n=28)	2002 (n=28)
Frustrated	7	8	Positive	9	3
Under pressure	7	4	Determined	7	11
Powerless	6	3	Involved	7	7
Insecure	2	0	Enthusiastic	5	6
Stressed	2	1	Optimistic	4	3
Demoralised	2	1	Comfortable	3	1
Angry	1	1	Confident	3	1
Depressed	1	0	Keen	3	3
Overwhelmed	1	0	Hopeful	2	4
Worried	1	0	Relieved	2	4
Concerned	1	5	In control	2	0
On edge	1	0	Cheerful	1	3
Confused	0	0	Excited	1	0
Disinterested	0	1	Eager	1	0
Hopeless	0	0	Relaxed	1	1
Indifferent	0	0	Secure	1	5
Mistrustful	0	0	Calm	0	2
Panicky	0	0	Expectant	0	2
Resentful	0	0	Trusting	0	1
Resigned	0	3			
Vulnerable	0	0			
Total	**32**	**27**		**52**	**57**

Examination of the three emotions felt most strongly by respondents suggests four discrete groupings (Table 5.2). The largest groupings in both 1999 and 2002 each contain eleven respondents who chose only positive emotions as those they felt most strongly and who can be considered as feeling positive in relation to the changes they had experienced. For both times these groups were drawn from all directorates and from all levels within the organisational hierarchy. In both years, these positive respondents had selected predominantly positive emotions as those they "felt strongly" in the previous stage of the card sort process. In 1999, respondents had selected emotions that suggested both a sense of involvement and effort, such as 'positive' (7), 'determined' (3) and 'enthusiastic' (3), and to a lesser extent well-being, such as 'confident' (3) 'comfortable' (3) and 'optimistic' (3). Interview responses highlighted that these emotions tended to be directed to the new County Council as a whole, a typical justification being: "I feel positive because Newcounty is a better organisation; an organisation to feel proud of." Respondents in 2002 had also selected emotions that indicated a sense of involvement in and effort for the organisation including 'determined' (4), 'enthusiastic' (3), 'positive' (3) and 'involved' (3). Again responses also highlighted a sense of well-being including, 'cheerful' (3), 'hopeful' (3) and 'optimistic' (3). However, for the 2002 respondents, emotions tended to be more directed towards their directorate or work group, a typical justification for selecting 'positive' being: "I get along very well with the people I work with; they're a very good team. We have a good working relationship."

In contrast the smallest group in 2002, and second smallest in 1999, consisted of those respondents who selected only negative emotions (Table 5.2) such as 'frustrated' and 'powerless' as those about which they felt "most strongly" in relation to the changes (Table 5.1). In both years, these negative respondents had also selected predominantly negative emotions as those they "felt strongly" in the previous stage of the card sort process. Although predominantly from the Environmental and Educational Services directorates, these respondents again represented a range of levels within the organisational hierarchy. Interviews in 1999 suggested that these emotions were due to the personal impact of specific aspects of the organisation and their directorate's management. In 2002, respondents also justified these negative emotions in relation to the UK government's agenda for local government and the personal implications of changes in the organisation of work instigated at a range of levels from organisational to immediate work group. For example, a senior manager explained, "Changes around the workings of committee structures are confusing – leading to 'frustration' because the line of decision making is not clear."

The first of the remaining two groups consisted of the eight respondents in 1999 and ten respondents in 2002 who had selected two positive emotions and one negative as those which they felt "most strongly" and who had also selected predominantly positive emotions amongst those they "felt strongly". Although these employees represented all five directorates, at both times the majority was in professional and managerial positions. Respondents from both times discussed the 'negative' emotions that they felt within the context of a generally positively oriented set of perceptions about the organisational changes they had witnessed. Some rationalised their choice of a negative emotion such as 'under pressure' or 'concerned' in relation to their fears about the potential for perceived inequity related to the situation in which they now found themselves or their perceptions of the need for further changes. For example, in 1999 three of those selecting predominantly positive emotions justified their selection of the negative emotion 'under pressure' on the grounds that each wished to "do my best" in their new posts. In contrast, in 2002 the three employees in this group who selected the negative emotion 'concerned' justified it on the basis of their concern for the future of their "own service" arguing that concern was "not a bad thing" but "more about awareness of what's happened and what might happen" due to UK central government pressure on their service. Those choosing 'under pressure' in 2002 explained this in ways that expressed attachment either to the organisation, their co-workers or their client group. Newcounty was not seen to be directly culpable for creating this pressure; rather it was the UK central government that was seen to be creating additional demands without providing sufficient resources to follow this work. Only one of these respondents was negatively inclined to the changes that had occurred and to Newcounty. The interview data reveal that despite feeling 'secure', this person was 'frustrated' because of the way in which her job had been changed and she was "determined to get out". These respondents can, therefore, in all but one case, be considered as feeling positive in relation to the changes experienced despite feeling these negative emotions.

The final group consisted of the three respondents in 1999 and four in 2002 who had selected two negative emotions and one positive as those which they felt "most strongly" and had also selected predominantly negative emotions at the previous stage of the card sort. The directorates from which these respondents were drawn differed between the two times. In 1999, they justified their selection of a positive emotion, such as 'optimistic' or 'determined,' through their ability or desire to do well "in spite of everything". Similar justifications were used in 2002, although in addition, one respondent also added he was "relieved because I'm leaving". Consequently, these respondents can be considered as feeling negative in relation to the changes.

Table 5.2 Analysis of the Three Most Strongly Felt Emotions

Three emotions most strongly felt	1999		2002	
	n	%	n	%
3 positive	**11**	39	**11**	39
2 positive, 1 negative	**8**	29	**10**	36
1 positive, 2 negative	**3**	11	**4**	14
3 negative	**6**	21	**3**	11
Totals	**28**	100	**28**	100

Thus, at both times of data collection, irrespective of the nature of the changes, the majority of respondents felt positive. However, although the "most strongly felt" emotions of respondents had remained broadly similar, the reasons for these and thus their reactions to the transformational change and subsequent incremental changes appeared to differ. In 1999, justifications used by positive respondents tended to be directed at the county council as a whole, whereas by 2002 this had altered to their directorate or work group. By contrast the justifications used by those feeling negative appeared to have become more varied between 1999 and 2002 including the influence of the UK government, specific aspects of the county council, their directorate's management and their immediate line manager. One reason for these differences is undoubtedly the nature of the incremental changes that were taking place in the year up to the 2002 compared with the transformational change prior to 1999. Although the changes in the year up to 2002 had an organisation wide purpose, their implementation was devolved to directorates and within these work groups.

It is to the differences between the two times in terms of justifications used by those feeling positive and those feeling negative that we now turn. Using the theories of organisational justice outlined earlier, we compare and contrast the reasons offered by the respondents who felt positive with those who felt negative in relation to both the transformational and the subsequent incremental changes. Within this exploration, we commence by examining perceptions about distributive justice prior to looking at those about procedural and interactional justice. This also allows us to assess the value of this theory to explain the nature of employees' reactions to strategic change.

Exploring Employees' Reactions – Application of a Justice Framework

Distributive Justice

Justification of emotions related to aspects of distributive justice is evident in relation to the transformational change in 1999 and the subsequent incremental changes to 2002. However, the primary focus of this aspect of organisational justice shifts between 1999 and 2002, at least for those employees who were positive in relation to the changes to the organisation. In 1999, the distributive aspects of the change that were focused on principally relate to the outcome for Newcounty compared to the wider context of local government reorganisation in England and Wales and also to the outcome of the changes for individual employees. By contrast in 2002, the primary focus was on the outcome of the various changes within Newcounty for individual employees and secondly on the outcomes of the "avalanche of changes" being imposed externally by the UK government on local authorities as they affected the services provided by directorates.

In 1999, the majority of respondents reacting positively had stated that the creation of Newcounty was, overall, a fair outcome of the wider process of local government reorganisation, although there was a perception that other resource outcomes for Newcounty were not necessarily fair. This was typified by one professional employee who, when discussing Newcounty's new emphasis on serving the public, qualified it with the phrase "in spite of being strapped for cash". Comments in 2002 suggest that respondents' focus had altered, with more emphasis being place upon outcomes for the directorate in which they worked or their profession. Comments from respondents in 2002 typically focus on outcomes and allocations affecting these levels within the organisation and the impact of these on themselves. Those who felt positive in 2002 tended to combine a feeling of commitment to the organisation, or to their role and their client group, or to their work group together with a sense of security or expectation about their place in Newcounty. New or recent employees who felt positive also used their previous employer as a referent standard to make a positive comparison. These employees did not therefore use any concerns about what was happening within their directorate or to their profession to moderate their positive feelings.

Respondents reacting negatively in relation to the changes associated with the creation of Newcounty focused only on personal aspects of the outcomes. In 1999, discussions focused on the unfavourable nature of their outcomes compared to other employees rather than any inherent sense of unfairness. For two employees in 1999, for example, protection of their jobs and salaries for three years was considered a satisfactory outcome, even if unfavourable when compared to colleagues. In contrast, by 2002, negative respondents tended to feel that particular change outcomes were unsatisfactory. A manager responsible for a system within his directorate stated: "I'm deeply concerned about weaknesses in the new [name of system] and, if these are not fully addressed it will be a disaster..." Whereas in 1999, respondents did not attribute unfavourable outcomes to Newcounty, their Directorate or line manager, in 2002 blame was attributed to either the Directorate or the line manager.

Procedural Justice

Differences are apparent between employees with regard to perceptions of the fairness of procedures between 1999 and 2002. In 1999, all but two employees perceived the processes used in the creation of Newcounty, and in particular to determine allocations of individuals to posts, as being fair. In contrast, by 2002, employees' perceptions about the fairness of incremental change processes within Newcounty were more varied for both positive and negative respondents.

In 1999, differences were apparent between positive and negative employees in the extent to which they felt they had been given voice in the process. Employees at all levels of the hierarchy who felt positive considered they had contributed to the process of creating the new county council. Often when justifying their selection of a positive emotion, they highlighted the opportunities they had to express their views and emphasised that these views had been taken into account. However, the examples given by more junior employees suggested that their impact on the process was less clear. This was typified by one supervisor who commented: "We were even involved in the meeting about the corporate badge. This wouldn't have happened under the old [county council name]."

Employees at all levels in Newcounty inevitably had felt some involvement in its creation, if only because they had applied for and been appointed to posts in the new county council. At a national level respondents had felt that the process instigated by the UK government for local government reorganisation was fair, with managers from the old county council having been charged with operationalising the process. Although respondents had commented that the procedures used subsequently to recruit staff to Newcounty were drawn out, especially for those lower down the organisational hierarchy they had, in all but two cases, commented the process itself was fair. These two employees, both of whom felt negative, argued that the process was unfair due to what they saw as the random nature of selection, likening it to "tossing a coin" and "highlighting the influence of departmental politics".

Perceptions of procedural fairness in 2002 were often affected by respondents' perceptions of the UK government's policies for local government. In this sense, employees were basing their perceptions on the external drivers of Newcounty's approach, around which there was little process control, rather than simply on its internal approach to change. Respondents who commented that the change processes were fair argued that these were resulting in sensible changes to the services provided, often in spite of the government's policies. This was typified by a middle manager who commented on his Directorate's senior managers: "they're now thinking about Newcounty for the first time because, despite low government grants, they're going about things the right way." In contrast, those who commented that processes were unfair emphasised that the incremental changes occurring within Newcounty were being "driven by the [UK] government's agenda". In particular, these respondents' comments suggested that the need for Newcounty to make politically acceptable decisions was resulting in an unfair process. A range of examples were provided to illustrate this, including the outsourcing of certain of Newcounty's services, despite a belief that it was less expensive to provide them in-house. In addition, these employees perceived a lack of voice. One senior manager summarised this: "…there seems to be a general perception that anything said by an outsider is better. A consultant comes up with a solution in a month which we could do quicker. This is getting worse".

Interactional Justice

Interviews with respondents in both 1999 and 2002 suggest a separate and distinct aspect to their perceptions of procedural justice based upon the quality and quantity of interpersonal treatment they had received. Although respondents were not necessarily involved in managing the process of change themselves, their justifications for the three emotions that they felt most strongly (both negative and positive) emphasise the importance of social aspects of their treatment and in particular of feeling supported and respected by senior managers. As suggested by the literature (Cropanzano and Greenberg, 1997) these social or interactional aspects of procedural justice raised by respondents fall into two distinct groupings: the adequacy of the information available and the extent to which people were treated with dignity and respect. In both 1999 and 2002, those who had selected positive or predominantly positive emotions felt these had been fair, whilst those who had selected negative or predominantly negative emotions felt the converse.

Comments by those who felt positive in relation to the changes emphasise the importance of communication throughout the first four years of Newcounty. In 1999, the newsletter was highlighted by over half of these respondents as an important source to gain information together with explanations about what was happening throughout the change process. Other forms of communication were developed at this time, including face-to-face briefings from senior managers. A typical comment in 1999 from a positive middle manager recipient being, "I like the way I was involved by members and officers in the reorganisation – this was new. They explained their views and the way things were going. I like the way [Newcounty] has taken this forward to be a listening council." Positive respondents made similar comments in 2002, although it appears that there was more two-way communication, with respondents emphasising that they felt they could "voice views to any person in the hierarchy".

Those who had felt negative in relation to the changes in 1999 had emphasised the inadequacy of the explanations they received. One manager commented, "We felt there was a lack of information about the process, e.g. we can't say for sure what's going to happen, I found it difficult to motivate my staff because of this indecision". In contrast, those who felt negative with regard to changes in 2002 felt there was "an element of gloss" in the communication suggesting some cynicism regarding the message.

In both 1999 and 2002, respondents who felt positive about the changes appear to interpret their social interactions with senior management throughout the change processes as inferring they were valued and respected by the organisation. For example, in 1999, a more junior manager stated, "The important thing for me is that the Chair of the Committee was very up-front and supportive." Similarly, a middle manager in 2002 partially justified her selection of positive emotions stating: "I feel involved and part of the county council. I feel listened to and asked what to do. I have one-to-one meetings with my line manager who lets me know what is happening around me. She asks how it will affect the team and what to do to get the right procedures and processes in place."

Disparities exist between negative and positive respondents in their comments about the manner in which their line managers had treated them in both 1999 and 2002. Those responding positively in relation to the changes felt line managers had treated them justly with dignity and respect during their interactions. The majority stated their own line manager had been very positive and supportive through listening and responding to their views. As with interpersonal treatment from senior managers, these positive respondents felt the motives for this were altruistic, with the majority commenting upon the apparent "genuineness" of managers wanting to listen to and help their staff. This contrasts markedly with the experiences of those who responded negatively to the changes. These employees felt that even in the few instances where their managers appeared to show social sensitivity this was not backed up by any action, with one respondent in 2002 commenting, "I went to my line manager and she listened but didn't fight for me. If you don't see results what's the point of having a listening manager?"

Comments in both 1999 and 2002 also highlight that interactions, although face-to-face, differ depending upon the hierarchical distance between employees. Interactions between junior and more senior managers relating to the work of the county council were predominantly one-way, often consisting of presentations to large groups, or the offering of greetings. In contrast, interactions with a person's manager were more likely to be two-way. For those who felt positive in relation to the changes, both of these types of interaction appeared to have been interpreted as two-way. However, for those who felt negative towards the changes, interactions with line managers were felt to have lacked either sensitivity or respect for the more junior employees and were considered unjust. These employees were also likely to be cynical about the nature and intent of interactions with senior management.

Discussion

Our first research question focuses on whether employees' reactions alter in relation to the nature of strategic change? The first period of data collection was characterised by the transformational change that saw the creation of the case study organisation, Newcounty. In overall terms, respondents were more likely to feel positive than negative about both the outcomes of this change and the way in which it was planned and implemented. The second period of data collection was characterised by a number of incremental changes, which arose partly in relation to the need to fine-tune the organisation following the earlier transformational change and partly in response to make adjustments arising from different governmental initiatives. In overall terms, respondents were again more likely to feel positive than negative about the outcomes from these incremental changes and the ways in which they were introduced. Irrespective of the nature of the changes then, the majority of respondents felt positive.

However, whilst the "most strongly felt" emotions of respondents remained broadly similar across the two periods of data collection, the reasons for these and thus their reactions to the transformational change and subsequent incremental changes differed. In 1999, positive respondents explained the reasons for their reactions on events occurring at the level of the county council. Negative respondents on the other hand explained the reasons for their reactions by referring to their personal outcomes. In 2002, the focus of positive respondents' reasons for their reactions had shifted to events occurring at the level of their directorate or work group. By contrast the explanations of those feeling negative appeared to have become more varied between 1999 and 2002 including the influence of the UK government, specific aspects of the county council, their directorate's management and their immediate line manager. Whilst reactions to change may therefore appear similar across time even where the nature of strategic change varies, our findings indicate that the reasons underpinning these may differ significantly.

Transformational change is likely to cause those affected to place a greater focus on the outcomes for the organisation as a whole and to include these in the factors that they use to evaluate their personal outcomes. Incremental change is likely to lead to a more local level of focus in terms of constructing a framework of factors to evaluate one's personal outcomes. This will be reinforced where the decision making and implementation associated with the change is devolved to a local level, as was the case in 2002 in Newcounty where this was principally devolved to its directorates. In this way, employees' perceptions are likely to be shaped initially by events occurring at the macro level in an organisation during transformational change. During incremental change, employees' perceptions are likely to be shaped by events occurring at a micro-organisational level. The relationships suggested between these types of change and the nature of employees' reactions indicate scope for further research.

Our second research question focuses on the usefulness of an organisational justice perspective to explore and explain the nature of employees' reactions to strategic change? Our analysis of employees' responses shows support for the use of this perspective and to the theories that have been developed in relation to organisational justice. However, the findings from this case study suggest developments beyond the simple relationships that have been reported as characterising these theories, which were outlined above in the review of the organisational justice literature. Our discussion will therefore focus on the contribution that the findings from this case study suggest for the development of these theories.

The transformational change in 1998 revealed a number of foci in relation to perceptions about the fairness of the outcomes associated with that type of change. For those who felt positive in relation to the changes, discussions about distributive justice were concerned with both the outcomes for the organisation as well as for themselves, whereas for those who felt negative about the changes, discussion focused only upon the fairness of their personal outcome. This finding in relation to those who felt positive implies a conceptualisation of distributive justice at more than just an individual level. Whereas the literature recognises the link between organisational decisions and perceptions of fairness related to individual allocations and outcomes, our findings point to perceptions that were not only focused on individual allocations but also outcomes in relation to the broader organisation. Respondents were also able to report that whilst they perceived the creation of the organisation as a fair outcome, they felt that the resources allocated to it were unfair. This further emphasises the way in which respondents differentiated between levels of outcome, seeing some as fair and others as unfair.

In respect of distributive justice, our findings therefore point to the conclusion that perceptions of fairness will be related to different aspects of, or levels in, the organisation depending upon whether change is transformational or incremental. Perceptions of distributive justice appear to be principally related to an organisational level in respect of transformational change and to a sub-organisational level in relation to incremental change, as we also noted above. In the incremental changes that subsequently occurred up to 2002, emphasis was placed primarily on the outcomes for the directorates within which respondents worked or for their profession and the impact on themselves. Respondents were clearly aware of the agenda of the government and that this would impact on the organisation. However, in relation to the incremental changes experienced, the focus was placed on how the organisation would respond internally. The threat to the organisation as a whole was not present in relation to these changes; the issue was related to the elements of organisational choice that made the issue of process become politically important. This suggests that perceptions about fair outcomes are more complex than has been recognised in earlier studies. Participants in change will be likely to use a number of referent standards to arrive at a range of perceptions about different outcomes.

In relation to the transformational change in 1998, perceptions about organisational-level fairness related to the creation of Newcounty led nearly all respondents to feel positive about the procedural aspects of this change process, even though it was only those in more senior positions who were able to exercise a significant level of process control. In spite of this, most respondents expressed the feeling that they had been offered the scope to be involved as part of these changes. This appears to suggest a reversal of the 'fair process effect' (for example, Folger and Cropanzano, 1997), whereby a fairly perceived outcome helps to promote a sense of procedural justice. The incremental changes leading up to 2002 present a more complex picture in terms of the relationship between the external forces of the UK government's agenda, over which there was little scope for influence, and the procedures for decision making within Newcounty. These led to employees' perceptions that were more varied for both positive and negative respondents. For some, decisions that were welcomed led to perceptions that a fair process had been used, often irrespective of whether the respondent had been able to exercise any process control. For others, an outcome that was not welcomed led to perceptions that an unfair process had been used because of the external requirement to introduce change. Whilst the nature of change appears to be important in terms of highlighting factors that help to shape perceptions about procedural justice, we may also conclude that perceptions about outcomes have a significant bearing on the formulation of this aspect of justice, in a similar way to that previously recognised in relation to a fair process effect.

However, there appear to be few differences related to the type of change for the nature of perceptions of interactional justice, with the role of line managers being critical in both types of change in terms of helping to form perceptions of fairness. Consideration of interactional justice highlighted considerable differences between respondents who felt negative and respondents who felt positive about the changes. When interactions with senior management are considered, those who felt positive about the changes were more likely to perceive it as two-way whereas those who felt negative were less likely to do so. In discussion, those who felt positive about the changes were more likely to feel they had been listened to and treated with dignity and respect. In contrast, those who felt negative were likely to be cynical about their treatment. The interaction between line managers and those they managed appeared to be important in relation to the generation of perceptions of fairness about treatment suggesting a clear linkage between the justification and sensitivity. This observation is supported by the fact that the majority of those respondents who felt negative with regard to the changes were located in two directorates implying that people in these directorates may have received different interpersonal treatment.

It therefore appears that factors influencing perceptions of interactional justice were the key differentiators between employees feelings in relation to the changes, and in particular the processes of communication. This would imply that interactional justice issues are considered separately by employees and therefore need to be considered separately rather than, as has been more common in recent years, as an aspect of procedural justice when managing the change process. Based upon this we conclude that organisational justice theory provides a useful framework to analyse and understand the nature of employees' reactions to change. However, there still remains scope to develop this theory and to explore relationships between its facets.

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Just how extensive is the practice of Strategic recruitment and selection?

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Introduction

The integration between the management of human resources and organisation strategy is arguably the prime factor delineating HRM theory and practice from its more traditional personnel management origins. To achieve this strategic integration it is anticipated that each of the bundle of activities making up HRM, as practiced by organisations, will be similarly integrated, vertically, to align with their strategic imperatives. Recruitment and selection has long been recognised as a key activity within HR and this paper seeks to explore the extent to which its practice provides evidence of such strategic alignment.

Prior to the more recent emphasis on strategic alignment, organisational recruitment and selection practice remained relatively unchanged, having evolved into a relatively standardised approach frequently labelled as 'traditional' (Storey and Wright, 2001). This traditional approach has its roots in a psychometric model (Newell and Rice, 1999) where organisational effort is directed at defining the sort of person who will perform a particular job effectively and assessing applicants against defined personal attributes in order to establish a person/job fit. More recently, evidence has pointed to significant developments in recruitment and selection processes particularly in terms of their central focus and sophistication. At one level it is argued that the focus of recruitment and selection has become more strategically driven (Sparrow and Pettigrew, 1988), where a premium is placed on selecting employees against organisational rather than job-specific criteria (Bowen et al., 1991). At another level it is argued that this strategic orientation has required the use of more sophisticated selection techniques and greater involvement of line managers in the process (Storey, 1992; Wilkinson and van Zwanenberg, 1994). Many of these developments have been encapsulated in a strategic variant of recruitment and selection which has been portrayed as the natural adaptation of more traditional approaches to provide greater integration between employee resourcing and business strategy (Thornhill et al., 2000).

An underpinning rationale for the emergence of strategic recruitment and selection (SR&S) can be developed from two interrelated strands in recent management thinking: strategic management and human resource management (HRM). The starting point is that organisations have arguably become more strategic in their behaviour in pursuit of competitive advantage in an increasingly turbulent business environment (Porter, 1985). Strategic behaviour involves an organisation in matching its resources over the long-run to the demands of its changing environment (Johnson and Scholes, 1999). A key element of an organisation's resource capability is its workforce. This receives greater emphasis through HRM which identifies people as the key resource: an organisation's most valuable asset and major source of competitive advantage (Kerfoot and Knights, 1992; Poole and Mansfield, 1992; Sisson, 1994a; Storey, 1995a; Bratton and Gold, 1999). Recruitment and selection is just one element of an array of human resourcing practices that need to be integrated into a coherent bundle by organisations in order to support the delivery of corporate strategy. For some, recruitment and selection lies at the very centre of human resourcing in organisations (Newell and Rice, 1999) where appointment decisions represent some of the most crucial ever taken by employers (IRS, 1991).

If accepted, this proposition presents a logical and persuasive argument for the development of strategically driven recruitment and selection by organisations. This would lead to the expectation that the practice of SR&S would be widely and increasingly evident. However, evidence of SR&S presents a contradictory picture that challenges this optimistic outlook. For example, Storey's (1992) findings that selection as a key, integrated task was evident in 80 per cent of the case companies investigated provides grounds for optimism. Conversely Wright and Storey's (1997) conclusion that despite a few reported exceptions traditional approaches to recruitment and selection continue to dominate practice presents an altogether more pessimistic picture. These apparent contradictions inevitably place a question mark over the extent to which SR&S is really practiced by organisations.

The study reported on here attempts to resolve this conundrum. Its principle aim is to analyse organisational recruitment and selection practice in order to establish whether at the beginning of the new millennium the outlook for the strategic variant should be viewed optimistically or pessimistically. To put it more colloquially it sets out to answer the question: "Is the strategic recruitment and selection glass half full or half empty?" The study represents the first stage of a three-stage investigation, using multiple methods of data collection, from which initial conclusions will be drawn. This first stage explores how practitioners, both line managers and personnel specialists, perceive the recruitment and selection process. These perceptions are analysed against a conceptual framework of SR&S to extract evidence of its practice by organisations.

Literature Review

The Extent of SR&S Practice: Initial Observations

On both sides of the Atlantic there have been a number of reported cases of SR&S in action. This evidence has sometimes been assembled against generic strategies of competitive advantage. This is well illustrated by two seminal studies reported on by Miles and Snow (1984) and Schuler and Jackson (1987). They were able to identify human resource (HR) practices, including recruitment and selection, which were congruent with the different competitive strategies of defender, prospector and analyser (Miles and Snow, 1984), and cost reduction, innovation and quality enhancement (Schuler and Jackson, 1987), and found evidence of such practice in case companies.

At other times, evidence of SR&S has emerged from studies investigating general developments in HR practice. For example, from a comprehensive study investigating how the management of HR was developing in UK companies, Storey (1992) was able to identify 'selection' as one of twenty-seven dimensions that could be used to differentiate HRM from more traditional personnel management and industrial relations practice. Under HRM, selection was identified as an 'integrated, key task', whereas under the personnel and industrial relations banner it was seen as a 'separate, marginal task' (Storey, 1992: 35). In his analysis of fifteen major case companies, Storey (1992: 83) found evidence of integrated selection in 80 per cent of them, suggesting a high incidence of SR&S.

Another strand in case study-based research has been to examine how human resourcing has supported particular corporate strategies and/or responded to environmental pressures to maintain leading edge competitive positions. Sparrow and Pettigrew (1988), through a study of companies operating in the UK computer industry, tracked how HRM was responding to support radical strategic change flowing from a turbulent business environment. Strategic selection was identified as a critical lever for acquiring specialist skills necessary to support the delivery of high quality service provision as companies moved progressively from concentration on selling hardware to providing total business solutions that incorporated non-hardware support services. In a review of their own case study research, Hendry, Pettigrew and Sparrow (1988) identified that strategic responses to changes in the business environment, such as restructuring, internationalisation and total quality management, were leading to demands for new employee skills to support such moves. Their delivery required a more strategic approach to recruitment and selection. Kydd and Oppenheim (1990) studied four successful industry leaders with excellent track records of HRM practice and found that they were using recruitment and selection strategically to respond, albeit in different ways, to their particular labour market conditions to maintain their competitive position.

Elsewhere, case studies targeted specifically at recruitment and selection have also provided evidence that the strategic variant is being practised. In a study of Chase Manhattan Bank, Borucki and Lafley (1984) demonstrated how recruitment and selection practices were adapted over time to meet different strategic imperatives as they emerged. Research by Bowen et al. (1991: 35) led them to develop an alternative model of recruitment and selection with a strategic thrust based on "Hiring for the organization and not the job" and illustrated how it was used by a manufacturing company to recruit employees into "its high-involvement organization". In a detailed case study exploring the HR practices of a paper production plant, Beaumont and Hunter (1992) uncovered strong evidence that recruitment and selection was being used strategically to bring about a more flexible workforce that was necessitated by the organisation's competitive strategy.

Although the evidence, based on these cases, of SR&S being practiced is significant, there is equally a substantial literature base that raises doubts about how widespread this practice might be. For example, the conclusions of Lundy and Cowling (1996) and Scholarios and Lockyer (1996) point to recruitment and selection being conducted in a much less strategic and sophisticated way.

There are also a number of concerns about the methodologies employed from which evidence of SR&S has been deduced. Reported cases of SR&S are drawn predominantly from atypical organisations that can be viewed as: leading (Storey, 1992) or excellent (Kydd and Oppenheim, 1990); operating in exceptionally volatile market conditions (Sparrow and Pettigrew, 1988); the largest (Scholarios and Lockyer, 1996); foreign owned, inward investment companies, as exemplified by Nissan (Garrahan and Stewart, 1992); and those experiencing transformational change (van de Vliet, 1995). The validity of case study findings may also be questionable. It is possible that greater investment in recruitment and selection is being incorrectly interpreted as a strategic approach when it represents no more than the rational response to changing labour market conditions that constitute the normal diet of everyday, traditional recruitment and selection practice.

Finally, there may be some confusion at the conceptual level as to what constitutes SR&S. Is SR&S simply about "careful" selection as suggested by Borucki and Lafley's (1984: 69) or does the term "strategic" incorporate a wider range of environmental and stakeholder influences as argued by Lundy and Cowling (1996). Clearly, evidence of SR&S claimed by researchers will be a function of their particular conceptual leanings. What is imperative, however, is that any study intending to search for evidence of the strategic variant must make clear how the concept is being interpreted in order that the strategic credentials of organisational recruitment and selection practice can be established. The next section develops the conceptual framework of SR&S used in this study to evaluate organisational practice.

Strategic Recruitment and Selection: A Conceptual Framework

Here it is argued that for recruitment and selection to be classified as strategic it must exhibit three interdependent primary features: strategic integration; a long-term focus; and a mechanism for translating strategic demands into an appropriate recruitment and selection specification. Strategic integration envisages recruitment and selection as a powerful organisational mechanism for aligning the behaviour of employees with its corporate strategy (Sparrow and Hiltrop, 1994). For Iles and Salaman (1995: 207) recruitment and selection represents one of four key HRM levers "necessary to support organisational strategies". From this perspective, SR&S occurs when practice is aligned with and integrated into the strategic planning process of organisations and involves the translation of mission statements and/or strategic plans into those employee attributes which are seen to be critical to their successful attainment.

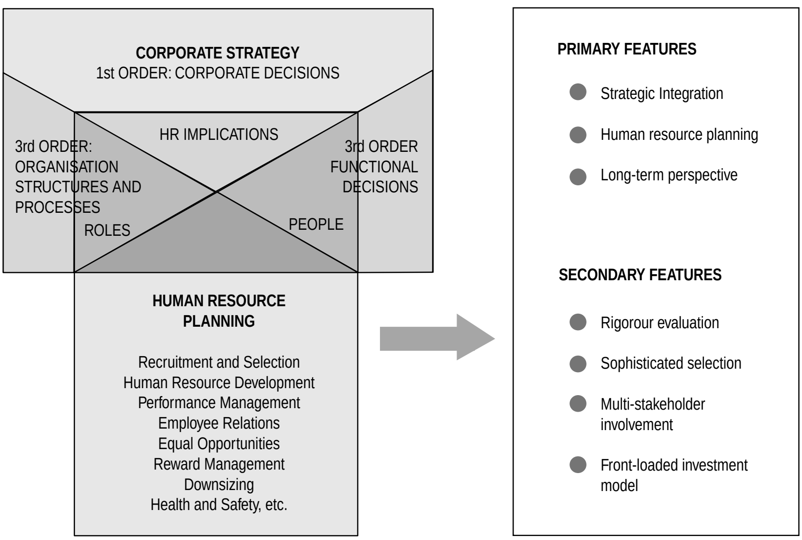
This perspective represents a long-term focus where the intention is to develop recruitment and selection practice to source an organisation with those HR attributes deemed critical to its future and long-term success. For Miller (1984: 68) the objective of strategic "staffing" is to identify and choose those "people who will best run the organisation and its business in the long run". To do this, however, involves a capacity to forecast those HR requirements necessary to ensure the successful implementation of an organisation's strategic plans and to develop a range of staffing programmes and activities to find such people. The translation of corporate plans into HR requirements, and the plans to deliver those requirements, requires a bridging mechanism which Rothwell (1995) argues is the province of formalised human resource planning (HRP) and Miller (1984) argues is central to how specialist human resource functions manage their involvement in the staffing process.

However, it is legitimate to ask whether these primary features present a sufficient explanation of SR&S. It is argued here that when recruitment and selection is strategically driven, thereby satisfying the three primary features, there are two consequential, interdependent outcomes. First, recruitment and selection acquires greater organisational importance and, second, it becomes more sophisticated and complex. When getting it right is measured against broader concerns to facilitate long-run organisational success (Miller, 1984; Sparrow and Hiltrop, 1994; Iles and Salaman, 1995), the recruitment and selection process will arguably assume greater importance than where it simply relates to recruiting against the more parochial concerns of immediate job needs. In turn. the demands generated by strategic approaches are likely to lead to more diverse and exacting personnel specifications which will require a greater array of recruitment and selection practices to be deployed if organisational staffing needs are to be met. In extremis, for example, recruitment and selection may need to deliver "against a composite personnel specification embracing specific job requirements, group fit and organisation fit for both now and in the future" (Thornhill et al., 2000: 115).

These consequential outcomes of strategically driven recruitment and selection have the potential to impact significantly on organisational practice in a number of particular ways. First, the perceived critical role of recruitment and selection and concern to get it right is likely to lead to a front-loaded investment model. Adherents to this model would regard the expenditure of effort and cost to ensure effective recruitment and selection as preferable to incurring (end-loaded) costs associated with managing poor performers recruited as a result of inadequate investment in the process. Second, the greater financial expenditure demanded by a front-loaded investment model will almost certainly lead to concerted calls for its effectiveness to be rigorously evaluated, including the contribution recruitment and selection makes to the attainment of strategic objectives (Lawler, 1994). Third, heavy investment in the process, the consequential emphasis on getting 'it' right and the demands of a more complex and diverse person specification will necessitate the use of a greater array of selection methods to assess potential recruits (Bratton and Gold, 1999; Evenden, 1993) in order to deliver acceptable levels of reliability and validity. Fourth, the complex and critical nature of SR&S makes untenable the limited stakeholder involvement associated with the traditional variant and arguably demands a multi-stakeholder approach. At one level, this pays due respect to recruitment and selection as a two-way process (Herriot et al., 1997) that is sensitive to its impact on candidates (Iles and Robertson, 1997) and supports their participation by providing sufficient information on the vacancy and its context to enable them to make their own informed self-selection decisions (Lawler, 1994). At another level, the move to a multi-stakeholder model recognises that the intricacies and uncertainties surrounding strategically directed recruitment and selection are seen to be best served by the active involvement of all relevant stakeholders.

The position adopted here is that these attributes represent secondary features and are not sufficient on their own to evidence SR&S. This requires, in addition, the presence of the three primary features which, taken together with the secondary features, can be depicted as an explanatory framework of SR&S practice as depicted in Figure 6.1 below.

Figure 6.1 Strategic Recruitment and Selection: An Explanatory Framework



Methodology

This paper reports on the first part of a three-stage investigation that aims to address the contradictory evidence surrounding the incidence of SR&S practice by answering the question: "Just how extensive is the practice of strategic recruitment and selection practice?" (or "Is the strategic recruitment and selection glass half full or half empty?")

The first stage, reported on here, focuses on participants' perceptions of the overall recruitment and selection process used by their organisations as depicted by flow charts they have constructed to map the process. The second stage will involve a content analysis of the job description and person specification documentation used to underpin recruitment and selection and company recruitment and selection manuals. The final stage will return to a focus on participant perceptions through the use of semi-structured interviews to explore, in depth, the extent of and reasons behind the incidence of SR&S or the lack of it.

To date, data have been collected over a four-year period (1997–2001) in support of the first two stages of the investigation. This has utilised a non-directed, self-reporting mechanism whereby respondents were required to construct a flow chart that depicted the actual recruitment and selection process that was followed by their organisation to fill a recent vacancy according to their perception of events. Instructions for this activity emphasised that they should select a recruitment exercise that they had been involved in personally and that the flow chart should start from the *very beginning* of the process and work through to the *very end*. In addition respondents were required to retrieve and append the job description and person specification documentation relating to the recruitment and selection exercise depicted in their flow chart. Table 6.1 provides a summary of the data collected:

Table 6.1 Summary of Data Collected

Students	Flow chart only	Flow chart + JDa only	Flow chart + PSb only	Full sets	Addit-ional JD + PS sets	Addit-ional JD only	Total flow charts	Total JDs	Total PSs
Management	42	12	2	41	3	0	97	56	46
Personnel	17	5	0	61	48	4	83	118	109
Total	59	17	2	102	51	4	180	174	155c

a. *Job description.*

b. *Person specifications.*

c. *Of the 155 person specifications, 72 were embedded in the job description.*

All respondents were studying human resourcing modules as part of either a postgraduate professional personnel or management programme and data were generated as part of their study preparation for the topic of recruitment and selection. Prior to producing their data students were exposed to other course inputs and preparatory activities. For management students this covered HRM, recruitment and selection, and HRP. For personnel students this covered strategic integration, HRP and recruitment and selection.

The organisations captured by the investigation were simply the employers (or sponsors) of respondents. The sample of organisations and the roles of respondents was therefore preoscribed. However, the number of respondents and the nature of their employment ensured a rich diversity within the sample. In collecting data, company anonymity was guaranteed but the 108 organisations represented reflected great diversity in terms of industrial sector, nature of the business and size. By way of example, organisations were drawn from: building and construction; charitable trusts; education; financial services; food production; health authorities and medicine; information technology; local government; manufacturing; professional bodies; professional consultants and services; publishing; research establishments; retailing; sport and leisure; and utilities. Of the 180 respondents 97 (54 per cent) were studying for postgraduate management qualifications and 83 (46 per cent) for professional membership of CIPD. Respondents' jobs varied widely in terms of occupation and position within the organisational hierarchy as illustrated by the following examples: Branch Manager; Change Manager; Design Engineer; Environmental Health Officer; Manager, Information Services; Occupational Therapist; Office Manager; Quality Assessor; Sales Consultant; Personnel Assistant; Personnel Manager; Personnel Officer; and Training Manager.

One further dimension relating to data collection is worthy of mention. During taught sessions students were formed into groups to share, discuss and analyse their flow charts. This was followed up by a tutor summary based on findings and conclusions reported by the groups and the tutor's overall analysis of the flow charts supplied. At this stage students had the opportunity to comment on the validity of their flow chart submitted and thereby correct any misperceptions.

Although not without their limitations flow charts represent a common way of depicting recruitment and/or selection processes as evidenced by their frequent usage in the HR literature (see for example, Bolton, 1997; Dessler, 1997; Corbridge and Pilbeam, 1998) and by organisations as a prescriptive tool. They can be used to show the individual elements making up the recruitment and selection process, where the process begins and ends and how the elements interrelate with each other. To analyse their strategic credentials flow charts have been evaluated against the schematic representation of SR&S depicted in Figures 6.1 and 6.2. Figure 6.2 has taken the primary and secondary features from the framework and developed them into a series of indicators that evidence their presence and identified where they could potentially be reflected in flow charts.

Findings

Reporting of findings has been structured to replicate the sequential development of the primary and secondary features of SR&S as illustrated in Figures 6.1 and 6.2.

Primary Features: Strategic Integration

The strategic variant suggests that the primary feature of strategic integration drives the whole recruitment and selection process, but only one respondent

Figure 6.2 Indicators of Strategic Recruitment and Selection

		Investigation Stage		
Features Of Strategic Recruitment & Selection	**Indicators Of Strategic Recruitment & Selection**	**1 Flow Charts Person Spec.Co. Manuals**	**2 Job Descrip**	**3 Inter-views**
Primary features:				
• Strategic integration	Strategy represents the start point for R&S.	✔	✔	✔
• Human resource planning	HRP is used to translate strategic imperatives into organisationally driven HR attributes.	✔	✔	✔
• Long-term perspective	Needs analysis is informed by strategy and desired HR attributes.	✔	✔	✔
	Person specifications constructed around job, work group and organisation needs.	✘	✔	✔
	Person specifications and job descriptions reflect future as well as more immediate organisational/role demands.	✘	✔	✔
Secondary features:	Evaluation of R&S outcomes:			
• Rigorous evaluation	organisation/strategic contribution;	✔	✔	✔
	job performance;	✔	✔	✔
	candidate satisfaction;	✔	✔	✔
	performance against R&S budget.	✔	✔	✔
	Evaluation of R&S processes:			
	planning phase;	✔	✔	✔
	recruitment phase;	✔	✔	✔
	selection phase;	✔	✔	✔
	complete R&S process.	✔	✔	✔
• Sophisticated selection	Use of high reliability/validity methods.	✘	✔	✔
	Selection methods matched to demands of person	✔	✔	✔
	spec.	✘	✔	✔
	Use of multiple methods.	✔	✔	✔
	Triangulation of their outputs in decision-making.	✔	✔	✔
	Use of structured and behavioural interviews.			
	Use of assessment centres.	✘	✔	✔
	Multi-stakeholder involvement in selection	✘	✔	✔
	methods and decision making.	✔	✔	✔

	Candidates as equal partners in a			
• Multi-stakeholder	two-way process.			
involvement	Use of candidate information packs.	✔	✔	✔
	Selection methods include those			
	enabling candidates to asses the			
	organisation.			
	Feedback offered to candidates.	✔	✔	✔
	Feedback invited from candidates.			
	Use of panel interviews.	✘	✔	✔
	Senior management, peers,			
	subordinates, service providers and	✘	✔	✔
	recipients involved in R&S process.	✔	✔	✔
	Tailor-made R&S exercises.			
• Front-loaded	Multi-stakeholder involvement.			
investment model	Adequate resourcing of R&S in terms of time/budget.			
	Rigorous evaluation.			
	R&S processes responsive to outputs from evaluation.			

reported that strategic considerations were the starting point for the process. The flow chart, depicting the recruitment of a Building Control Manager to a District Council, revealed that "restructuring of the entire planning department" interacted with the "revised objectives" of "efficiency and customer service" to drive the remainder of the recruitment and selection process. What was not made clear was the level at which these strategic considerations were initiated. Here it is assumed that changes to over-arching corporate strategy were driving strategic change at the departmental level. It is of course possible that the department was acting independently and forging its own strategic direction in which case strategy formulation was operating at the functional rather than the corporate level (Purcell, 1989).

In three further cases corporate strategy appeared as one of a number of factors which were informing the need analysis stage of the recruitment and selection process. For example, in one instance the stage "Determine need to refill?" was informed by "Previous roles/post holders; realignment of duties/reporting; *organisation strategy*". In another, "Job analysis" was conducted around a number of "policies (*corporate*, staffing, legal, grading)".

In total, then, only four flow charts (2 per cent) made any explicit reference to corporate strategy. However, because corporate strategy lies at the heart of HRP, it is possible that some respondents regard the two as synonymous, where reference to the latter provides proxy evidence of the former.

Primary Features: Human Resource Planning

Within the conceptual framework, HRP was interpreted as the vehicle for translating corporate plans into staffing requirements and, as such, its role within the recruitment and selection process may be more transparent than that of corporate strategy. It was certainly more evident in the flow charts, where 10 respondents (6 per cent), none of whom had mentioned corporate strategy, incorporated HRP as an element in their flow chart. In 6 of these (3 per cent), respondents referred to HRP explicitly as the generator of the need to recruit. In the other cases the reference was more tangential but has been interpreted here as representing HRP. For example, one respondent referred to "High level plan identifies needs" whereas another simply referred to "Headcount analysis".

Table 6.2 summarises the extent to which these primary features were found to be informing an organisation's analysis of its recruitment and selection requirements and initiating the whole process. Taken together only 14 respondents (8 per cent) made any reference to either strategic planning or HRP, and this interpretation was arguably generous in 50 per cent of these cases. These primary features represented the starting point of the recruitment and selection process in only 10 flow charts (6 per cent). Conversely, the overwhelming majority of flow charts commenced with the release or notification of a vacancy (62 per cent). This was normally expressed in terms such as "vacancy", "vacancy arises" or "notification of vacancy" (36 per cent).

Table 6.2 Inputs Used by Organisations to Analyse their Recruitment and Selection Requirements

(no. of respondents = flow chart entries)

Analysing Organisational Requirements	No. of respondents n=180	%	Starting point of R&S process	%
Strategic planning	4	2	1	1
Human resource planning (HRP)	10	6	9	5
Needs analysis	43	24	25	14
HRP and/or needs analysis	51	28	34	19
Analysing Job Requirements				
Job analysis	28	16	14	8
Needs analysis	43	24	25	14
Job analysis and/or needs analysis	61	34	39	22
Job description	168	93	N/a	N/a
Person specification	145	81	N/a	N/a

Another cluster of flow charts commenced further into the traditional recruitment and selection process at a point around which the vacancy was advertised (8 per cent). In one case the starting point was the receipt of an unsolicited application and in another a response to the job advertisement itself. Taken together with the previous category (vacancy release) it would appear that in some 70 per cent of cases it is the vacant position that initiates the recruitment and selection process without any prior strategic planning, HRP or definition of need.

In total 61 respondents (34 per cent) incorporated analysis of need and/or job analysis into their flow chart and where some type of need analysis was indicated it appeared to be predominantly associated with identifying the requirements of the immediate vacancy. It is, of course, possible that in some of these cases, needs analysis was shaped by wider, corporate-level planning. However, in only two cases was there reference to such planning. In one, job analysis was informed by organisation "policies (corporate, staffing, legal, grading)", whilst in the other, "headcount analysis" was used to determine the existence and nature of the vacancy.

Primary Features: Long-term Perspective

The final primary feature identified against SR&S was its long-term focus. The self-reporting mechanism adopted did not allow this feature to be specifically analysed. However, the foregoing analysis would suggest that the focus is predominantly short term with the emphasis on meeting the immediate needs of a vacancy at a highly localised level. There was very little evidence of strategic or HRP and little overt evidence that any needs analysis was being driven by corporate concerns. Indeed, overall the flow charts are very reminiscent of those found in standard HR texts depicting the traditional variant of recruitment and selection. This position is reinforced by findings related to the secondary features of SR&S that follow.

Secondary Features: Rigorous Evaluation

The analytical framework developed to capture the flow-chart data covered various types of evaluation, which could be broadly classified as relating to either outcomes of the recruitment and selection process or elements of the process itself. Table 6.3 summarises the position and what will be immediately apparent is the limited extent of any reported evaluation. Only 16 respondents (9 per cent) appeared to be conducting any form of evaluation and in no case was the strategic contribution of recruitment and selection evaluated. In terms of outcomes, evaluation was concentrated around a review of job performance following appointment (5 per cent of respondents) and, for process evaluation, was directed at recruitment methods (2 per cent), selection methods (1 per cent) or the whole process (3 per cent).

Secondary Features: Sophisticated Selection

At one level the use of more sophisticated approaches to selection anticipates the use of highly reliable and valid selection methods. At another it suggests the use of a wider diversity of methods in order to assess candidates against the more demanding person specifications produced by strategically driven recruitment and selection practice. Findings, however, suggest that selection methods are rarely evaluated to assess their reliability and validity (see Table 6.3) and that, as summarised in Table 6.4, reliance on the classic trio of short listing, interviewing and references (Cook, 1998) still predominates selection practice. Virtually all respondents indicated that their organisations used interviewing (99 per cent)

Table 6.3 Evaluation of Recruitment and Selection Outcomes and Processes (no. of respondents = flow chart entries)

Post-Selection Evaluation of R&S Outcomes	No. of respondents*	%
	n=180	
Candidate satisfaction	1	1
Review of candidate job performance post-appointment	9	5
Organisational or strategic contribution	0	0
Rejected candidates	0	0
Budget review	2	1
Total conducting some evaluation of R&S outcomes	12	7
Post-Selection Evaluation of R&S Processes		
Planning phase	0	0
Recruitment methods	3	2
Selection methods	2	1
R & S process	5	3
Total conducting some evaluation of R&S processes	9	5
Total Conducting Some Evaluation		
(including the 2 budget reviews)	16	9

**Figures do not necessarily total because of multiple responses.*

and short listing (92 per cent) methods to select staff, with almost half indicating the use of references (49 per cent). In contrast 41 (23 per cent) used some form of testing and 16 (9 per cent) one or more selection methods from a cluster comprising (group exercises, work sampling, presentations or a written task). A further 17 flow charts (9 per cent) indicated the use of assessment centres which would obviously incorporate an array of these selection methods. In total, 33 per cent of flow charts depicted the use of assessment centres and/or psychometric/personality testing and/or group exercises, work sampling etc. To put it another way, in two-thirds of reported cases selection did not progress beyond the use of the classic trio.

Table 6.4 Selection Methods Identified by Respondents
(no. of respondents = flow chart entries)

Selection methods	No. of respondents n=180	%
Short listing		
By application form/CV	152	84
By interview	23	13
By testing	5	3
Total using one or more method of short listing	165	92
Nil response	15	8
Interviewing		
Simply stated "interview"	66	37
1 to 1	25	14
2 to 1	24	13

Panel	33	18
Sequential	44	24
Total using interviews (Excluding two respondents using 'internal selection' and two where selection methods were not stated.	174 (n=176)	99
Testing		
Psychometric	23	13
Personality	7	4
Ability/attainment	12	7
Other/not specified	10	6
Assessment centres	17	9
Total using one or more types of testing	41	23
Total testing and/or using assessment centres	58	32
References		
Prior to selection	16	9
Post-selection: pre-offer	18	10
Post-offer	55	31
Total using referencesb One respondent indicated two categories.	88	49
Other selection methods		
Group exercise	4	2
Work sampling	4	2
Presentations	8	4
Written task	1	1
Total using one or more of the above methods	16	9
Medical	25	14

a *Excluding two respondents using 'internal selection' and two where selection methods were not stated.*

b *One respondent indicated two categories.*

Secondary Features: Multi-Stakeholder Involvement

Within the strategic framework multi-stakeholder involvement pointed to due weighting being given to the interests of potential applicants and candidates in a genuine two-way process as well as the active involvement in the recruitment and selection process of other stakeholders significantly affected by its outcomes. The method of data collection is not particularly suited to the extraction of detailed information on stakeholder involvement in the recruitment and selection process. In retrospect, it would have been useful to ask respondents to assign responsibilities to the elements depicted in their flow charts, although some respondents provided this data voluntarily. Where this occurred, it pointed to three participating groups: senior management involvement in vacancy authorisation; and HR practitioner and line management involvement in recruitment and selection activities to varying degrees of responsibility. In addition, flow charts pointed to the use of panel interviews (18 per cent) where more extensive stakeholder involvement might be expected. Elsewhere, the flow charts suggest limited concern for the needs of potential applicants and candidates. Only 23 respondents (13 per cent) indicated that information packs were sent to those making enquiries at the recruitment stage and only 13 (7 per cent) that feedback was provided to unsuccessful candidates, which, in some cases, was restricted to internal candidates only. In only one instance did evaluation of the recruitment and selection process involve obtaining the views of candidates. Discounting the two-way dialogue typifying interviews, selection appeared to be predominantly a one-way process. Clearly, selection methods employed in assessment centres and the use of work sampling (11 per cent) may provide the candidate with insights into the job and its organisational context. However, only 4 per cent of charts indicated the use of any candidate driven selection methods. In the majority of cases, this involved spending time in the working environment and meeting team members. Taken together, the nature of what should ostensibly be seen as a two-way process (Popovich and Wanous, 1982) appears a long way distant from the development of realistic job previews championed by writers such as Lawler (1994) and candidate-friendly recruitment and selection procedures (Fletcher, 1991; Iles and Robertson, 1997).

Secondary Features: Front-Loaded Investment Model

Findings here can only be deduced from the data provided but the overall lack of strategic or HR planning, general reliance on the classic trio of selection methods, essentially one-way nature of the process and absence of process or outcome evaluation would not suggest that the front-loaded investment model is much in evidence. Consistent with this observation was the evident lack of effort devoted to the analysis of recruitment and selection needs. This was reinforced by the fact that 19 per cent of flow charts did not incorporate a person specification element and that prior planning was seldom in evidence for either recruitment (17 per cent) or selection (14 per cent).

Discussion

Based on the above-findings, if self-reporting of recruitment and selection practice is set against the strategic framework, developed in Figures 6.1 and 6.2, there is very little evidence of the strategic variant in operation. If evidence of strategic fit is both a necessary and sufficient criterion for SR&S then reported findings suggest it was only evident in 2 per cent of the recruitment and selection exercises surveyed. If it is held that the three primary features of strategic fit, strategic recruitment planning and long-term focus must be demonstrated to evidence SR&S then no recruitment and selection exercise (or company) meets all these conditions. If HRP is generously interpreted as a proxy measure of these primary features, because strategic fit and a longer-term focus are implicit, then a further 6 per cent of recruitment and selection exercises could be said to reflect SR&S. Taken together it could then be argued, perhaps very generously, that 8 per cent of recruitment and selection exercises are being strategically driven. If the secondary features are incorporated into the template then, again, no exercise satisfies all identified SR&S criteria although all four secondary features are far more evident in those cases incorporating strategic or HR planning than in the population as a whole. Although drawn from a small sample some evidence of the front-loaded investment model can be found in all those charts incorporating strategic or HR planning into the recruitment and selection process (100 per cent), compared to 57 per cent for the population as a whole. Similarly for the remaining secondary features of evaluation, sophisticated selection and multi-stakeholder involvement the comparative figures are 36 per cent (9 per cent), 43 per cent (33 per cent) and 43 per cent (23 per cent). On the basis of this evidence, the SR&S glass is virtually empty, albeit with a little froth in the bottom.

In seeking an explanation for the very low incidence of SR&S reported in the flow charts, it is possible to advance a number of arguments. First, it might be argued that whilst not explicit, strategic integration may be implicit in certain facets of recruitment and selection illustrated in the charts, as intimated earlier. However, such a notion is highly questionable as it runs counter to one of the central tenets of strategic integration. Any idea that strategic integration permeates recruitment and selection activity through some kind of osmosis contradicts the idea that strategic fit is central to HRM and has to be actively pursued with the involvement of all employees (Guest, 1987; Mabey and Salaman, 1995).

Second, another potential challenge to the efficacy of reported findings arises over ambiguity in the conceptual framework of SR&S itself. Although a wider and more demanding construction of SR&S consistent with the views of Lundy and Cowling (1996) has been utilised, narrower definitions have their advocates (Borucki and Lafley, 1984). It is possible to delineate at least three levels of interpretation against which flow-chart data can be analysed for evidence of SR&S: the first is where strategic integration alone is accepted as a necessary and sufficient condition to evidence SR&S; the second is where HRP and a long-term focus, although possibly regarded as implicit within strategic planning, are explicitly added to give the three primary features identified earlier; the third is where a set of secondary features can be added to provide the construction of SR&S adopted here. It might be anticipated that the incidence of SR&S will increase the narrower the definition becomes, such that the choice of a more demanding set of criteria here would inevitably depress evidence of its manifestation. However, the data clearly do not support this argument because it can be demonstrated from the findings that irrespective of which interpretation is applied there is minimal evidence of SR&S being practiced.

Third, it might be argued that the practice of SR&S is limited by its selective application by organisations to certain positions only. This would be consistent, for example, with Atkinson's (1984) flexible firm construct, where it is possible to argue that strategic integration may find expression in the recruitment and selection of core but not peripheral workers. However, apart from again running counter to the principles of strategic integration, an analysis of the data by occupation revealed little variation in the recruitment and selection practices applied to the different groupings of senior managers (7 per cent of the total job population), line managers and supervisors (23 per cent), professional and technical (29 per cent), administration and clerical (38 per cent), and manual employees (3 per cent).

In contrast it is possible to advance arguments suggesting that evidence of SR&S found in the flow charts is exaggerated. First, the self-reporting method of data collection could conceivably have biased respondents who, when constructing their flow charts, were primed to start at the "very beginning" and work through to the "very end". This emphasis could have led to greater reflection on the two ends of the recruitment and selection spectrum and possibly increased the probability of respondents identifying the elements of strategic planning, HRP and evaluation. It is difficult to imagine this emphasis reduced to likelihood of their identification! This is particularly so bearing in mind that respondents had been sensitised to key elements of the SR&S template before producing their data set. Prior to the production of flow charts respondents had been variously exposed to strategic integration, HRM, HRP and recruitment and selection on their postgraduate study programmes.

Second, it may be recalled that the flow charts produced by respondents were also used as teaching material. Small groups would compare and contrast their flow diagrams and draw conclusions about the messages communicated in terms of actual recruitment and selection practice. In addition, the tutor provided a summary analysis based on a brief review of data supplied by the whole group. This invariably highlighted the lack of strategic integration and HRP, almost non-existent process or outcome evaluation and limited use of sophisticated selection techniques. Close parallels were always drawn to the similarities between the traditional recruitment and selection model and the processes as depicted by respondents' flow charts. As was explained earlier, at this point respondents had the opportunity to comment on the validity of the tutor's analysis. This frequently highlighted omissions in reporting where the most common oversights related to the use of medicals, references and testing but never to strategic planning, HRP or evaluation.

Notwithstanding these arguments, the findings would be far more robust if derived from multiple methods of data collection which, as detailed earlier, has been incorporated into the overall research design. An important dimension of this will be to gain an understanding as to why there appears to be such a mismatch between what is actually happening at ground level and what we might expect if the logic of SR&S advanced earlier is accepted. Now it is only possible to speculate on the reasons for the mismatch, although some likely contenders spring to mind. First, there may be issues around the role of managers, how they are constructed by organisations and perceived by incumbents. Particularly important here may be the low priority afforded to human resourcing that is frequently associated with managerial behaviour (Snape et al., 1993; Beer and Eisenstat, 1996).

Second, is the context within which managers operate. SR&S involves a long-term perspective which may not chime with the day-to-day experiences of managers who are under pressure to achieve short-term results. The short-term focus of UK organisations is well documented (Storey and Sisson, 1993) and is often reinforced by prevailing organisational human resourcing practice. Where managers are appraised and rewarded against short-term performance objectives they are hardly likely to look beyond their immediate and parochial concerns (Storey and Sisson, 1993). It is also possible that a manager's ability to think strategically is constrained by the organisation's failure to communicate effectively its strategic imperatives.

Third, it is possible that management competence rather than organisational context lies at the heart of the problem. At a general level there has long been disquiet about the education and training base of UK managers (Ashton and Felstead, 1995). More specifically, managers have been criticised for their lack of proficiency in the soft-skill areas associated with their human resourcing responsibilities (Garavan, 1991; Beer and Eisenstat, 1996) and it is questionable as to how much training and support managers receive in this area once appointed. With direct reference to their recruitment and selection responsibilities it would be interesting to establish what training they had received for this critical role and explore the extent to which any training equips them to practice the strategic variant. Another dimension of competence is the recruitment and selection of managers themselves. Of particular importance might be the extent to which their recruitment was strategically driven!

Fourth, it is equally legitimate to raise the same question marks over the role and competence of HR practitioners involved in the recruitment and selection process and the context within which they perform their role. For example, applying Storey's (1992) model of HR practice would suggest that a strategic approach is more likely where the role is that of a 'changemaker' compared to say that of a 'handmaiden'. Further, the ability of HR practitioners to influence recruitment and selection practice will be directly affected by their organisational credibility, knowledge and competence. The survey results reported above do not provide grounds for optimism.

Conclusions

Despite the conceptual logic of strategically based recruitment and selection and the clear business case advanced for its practice, the preceding analysis leads to the inescapable conclusion that in reality it is virtually non-existent in the companies surveyed. The evidence presented firmly supports Lundy and Cowling's view that "There is a paucity of cases which demonstrate strategic selection in action" (1996: 212) and those who argue that traditional approaches to recruitment and selection dominate practice (Wright and Storey, 1997). Irrespective of how generously the data are interpreted, there is simply no convincing evidence that the strategic variant is being rigorously practised across the 108 organisations or 180 recruitment and selection exercises surveyed. At worst, there was no case that satisfied all of the more exacting criteria demanded by the broader definition of SR&S adopted here. Even when evaluated solely against the 'primary features' associated with narrower definitions of the concept, there was not one case that met all of these conditions. At best, there was some limited evidence that primary and/or secondary features of SR&S were reflected in a fragmentary way by practice in a few cases. The two examples that came closest to the strategic variant occurred in those cases where, respectively, strategic planning and manpower planning were incorporated into the recruitment and selection process and reflected in the person specification (although, interestingly, not the job description) through organisationally driven competencies that in one case at least were clearly derived from the organisation's corporate strategy.

In terms of the initial question "Is the strategic recruitment and selection glass half full of half empty?", the answer is that it is neither but instead is decidedly empty, although arguably with some traces of froth at the bottom. What little, fragmentary evidence there was of strategic practice was concentrated in line management and supervisory appointments and accounted for the majority of strategic features found. Therefore, even where features of strategic practice are evident it is largely restricted to narrow job clusters which runs counter to the principles of strategic integration on which much of strategic management is based. In terms of Storey's (1992: 35) analysis, it would seem that, on the basis of these findings at least, recruitment and selection is very much a 'separate, marginal task' rather than an 'integrated, key task'.

It would appear that, not for the first time, rhetoric appears to be running well ahead of reality. These findings, pointing to a paucity of SR&S practice, may prompt speculation about the real extent of strategic management or HRM in organisations. At this rate a more general search for strategically driven HR management practice may be tantamount to drinking at the proverbial pub with no beer!

Author

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Career pathway has deliberately embraced: working as an HR specialist; managing a specialist HR unit; working as an academic lecturer and researcher; and general management. His career has flip-flopped deliberately between these as a way of allowing regular interface between academic and practitioner roles so enabling the integration of theory and practice.

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Process Issues in the Diffusion of Performance Pay

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Introduction

This paper uses case study findings to examine the reasons behind the uneven spread of performance pay within subsidiaries of a multinational industrial gases manufacturer. The research studied payment systems in one Irish site and two British sites of this organisation. In the Irish division, performance pay has not been mooted. Management at headquarters has described this site as being 'ten years behind' in pay practice. A laissez-faire approach has been shown towards this division, its buffer from change being its strong profit figures. In the first UK site studied, an ambitious plan drawn up to introduce performance pay never took extensive hold. Further, the non-financial or 'recognition' aspect of the scheme failed to materialise. This paper suggests that the scheme was overly dependent on a single individual within management ranks to 'champion' the scheme. This individual left the company and the initiative lost momentum. The third division saw performance pay go beyond the initial formulation to full acceptance by all employees. The success is attributed to both an inclusive process and a satisfactory outcome. In addition, the parameters of the performance system were clearly set by management and the trade union in advance. For management the system had to be 'results led', whilst the union insisted that it should not be 'appraisal driven'.

Deploying Kostova and Roth's (2002) perspective of institutional theory, this paper applies notions of ceremonial adoption to the data. The attempts at diffusion evidenced offer tentative support to notions of 'institutional duality' as defined by Kostova and Roth (2002: 216). The data suggest that the construct 'performance pay' may be prone to symbolic isomorphism, rendering measurement of its true diffusion and institutionalisation a complex task. In addition, process variables dictate the ease with which pay change is adopted and, perhaps more importantly, the longevity or robustness of a new system. However a caveat must accompany this. The detail of the system is not inconsequential. Both the principles and mechanics underpinning a performance pay scheme may be crucial to its efficacy.

The Diffusion and 'Ceremonial Adoption' of HR Practices

Institutional theory has been used in the study of how organisational practices are adopted and diffused (Meyer and Rowan, 1977; DiMaggio and Powell, 1983; Tolbert and Zucker, 1983; Abrahamson, 1991; Scott, 1995). Drawing upon this theory, Kostova and Roth (2002) specify what they consider the two main influences on the uptake of organisational practices. First, there is the 'institutional profile' of the host country. This is defined as "the issue-specific set of regulatory, cognitive, and normative institutions in a given country" (2002: 217). Briefly, the regulatory element reflects the laws and rules in a given national environment. The cognitive component mirrors the widely shared social knowledge and cognitive schemata in that particular country. The final element of the institutional profile is the normative information that encapsulates the beliefs, assumptions and values held by the native population. The second factor influencing the adoption of a practice is the 'relational context' between the parent and the subsidiary. Kostova and Roth (2002: 218) define the relational context using three indices – dependence, trust and identity. The proposition is that compliance is greater where dependence is high, when there is intra-organisational trust and when the subsidiary employees experience a state of attachment to the parent organisation. Furthermore, according to these authors, where the subsidiary is in a foreign country there is 'institutional duality'. Not only are subsidiaries concerned with establishing legitimacy with both the external host country's institutional environment and the MNC's environment, but it must also reconcile these two institutional pressures. Tregaskis et al. (2001: 50) suggest that a 'hybrid localisation' occurs whereby macro-HR practices within a given corporation are standardised but that micro-HR activities are subject to local adaptation.

The 'convergence or divergence' debate (Berger and Dore, 1996; Weber et al., 2000) also informs the study of HR practice diffusion. The tendency among MNCs to introduce common HR practices across their international subsidies has been labeled 'company-based employment systems' (Marginson and Sisson, 1994). Ferner and Hyman (1998) have suggested that continuation of this trend would result in increasing 'corporate isomorphism' cross-nationally. If this were so, according to Geary and Roche it would suggest:

> that patterns of employment relations respond to, and are being shaped by, a host of factors and are not simply being homogenenized … by common pressures arising from internationalisation. (2000: 113)

Ferner and Hyman (1998: xxii) believe that institutions mediate 'common external forces in a variety of ways and with greater or lesser degrees of success'. They may at times possess an inflexible 'sticky' aspect, especially when they have a legislative basis (Streeck, 1992). Locke and Thelen (1995) concur that comparative institutional analysis must take into account the fact that 'institutional sticking points' are likely to vary from country to country. According to Katz and Darbishire (2000), country-specific institutions matter in that HR practices have complemented rather than replaced existing institutional arrangements.

Kostova (1999) argues that although implementation and internalisation are theoretically distinct, they are most probably interrelated. As Selznick (1957) implied, the more a practice is used the more likely it will become infused with value. However, implementation may not always result in such internalisation. Kostova and Roth (2002) contend that by studying the joint effects of institutional and relational factors, an understanding of the pattern of adoption can be gleaned. These authors are especially interested in cases where subsidiaries formally adopt a practice but have doubts about its real value. Such 'ceremonial adoption' seeks to boost the subsidiary's perceived legitimacy and bolster its chances of survival.

Research Methodology

Kostova and Roth's framework (2002) is adapted here for use with qualitative data. Practice implementation and internalisation is, according to their conception, swayed by the 'institutional profile' (regulatory, cognitive and normative dimensions) and the 'relational context' (inter-unit dependence, trust and identification). Three sites will be studied to see if the take-up of performance pay fits with Kostova and Roth's theory.

This present piece of research follows on foot of survey analysis in which two large-scale datasets, one British and one Irish, were compared (Grace, 2002). Comparison indicated similar underlying trends in the spread of performance pay, independent of geographical location. Whilst institutional differences may bias the timing and nature of performance pay adoption, the decision to use performance pay appears to ultimately hinge upon workplace circumstances. Country specific factors were crosscut by contingent variables such as occupational type, industrial sector, work process, company size and ownership. This follow-on qualitative piece of research looks at performance pay practice from closer quarters. Kostova and Roth (2002) contend that the implementation and internalisation of management practices vary across foreign subsidiaries as a result of both the institutional environment of the host country and the relational context within the MNC. This contention will be explored using the case study method. Of the three sites studied, two of the sites are British based and one is Irish. The proximity in 'cultural distance' between Britain and Ireland (Tregaskis et al., 2001) is useful for this present research, as comparison of sites across the two countries is subject to less 'noise', with unanticipated or outside variables less likely to feed into any divergences that do emerge. This research took the form of participant observation, archival trawls and in-depth interviews with human resource/compensation managers, with senior trade union personnel and with industry consultants.

Case Study

A research site was chosen that is sufficiently large to accommodate comparison of sub-divisions. The organisation has British and Irish divisions so a sense of national differences can emerge. Information of a longitudinal dimension was available via a PhD thesis completed on the organisation in the 1970s (Nightingale, 1976). In sum, we have an organisation *within which* both spatial and temporal effects on pay can be viewed. The site chosen was an industrial gases company that will be referred to as Gasco to preserve anonymity. This organisation is apposite for exploration as various attempts were made to introduce performance pay during the period of study (1997–1999). This study will look at three sub-businesses: the first is the cylinder or 'fabrication' business in the UK (GasCylinder). The second is the Irish gases business (GasIreland); the third unit provides compressed gases to the hospitality sector (GasCompressed).

GasCylinder

GasCylinder, the main fabrication and cylinder business has a history of paternalist management. GasCylinder managers in the UK also admitted to a culture that values task-focused behaviour, risk-aversion and caution. Notwithstanding management's fondness for the lexicon of 'employee empowerment', GasCylinder's decision-making continues to be directed from the top. According to the HR manager, the 'culture is such that any change will be driven in once a target and milestones have been signed off'.

GasCylinder has a high level of union membership. The relations between management and unions are described as being of the 'traditional adversarial' style. The fragmented nature of its pay systems in 1997 reflected the *ad hoc* manner in which they had grown up. The variable portion of the payroll posed particular discomfort for managers. This component comprised a host of frequently obscure payments, bonuses and incentives. There was no direct or certain link between company profitability and variable pay. The spread between high performers' and low performers' pay was limited, with most clustered around a central median. As the HR manager dryly remarked, 'All GasCylinder employees are above-average employees'.

The primary reason given for the adoption of performance pay was a push 'to ensure reward supports [the] achievement of new business strategy …'. The project sponsors wanted to send out 'a very obvious statement to employees about our culture … and … move towards a more entrepreneurial business'. The managing director was confident that performance pay would create such an 'entrepreneurial culture'. In turn, the HR manager describes the 'stress' he felt in the first few weeks on the job as he tried to persuade the MD to slow the process. The HR Manager recalls that the MD, as a highly ambitious 'highly paid and highly bonused' individual, assumed that all employees worked to the same motivation and tempo.

Although GasCylinder had achieved profitability throughout the 1990s, high labour costs were starting to pinch. Senior management tried to nip this trend through the creation of local cost centres that were answerable to headquarters. Traditionally, GasCylinder management had found both the measurement and management of performance a difficult and precarious task. However, more exactitude was possible from early 1997 as a result of the reorganisation of the fabrication business. A tighter financial information system made possible the identification, measurement and attribution of profitability right down to individual functions and employees.

When GasCylinder managers selected the groups to whom performance pay would apply, they chose cohorts who were already receiving some form of incentive payment. They simply 'took and reworked the existing bonus money'. The HR manager described this tactical selection process as 'priming the pump'. Further, these groups of workers had a 'commercial element' to their work. Their work was linked explicitly to sales and the market, and could be measured. The initiative to introduce performance pay was launched on a phased basis. The profit figure was to be reserved. This was to allow scope for manipulation should 'winners' not be naturally forthcoming in the year of inception. Management was determined that the pilot group should be treated to a 'win' (or financial gain) in their first year of participation. This was a result that management would contrive to keep those affected agreeable. These early participants could then pass on 'strong positive feedback' to the wider workforce. At senior levels, however, the process was less certain. As alluded to earlier, incongruities and equivocation surfaced between the directors who ordered change and the managers charged with implementation. The human resource manager also cited the 'lack of absolute clarity of budget as a constraint'.

The pay elements related to performance were based on two aspects of profitability. The greatest proportion of an individual's performance pay would be determined by the achievement of targets in that part of the business over which the individual had most direct influence. In addition, there would be recognition of the attainment of broader business targets. By way of illustration, for sales representatives 70 per cent of their incentive pay would be driven by the profit figure within their territory, whilst 30 per cent would be based on the profitability of the wider area. GasCylinder was eager to move beyond the clustering tendency in the performance ratings and pay of groups of employees. Thus the upper limit or cap on payments was, in theory, removed. At the other end, for weaker performers, the non-achievement of targets would result in no performance related payments. Pay matrices were constructed which allowed employees to see how different achievement levels triggered differential pay levels. A quarterly reporting mechanism was set up to allow employees to monitor how well they were doing relative to targets. Management believed that this, combined with frequent review meetings, would allow workers to 'adjust their effort or behaviour' on a 'timely' basis (Corkerton and Bevan, 1998: 42).

Five projects, encompassing 300 employees, were run initially. A tactical plan was sketched which created a reasonably achievable performance-to-pay link in the first year. The second year saw the inclusion of more demanding 'thresholds' of performance. In 1998, GasCylinder management began their first assessment of the scheme. Management's concern for the provision of feedback to employees was unnecessary. As the HR manager commented, the workers now 'know down to the pound' what they are owed from the scheme. The HR manager noted that individuals were intensely focused on their own goals and performance measures. Their concern for wider business goals was less acute.

Management believed that the performance-pay scheme impacted positively on bottom line profits. The six-month profits in fabrication were above budget despite tight market conditions. Managers involved were also keen to claim that the workforce was refocused towards business goals. Certainly, employees had become significantly more profit orientated. On the other hand, the project failed to roll out as fully as planned. The HR manager most intimately involved in the project left the company and the task became jaded. One of the division's biggest regrets was that plans for a parallel 'recognition' or non-financial scheme never materialised. Thus only monetary reward was acknowledged.

GasIreland

The Irish operation manufactures liquid oxygen, liquid nitrogen and liquid argon. It also maintains cylinder filling and distribution centres. Although there are nearly 350 people employed throughout Ireland, up until August 2001 human resource activities were dispersed among operational and administrative management. Despite Gasco's common branding and a single corporate mission, at the time of the study the Irish plant was firmly in the model of traditional industrial relations. The HR manager of the cylinder business in Gasco (UK) has described the Irish operation as being 'ten years behind' the UK in its personnel management style. As stated, there was no dedicated HR or personnel function.

GasIreland had developed a distinct culture. Management was fiercely independent. Pay was agreed with the unions within the national agreements framework. Indeed management baulked at the mention of newer sophisticated HR techniques. Even managers at the headquarters noted management in Ireland's defensive, even suspicious, attitude toward them on their visits to the Irish plants. However, because the Irish operation was profitable, corporate headquarters was reluctant to push for changes such as the introduction of variable pay. In turn, Irish management cites the successful record of the business as a reason for their unwillingness to change the pay system:

> It's against the background that we're trading very strongly … it's much easier if the economy was in decline and wasn't maybe quite as healthy as it is, it would be easier in those circumstances to negotiate.

The local managers expressed ease with an industrial relations style of management. Indeed up until the mid-1990s most of the junior managers joined the union MSF. This, however, was changing. According to a local manager:

> There were a number of junior managers joined MSF back in the early 80s and most of those have either been promoted and left the company or left the union. We've had no one opt to join MSF in recent years. So they're virtually not an issue anymore.

Management felt that 'because we were talking about new jobs' they had successfully instigated a new work culture in sections of the Irish manufacturing plant such as the night shift. Also, for 25 new drivers taken on, neither they nor management had made requests for overtime working. Management suggestively commented that 'it's a different issue managing those guys'. However, the manager interviewed did fear that it might be difficult to keep the two work cultures discrete. For management 'the big prize would be getting people away from the overtime'. In relation to flexibility, this manager pointed out that 70 per cent of employees worked to 'rigid' structures, 'but ten years ago it was 100 per cent, so we're getting there'. The leap between the raw practicality of the Irish management and the rhetoric of aspiration and sophistication of the British managers was stark. When asked about developments in relation to performance management, the manager responded that not much has happened 'in recent years'.

> There was a major job evaluation exercise carried out around about 1983 using the HayMSL system and there was some talk of introducing appraisals at that time and adding performance-related pay …

But, according to management, efforts were stymied by 'the union philosophy'. However, events suggest that the *modus operandi*, and concomitant personnel practices, might be on the cusp of change. First, as indicated, the propensity of managers to join MSF has fallen off. Second, along with a global 'shared services' call centre service established by the UK division, new expertise might be expected to arrive with the establishment of a dedicated HR function. Industrial relations were to continue to be managed by the line management. The HR manager would, however, be expected to support and contribute to industrial relations policies.

In summary, the Irish practice remains both geographically and ideologically removed from its British counterpart. Strong profit figures traditionally had afforded it the luxury of 'splendid isolation'. However this appeared set to change.

GasCompressed

The third division studied was the group within Gasco that supplies gas to the hospitality and leisure trade ('pubs 'n clubs'). This group has only been in existence since the early 1990s. Though wholly owned by Gasco, GasCompressed is run semi-autonomously. It has its own profit targets and also has freedom from the gases business pay structure. Another difference between GasCompressed and other gases is that the information systems in the other gases are more detailed. Thus, whilst the core factor determining the payment of bonuses in the scheme in GasCylinder was profit deriving from the actual product sales, in GasCompressed 'sales growth' is the metric deployed.

People within the GasCompressed division consider themselves first as 'GasCompressed people' and see their membership within Gasco as secondary. Employing 300 staff, this worksite originally began as a non-unionised venture. In 1994, however, one of the main trade unions entered negotiations with management. Around the same time, talks began for a 'brand new pay agreement'. In the course of its ten years, GasCompressed has spawned a distinct culture. Demarcations that existed in Gasco's other gases have been collapsed in GasCompressed, for example drivers will engage in loading of products. However, mistrust lingering from previous variable systems had to be dealt with. Employees had reported their suspicion of the earlier bonus system, feeling that it was 'fixed by management'. Also, the due payout was not always forthcoming. Management for their part found the earlier system 'tremendously complicated'.

In the GasCompressed division there are two main categories of worker. These are the sales and driving staff, and the production staff who fill the containers. Both groups of worker are included in the new performance-pay scheme. This stands in contrast with the performance pay in GasCylinder where managers, sales staff and marketing people are included, but it stops short of industrial staff and drivers. In GasCompressed it was agreed that management and the trade union would jointly establish a workable performance pay system. Throughout the design, introduction and implementation stages a system of open and transparent joint working was created. Agreement was forthcoming on the stipulation from the union that management eschews 'appraisal driven pay'. Issues of behaviour, competency and staff development were left to the appraisal system. Training to equip line managers with staff appraisal skills has taken place. However, this is an area where deficiencies remain.

During preliminary discussion, management insisted that the planned pay system was 'driven by business objectives'. Matrices were drawn up linking results and payouts. The template was considered clear and upfront, and staff could work out for themselves what they were to receive. There was also cognisance of the interdependence between the individual employee and the group. The formulae linking performance to pay was signed off beforehand by management and the trade union. Fears that either party might manipulate the 'goal posts' during the process were thus allayed. It was agreed that staff appraisals should be a separate process. A consultant involved in the process described the new pay system as 'transparent and easy to understand'. The union endorses this with the comment that 'the scheme consists of straightforward key factors'. Similar to the GasCylinder division, managers have also noted increased demand from employees for business data. The scheme has been renegotiated several times. According to the union negotiator the most recent change has been to 'make it more sensitive to the actual performance of teams and individuals'. The union has been described as an 'advocate' of the system. For the parties concerned the distinction between 'joint working' and 'negotiation' is more than symbolism or semantics. It must also be noted that this situation represented a process which runs deeper than merely 'throwing money at' a problem. Indeed managers in other divisions watched enviously as the GasCompressed negotiations in 1998 yielded a pay increase below the rate of inflation. Such outcomes have become acceptable with the trade union within the framework of a broader more enduring pay and employment deal. The question then is why did both the process and the outcome emerge with such apparent success?

One individual close to the process attributed much of the success to the personalities involved on both management and union sides. The director of GasCompressed was actively involved with the performance system. He displayed a more consultative style of management, and this receptiveness to participation may have opened the door for the union representatives. An outside source has indicated that the actors involved were sufficiently enthusiastic and skilled to persuade their constituents to commit to the process. Participants argue that *joint working* is distinct from more familiar *negotiation* processes. First it demands a greater willingness to recognise mutual interests. Rather than putting forward ideas as indicative of 'stances' to be taken, ideas represented points for discussion and progression. Fewer 'break out' meetings occurred. Instead GasCompressed management and the union would remain *in situ* and, in the presence of the 'other side', discuss issues arising within their own cohort. The demise of the ritualistic 'bidding up' process was also noted. In brief, the atmosphere was different, no longer adversarial but constructive and 'solution producing'. Both management and the unions have independently noted the difference, and admitted to finding the process worthwhile. This is not to suggest that there was not occasional reversion to 'type'. In particular, when issues unrelated to the pay process cropped up, friction could foment. For example, the question of a specific disciplinary case threatened the atmosphere in one meeting, until the chairperson urged that such matters be dealt with elsewhere.

Moreover, 'joint working' is seen to deliver results. As was mentioned earlier, this system has not resulted in a spiralling payroll. Roughly 2 per cent of profits are paid out as part of this scheme, but the trade union leader expressed contentment at payouts that can still 'mount up to an extra £1000 and sometimes more'. Further the trade union is satisfied that 'full and proper collective bargaining' remains intact. So in a 'bad' year for GasCompressed there might be no payouts for workers but there is still the collective bargaining to fall back on. According to the union negotiator 'the employees get the best of both worlds', that is, distributed profits plus negotiated increases. Challenges do remain. An anomalous pay progression system needs to be tackled. The second outstanding task, as mentioned, is the provision of appraisal skills to managers.

Discussion

This research was instigated on foot of survey analysis that looked at variable pay usage. Factors such as occupation, ownership, industrial sector and the production system appeared influential. It is proposed, however, that such linkages (even predictors) shroud unevenness in both interpretation of PRP and its use *within* organisations. Thus the thrust of this paper has been to explore these complexities within a single organisation, but across three divisions. Although this [GasCompressed?] organisation prides itself on having a strong global corporate identity it was seen that behind a common logo lie distinct sub-cultures, variable management styles and, importantly for this research, assorted pay systems.

As the case details the ambitious performance pay plan in GasCylinder never took hold as extensively as planned. The provision for a more rounded scheme and the inclusion of non-financial rewards never eventuated. The loss of the 'championing' manager might offer some explanation for this. The second site studied, which is based in Ireland, operates to 'clerk of the works' model of personnel (Tyson, 1995). A combination of economic buoyancy and lack of HR expertise have succeeded in dampening demands for an alternative pay system. Within the GasCompressed division, the success of the pay system is attributed to both an inclusive process and a satisfactory outcome. A robust process of joint working was deemed critical, as was the role of the personalities. It cannot be said that this site was immune to mistrust. Much of 'the expectations, motivations, patterns of interrelationships, past history and understandings of the people in the systems' (Thorpe and Bowey, 1988: 23) had to be reconstructed. Significantly, the commitment and effort of all parties succeeded in creating a performance-pay system that incorporated consensus. Further, although there is a sense from process theory that these methods are worthy of greater consideration than the actual payment infrastructure, a qualification must ensue. If the GasCompressed site can be deemed an exemplar of process theory, it must be noted that the mechanics of the pay system are not immaterial. Both management and unions gave broad but immutable parameters at the outset. That the performance pay could be 'results-led' but 'not appraisal driven' was a crucial ground-rule. Although the scheme has needed 'tweaking' in light of new information and maturation, the parameters have remained intact.

A question then is can we call this pay system 'PRP' given its embedded consensus and reduced link to appraisals? Does the fact that both management and the trade union do so suggest that such nomenclature is permissible? Even within the one organisation we have seen that PRP is open to interpretation. Perhaps this is an example of 'symbolic isomorphism' (Glynn and Azbug, 2002: 267) where the conveyance of a message to stakeholders is equal in importance to its substance. This is a question for future consideration.

Returning to Kostova and Roth's (2002) explanation for variation in practice uptake, we must consider first the validity of 'institutional profile' as an influence. In other words, can the differences in practice between GasIreland and the two British subsidiaries be attributed to differences in the institutional profiles? Kostova and Roth (2002) see the institutional profile as consisting of the tripartite of regulatory, cognitive and normative elements. On each of these measures Britain and Ireland have much in common. First, in relation to legislation, preliminary fieldwork conducted suggested that whilst managers are wary of the fiscal implications of changes to their pay systems, they do not feel that employment or labour legislation has a direct impact. Further the regulation of employment in Britain and Ireland was quite similar at the time of the fieldwork. In relation to taxation, both governments had put in place incentives to encourage company-wide financial participation. Although the actions of the governments as employers sent signals that they encouraged individual performance measurement and pay, there was no move to create fiscal advantages for organisations doing so. Under the 'cognitive' heading, there is proximity between Ireland and Britain in relation to the body of social knowledge and stereotypes adopted. The role of performance evaluation and its acceptability is perhaps more pervasive in the Britain. In Ireland, notions of performance monitoring and related rewards are still viewed sceptically in many areas of work. The third strand of the institutional profile is the 'normative' dimension. Management taught in Britain and Ireland are increasingly stressing the importance of recognising merit and the contribution of the individual. In contrast to many of the European partners, large differentials in salaries within organisations are culturally acceptable. In Ireland, however, the spread of individual performance pay is moderated by a stronger trade union body. Recently, the traditional stance in opposition to performance pay has morphed into a role monitoring the efficacy of the process. Further, individual pay systems may not require the usurping of collective bargaining, but may operate in parallel with it.

Relational Context

When the relationships between the three Gasco sites and Gasco headquarters are scrutinised, it becomes apparent that GasCylinder is the closest to the parent in employment practices. Using Kostova and Roth's (2002) taxonomy, we will consider the dependence of each site on the parent first (Table 7.1). The data suggest that the cylinder operation is the most dependent. This reliance stretches beyond the basic need for strategic direction and capital, to HR expertise. Kostova and Roth (2002) predict that such reliance bolsters the impetus to adopt centrally mandated practices. However, this does not necessarily imply that practices are internalised by the staff or local management.

The second site, GasCompressed, is quasi-autonomous within the Gasco organisation. As a result the need to implement parentally approved HR practices is not overwhelming. However, if pressure to adopt centrally endorsed practices means that practices are half-heartedly introduced then, by corollary, it is plausible that when adoption is at the discretion of the subsidiary, it could be linked to deeper internalisation. Certainly in the GasCompressed division local ownership of the performance-pay system is evident.

The third study site, the Irish division, has created a bulwark between it and the parent corporation. The strong profit figures it returns defend it from the intervention of headquarters. It does not have the ready recourse to HR expertise as with the GasCompressed division. However, managers in Ireland are sufficiently experienced to deal with operational issues. Perhaps more importantly they are accustomed to the industrial relations set-up that they inherited from GasIreland's previous incarnation under Irish ownership.

The second factor Roth and Kostova (2002) measure under the heading of 'relational context' is the trust the subsidiary places in the parent company. Looking first at the cylinder operation in Britain, this plant shares the longest common history with the parent corporation. This longevity of contact combined with geographical proximity appears to bolster the communication and general staff movement between headquarters and the cylinder operation. However, although managers allude to 'good working relations', there is no evidence that the division is content to trust that senior management will always make decisions in good faith.

Table 7.1 Gasco: Adoption of Performance Pay

	GasCylinder, UK	GasCompressed, UK	GasIreland
Practice Adoption			
1. Implementation a) completeness of plan	Financial aspect of plan implemented – but to limited extent. 'Recognition' element not implemented.	Performance pay introduced as 'PRP'. Dual proviso on system: 'results driven' and 'appraisal led'.	Performance pay not attempted.
b) spread across employee groupings	Pilot site. Limited to employees 'with commercial element'.	Performance pay extended to all employees.	N/A
2. Internalisation	Employees driven by tangibles. Evidence of internalisation less convincing.	Employees assume joint ownership of system. Willingness to tackle remaining problems.	N/A
Institutional Profile			
3. Regulatory	Fiscal legislation favours financial participation on a company-wide basis.		Fiscal legislation also favours group schemes
4. Cognitive	Social knowledge and stereotypes traditionally suggested that performance pay is unsuitable for certain types of worker but changing [?] (e.g. teaching, care working). Elsewhere growing expectation that performance pay is inevitable.		Stereotypes and schemata largely similar to UK. Introduction of notion of performance measurement more recent. GasIreland interpret performance pay practice in less sophisticated terms.
5. Normative	Anglo-saxon values elevate individualisation and notions of merit above belief in equality or narrow pay differentials.		Common management thinking across Ireland and UK. Strength of trade unions and collective reflected in partnership agreements.
Relational Context			
6. Dependence	GasCylinder reliant upon HQ for resources including capital and expertise. Could expect high levels of implementation (though not necessarily internalisation).	GasCompressed is quasi autonomous; less dependent on Gasco. Need to implement performance pay is not as great.	Economically successful subsidiary that eschews HQ interventions. Financial resources but not HR expertise. IR-style management skills.

7. Trust	Proximity of sites affected and corporate mgt. appears to bolster communication and trust.	Indifferent to parent organisation, but looks to local management who it sees as acting in good faith.	Distrust exists toward headquarters. Global not seen as relevant to daily operations.
8. Identification	Subsidiary staff derives identity from Gasco organisational membership – fuelled by proximity	Little attachment to the parent. Unit sees itself as distinct entity with separate culture and *modus operandi.*	Subsidiary feels limited attachment to HQ. Does not conform to global practice; economically self-sufficient unit.

Source: *Adapted from Kostova and Roth (2002: 226).*

For GasCompressed the importance of trust in the parent is diminished by the greater autonomy the plant enjoys. Instead there appears to be a solid relationship between local management and the trade union. This is fortified by the system of joint working in which the two sides partake. Conversely, managers at headquarters refer to the hostility they feel upon visiting the Irish office. Indeed they suggested that they limit visits partly due to this. It is possible that the geographical distance or brownfield nature of the site isolate the subsidiary. However, one may also note that corporation-wide communication, which is available electronically, is not considered immediately relevant. Local managers favour a *laissez-faire* approach, and expect as much when they are performing well relative to other operations.

Finally, in relation to the identification criteria, employees of the GasCylinder operation see themselves as fully-fledged members of the Gasco organisation. This common identity may be aided by the shared history and close proximity between both. In strong contrast, the GasCompressed employees see themselves first and foremost as 'GasCompressed employees'. The unit views itself as a distinct entity with a separate culture and unique *modus operandi*. Similarly the Irish operation feels little attachment to the corporation. It trades under the standard global identity but has limited desire to conform to global practice, instead casting itself as an economically self-sufficient unit.

Considering these relational factors in totality, one would expect the cylinder operation to be first to implement, and possibly internalise, the new performance-pay system. That it was the pilot site is true, indeed the reasons it was selected to be the pilot site relate partly to its historical closeness. However, the internalisation process was hampered. Explanations for this may lie with the failure to launch the crucial second leg of the project, i.e. the non-financial reward system. Also, as the case material detailed, the departure of the manager championing the pay system may have contributed to the scaling back of the projects.

GasCompressed does not fit neatly into Kostova and Roth's (2002) taxonomy. Here is an example of a site that, according to the theory, has little reason to introduce a centrally mandated practice. However, it does so, and to great apparent success. The evidence shows not just blanket implementation, but it suggests that there is deep internalisation of the system among employees. Why should this site adopt so fervently? The first explanation is that the nature of participation helped convince employees of the value of participation. A system of joint working provided incentive. Moreover the detail of the scheme was acceptable to all. Invoking the mantra of participants, this was that the system was 'results led' but 'not appraisal driven'. An inclusive decision-making forum (the joint working) thus had to be more than a 'talking shop'.

Finally, the Irish site does conform to the predictions of Kostova and Roth (2002). It demonstrates the feisty resistance that subsidiaries can present when they are not dependent on head office. The question is what happens if local resources at some point prove insufficient or, as in the case of the Irish plant, what happens if new expertise or knowledge is transplanted to the local operation? These eventualities are yet to unfold.

Conclusions

First, as predicted by Kostova and Roth's (2002) theory, the cylinder operation was at the fore in implementing the new performance-pay system. However, the practice appears not to have been internalised by the employees. The dearth of non-financial goals may have been partly culpable. Another contributor was possibly the lack of continuity in the management team steering the project. The second site, GasCompressed, partially challenges Kostova and Roth's (2002) propositions. According to the theory, this site had little reason to mimic the centrally mandated practice. However, it did so, and with success. The evidence suggests that both implementation and internalisation of the practice occurred. Reasons proffered in the analysis for this include the involvement of employees in the adoption process, and the clarification of the systems parameters in advance of implementation. This later element is, it is contended here, vital and worthy of greater consideration by process theorists. The third of the Gasco sites studied matched the predictions of Kostova and Roth (2002). Based in Ireland, this site displayed the prophesised resistance of subsidiaries when they are independent of head-office. The lingering question is how the implantation of a HR function with its concomitant expertise and strategic focus might alter the *status quo*.

The findings within Gasco do not fully cohere with Kostova and Roth's (2002) thesis. However, they do echo the thrust of it. As predicted, the subsidiary with the most hostile relational context did not adopt the parent's practice. The institutional set-up of this subsidiary could also be deemed to be slower to recommend performance pay. The two subsidiaries that did adopt performance pay shared an institutional profile (Britain). However, variables extraneous to institutional and relational theory appeared to influence both the implementation and internalisation processes. In the pilot site, management discontinuity and incomplete implementation appear to be factors that thwart the internationalisation of new pay systems. The third site, GasCompressed, experienced an ownership and acceptance of the system closest to Kostova and Roth's construct of 'internalisation'. This outcome was aided by initial attention to the mechanics of the system and a process of 'joint working' between management and the union.

In summary, the nexus between the subsidiary and the headquarters appears to sway the extent to which HR practices are adopted. Conversely where the sites are sufficiently independent, and not coerced by national institutions, they can spurn head office attempts to introduce change. This research adds moderators or conditions to Kostova and Roth's work. The earlier survey analysis that this research follows suggests that contingency factors such as work process and occupational composition affects the perceived appropriateness of performance pay. The case study work makes a number of further observations. First, the detail of the HR practice in question is not inconsequential. The principles and mechanics underpinning the new system may stymie or speed up both adoption and internalisation. Second, local trading conditions and the economic environment can either pose a bulwark or accelerate the implementation of performance pay. Finally, in relation to the longevity and internalisation of the system, commitment is inspired by the trust that stems from management continuity and staff involvement.

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Managing Information Technology Assimilation: A Marketing Perspective

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Abstract

Managing information technology (IT) is a major challenge within organisations. Despite the proliferation of IT in business there are still major IT developments needed and barriers that must be overcome before the full potential of IT can be achieved. This paper presents research findings from a recent study into IT assimilation within the marketing departments of a selection of the top 500 companies in Ireland. The study enriches our understanding of IT assimilation in general and for marketing specifically.

At the core of this research study are multi-disciplinary frameworks, one from the IT literature and one from the marketing literature. This research expands and builds on our knowledge of both marketing and IT theory and practice by adding an IT perspective to the transactional to relational marking framework and within the IT field adds a marketing dimension to the stages theory. The major finding of this study is that despite the enormous pressure on marketers to introduce and utilise a vast myriad of ITs, little is known within this field about the impact of these ITs, optimum usage and how to overcome the major internal and external barriers that exist. The findings suggest that marketers that appreciate the learning curve of IT assimilation and challenge the IT applications to deliver marketing-orientated solutions will ultimately reap the benefits of IT.

Introduction

Marketing's assimilation of IT is an important and topical research agenda. Much of the hype in the popular press and talk of the dot.com bubble and the technology crash centres on marketing's use of IT at the customer interface and for internal operations. This research, through the use of two frameworks, the stages theory (Nolan, 1973; 1974; 1981; 1996; Nolan et al., 1993) and the

Contemporary Marketing Practice (CMP) Transactional to Relational Marketing Framework (Brodie et al., 1997; Coviello et al., 1997; 2001a; 2001b; 2002; Coviello and Brodie, 2001) contributes to the ongoing debate in this area and provides empirically supported observations on the reality of contemporary marketing practice and IT assimilation. The core finding is that IT is not the wonder drug of the 90s and IT assimilations take time to mature. "It is always this way with tech revolutions – each involved profound changes in people, organisations and skills is a sort of habit breaking hurricane" (Perez, 2002: pp. ?).

This paper commences with a discussion of the role of IT in marketing and reviews the frameworks which were used to research the assimilation of IT within marketing. This is followed by a description of the case study research design chosen for the study. The subsequent section explores the findings from the study, which are documented through the use of two of the research propositions. The paper concludes with the practical and theoretical implications of this study.

The Role of IT in Marketing

IT has played a critical role in business over the past ten years, as its assimilation progressed within and across departments and organisations. The investment in IT during the 1990s can be classed as the pivotal investment made by companies, with IT representing over 45 per cent of all business equipment investments (King, 1998; Margherio et al., 1998). In general, IT implementations have had a dominant automational focus on internal productivity centred on the manufacturing and finance functions, which has seen their efficiencies increase (Sheth and Sisodia, 1995; Galliers and Baets, 1998). Empirical studies reveal that IT use in marketing is also predominantly for productivity or automational purposes (Domegan and Donaldson, 1994; Palihawadana and Delfino, 1994; Bruce et al., 1996; Fletcher and Wright, 1997; Leverick et al., 1998). Leverick et al. (1997: 91) suggest that "far from the radical transformation of marketing promised by IT, the use of IT for marketing has thus far focused primarily on the routine and tactical activities". Their research findings showed that IT exists, but that it has not been exploited within marketing. Willcocks and Lester's (1996) study also confirmed that the majority of IT investments were aimed at achieving internal efficiencies. The challenge for marketing is to move from the discrete approach (parallel tasks), viewing IT as an administration tool, to a strategic marketing approach with a clear understanding of IT and the way it should be exploited (Holtham, 1994).

Within marketing, there have been limited attempts to classify ITs (Wilson and McDonald, 1999; Brady et al., 2002). The major difficulty is that there are hundreds of IT applications and a myriad of Internet- and telecommunication-based IT applications targeted at marketing, which could be classed as IT usage in marketing (Holtham, 1994; Marchall, 1996; Leverick et al., 1997).

This research is focused on the totality of IT within the marketing department rather than a study of an individual IT. IT should be viewed as a whole system rather than as separate technologies (Ford and Saren, 1996;

Willcocks, 1996; Galliers and Baets, 1998; King, 1998; MacKenzie and Wajcman, 1999). The trend in isolating and researching ITs individually ignores the collective and cumulative impact of IT in marketing, which a holistic view provides. The majority of current studies focus on individual ITs and their impact on separate or selected parts of marketing operations. For example, there are articles which focus on the Internet (Kierzkowski et al., 1996; Sahay et al., 1998; Dutta and Segev, 1999; Geiger and Martin 1999); marketing information systems (Higby and Farah, 1991; Li, 1995; Talvinen and Saarinen, 1995); databases (Fletcher and Wright, 1995; Desai et al., 1998); customer relationship management software (SAS Institute 1999; Dempsey 2000; Payne, 2001); and self-service technologies (Freeman and Sudoyo, 1999; Meuter et al., 2000). The findings from these studies confirm that marketers are struggling to assimilate individual ITs and thus it can be assumed that this will be compounded when the ITs are studied collectively.

IT is viewed by managers in 'clusters' and it should be researched in that format (Clarke et al., 1995). Willcocks and Lester (1996: 32) observed that in reality this does not happen and they noted as a major finding of their study "that only 20 per cent of organisations surveyed, included the totality of systems availability and capability and the needs of the organisation and department, in their assessment". This is a pivotal issue for marketing, where, due to the multi-operational nature of IT and the nature of marketing operations, a singular IT resource can be used for a variety of marketing operations and across various departments (Barnes, 1997).

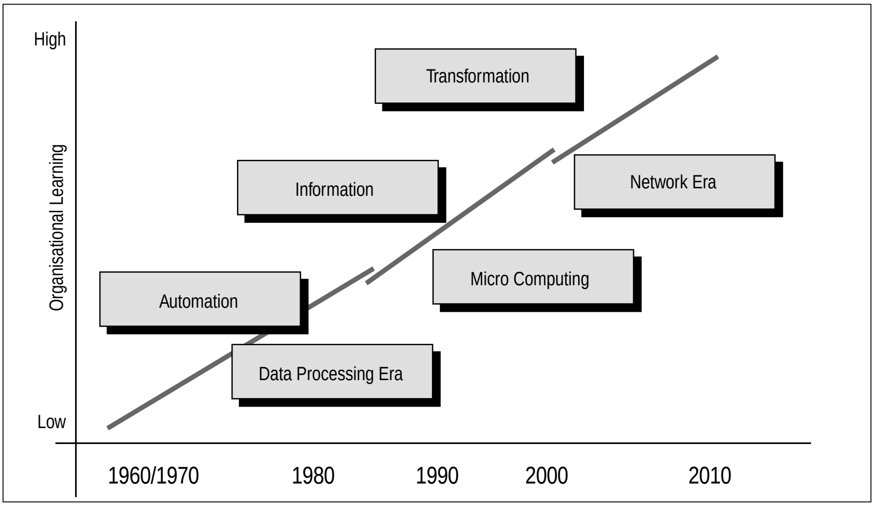
As a direct response to the above discussion the research focus for this study included a list of over 40 ITs within marketing, grouped under the following headings:

- Analysis, planning, implementation and control applications;
- Communication devices both internally and to a range of external entities;
- Segmentation and targeting software including databases;
- Self service technologies used by customers;
- Research technologies;
- Sales force related technologies.

Stages Theory of IT Assimilation

To study IT assimilation in marketing, academics must be aware of developments which exist in other disciplines. Much work has been carried out in the area of IT assimilation over the last three decades. There are a plethora of IT evaluation techniques (Brady et al., 1999) and following a review of evaluation and assimilation models, the stages theory of IT assimilation (Nolan, 1973; 1979; 1993) which offers interesting insights into the assimilation process (see Figure 8.1), was chosen for this study. This is the most cited and empirically tested model in the IT literature (Galliers and Sunderland, 1999).

Figure 8.1 Stages Theory of IT Assimilation



Source: *Adapted from Nolan (1973) and Zuboff (1988).*

Numerous authors have suggested stages of IT assimilation in companies (Haeckel, 1988; Zuboff, 1988: Cash et al., 1994; Mooney et al., 1995; Davenport; 1993; Farbey et al., 1999) and for marketing purposes (Hammer and Mangurian, 1987; Baker, 1994; Peattie and Peters 1997), though there has been no empirical study of this framework for marketing purposes.

The stages theory suggests that IT is assimilated over time. Therefore, in order for marketing managers to effectively assimilate IT into their operations, they must understand the defining dimensions of this framework, that there is a diffusion process and that organisational learning is a critical component needed in order to progress the assimilation through the stages. These stages can be linked to the broad eras of technological developments (Perez and Freeman, 1988; Butler et al., 1997) and technological innovations models (Dosi, 1988; Durand, 1991).

Utilising the three stages of automation, information and transformation, coined by Zuboff (1988), at the introduction stage IT will be used for automational purposes, replacing manual tasks, at the second stage for informational purposes, resulting in increased effectiveness, and at the third stage there will be transformation. It is worth nothing that Haeckel (1988), in his development of a stages theory view of IT assimilation in marketing, referred to the third stage as unthinkable, highlighting the level of confusion surrounding the future developments of IT. Reviewing the timeline (see Figure 8.1), it is clear that we are at the informational stage of IT assimilation (Nolan, 1996) rather than the transformational stage, despite the commentary in the popular press and many business journals over the last decade.

Contemporary Marketing Practice Framework

Researchers have long endeavoured to classify marketing practice and one framework which has achieved academic support is the CMP transactional to relational framework (Brodie et al., 1997; Coviello et al., 1997; 2000; 2002; 2002; Coviello and Brodie, 2001). The authors suggest that there are four dominant approaches to marketing within companies (transactional, database, interaction and network marketing) and twelve relational exchange and managerial dimensions for each approach (see Table 8.1). This framework, which has been empirically tested (Brodie et al., 1997; Lindgreen, 1999), suggests that there can be a pluralism of marketing approaches within companies (Pels, 2000; Coviello and Brodie, 2001).

Table 8.1 Marketing Approaches Classified By Relational Exchange and Managerial Dimensions

	Transactional		Relational	
	Transaction Marketing	**Database Marketing**	**Interaction Marketing**	**Network Marketing**
Relational Exchange Dimensions				
Focus				
Parties involved				
Communication patterns				
Type of contact				
Duration				
Formality				
Balance of power				
Managerial Dimension				
Managerial intent				
Decision focus				
Managerial investment				
Managerial level				
Time frame				

Source: *Adapted from Coviello et al. (1997).*

As evidenced in Table 8.1, there is a lack of an IT dimension to this framework, though in a further development, Coviello et al. (2001) did add e-marketing as a fifth approach. This framework was utilised for the research to ascertain whether IT had a role within marketing approaches.

Research Methodology

Following from the literature review the following research objective was developed.

IT assimilation in marketing practice occurs in stages and there is an IT dimension to the (CMP) transactional to relational framework.

This key research objective led to the development of a range of propositions, two of which are discussed in this paper:

- **Proposition One**: There is a major IT component in contemporary marketing practice and the assimilation of IT in marketing is at the informational stage of development.
- **Proposition Two**: There are barriers to IT assimilation in marketing.

Case-Based Research

The research methodology adopted in this study was case-based research, utilising the frameworks discussed to explore the gap in our knowledge in relation to marketing's assimilation of IT. Case study design was chosen as the most appropriate technique for this study to answer the 'how' and 'why' questions in relation to IT assimilation.

Theory building research utilising qualitative techniques is suggested for research into areas that lack concrete theories (Hunt, 1994; Saren, 2000). As marketing, to some extent, and marketing's use of IT to a greater extent, lacks concrete theories, the qualitative option would appear more optimum. IT is at the formative stage of theory development in both theory construction and practice. Within the field of IT research and due to the developmental state of IT, it is understandable that there have been calls for theory-building research (Holtham, 1994; Galliers and Baets, 1998). In reality, there is a gulf between academic theory and marketing practice. Case-based research allows the reality of the IT assimilation in marketing to be explored. As Brownlie and Saren (1995: 1085) state "there is a wealth of material telling us what to do and how it should be done, but rarely how it is done".

Case selection was aided by a previous quantitative research study (Brady et al., 1999). The respondents (207) to this survey were marketing managers from the top 500 companies in Ireland. Companies in this study were grouped using mean and t tests into companies which had automational impact from IT (group 1) and companies which had transformational impact from IT in marketing (group 2).

Fourteen cases were selected from these two groups. For case selection, this study utilised theoretical replication (Eisenhardt, 1989) and literal replication (Chad and Coote, 1994; Yin, 1994). Also due to the restricted number of cases that one can research and as data are enriched by the purposeful selection of confirming and disconfirming (negative) cases (Pettigrew 1988; Morse, 1994; Perry and Coote 1994), maximum variety sampling was utilised. One set of sites were recognised as exemplary assimilators of IT (Cases D, E, G, N, H, I and J) and the other group were expected to be laggards (Cases A, B, C, L, F, K, M), in their assimilation of IT. Information rich cases were selected (Morse, 1994), resulting in a cross-sectional study including both transactional- and relational-marketing-focused companies and companies at various stages of IT assimilation (see Table 8.2).

Table 8.2 Case Selection: Cross-Sectional Design

Sectors	Transformationala Usage of IT in Marketing	Automational Usage of IT in Marketing
Consumer goods manufacturing	Case D and E[a]	Cases A, B and C
Manufacturing (B to B)	Case J	Case L
Services	Case G andNb	Case F and K
Professional services (B to B)	Case I and H	Case M[b]

a *Reclassified as Informational Usage during Analysis.*
b *Used for pilot studies*.

Research Findings and Contributions

In general marketers are struggling to assimilate IT into their current operations and are encountering barriers to their IT assimilation. The findings from the propositions are documented below.

Proposition One: There is a Major IT Component in Contemporary Marketing Practice and the Assimilation of IT in Marketing is at the Informational Stage

The data analysis revealed that, for cases that were focused on relationship marketing approaches, IT is a major component of marketing practice. Utilising the stages theory, these cases are at the informational stage. For cases that were focused on transactional approaches to marketing, there is a lack of an IT component to marketing practices, with IT assimilation remaining at the automational stage. Table 8.3 presents the findings of the evidence for the automational and informational stage of IT assimilation for both sets of cases.

Table 8.3 Evidence of the Stages Theory of IT Assimilation for the Marketing Department

Evidence	Automational Stage	Informational Stage
Evidence of Automational Stage of Development	**Cases A, B, C, D and E**	**Cases F, G, H, I and J**
Centralised IT	[	
Standardised company-wide systems	[	
Finance orientation of the IT systems	[	
Technology focused rather than informational focused	[	
Lack of open access to IT	[	
Evidence of Informational Stage of Development		
Major criticism of the centralised information system		[
Decentralisation of control of marketing related ITs		[
A dominant focus on new marketing specific IT		[
Company-wide open access to IT		[

Informational rather than technology focus		[
Internal and external focus of IT developments		[
Appreciation of the learning curve of IT assimilation		[
Increased IT skills in marketing		[
Marketing department as drivers of IT developments		[

Cases with an automational focus rely on the IT department for the majority of their IT needs, they are not IT orientated and there is a lack of development of marketing specific ITs. In contrast, the cases at the informational stage of IT assimilation have moved beyond the automational stage and are now focused on the use of IT to increase their effectiveness. They are designing, developing and implementing a range of IT applications with a particular focus on ITs which will enhance their relationship marketing practices.

Proposition Two: There are Barriers to IT Assimilation in Marketing

For cases with a relational perspective to marketing practices and informational IT assimilation they are experiencing a range of major barriers. Marketing's constrained assimilation was predominantly due to the legacy of the finance orientated, centralised automational-based information system. In reality, the main IT source of information lacked marketing-specific information and was quantitative and accounts based.

> They are primarily for generating bills. They are designed to enable us to send out invoices so they're not really designed for us to gain a better understanding of our customers. (Case F, Head of Marketing and Business Development)

The major difficulty in obtaining the information dimension of information technology was also a critical factor.

> It is a major job, a major, major job … It continuously needs to be updated and it's probably not. It's being updated by some people and not being updated by other people and then because people feel it's not up to date, they don't use it. So it's kind of like a vicious circle. (Case H, Marketing Assistant)

A central finding is that a pattern composed of the following elements exists in response to the barriers to IT assimilation.

- Development of IT expertise in marketing;
- Outsourcing of marketing's IT requirements:
- The introduction of an IT steering committee to drive through decentralised IT;
- Senior management support for marketing specific IT developments;
- Large marketing budget;
- Circumvention of the IT department's restrictions;
- The determination of marketing personnel to pursue IT developments regardless of the barriers.

The motivation for the informational stage of IT assimilation centred on the recent orientation to a relationship marketing perspective. For the relational-focused cases, IT is viewed as a key enabler of their endeavours to become more relationship-marketing focused, and they were assimilating IT in order to gain knowledge and to increase their effectiveness, in this area. In support of literature in the IT field (Applegate, 1994; Davies and Mitchell, 1994) it was clear that the transactional-focused cases lacked a driver for IT assimilation as they were content with and intended to continue to pursue their successful traditional tactics and strategies. These cases were inherently conservative but very profitable companies and could not foresee how IT would improve or benefit their marketing operations.

Theoretical and Practical Implications

This study enriches our understanding of IT assimilation in general and for marketing specifically. It also contributes to our knowledge of contemporary marketing practice. From a theoretical perspective, the study confirms that by utilising the Coviello et al. (1997) framework, it was possible to classify cases along the relational exchange and the managerial dimension of the CMP framework. It also confirms the Coviello et al. (2001) finding of pluralism of marketing approaches. Though Coviello et al. added an IT dimension to this framework through the vertical inclusion of an e-marketing marketing [strategy?], this study disagrees with this approach and suggests that IT should be added as a relational exchange and managerial dimension across all approaches rather than as an individual approach (Brady et al., 2002). Within IT, this study provides support for the stages theory framework (Nolan, 1973; 1979; 1993) for IT assimilation.

The practical reality is that marketers are being asked to understand, develop and implement a variety of IT applications quickly and successfully. There are three issues of interest here. First, though the technology itself can be installed, actual IT assimilation and successful usage takes time. People and processes change over time and it also takes time for the benefits to be observed and appreciated. Second, much of IT assimilation is outside the marketing managers knowledge and skills base, resulting in marketers who are overwhelmed and confused by the range and impact of these ITs on their marketing practice and ultimate marketing success. Third, IT is not a replacement for marketing, it can simply aid or augment certain marketing practices; the core marketing skills are still needed, probably even more now then they ever were. As advances in IT applications continue, marketers need to be educated to understand the significant role of a vast range of ITs, impacting on all aspects of marketing practices.

Conclusions

The findings from this theory building study suggest that though IT requirements are central to marketing practice and particularly relationship marketing practice, there is a myriad of internal and external barriers to successful IT assimilation. Rather than a 'quick-fit' or a 'one-size-fits-all' solution, marketers need to view IT assimilation from the stages theory perspective and comprehend that organisational learning will occur over time and that the barriers they encounter must be overcome. Marketers and academics must also realise that IT is now a part of contemporary marketing practice and so understanding, appreciation and ability to exploit IT must be part of the skill sets of all marketers. In conclusion, the reality of IT assimilation into marketing is that many of the developments have been tentative and faltering, and though there is perceived potential, there are various challenges that must be overcome before IT will become a normal and supportive part of marketing practice.

Author

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The Integration of E-Commerce Tools into the Business Processes of SMEs

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Introduction

Since the late 1980s it has been argued that the adoption of information technologies is no longer a means of creating a sustainable competitive advantage (Johnston, 1988), but an essential competitive weapon necessary for survival (Benjamin, de Long and Morton, 1990). This is hardly surprising as information technology (IT) became cheaper and more accessible to users, where by 1990 some commentators were claiming that computers had became as ubiquitous as the telephone (Hopper, 1990). We use the term e-commerce to encompass buying and selling via computer networks (primarily the Internet), use of technologies to exchange information and the development of electronic business processes to complete the order fulfilment cycle and/or purchasing cycle. Under this scenario e-commerce is integrated. Many studies (Venkatraman, 1994; Knol and Stroeken, 2001) have found long-term benefits of an integration of business functions and IT within a company and in an inter-organisational/sector-wide context. This integration of IT and e-commerce into business systems and processes has increased the competitive potential of technology especially for large firms who are able to exploit supply and demand chain efficiencies. Chaffey (2000) describes the levels of e-commerce sophistication which an organisation may possess (see Table 9.1). It is the advanced stage of e-commerce (Chaffey's full electronic commerce) that is at issue in this paper: have SMEs reached this stage? To gain competitive advantage using e-commerce requires firms to be moving to or at this stage depending on their industry group. This stage of e-commerce provides an array of possible competitive efficiencies including cost reduction and bundling of product and service offerings in multiple ways.

For Irish businesses, e-commerce offers an essentially new way of conducting business transactions that have wide-reaching economic and social implications. It will influence new industry structures and competitive practice

Table 9.1 Levels of E-Commerce Sophistication

Level	Characteristics
Primitive	Static web pages or "brochure-ware" Searchable site with dynamic pages such as online catalogue Integration with operational databases, e.g. inventory searching, package tracking, job postings Customer transaction through the Internet, e.g. selling products and services, buying and selling shares, applying for loans
Advanced	Full electronic commerce (i.e. integrated fulfilment cycle of ordering, shipping, billing)

Source: *Chaffey et al. (2000)* Internet Marketing: Strategy, Implementation and Practice*, Financial Times/Prentice Hall, London, p. 329.*

in Irish and international markets, and will offer considerable business opportunities and indeed threats for Irish businesses. Furthermore, e-commerce presents an alternative channel for overcoming some of Ireland's strategic challenges, including our peripheral location on the edge of Europe, the high proportion of SMEs within indigenous industry and regional imbalances in the distribution of industry.

A Forfás study in 1999 found that 99.4 per cent of enterprises are SMEs, and that they account for just under half of total enterprise employment in Ireland (Forfás, 1999). Therefore, significant opportunities exist for the Irish SME sector to create efficiencies in communications, shift the trading power balance in its favour and create new markets. There exists a range of national and commercial studies pertaining to information technology usage amongst Irish SMEs and these generally exhibit high usage levels of basic e-commerce tools such as email and the Internet. An Information Society Commission Report (1999) found that 85 per cent of companies had access to the Internet and an NGM Market Research (2001) study found that almost 80 per cent of companies in the south-east of Ireland with PCs have email and Internet access. However, existing literature has not sufficiently addressed the levels of transformation that e-commerce can have on the business processes of SMEs. For SMEs, or any business, to reach a stage of advanced e-commerce requires their business systems and processes to be electronically integrated. To achieve this can require considerable change and is therefore referred to as having a transformative effect on the business. In addition, this transformation indicates that the business has reached the highest level of e-commerce adoption and has its business defined on such a platform.

Many SMEs are gearing-up at the front-end of their business process through the use of e-commerce tools such as email and having a web page. This paper will assess whether this is met by back-end support that would serve to integrate customer orders or supplier relationships into the business process. Yet given the lack of strategic success by SMEs in exploiting IT in general (Thong and Yap, 1995; Bridge and Peel, 1999), this is a high-order test. Therefore, the objective of this paper is to examine the level of impact that e-commerce is having on SMEs. Is usage of the Internet and other e-commerce tools integrated into organisational structures and processes? This level of integration is required for strategic exploitation of e-commerce.

Context of the Research

According to the EU Commission, to be classed as an SME or a micro-enterprise, an enterprise has to satisfy the criteria for the number of employees (up to 250 employees) and one of the two financial criteria, either turnover total (up to 7 million ECUs) or balance-sheet total (up to 5 million ECUs). The thresholds for the turnover and the balance sheet total are to be adjusted regularly, to take account of changing economic circumstances in Europe (see Table 9.2).

Table 9.2 SME Definition Adopted by the European Commission 1996

	Medium	Small	Micro-enterprise
Max. number of employees	250	50	10
Max. turnover (in million EUR)	40	7	–
Max. balance sheet total (in million EUR)	27	5	–

Source: *European Commission Recommendation,* Official Journal 107, *30 April 1996, p. 4.*

Using this definition would place most Irish firms in the SME category. In Ireland, 50 per cent of SMEs employ fewer than ten people (Forfás, 1999). This would imply a large proportion of micro-enterprises in the small- and medium-sized set. Therefore, policy directed at this sector is important. At an EU level, SMEs employ the majority of the labour force and have been the main source of employment creation in recent years. In Ireland, multinationals skew this figure somewhat.

This research was carried out under the auspices of an academic/industry liaison, called the "Wirecom" Initiative (Wales and Ireland E-Commerce Initiative), which provided an ideal opportunity to research SMEs in the south-east of Ireland. "Wirecom" is a regional initiative funded by the European Union, designed to stimulate awareness and usage of e-commerce amongst two European regions, south-east Ireland and west Wales. The research of Irish SMEs was conducted by the South-East Business Innovation Centre (SEBIC) and the program ran over an eighteen month period from September 1999 to March 2001. The Wirecom project operated on three levels:

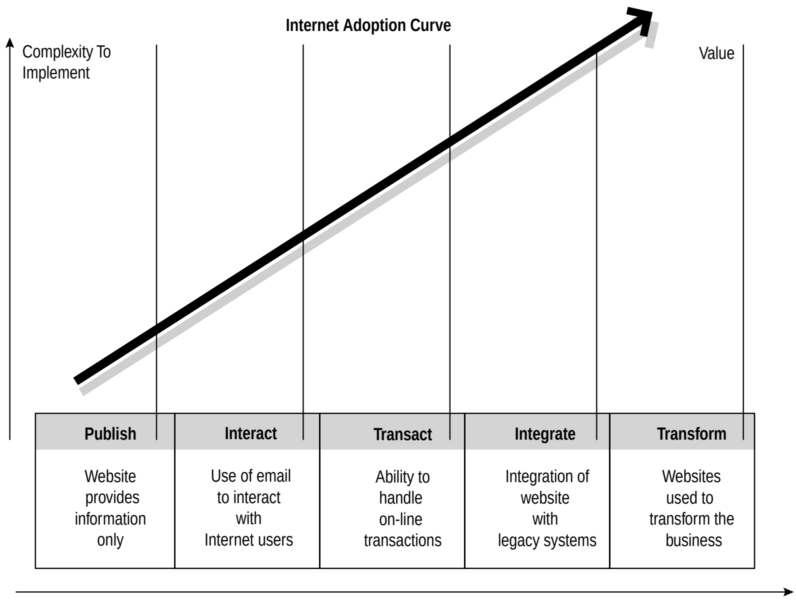
1. *Raising Awareness*: this involved undertaking a marketing campaign to inform SMEs of the opportunities afforded to them through the effective use of IT.
2. *Auditing*: undertaking audits of selected companies to analyse their specific needs as regards e-commerce.

3. *Direct Support*: providing 'hands-on' assistance to SMEs to put into practice the findings of their audits.

Integration of Business Functions and E-commerce

According to Poon and Swatman (1997), little integration between internal systems and the Internet was achieved among their sample group of active Internet users in their SME study. Even though the sample group unanimously used the Internet for exchanging information with their customers, none of the respondents had integrated ordering procedures between their front-end Internet web page and their back-end automatic order fulfilment systems (see Figure 9.1).

Figure 9.1 Stages of Internet Adoption by Government and Business



Source: *cited in www.forfas.ie/ncc/reports/ncc_telecomm/tele.pdf*

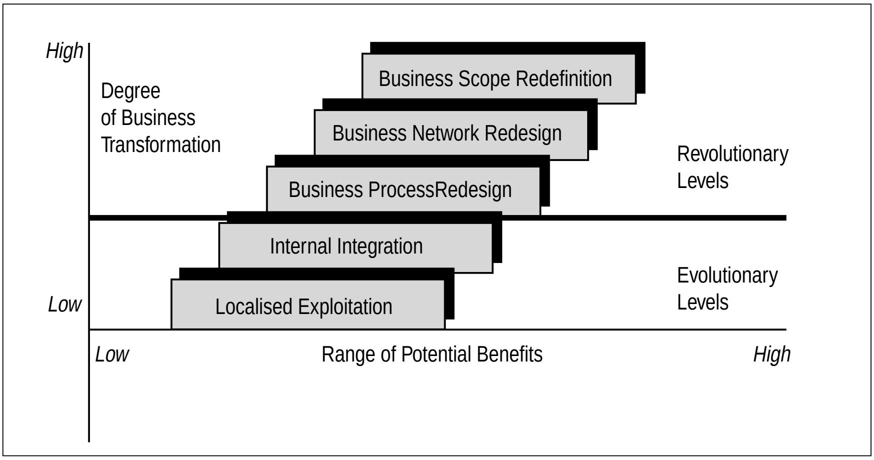
Given the high usage levels of IT in the SME sector, it was expected that Irish SMEs would be positioned between the transact and integrate stages of this curve. This would reinforce the views expressed in a Forfás Report which stated that:

> … e-business is being recognised by Irish companies as not just involving the use of the Internet for email and web brochures but the use of information communication technologies throughout all business processes to create real, sustainable competitive advantage. (2000: 5)

The key test of the transformative potential of e-commerce is in the linking of these tools to front-end customer support and to back-office processes. This platform can enable significant cost reduction and potential for unique customer response, both of which can contribute to a competitive advantage from e-commerce. However, exploitation of e-commerce tools without this integration may lead to better customer or supplier communication but is difficult to translate into superior business performance.

Venkatraman's (1994) classic model of IT integration with business processes was designed for large organisations. This model suggests that IT-enabled business transformation occurs within five levels i.e. from a local to a strategic continuum (See Figure 9.2).

Figure 9.2 Five Levels of IT – Enabled Business Transformation



Source: *Venkatraman (1994),* Sloan Management Review, *Vol. 35, winter, p. 75.*

The first two levels of business transformation are *evolutionary*, as they do not require considerable change to the business process, and the derived benefits are low relative to the next three levels. It is important to note that the levels presented in this model are not conceptualised as linear stages, since effective strategies do not adhere to any particular path. SMEs that adopt new technologies can fundamentally reshape their business processes. However, many SMEs fail to realise the strategic importance which IT can have on their businesses and are therefore resigned to the direct operational benefits that IT has to offer. Higher levels of transformation derive greater benefits, the ultimate level of transformation being *business scope redefinition*, but it also requires greater organisational change. Venkatraman (1994) concludes that the full benefits are realised when investment in IT is matched by investment in organisational change. Therefore, the SMEs to be considered in this study would need to be at the business process redesign stage or higher in order to be deriving the full competitive advantage benefits from their e-commerce usage. While larger organisations are likely to be at a more advanced stage of e-commerce sophistication than SMEs, it is nonetheless possible for SMEs to transform their business processes by adopting the above characteristics. However, to reach an advanced stage will require a significant organisation-wide change.

In summary, the two models presented show the level of IT and e-commerce integration needed to reach stages that would facilitate competitive advantage. The findings presented in this paper will provide an insight into whether this is the case for SMEs in the south-east of Ireland.

METHODOLOGY

The focus of the Wirecom project was on SMEs located in the south-east of Ireland. These businesses were initially identified from business directories, government lists, and the yellow pages. Initial contact via telephone was made in a simple random manner with the owner/manager of these companies, explaining what was involved in the Wirecom project and asking companies to participate in the project. Despite the potential benefits of the project (for example 'hands-on' assistance in the use of IT), the authors were very satisfied when 81 SMEs (approximately 20 per cent of the 500 companies contacted) agreed to become involved in the initiative.

For the participating SMEs, it was agreed that an audit of their specific e-commerce needs would take place. These audits took the form of on-site company visits where the possibility for the Wirecom team to observe the company's observations in addition to asking relevant questions was present. Such audits involved collecting quantitative and qualitative data and to achieve the Wirecom objectives, it was necessary to allow for the possibility of interaction with the participants. In this context, it was felt that a semi-structured method would be likely to generate the greatest level of interviewee co-operation and participation. This meant that the interviewer had a list of themes and questions to be covered in each interview, although these can vary from interview to interview. According to Sekaran (1997), semi-structured and in-depth interviews facilitate the probing of answers provided by respondents that should add significance and depth resulting in a *rich set of data*. Furthermore, the interview method is most appropriate where there are a large number of questions to be answered, where the questions are either complex or open-ended or where the order and logic of questioning may need to be varied (Patton, 1990).

Data were recorded by note taking at these meetings (at least two members of the Wirecom team were present at each audit) and a preliminary write up was subsequently made after these meetings, from which a final report was written for the client SME. This document provided an outline of each company's existing position in terms of their use of e-commerce and then attempted to provide the SME with a practical solution to their e-commerce needs in the form of advice. These documents provided the databank upon which the findings of this article are based. In summary, the audits provided an in-depth examination of each firm's capability to transform their business processes using e-commerce.

Research Findings

In order to assess the transformative effect of e-commerce on the selected SMEs, a mix of quantitative and qualitative data was evaluated. The quantitative data are presented initially and concerned the usage of e-commerce technologies among these companies. In addition, qualitative data, which consisted of observations and themed questions on business processes during the site visits, is presented. The quantitative data proved very conclusive in that it was clear that the SMEs were not at the advanced stage of e-commerce integration.

The data analysis process initially involved quantifying the usage of email and webpage and then attempting to classify these figures by industry type. It was felt that a classification of usage of these technologies by industry was important, as it was clear from the audits that significant differences existed in the SMEs examined. Table 9.3 and 9.4 illustrate email and web-page usage according to industry sector and the adoption rate is expressed in terms of number of companies and as a percentage.

Table 9.3 SME Use of Email by Industry Type

Industry Type	Email Adopters		Email Non- Adopters		Total
	Number	%	Number	%	Number
Agriculture/Food	8	57	6	43	14
Engineering/Metals	16	84	3	16	19
Chemical/Pharmaceutical	2	50	2	50	4
Clothing/Textiles	5	71	2	29	7
Construction Products	5	83	1	17	6
Consultancy	5	71	2	29	7
Crafts	3	100	0	0	3
Fishing	3	60	2	40	5
Print/Packaging	3	100	0	0	3
Recycling	4	100	0	0	4
Tourism	4	67	2	33	6
Wood/Furniture	1	33	2	67	3
Total	59	73	22	27	81

Table 9.4 SME Use of Web-page by Industry Type

Industry Type	Web-page Adopters		Web-page Non-Adopters		Total
	Number	%	Number	%	Number
Agriculture/Food	3	21	11	79	14
Engineering/Metals	10	53	9	47	19
Chemical/Pharmaceutical	2	50	2	50	4
Clothing/Textiles	0	0	7	100	7

Construction Products	2	40	4	60	6
Consultancy	3	43	4	57	7
Crafts	1	33	2	67	3
Fishing	2	40	3	60	5
Print/Packaging	3	100	0	0	3
Recycling	4	100	0	0	4
Tourism	4	67	2	33	6
Wood/Furniture	0	0	3	100	3
Total	34	42	47	58	81

The overall level of adoption of a web page (42 per cent) was found to be considerably lower than email adoption (73 per cent). This fact is hardly surprising considering the amount of time, expertise and resources required to adopt successfully a web page in comparison to using email. Furthermore, the level of web-page adoption varies considerably as per industry sector. In particular, the print/packaging, constructs and recycling sectors (representing 10 companies or 12 per cent of the sample group) have 100 per cent adoption levels in comparison to lower adopter groups such as the chemical/pharmaceutical and wood/furniture sectors (representing 7 companies or 9 per cent of the sample).

It is noticeable in the above tables that, apart from the agriculture/food and engineering/metals industries, the number of companies in all other industries is small (less than eight companies per industry). This meant that any statistical findings from these industries were unlikely to be statistically significant. To circumvent this problem and still preserve the differences in technology usage across industries, the authors decided to classify the 81 companies into three broad industry sectors as follows.

1. *Primary*: Agriculture/Food, Fishing, Wood/Furniture;
2. *Secondary*: Chemical/Pharmaceutical, Print/Packaging, Crafts, Construction Products, Clothing/Textiles, Engineering/Metals;
3. *Tertiary*: Consulting, Recycling, Tourism.

This classification is also used by to classify employment levels and is based on Fisher's three stages of economic growth (Fisher, 1939). In short, this amalgamation of industries into three broad sectors would ensure that a reasonable sample size could be generated for each group and yet preserve the differences in technology usage which were evident in Tables 9.3 and 9.4 (the authors felt from the audits that there were similarities in usage within these three broad areas). Tables 9.5 and 9.6 show the use of the two e-commerce technologies across these three industry sectors:

Table 9.5 Use of Email by Sector

Sector	Primary (27%)		Secondary (52%)		Tertiary (21%)		Total(100%)	
	Number	%	Number	%	Number	%	Number	%
Users	12	55	34	81	13	76	59	73
Non-Users	10	45	8	19	4	24	22	27
Total	22	100	42	100	17	100	81	100

Table 9.6 Use of Web page by Sector

Sector	Primary (27%)		Secondary (52%)		Tertiary (21%)		Total (100%)	
	Number	%	Number	%	Number	%	Number	%
Users	5	23	16	38	11	65	32	40
Non-Users	17	77	26	62	6	35	49	60
Total	22	100	42	100	17	100	81	100

It can be seen from the above two tables that the primary sector, which represents 27 per cent of the sample group, has had the lowest level of technology adoption (email 55 per cent, web page 23 per cent), which is to be expected considering that this sector has a lower communication need, as companies from this sector typically produce generic products to established buyers in the business-to-business sector. Statistical tests carried out on this data showed that the difference in email usage of the primary sector *vis à vis* the other two sectors is significant (p-value < 5 per cent). In addition, the tertiary sector, representing 21 per cent of the sample, exhibits a significant increase in web-page adoption (64 per cent), as opposed to the other two sectors (38 per cent) (p-value < 5 per cent).

From these tables and other information collected at the interviews, it is clear to the authors that while no sector had fully integrated e-commerce into business systems, the tertiary sector, which represents service firms, is slightly higher up the transformative path of Venkatraman model presented earlier but still on the evolutionary trajectory. The higher relative adoption levels in both the secondary and tertiary sectors were due to customer-led demand for technology use. While firms found obvious communication and information benefits from these technologies with customers and suppliers, the high usage levels are not matched with integration. No back-office integration was found; therefore, firms would not be gaining any cost reduction or be able to use e-commerce to differentiate their products/processes. E-commerce is not perceived as a critical component of the business at this stage in its evolution with this sample. It is seen as an add-on and, in particular, as a relational tool to communicate with customers and suppliers.

Further analysis of the interview findings revealed that a significant majority (83 per cent) of SMEs were found to have a domestic focus while the remaining 17 per cent have an international focus. These domestic-focused companies have a high email adoption level (70 per cent), and over one-third (36 per cent) have already adopted a web page. In contrast, the internationally focused companies have a much higher level of adoption for both email (86 per cent) and web page (71 per cent), which may be attributed to their need for a more efficient communications system required to trade in multiple markets (the p-value for differences in web-page adoption was less than 1 per cent). Additional data to emerge from the audits is summarised in Table 9.7

Table 9.7 Additional Data for the 81 SMEs

	Total Number of Companies (n=81)
Primary Technology	
Email Users	59 (73%)
Web-page Users	34 (42%)
Usage of Other Technologies	
On-Line Selling	3 (4%)
On-Line Banking	10 (12%)
EDI	5 (6%)
PC	74 (91%)
Turnover (Size)	
<100 K	17 (21%)
101 – 1M	31 (38%)
1M – 5M	18 (23%)
5M +	5 (6%)
n/aa	10 (12%)
Employees (Size)	
<10	45 (56%)
<50	29 (36%)
<250	5 (6%)
n/a[a]	2 (2%)

a In the Wirecom audits, the respondent companies were not required to disclose details of their turnover and staff level, although most did volunteer this information.

It is clear that while the most SMEs have a PC (91 per cent) and use email (73 per cent), the level of usage of other e-commerce technologies, such as on-line selling, on-line banking, and EDI, is either quite low or non-existent amongst the sample companies (this is true for all three industry sectors). This confirms that there has been a disappointing level of e-commerce 'take-off' among the SME community as the vast majority of companies has yet to incorporate e-commerce into their IT strategy.

Two main indicators of company size (turnover and number of employees) have been examined and surprisingly, neither variable was found to have a significant effect of the usage of these technologies. It was actually found that as the number of employees increased, it had a negative effect on web-page adoption – this is due to the fact that the companies in the primary sector had higher employee numbers than those in the secondary or tertiary sectors.

Further probing of the companies revealed that the companies in the primary sector who adopted email did so primarily due to the influence of dominant suppliers (67 per cent), who they rely upon for production inputs. On the other end of the supply chain, their customers (who they rely on to buy their produce) are found to be influential in their decision to adopt a company web page. This scenario is logical as the SME complies with the partner affecting the particular element of trade. This finding is also consistent with Poon and Swatman's (1997) integration model that suggests SMEs begin their e-commerce adoption through inter-organisational interventions (the main forces being customer or supplier demands) rather than through forces internal to the management of the firm. This forced adoption hasn't led to a transformation of the businesses concerned.

Adoption prompted by trading partners is also the driver in the other sectors studied. In the secondary and tertiary sectors, the customer is found to be the key player influencing both email (89 per cent and 84 per cent respectively) and company web page (82 per cent of all companies). Therefore, this study confirms that companies further down the supply chain are driven to use e-commerce to a greater extent, due to the influence of their customers, in comparison to their primary sector counterparts, who typically trade a significant proportion of their sales to a stable small group of large buyers in mature markets. Hence their need to take on new forms of communication to trade is very low due to a lack in demand for e-commerce.

A small minority of SMEs (considered 'exemplars') were using e-commerce to try to achieve competitive gains – "e-commerce provides the opportunity to case niche world markets cheaply, which would otherwise be beyond our scope" [source?]. One such 'exemplar' which manufactured high-end industrial lighting equipment found that that it achieved relative advantage at operational level over its competitors as it sped up the communication process and transformed data to a format which could be manipulated and stored electronically. Furthermore, this company's web page provided access to company products in a highly segmented fashion, whereby users were allowed access to information depending on their relationship with the company, using a password access system. This company has invested ove r 50,000 in its e-commerce strategy and has been able to generate cost savings by substituting its sales fleet with an on-line presence. For example, staff members have learned to update their company website in-house using File Transfer Protocol and they use statistical data gathered from the website to assess hit rates and user profiles. This has allowed this company to be a top niche player in a market where it competes with multinationals such as Thorn and Philips. However, this 'exemplar' has been unable to fully transform its business process using e-commerce, not as a result of poor support from top management, the cost of implementing an effective e-commerce strategy or any other impediment, but largely due to the low level of e-commerce development in their sector, where trading partners, especially customers, have been slow to adopt.

By contrast, most of the SMEs in the audited companies were only realising low-level benefits from the use of e-commerce tools. Many have under-invested in e-commerce development as adequate resources for successful implementation of an appropriate strategy are often not committed. This is because the majority of SMEs are only interested in e-commerce development to the point where it will deliver concrete benefits, and explains why many have adopted a cautious approach to e-commerce as their industry undergoes a process of structural change in terms of security of on-line transactions and legal issues. Cost and resources are additional considerations here: many of the SMEs in the study were production oriented and were incapable of providing the manpower needed to commit to 'peripheral' functions such as e-commerce cultivation. Most SMEs prefer to buy convenient 'off-the-shelf' solutions, rather than dedicate themselves to developing in-house e-commerce expertise.

Conclusions

It is clear from the findings to date that the SMEs sampled in this survey are at an embryonic stage of e-commerce development. The vast majority of the sample of SMEs have made little progress in integrating e-commerce with their business processes and are only deriving operational benefits from its use. These SMEs therefore can be positioned at the publish/interact stage of the Internet adoption curve (Figure 9.1), and at the level of localised explotation in the Venkatraman's model (Figure 9.2). The future predicted for SMEs and e-commerce has not been realised which is in line with international studies and extant reports. This is despite the high usage of e-commerce tools such as email and web pages. Therefore, headline reports of high usage of e-commerce tools are not a proper reflection of the current business reality. SMEs have not been able to transform their practices and exploit e-commerce's capabilities. The level of integration patterns of general IT has not been altered by e-commerce. Therefore, the much heralded benefits have yet to be exploited.

There are many reasons for the lack of exploitation of e-commerce by the SMEs audited. Some are external and include Internet high-speed access and cost of access, but most are internal and related to the perceived need for the technology, poor technology skills and management's lack of commitment to e-commerce. The adoption of e-commerce tools in this study were forced by customers – a very consistent finding with international studies (Sillince et al., 1998; Poon and Swatman, 1999; Daniel et al., 2002). In contrast, customer non-adoption was also problematic for initiating SMEs (which are in any case a small group). SME e-commerce, and perhaps this term is a misnomer as it can hardly be described as being adopted, appears reactive which would not be a problem if the opportunity then was seized and exploited to transform the business. Yet given the flexibility of small firms, one could expect them to be the high adopters of e-commerce if a business case was made. The external focus of e-commerce on a future trading system that is developing more slowly than predicted may be putting firms off, in which case a focus on the internal integration side of e-commerce might be one solutions to the slow uptake. A concentration on direct costs and benefits rather than the 'virtual' future may win more persuaders.

Integration of e-commerce into the business process of SMEs could bring major cost reduction and opportunities for differentiation. Major cost savings could be achieved in the order fulfilment system if it was conducted electronically and in real time. Time delays in order processing and billing would be virtually eliminated. To attain any benefit from e-commerce means business processes have to be re-designed around technology and that systems have to be simple enough to be robust and for everyone to use. Technology dependence without some technology acumen is risky. Perhaps this is a key reason why SMEs haven't fully embraced e-commerce. Developing e-commerce competencies and a focus on a particular process is a place to start operationalising a strategy. Without some technology ability and a focus for results it will remain difficult to convince SMEs to invest in e-commerce. The focus on existing processes and how they might be made more efficient using e-commerce tools is a good place to begin. We suggest that the order fulfilment process be the focus as it is a significant cost element in Irish business given our geographic location. Benefits gained in any part of this process would add to a momentum for further implementation. Most SMEs will use computers in accounts and in order processing – perhaps linking these to e-commerce tools is a place to commence implementation.

The field of research into e-commerce development in SMEs offers many opportunities. Arising directly out of this research is the need for another regional or national sample to compare the south-east to the e-commerce integration performance of the rest of the country. In addition, each firm in the current sample could be revisited to assess their current progress as each company was given an e-commerce development report which identified opportunities for their business. More work with SME owner/managers might usefully address a method for overcoming e-commerce adoption barriers. This research would be very useful if done in focus groups and in an action research mode. In the longer term, a measure that more accurately reflects e-commerce use needs to be advanced if we are to assess properly Ireland's progress in this area.

The pattern of e-commerce impact has major policy implications. Perhaps it is necessary to start back at a very basic level and work closely with SMEs in an e-commerce mentoring programme with owners and managers. Micro-level policy interventions may be a route to develop e-commerce usage and transformative capacity at the SME level. As much e-commerce adoption has been externally led, the focus of policy has to be on factors inside the firm – its owners, people and processes. Clearly, existing macro-enterprise policy aimed at creating awareness and encouragement and support of e-commerce companies is not penetrating SMEs to any significantly deep level. Perhaps anything new may be just too costly. However, without micro-policy interventions that target changes in the way SMEs operate, the innovation and efficiency that e-commerce can create may be lost to a sizeable component of our enterprise system and may augur poorly for its future competitiveness.

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The Impact of the Entrepreneur's Personality on the Strategy-Formation and Planning Process in SMEs

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Abstract

The objective of this study was to explore the impact of the entrepreneur's character on the development of strategy in small to medium sized firms. While researchers have looked at entrepreneurial traits in order to explain business start-up and growth, little attention has been paid to the possible interactions between entrepreneurial types and the strategic choices they make. This study identified two main types of entrepreneurs, the pragmatist and the charismatic entrepreneur, which resulted in different patterns of strategic behaviour. The research suggested that different types of entrepreneurs faced different problems, and that their responses to crises varied. The study suggests that the charismatic entrepreneurs were forced to review their propensity to take risk, share power and involve more people in the decision-making process and this resulted in a more rational, planned approach to the strategy-making process. Financial planning became a priority for both types of entrepreneur.

The Concept of Strategy

Numerous perspectives on strategy and numerous definitions of the term 'strategy' exist (Mair, 1999). The term 'strategy' refers to the direction and scope of an organisation over the long term and strategic decisions are generally broad, encompassing details about product range, market scope and competitive approach (Wickham, 1998). According to Porter (1996) the essence of strategy is choosing to perform activities differently from rivals, which requires creativity and insight. In the planning school of thought (Chandler, 1962; Ansoff, 1965) the term 'strategy' is usually defined as a formal plan, and planners perform a detailed analysis of the company, its product-market and its environment (Lambkin, 1997). In the process school of thought, writers (Mintzberg and Waters, 1985; Pettigrew, 1992) focus on the processes by which actions are decided and implemented. Writers in the process (or emergent) school of thought have highlighted the emergent nature of strategic actions due to cognitive limitations, learning (Quinn, 1980), cultural biases (Peters and Waterman, 1982) and organisational politics (Pfefffer, 1981). These writers have outlined the difficulties involved in planning a strategy and then trying to implement it as planned. Researchers (Mintzberg and Waters, 1985; Hayashi, 2000) have proposed that the strategy formation process was not simply an exercise in rationality but reflected experimentation, exploration, intuition, instinct and learning. Hamel (1996) highlighted that strategic plans were often inflexible and led planners to overcommit themselves to specific future predictions. Today, researchers are attempting to transcend this dichotomy between the planning and process views of strategy. While the first approach overstates the value of deliberate thinking and rational planning, the second approach underemphasises the value of rational planning within most companies (Ginsberg, 1994).

Research Objectives and Rationale for Study

The main objective of this study was to explore the impact of the entrepreneur's character on the development of strategy in small- to mediums-sized firms. The small business literature on strategy falls into two main categories: the first focuses on the traits of effective entrepreneurs and the second relates to planning. Entrepreneurial discourse (as set out by Gasse, 1977; Kets de Vries, 1977; Brockhaus, 1982; Mintzberg and Waters, 1985; Timmons, 1999) has emphasised the critical role played by the entrepreneur in the management of the enterprise. Researchers have focused on the traits associated with effective entrepreneurs (Carland et al., 1996) and a related stream of research seeks to develop a typology of business leaders. For instance, Kets de Vries and Miller (1984) suggest that the neurotic character type finds it difficult to cede control of the venture. The entrepreneur tends to have a strong desire for autonomy and control (Timmons, 1999) and these characteristics, if unchecked, can hamper growth of the venture. Stage models of growth (see Timmons, 1999, for a review) describe the issues, problems and crises that confront entrepreneurs as the venture grows. The planning model of strategy is the dominant model of strategy in the small business literature (see Berry, 1998). Proponents of planning stress the value of planning, it helps entrepreneurs anticipate change in the environment, deal with investors and attract funds (O'Gorman and Cunningham, 1997). Planning can aid thinking and decision-making (Johnson, 2002). However, studies suggest that founders plan in a way that is quite different to the standard textbook model of strategic planning. Research has described planning as informal in the sense that strategies are not written down and reside mainly in the mind of the CEO (Miller and Toulouse, 1986; Behara and Gunderssen, 1995), scanty and perfunctory (Robinson and Pearce, 1984), and short-term in orientation (Gilmore, 1971). Explanations for the emergent nature of strategy in SMEs have focused on the nature of the environment in which entrepreneurs operate as well as the personality of the entrepreneur. In the literature on strategy management, writers have argued that effective strategic decision-making depends on the nature of the environment, whether it is stable or unstable (Fredrickson and Mitchell, 1984). In a similar vein, Mintzberg (1985) questions the value of formal planning to entrepreneurs because they operate in intense, uncertain and high-pressure situations. Other scholars (Kets de Vries, 1990; Bhide, 1994; Brouthers, Andriessen and Nicolaes, 1998; Allinson, Chell and Hayes, 2000) have found that entrepreneurs are rarely strategists who focus on the long term and act according to rational principles; instead they act on instinct, intuition and impulse. Carland, Carland and Aby highlight that:

> The individual responsible for planning in a small firm is the owner-manager. If that individual is not predisposed to planning, this activity will not take place. Personality will play a key role in that predisposition. (1989: 25)

While some attempts have been made towards understanding the link between personality and the strategy (Kisfalvi, 2002), further studies are needed. Kisvalvi (2002), by adopting a psychodynamic approach, found that the entrepreneur's priorities and concerns were shaped by his early life experiences. According to Stewart, Watson, Carland and Carland:

> The role of psychological factors in shaping or selecting out strategy content and their influence on the way entrepreneurs actually form their strategies remains unclear. (1999: 206)

The study of strategy in large organisations has taken great strides over the decade of the 1990s; however, a review of the literature highlights the imbalance of theory building with respect to the smaller organisation. For instance, Brouthers, Andriessen and Nicolaes (1998: 130) claimed that, "surprisingly little research exists that examines strategic decision-making in small firms." Furthermore, formal strategic management procedures that apply to the large enterprise may not necessarily be relevant and applicable to the small enterprise (Shrader, Mulford and Blackburn, 1989).

The study here enlarges upon and fills some the gaps concerning the strategy formation process in the existing literature on entrepreneurs and their firms. It tentatively proposed that different types of entrepreneurs pursue different strategies and adopt different processes in the pursuit of these strategies.

Research Design

Given that existing theory does not fully explain the link between the characters of the entrepreneurs and the strategies pursued by them, the research design was qualitative and exploratory in nature. According to Lee (1999), qualitative research is often taken to mean inductive, theory generating (it also lends itself to theory testing), subjective and non-positivist processes. It can be descriptive, exploratory and explanatory in nature. A unique characteristic of qualitative research is that it is field based (Lee, 1999). Qualitative researchers encourage substantial flexibility, or improvisation, in research procedures. Researchers have the freedom to make adjustments, alter research objectives and add questions during the data collection process. The research process is iterative rather than linear, requiring a steady movement between the literature, interview data and analysis. The case study is one way of gathering qualitative data it involves the study of one, or a few, entities in substantial depth (Lee, 1999) and it gives rise to 'thick description' (Van Maanen, 1988: 221). Multiple cases strengthen results by yielding greater pattern-matching and greater confidence in the robustness of the theory (Yin, 1993). There are many ways of analyzing qualitative data, ranging from conversational analysis, case history and the constant comparative method. All three techniques were used in this study. Comparing groups, in terms of their similarities and differences, is necessary to explain or generate theory. Creative insight often results from the juxtaposition of contradictory or paradoxical evidence (Cameron and Quinn, 1988). Eisenhardt (1989) recommends the use of several tactics in order to analyse case study data: forced comparison involves selecting pairs of cases and then listing similarities and differences between each pair. Another tactic is to select a theme, category or dimension, and look for within-group similarities coupled with differences. Qualitative researchers often describe findings as themes and a theme captures central ideas in an interview or recurrent topics of discussion (Bjorkegren, 1989). The 'write-up' involves (Golden-Biddle and Locke, 1997) developing theoretical points that are contextually grounded in the field data and researchers generally choose the most expressive comments to bring theoretical points to life.

With regard to this study, 33 semi-structured interviews were held with founders, managers and employees. Multiple informants were used to ensure that the descriptions of the entrepreneur's personality were reliable. The author had a clear agenda and the following topics – history of company, company growth, role of founder and key turning points – were explored through the use of open-ended questions with respondents. In-depth interviews, company reports and newspaper articles were used. In general, the data were collected over 36 months. The majority of the firms were small (less than 50 employees) while two firms were medium sized (less than 200 employees). The entrepreneur was defined as an individual who set up a new, independent enterprise and managed it in a personalised way (Berry, 1998). The companies were characterised by a certain degree of innovation, risk-taking, creativity and growth (Hills and Laforge, 1992). Lifestyle firms were excluded. The sample included software, manufacturing and service firms. Firms were drawn from different sectors since the literature suggested that effective strategic decision making is dependent on the nature of the environment. A profile of the sample is provided in Table 10.1, which shows that most of the firms were successful in terms of turnover and longevity.

Table 10.1 Profile of Sample

Respondent letter/code	Nature of Business[a]	Size	Founded	Turnover
R	Software, peripheral devices	13	1988	0.5m
Q	Software product, for financial services	80	1985	6.5m
M	Software service: for accountancy sector	120	1976	7.4m
F	Manufacturer of toothpaste	25	1983	3m
I	Manufacturer of soap	2	1984	2m
B	Manufacturer of biscuits	28	1989	1.5m
C	Manufacturer of plastics	Ceased trading at time of study	1987	Nil
G	Service firm: graphic design	20	1989	Not disclosed
K	Software, electronic security	30	1986	Not disclosed

a To what does this refer?

Research Findings: Charismatic and Pragmatic Types of Entrepreneurs

The study suggests that the strategy formation process is driven by the personalities of the entrepreneurs and by their experience of crises. The study suggests that there are two main types of entrepreneurs, the charismatic and pragmatic entrepreneurs. The charismatic entrepreneurs conformed to the stereotypical view of entrepreneurs and they were visionaries, risk-takers, highly persuasive, passionate, with ambitious and idealistic goals. The pragmatists did not fit the stereotypical mould and were more cautious, more rational and seemed to adopt a more calculating and instrumental approach to the business, yet they also achieved success. These types of entrepreneurs were distinguished according to decision-making style, goals, attitude to risk, degree of commitment to venture and business background. Example quotations are shown in Table 10.2 and 10.3. These quotations are drawn from employees as well as the founders themselves.

Table 10.2 Characteristics of the Charismatic Entrepreneur

Strategy-related variables	The charismatic entrepreneur	Example quotations
Decision-making style	Visionary Intuitive Creative Goals	R: I am gut-feeling type of person. We were specialists in that area. We were in it pre the personal computer! We were doing programmable device drivers for POS before anyone else. R: What's a five-year plan in this business?! F: It was his idea, his drive and initiative that got it off the ground. Q: He had the vision and foresight to come up

		with an idea and base a product around that idea and start up a company Q: It was 70% vision of Gerry and 30% planning. Gerry's vision would have played a key part in the growth of the company. M: He is very dynamic. His ideas, his concepts of what the clients will want are right. He is quite imaginative, he is indispensable.
Goals	Ambitious Idealistic	F: He was a driving force in the business...he was hell-bent on keeping the order book full. Much more hell bent: let's go for that, let's try to run 100 yards in 10 seconds as opposed to 15 seconds that will take longer. R: I believe that the Irish people can be world-beaters. R: He has put a lot of enthusiasm into the company, he is keen to continue pushing it forward, it has developed over the years, he has many contacts with the industry in Ireland and abroad and he has used those to generate sales Q: We developed a top-class product. Q: We were trying to be IBM while still in the garage-style mode of operation. M: We tried to cover too much ground; we bid for nearly everything, everything that moved, we would grab it. M: The danger with software development is that expansion can be rapid until one day the bubble bursts. A company can become too big too quickly.
Attitude to risk. Degree of commitment to venture	'Bullish' Risk-prone Abiding commitment Obsessive Success against the odds	F: He had money to invest although he was not wealthy. It was a case of either all or nothing. F: It required a total degree of commitment. I do not know if I would have done it. He had family commitments. R: He dug deep into his own pockets. If you are supporting an organization like this out of your pocket, the costs are mighty, very high-cost, high-risk stuff. R: People work and work and work, they really kill themselves in an effort to achieve success…

		Q: I am an optimistic risk-taker; the essence of the entrepreneur is to take a gamble.
Business Background	Non-business	F: His background struck me as a bit strange, but sometimes they make the best entrepreneurs. They do not see problems only solutions. We need a bull-headed attitude. They do not realise the implications of things. I think he went into the venture without realising the commercial risks involved.

Table 10.3 Characteristics of the Pragmatic Entrepreneur

Strategy-related variables	**The pragmatic entrepreneur**	**Example quotations**
Decision-making style	Planned Rational Reactive	G: We go through decisions, like employing a single person, very, very carefully. G: We like to think of ourselves as being proactive, but we are reactive, I feel. We put many things on the agenda which we have never completed. Possibly, if the company was run by one person, rather than by four people, we could be more proactive. That one person could make decisions quicker. B: We need to go out and be active and aggressively go after business, push the company. Instead we are manufacturing to an order book, which thankfully is full. But we are becoming more proactive. It is a question of changing. K: I still believe that we are a little too cautious, still a little too slow. Someone else may say that we need to be cautious because we have to recuperate a costly R&D program. I would advocate that we be a little bit quicker in making decisions, that we be a bit bolder.
Goals	Achievable Conservative Down-to-earth Common-sense Slow-growth Consolidation	G: You have to decide that you want to achieve, how you are going to achieve it and go for those goals in a controlled way. There is no point in taking off like a rocket and getting nowhere. G: Our aim is to stick to our knitting until we have achieved a much firmer foundation. B: The whole issue of growth, how it is planned

		and controlled, can bury a company. A company has to be very careful in its expansion plans. Managing cash flow, how much money is spent, how much is got back in, seeing that credit terms are adhered to, are all crucial…A company has to start off small and stabilise the market before they try to expand. B: I would never wish to become huge. We will always remain relatively small in a niche market if we are to succeed. K: Growth has been quite slow really. We are now looking at niche markets, taking away small, profitable business from large companies. We are steering away from anything large. We just could not afford it or be able to finance it.
Attitude to risk Degree of commitment to venture	'Bearish' Risk-averse Calculated commitment Pragmatic Success within reach	I: Her approach was very different to X. One person got involved in manufacturing; the other sub-contracted. There was no real financial involvement in the company: she was doing this as an outside interest, it was not her livelihood. B: The company is still conservative. We are prepared to take a risk if the opportunity comes up. It is a conservative risk.
Business Background	Combination	G: We are not simply designers. Designers tend to be very fickle, temperamental people. Many of them do not know how to run a business or would not have any interest in running a business. Clients see them as difficult people to work with.

Strategic Decision-Making Style

The charismatic entrepreneurs were visionary in the sense that they were able to predict market trends and visualise new product opportunities. Employees saw the entrepreneurs as the creative force behind the venture. The entrepreneurs' belief that a market existed for the new products tended to be based on their feelings and informal research. Most of the entrepreneurs gathered information by talking to customers, by subscribing to trade magazines, by going to conferences, and attending trade shows. This enabled them to keep up to date with customer needs, with technological developments and to develop ideas for new products. One individual set up a technologically based firm in the 1970s and remarked, "the market wasn't right for it then, that's for sure", and claimed that he was a "gut feeling type of person". The founder's product ideas were mainly based on:

> His hunches, his experiences of talking to people, his experiences of using the products himself.

Employees claimed that he was always a year, if not more, ahead of the competition. Furthermore, the charismatic founders were able to attract followers due to their enthusiasm for the venture:

> A manager has to be a very disciplined, analytical type of person, who can look at things and weigh them up very carefully. Managers are more careful people. An entrepreneur is not a careful person. Careful people write the history they do not create it. Entrepreneurship is an enthusiasm. I can get very enthusiastic about something and bring people along with me, even customers. When I am in full flight even customers get excited about it as well. That's part of being an entrepreneur.

Another entrepreneur who set up a software firm was described as very dynamic and imaginative, someone who could predict the needs of clients very well. Another entrepreneur was described as an individual with a love of ideas, a very active mind, quick to adopt new trends and prepared to take risks. He decided to target the unstable Eastern European market, even thought the Irish Trade Board was discouraging entrepreneurs from entering those markets at that time. Another entrepreneur was described as an individual who had the vision and foresight to come up with an idea and base a product around that idea.

In contrast to the charismatic entrepreneurs, the approach of the pragmatic entrepreneurs to strategy formation was underpinned by a more conservative, 'common-sense, down-to-earth' and rational approach. Two founders formed very similar firms (import substitution) at around the same, and shared the same distributor, but adopted very different strategies. The distributor commented that:

> Her approach was very different, there was no real financial involvement in the company.

He remarked that she did not see the business as her livelihood. In contrast to the other founder, she undertook a feasibility study, carried out market research and eventually selected the sub-contracting option rather than the high-cost manufacturing option. With regard to market expansion, she focused on the domestic market rather than the Eastern European market. Eventually she was faced with a key decision: to target the US market or sell the firm, and she made a pragmatic decision to sell the venture. The founder of a graphic design firm also adopted a planned and rational approach to decision-making. They employed a consultant and spent several months preparing a business plan. They claimed that decisions were made "very, very carefully" in order to reduce the risk of business failure.

GOALS

The charismatic entrepreneurs had ambitious goals. When the entrepreneurs described their objectives, there was also a touch of idealism in their accounts. One entrepreneur had a vision of bringing the power of the PC to the masses. He remarked that many people did not have any experience of using computers and were marginalised by the computer industry. He hoped to target that market and make it easier for uneducated people to use PCs through simple keystrokes. Another entrepreneur remarked that he wanted to be a world-class software developer and his aim was to target the world market rather than just the domestic market. Another entrepreneur had similar goals and it was commented that he was "driven by this search for excellence" and he tried to ensure that the Irish product was as good, if not better, than the product produced by multinational companies. Simple phrases used by stakeholders in interviews revealed a great deal. This founder was described as being "hell-bent" on growth and his attitude was:

> Let's go for it, let's try and run 100 yards in 10 seconds as opposed to 15 seconds which will take longer.

He was also driven by the desire to make money. The comments of one stakeholder suggested that his profit goals were unrealistic, "whether his goals were attainable in his time frame, or ever, is debatable!" In another company, the phrase "gung-ho" was used to describe the early posture of the firm.

In contrast to the charismatic entrepreneur, the pragmatic entrepreneur seemed to make a more realistic assessment of the marketplace: the goal was to set up a business that would have a good chance of succeeding. For instance, one founder claimed that he would never wish to become huge and that the company would have to remain 'relatively small in a niche market' if it was to succeed. His goal was to build a profitable company and either sell the business or pass it on to his family. Unlike the charismatic entrepreneurs, who tended to be emotionally attached to the venture, the pragmatic entrepreneurs were not as tied to their ventures and ceding control of the venture, or even selling it, did not seem to be a major problem for them. The founders of a graphic design firm decided to concentrate on the home market, consolidate the business and avoided diversifying and growing it too quickly. Safeguarding what they had already achieved was more important than rapid expansion, as the following comment shows:

> The policy has been to stick to our knitting until we have achieved a much firmer foundation.

Attitude to Risk and Degree of Commitment to Venture

While both types of entrepreneur had to assume risk, the risk borne by the charismatic entrepreneurs was perceived to be very high in the eyes of stakeholders. The founders had a strong belief in the venture and as a result they were prepared to leave secure jobs, set up and grow the ventures using their own funds, placing both themselves and their families at risk. The entrepreneur's degree of commitment to the venture is shown by the following comment:

> It was a speculative venture. He had to make it work. He had money to invest although he was not wealthy. It was a case of either all or nothing.

The charismatic entrepreneurs seemed to be driven by the strength of their convictions and such was their confidence in their ventures, they assumed extraordinary risks. One founder claimed that state agencies thought he was crazy and it was difficult to obtain grant-aid. In the growth stage, he made a major decision to invest £0.5m of his own funds in order to increase production capacity; however, sales contracts were not in place and he was unable to convince state agencies to give him capital grant. The actions of the founder resulted in a crisis shortly afterwards. An employee in another firm commented that the company could not rely on cash reserves and suggested that managing cash-flow on a monthly basis was very difficult. He remarked that the art of the entrepreneur was to take a gamble and that the founder was adept at leveraging resources. The charismatic entrepreneurs had a passion, if not an obsession, for their businesses which was clearly recognised by their employees; the following words and phrases were used to describe the founders: "driving force", "indispensable", "a one-man company", "gave over 100% of himself", "total degree of commitment".

In contrast to the charismatic entrepreneurs, the pragmatic entrepreneurs were not willing to assume extraordinary risks. The pragmatic entrepreneurs tended to minimise risk and were therefore not readily prepared to sacrifice resources to the venture. Their vision for the ventures seemed to be based on straightforward commercial values rather than the more emotion-rich, idealistic values espoused by the charismatic entrepreneurs. One pragmatist remarked that his goal was to pass on the business to his family but if he got an attractive offer for the venture he would consider selling it.

Business Background

The professions of the charismatic entrepreneurs prior to business start-up were as follows: engineering, technician and computer programming. Having a non-business background may explain the entrepreneur's intuitive approach to decision making. For instance, one stakeholder remarked that the entrepreneur was an engineer by profession and not a business person. He slowly developed a commercial awareness and learned to read a balance sheet. In the early years, he was not aware of the commercial risks involved in the venture and where others would see problems he only saw solutions to those problems. Another entrepreneur echoed this comment by remarking that he always looked at things from a positive side rather than a negative side.

The professions of the pragmatic entrepreneur prior to business start-up were as follows: accountancy, advertising, sales, teaching, graphic design, management. One pragmatic entrepreneur who did not have a business background saw that as a weakness, he claimed that many designers who set up firms lacked a business ethos and he was keen to avoid the mistakes made by others. They appointed a chairman in order to benefit from his business experience.

Charismatic and Pragmatic Entrepreneurs: Problems and Challenges, Response to Crises

All of the firms faced common problems and challenges. This section starts by outlining the major factors that caused crises (Table 10.3) and the ramifications of crisis are then described (Table 10.4).

Source of Crises

In general, there were two main types of crises: an endogenous crisis, which was caused primarily by the founder by forces within the firm, and an exogenous crisis, which stemmed mainly from environmental shocks. This study suggests that the different types of entrepreneurs conceive of risk differently and thus pursue different types of strategy.

Table 10.4 Problems and Source of Crises

Type	Explanation	Personality type
Endogenous	Ambitious start-up strategy based on ability to secure support of one key investor, followed by loss of key financial backer Expansion into emerging export market Heavy investment in production capacity follow by loss of key distributor Rapid growth	**Charismatic**
Exogenous	Recession Adverse currency movements Change in customer tastes Increased competition	**Pragmatic (and charismatic)**

Crisis was internally generated, and it arose primarily from the actions of the charismatic founders in their drive for growth. In one firm, a deal with a financial investor fell through which forced the firm to scale back its ambitious growth plans. The founder later remarked that there was "no point in trying to be like IBM when in the garage-style type of operation". In another firm, the founder had invested heavily in production capacity in anticipation of future export growth but the collapse of a distributor resulted in severe over-capacity. The founder justified that investment decision by saying:

> It was very risky, but without that decision we would [not?] be here today. We would not be able to produce a product as efficiently as we do now. We would not be able to offer to produce for people and do it on time had we not taken the risk, had we not spent the money.

The founder seemed to describe his posture as one of obedience to the growth imperative, and the comments suggest that he was a mere creature of such pressures. In contrast to the pragmatic entrepreneur, this entrepreneur did not perceive the risks associated with growth to be very high. In a third firm, rapid growth led to high marketing overheads and high R&D costs, costs that proved difficult to cover when the company experienced a downturn in demand.

Crisis was also externally generated, and it arose primarily from environmental shocks. The type of crisis seemed to be associated mainly with the pragmatic entrepreneurs (although the charismatic entrepreneurs were also affected by environmental change). One firm was affected by a severe currency crisis. Another firm experienced cash flow problems due to falling sales in a more competitive domestic environment, gradual change in customer tastes and the sudden collapse of a distributor in the UK market. Another firm experienced problems shortly after start-up due to the recession, bad debts and the growing price consciousness of clients.

The following section describes the changes that took place in the companies as a result of crises.

Table 10.5 Crisis and its Ramifications for the Firm

Type	Pre-crisis	Post-crisis
Charismatic and Pragmatic	Casual approach to financial planning	Greater attention to financial planning
Charismatic: change in mentality	More risk-prone: Focus on fast growth and on new opportunities	More risk-averse: Focus on survival
	Why not? Is this desirable? Experimentation: what might happen? Centralisation of power	Why? Is this feasible? Experience: what happened in the past? Power sharing

Pragmatists and Charismatic Entrepreneurs: Greater Attention Paid to Financial Planning

Crisis had financial ramifications for both the pragmatic and charismatic entrepreneurs. Many entrepreneurs faced common problems such as cash flow problems, poor credit control, bad debts and lack of proper budget control. In the aftermath of crisis, they were forced to think carefully about the allocation of scarce resources. One individual remarked that after the crisis, there was more planning and more research into prospective customers. Another founder remarked that keeping control of finances was "the most important thing". A founder of a different firm suggested that in the early days their approach to financial planning was lax and that needed to change: "we were a little bit shaky on the financial side. It was a little bit fingers crossed as well". The comment of the following employee highlights the positive aspects of the crisis episode:

> Even though it was a bad period for the company, positive aspects emerged. The company has become far more contemplative. It has become far more prudent about how money is spent. R&D expenditure is now planned a year in advance. Now we can ride it (the product life cycle) out much better because a secure financial base is there.

Charismatic Entrepreneur: Change In Mentality

Learning from crisis emerged as a strong theme. The optimistic, risk-taking mentality of the charismatic entrepreneur gave way to a more cautious outlook on life. One charismatic founder claimed that he was a "total optimist" but that quality had been "battered out of him" due to crises. The priority placed on survival rather than on fast growth was evident from the conversations with the entrepreneurs. One founder talked about the "broken spirits" of entrepreneurs who had to struggle to keep the business going. He remarked that:

> In most entrepreneurial companies, the struggle for survival cramps the opportunities to be innovative. You need comfort and resources.

The study suggests that entrepreneurs became more aware of the implications of their actions and more likely to draw on experience of crisis. In the aftermath of crisis, the charismatic entrepreneurs had to spend more time communicating with, explaining and justifying their actions to, key stakeholders. A manager remarked that the founder had numerous business ideas, but it was their role to assess the ideas strategically and select the ones that were viable. One entrepreneur gained an important lesson on the nature of power:

> Power is the big thing. Power to do what you want is dependent on a single issue, making profit, and if you are not making profit then everything you do is wrong

Crisis resulted in a loss of credibility for the founders since it was linked to mismanagement and exposed their weaknesses. For instance, one stakeholder noted that the founder acted imprudently, and that it was a bad idea to extend so much credit, far in excess of normal credit terms. After the crisis, the distributor took a 51 per cent share in the business and this gave them control over decision making. They brought new skills into the business and spearheaded change. The following words and phrases illustrate the influence of the majority shareholder: "controlling factor on our risk-taking", "restraint", "strategic-based approach", "more prudent". Stakeholders began to realise that the entrepreneur had certain strengths (i.e. generating ideas for new products, finding new markets, dealing with customers), but that their commercial weaknesses became more apparent after the crisis. One founder claimed that he had a great interest in new technologies and new ideas; however, he realised that attempting to grow the business in several different areas would probably lead to failure. He remarked:

> I think I need to be harnessed at times. You need to harness what I am trying to do, to prioritise things and focus on particular products that can be successful, focus on things where there is a market for them, rather than a shot gun approach with many targets.

One employee remarked that if his actions were not in the best interests of the company, then it was up to the people around him to talk to him and be honest with him.

Discussion and Contribution to Literature

The Entrepreneur

This study contributes to the literature on entrepreneurial traits and typology. In this study, the terms 'charismatic' and 'pragmatic' were used to describe two different types of entrepreneur. Although it is widely acknowledged today that there are several types of entrepreneur (Hornaday, 1990; Chell and Haworth, 1992), few of these studies attempt to link personality to strategies pursued by the founders and their planning styles. This study seeks to defy the notion that entrepreneurs are not orientated towards planning. The pragmatic, careful and rational type of entrepreneur proposed here is different from the classical entrepreneur, an individual (Kets de Vries, 1990; Bhide, 1994) who is rarely a strategist acting according to rational principles. In everyday language, the term 'charisma' refers to a personality trait such as charm, allure, appeal and magnetism. Charismatic leadership theory (Trice and Beyer, 1993) has progressed beyond trait theory and it encompasses many elements, such as traits, behaviour, company performance and cultural ideologies. Charisma can also characterise organisations, such as direct selling organisations (Biggart, 1990). The term 'charisma ' can refer to a type of social order, to a large-scale social system (Weber, 1961). Charismatic social orders are based on a belief in a rare, extraordinary leader such as a messiah or hero. Although the charismatic entrepreneurs are not charismatic in the sense Weber (1961) described, they do have disciples or followers, notably customers, managers and investors, who place their trust in the individual rather than in a formal strategy, or written document. The charismatic entrepreneur seems to engage with stakeholders on an emotional level instead of us relying solely on logic, reason and plans.

For many writers on the entrepreneurial personality (Gasse, 1977;

Brockhaus, 1982) personality traits are fixed and static and little attention is devoted to how entrepreneurs change over time. This study contributes to the minor, but growing literature on learning, (Gibb, 1997; Perkins, 1994) by suggesting that the risk-taking propensity of the charismatic entrepreneur changed over time. They learned about the financial risks, the risk of developing new products, the risk of diversifying into different areas. Risk-taking is not just a function of personality but seems to be shaped by the experience of crisis.

Crisis

This study adds to the growing body of literature on crisis and provides an insight into the impact of crisis on company strategy. In the literature, crisis has been extensively examined, in particular, the sources of crisis and its ramifications for the organisation (Cahill, 1977; Hedburg, 1981; Nystrom and Starbuck, 1984; Perry, 1986; Pitt, 1989; Chowdbury et al., 1993; Hendry et al., 1995). Writers propose that crisis can stimulate the entrepreneur to think and plan strategically (Aram and Cowan, 1990). Cahill (1977) concluded that the firm's context and internal circumstances seemed fundamental to understanding the issues. Greiner's (1972) growth model predicts that a firm will face four types of crisis: crisis of leadership, crisis of autonomy, crisis of control and crisis of red tape. However, life-cycle models (Greiner, 1972; Flamholtz, 1990) have been criticised for their overly general nature – they assume that all founders experience the same development pattern and are confronted by the same issues and crises. Hendry et al. (1995) argued that the root cause of crisis was the entrepreneur, whose dominant personality resulted in a reluctance to cede control and led to errors of judgement. However, studies are emerging that test conventional wisdom regarding the problems faced by founder as the business grows (Timmons, 1999). This study revealed the existence of a pragmatic type of entrepreneur who is less likely to face these control issues, characterised by Greiner (1972) as the 'crisis of autonomy'

Areas for Further Research

There is a real need for qualitative studies of entrepreneurs and strategy formation in small- and medium-sized firms. The methodology used in this study has its limitations and the findings (the typology in particular) were not definitive or wholly exhaustive and will need further scrutiny. This study proposed that the character of the entrepreneurs had an impact on the strategies formed. Future researchers could continue this line of enquiry. For instance, do charismatic founders rely more on informal, social networks and then transform them into financial networks? Do pragmatists rely more on formal networks? Do pragmatists see business start-up as an investment rather than a way of life? There is a need for a comprehensive and exhaustive study on the types of crises faced by different types of entrepreneur, their features and properties, the processes used to resolve them and content of strategies formed in relation to crises. It would be worthwhile to undertake a longitudinal study on crisis in order to explore the implications of crisis for innovation and growth.

Practical Implications of Study

The study showed that there are different types of entrepreneur, they face different problems and some founders are orientated towards planning and detailed analysis. This has practical implications for policy advisors. The study proposed a pragmatic type of entrepreneur and this type might be more responsive than the charismatic types to state incentives and state training schemes. Certainly, trainers and advisors need to stress the importance of financial planning and control as the organisation grows. The fact that crises resulted from the failings of the charismatic entrepreneur points to the need for better management skills or a balanced management team. The charismatic entrepreneurs themselves need to be aware of the need to share power, be open-minded and willing to listen to the views of stakeholders. Entrepreneurs need to be made aware of the prevalence of crisis, the need to deal with stress, the need for support, and benefits of learning from the experiences of other founders who have experienced crises.

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Managing Proactively In Turbulent Times: Insights From The Low-Fare Airline Business

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Introduction

Airlines have traditionally had severe difficulties coping with a sudden steep decline in revenue, as they are capital-intensive companies and need to maintain a network, with all of the associated fixed costs.[1] For most airlines, the gap between the breakeven and the actual load factor is small, so even a drop of a few percentage points in traffic can result in an operating loss. Moreover, an airline's product – passenger seats – is a perishable item: if it is not used on any given flight it cannot be used again and a company loses the associated revenue. Occasionally, market downturns can be particularly sudden and cataclysmic. The September 2001 terrorist attacks on New York and Washington D.C. had a particularly negative impact on the US and world airline industry. Market confidence, already weakened by a nascent recession in the US and parts of Europe, plummeted in the wake of these attacks and their follow-on. Safety fears meant that air traffic numbers declined sharply. Global airlines such as British Airways (BA) and American Airlines (AA) announced large-scale jobs cuts and sought financial assistance from their respective governments. Already weakened by sustained losses, flag carriers including Swissair and the affiliated Sabena were pushed into or to the brink of bankruptcy.

This industry turmoil prompted the questions: how were low-fare airlines (LFAs) affected by the fallout from the US attacks and related traffic slump? Were they better able to weather the market storm than their traditional competitors? Evidence in Europe and the US indicates that the leading LFAs fared significantly better than their full-fare rivals in the wake of the terrorist attacks on the US. While established rivals cut staff, grounded aircraft and even collapsed into bankruptcy, the LFAs continue to open new routes and order new aircraft (Campbell and Kingsley-Jones, 2002).

The strategic management principles and operational processes of leading LFAs are examined and compared in this paper and best practice is established for airline management. It is argued that strategically aggressive and operationally efficient LFAs are more resilient than traditional airlines to market downturns. The industry financiers substantiate this fact. For instance, Schoder Salomon Smith Barney tend to value LFAs as growth stocks while traditional airlines are treated as cyclical. US low-fare pioneer, Southwest Airlines, has proven this fact on numerous occasions. In Europe, Ryanair and easyJet have also successfully weathered the market travails post-September 2001 and continue to grow. Consistently successful LFA business models are premised on a willingness to act decisively and aggressively in pursuit of or to retain market share and profit.

Since the atrocities of September 11th, 2001, the persistently high market capitalisations of low-fare leaders such as Southwest and Ryanair – relative to their larger, full-fare peers – are further proof that LFAs have come of age. This is illustrative of the market power and durability of the LFA model and it serves to underline the fact that a variety of useful management lessons can be learned from the low price leaders.

Strategic Management in the Airline Business

The Need to be Proactive

In most companies, recession and market downturn foster an environment of short-term, reactive management, with leadership activity focused on daily operational priorities. Strategic considerations tend to be deferred and offensive market manoeuvring is scaled back. Many firms adopt a siege mentality, with business survival replacing market success as the *modus operandi* for management. Periods of market uncertainty and decline need not be a time of retrenchment for all companies. Instead, opportunities can present themselves for companies that are financially sound and operationally efficient. Among these firms, it is the proactive company that will steal a march over reactive competitors and establish or leverage a market position. This involves aggressive action via strategic options such as price reduction, supplier/distributor contract renegotiation and/or corporate acquisition. The LFA sector provides a vivid example of this proactive approach to corporate strategy, as illustrated by the actions of leading LFAs during the post-September 11th airline industry crisis.

The traditional approach to strategy requires precise predictions and often leads managers to underestimate uncertainty (Courtney, Kirkland and Viguerie, 1997). However, Courtney poses the question:

> Is it better for a company's competitive position to try to influence or even determine the outcome of crucial and currently uncertain elements of an industry's structure and conduct? Or is it the wiser course to scope out defensible positions within an industry's existing structure and then to move with speed and agility to recognise and capture new opportunities when the market changes? (2001: 38)

He concludes that the right strategic bets can return higher payoffs, far more quickly. Such strategic risk taking is indicative of what Courtney describes as 'strategy shapers' – firms that generally attempt to get ahead of uncertainty by driving industry change their way. In the 1970s, Southwest Airlines grappled with uncertainty by introducing fundamental product innovations intended to redefine the basis of competition in an industry (the low-price, point-to-point air travel model).

Courtney (2001) argues that whether a company should attempt to shape or adapt[2] depends largely on the level and nature of the uncertainty it faces. He further contends that when a firm faces very high levels of uncertainty about variables it can influence, shaping makes the most sense. This is precisely what the leading LFAs did in the immediate aftermath of September 11th. A high degree of uncertainty existed across the airline industry, pivoted on one key variable: people's willingness to fly. Ryanair, easyJet, Southwest and others shaped airline strategy by tackling this issue immediately and directly, driven by the need to maintain load factor. Unlike many full-fare competitors, they went on the market offensive. The leading LFAs on both sides of the Atlantic launched advertising campaigns expressing their determination not to be beaten by the terrorists and introducing extensive ticket price discounting ('fare sales'). Some, such as Ryanair, also took the opportunity to announce fleet expansion plans. Linked to this, Ryanair availed of the market downturn to negotiate a favourable per unit price with Boeing for their order of 100 Boeing 737-800 aircraft. This is in line with Ryanair's containment of strategic risk through aggressive cash management. Whilst most airlines increase spending during market upturns, airlines with the highest multiples – primarily leading LFAs – 'conserve cash during the boom time and invest in the trough' (Zea, 2002).

Ultimately, the case for a proactive approach to corporate strategy is compelling. It proves more effective than reactive strategies in times of uncertainty, as it challenges the siege mentality. Also, it is the way to win, by stealing a march over reactive competitors and gaining or increasing market advantage at their expense. Finally, proactive strategy implies aggressive action, often resulting in product innovation, the creation of new market space or the renegotiation of outsourcing contracts. It can also imply acquisition, as evidenced by easyJet's decision in 2002 to takeover its low-fare rival Go.

The Cult of Cost Reduction

In choosing a competitive strategy, a key consideration for company strategists is how to configure the value equation to best meet customer needs and demands and offer a unique value proposition. For LFAs this means striving to achieve the lowest possible prices for their products or services. Low prices cannot be sustained unless a company maximises its operational efficiency. This means that the company has to perform similar activities better than rivals (Porter, 1996). One way of doing so is to pursue a rigorous and relentless policy of cost cutting.

Constant and ever-improving methods of operational cost reduction are *de rigueur* for any organisation. Ames and Hlavacek (1990) argue that managing costs is at the heart of every successful company and that four related cost truisms apply universally to every business situation: first, over the long term, it is essential to be a lower cost supplier; second, maintain a competitive position, the inflation-adjusted costs of producing and supplying any product or service must continuously decrease; third, the true cost and profit of each product or service and every customer segment must always be transparent; and fourth, a company should focus on cash flow as much as on profit generation. Market deregulation and industry globalisation have increased the competitive pressures on companies, reducing the margin for error and rendering the 'cult of cost reduction' indispensable. Nowhere is this more apparent than in the commercial air transport business. For airline companies, successful and constant cost control is essential and cannot be neglected, even temporarily. SAS learned this lesson during the 1980s when their market-driven philosophy caused their costs to escalate unchecked (Robertson, 1995). The margin of profit for most airline companies is minimal. There is little difference between the average total cost of any given flight and the number of passengers and yield per passenger needed on that flight to turn a profit. For traditional full-fare airlines, the difference is normally only a few percentage points. This means that airlines are highly susceptible to market fluctuations and any related fall in traffic. The obvious way to safeguard a company against this acute market vulnerability is to decrease operational expenses and increase employee and aircraft productivity. By suppressing the breakeven load factor figure, an airline can ensure that any drop in the average passenger load factor figure will still reap a profit – albeit reduced – for the company. The key factors affecting indirect costs for an airline are fleet structure, route network and company policies on remuneration and work rules (Seristö and Vepsäläinen, 1997). Together, these determine the total cost differences between airlines and the primary ways in which an airline can reduce its costs relative to competitors. Uniform fleet structures, flexible work rules, performance-related pay schemes and point-to-point services operating between lower-cost and less congested secondary airports are all examples of ways in which a carrier can reduce its costs and improve its relative competitiveness. All of these cost-reduction techniques are fundamental elements of the LFA business model.

The 1990s witnessed substantial improvements in productivity and costs in the airline industry but the gains were not uniform (Morrell and Lu, 2000). Studies[3] show that during the 1993–98 period, average European available tonne-kilometre (ATK) per employee increased by 31 per cent to 380,000 and unit costs decreased by 15 per cent to 58 US cents per ATK. Improvements also occurred in other areas of productivity and cost reduction. The North American and Asia Pacific regions experienced similar improvements. These were usually not as considerable as in Europe because most European carriers lagged behind their North American and Asian counterparts and were going through a process of 'catch-up'. These gains were not uniform within Europe either, as measures of productivity and cost differ according to the nature and strategic objectives of an airline. For instance, costs are lower for a carrier heavily involved in the charter and cargo markets. Similarly, long-haul carriers have a per unit cost advantage over short-haul carriers (Morrell and Lu, 2000). Likewise, short haul carriers experience higher aircraft utilisation and greater yields than their long-haul counterparts.

In the airline business, the contest to lower costs, increase productivity and gain market advantage is often accompanied by price-based competition. Demand for air travel is highly elastic: reduce the price and sales rise sharply. However, reducing prices to gain market share is not usually a sound business strategy. Unless a company has a significant cost advantage of at least 30 per cent, reducing prices can trigger a suicidal price war (Garda and Marn, 1993). Price wars are common in the airline industry, where the commodity is largely undifferentiated, customers are highly concentrated and many are very price sensitive, and switching costs for consumers are very low (Garda and Marn, 1993). This scenario is accentuated in markets where many competitors co-exist. In essence, a company that competes on price must ensure that it has the cost base and cash resources to be the low price leader and not just a low price competitor. In operational terms, cash resources are vital to ensure a new entrant's survival in the face of predatory pricing by established carriers – a customary reaction by many existing large airlines. Cash also enables the airline to defer any downsizing measures during periods of market stagnation, decline or crisis. Low price market leaders such as Southwest Airlines in the US and Ryanair in Europe have developed business models that place constant cost reduction and cash accumulation at their core. These companies have emerged as the most effective cost and price competitors in the business. They are also the most consistently profitable airlines in the world. In addition, as we will illustrate further on, companies such as Southwest and Ryanair are extremely robust during times of economic crisis and market decline. For these reasons, the structures, strategies and contexts (market and industry) of LFAs hold invaluable lessons both for other airline companies and for all companies struggling to compete in highly competitive international markets.

The Low-fare Business Paradigm

The European airline industry experienced its first significant competitive shake-up during the 1990s. As Morrell points out:

> Excluding those airlines based outside the EU, there was a net increase of six in the number of airlines serving intra-EU cross-border scheduled routes between 1992 and 1995 compared to a net loss of four carriers between 1989 and 1992. (1998: 50)

In many cases these new entrants served low-density regional routes. As Bhide (1992) argues, most start-ups begin by pursuing niche markets that are too small to interest large competitors. In other cases, charter airlines such as Air Liberté in France (now Air Lib) commenced scheduled flights in direct competition with established carriers. During the latter part of the 1990s, more than 100 new airlines commenced operations in Europe. During the same period, in excess of 70 went out of business or were absorbed by another airline. Of these airline start-ups, five can be classified as LFAs – easyJet, Go, Buzz, Virgin Express and Debonair.

Cost structures constitute a clear distinction between an LFA and a full service airline. One revealing measure of the running costs of an airline is cost per available seat kilometre (ASK). When cost per ASK is compared between airlines, carriers such as Ryanair and easyJet in Europe and Southwest in the US are, on average, operating at almost half the cost of full service carriers (Campbell and Kingsley-Jones, 2002). Haughey (2001) provides a clear comparative distinction between LFAs and traditional scheduled carriers (Table 11.1).[4]

Table 11.1 Generic Low-fare Versus Full-fare Airlines

Low-fare Airline	Full-fare Airline
Simple brand – low fare	Complex brand – price + service
Online and direct booking	Mainly travel agents
Simple ticket price structure and ticketless check-in	Complex fare structures
Use of secondary, low-charging airports (*some exceptions*)	Focus on primary airports
High aircraft utilisation – quick gate turnaround time	Lower utilisation on short haul
Do not interline; point-to-point service	Interlining important part of service
Simple product – all additional services and facilities charged for, e.g. credit card bookings, late check-in, meals	Complex integrated service product(s), e.g. ticket flexibility, business lounges, frequent flyer programme
Focus on ancillary revenue generation – advertising ('the plane as a billboard'), on board retailing (*more common in Europe*)	Focus on primary product
Mainly short-haul focus	Short and long haul
Common fleet type acquired at very good rates	Mixed fleet

Williams (2001) adds two further distinguishing features of the low-fare model, namely extensive outsourcing and high-density seating. For companies like easyJet and Ryanair, outsourcing is evident in virtually all areas of business activity. It is particularly prevalent in capital-intensive activities such as passenger and aircraft handling. High-density seating is a standard element of a no frill strategy, with customers willing to endure less legroom so as to avail of lower prices.

LFAs also seek to minimise personnel costs and do so though increased staff-passenger ratio and employee compensation linked to productivity-based pay incentives.

Campbell and Kingsley-Jones (2002) argue that the chief cost differences between low-fare and full-fare airlines fall into three groups: first, service savings (e.g. no-frills cabin service and extensive use of outsourcing); second, operational savings (e.g. point-to-point services and uniform fleet); and third, overhead savings (e.g. Internet sales and a streamlined bureaucracy).

Whilst it is relatively easy to identify the core generic features of the LFA business model, many variations do exist. Nonetheless, it is widely accepted that the approach pioneered by Southwest Airlines in the US is the archetype LFA model. easyJet management concur with most of these principles and emphasise an essential feature of its particular model – the direct sell, excluding the travel agent and selling directly to the customer – preferably via the Internet.[5]

Ryanair were the original European adapters of the Southwest model. Whilst continuing to adhere closely to the LFA norms, they also ensure that minimal debt servicing costs, non-participation in alliances and cautions route network expansion are embedded in their business model.

Four LFAs can be identified in Europe: Ryanair, easyJet, Virgin Express[6] and Buzz. A fifth – Basiq Air – does appear to meet most of the criteria. However, operationally and strategically, it is virtually indistinguishable from charter and cargo airline Transavia – itself closely identifiable with KLM.[7] Of the four more obvious LFAs, three are or were associated with larger airlines. Two – easyJet and Buzz – are based at a London airport and Ryanair also has a major base at London Stansted. In addition to easyJet's 2002 acquisition of low-fare rival Go, the London market has also seen a prominent LFA go into receivership, with the 1999 collapse of Debonair. The LFA phenomenon has only recently emerged in mainland European countries. Several new LFAs emerged in 2002, all with the exception of bmibaby – based in continental Europe. These include Goodjet of Sweden, Ciao Fly of Italy and Jetway of France.

A 2000 Salomon Smith Barney report[8] illustrated that only 3.4 per cent of intra-EU passengers used LFAs. Figures supplied by AeroStrategy indicated that by the end of 2002, LFAs accounted for almost 10 per cent of domestic European passengers. Airline Monitor figures for 2002 suggested that LFAs accounted for just under 20 per cent of US domestic airline passengers, indicating that there remained considerable potential for LFA growth in Europe. Based on route analysis, the Salomon Smith Barney (2000) report argued that on almost every route the LFAs have taken at least 5 percentage points in market share from the incumbents. This is in addition to the new market space that they have created – most of which they control.

How do LFAs ensure considerable cost advantage over traditional airlines? Doganis (2001) argues that the LFAs begin with two initial cost advantages arising from the very nature of their operation: higher seating density and higher daily aircraft utilisation. By removing business class and reconfiguring their aircraft, LFAs can significantly increase the number of seats on their aircraft. The seat pitch of an LFA is usually 28 inches, compared to a conventional economy class pitch of 32 inches. This allows LFAs to fit more seats onto their aircraft, thus increasing the maximum capacity of each flight. For instance, easyJet has 148 seats on its Boeing 737-300 aircraft, compared with Bmi British Midland's 124 seats. Assuming similar operating costs and the same aircraft, easyJet's 24 extra seats per aircraft would result in its costs being 16 per cent lower than Bmi British Midland's (Doganis, 2001).

A defining organisational difference exists between LFAs and traditional carriers. LFAs operate on a point-to-point basis whereas traditional carriers tend to utilise a hub-and-spoke system. With the point-to-point system, airlines calculate that using each aircraft for a maximum number of flights per day will generate more revenue and lower unit costs per flight. Freiberg and Freiberg (2001) note that the hub-and-spoke system is an efficient way to fill an airplane. However, it does not usually offer efficient aircraft utilisation. LFAs spurn the hub-and-spoke system on the basis that it increases costs. Baggage handlers, gate staff and other ground crew can be idle if an airplane spends more time on the ground waiting for passengers and their baggage to connect from feeder cities. In addition, the aircraft will accrue higher airport charges for spending longer at the gate (particularly at busier airports). The average LFA takes about 25 minutes to disembark passengers, unload and load baggage, refuel and clean the aircraft, and embark new passengers. This can be as much as half the time it takes a traditional airline to carry out the same activities. In addition to operating a point-to-point model, this rapid turnaround time derived from the use of uncongested secondary airports (whenever possible), the no-frills service (requiring little catering and cleaning support), the non-assigned seating approach and the absence of freight (Doganis, 2001). As a result, aircraft utilisation averages out at eleven hours per day for the LFA, compared with around seven hours per day for a more conventional carrier (CAA, 1998). In addition to the operational efficiencies gained, LFAs believe that the point-to-point model is more convenient for customers, most of whom would prefer to avoid the time and inconvenience of making flight connections.

Overall, Doganis (2001) calculates that LFAs should be able to operate at seat costs that are only 40–50 per cent those of a mainline rival. If this is combined with a significant load factor, differential and lower distribution costs, an LFA's cost per passenger can drop to about one-third those of a conventional airline's.

Research indicates that the absolute cost disadvantage of conventional airlines lies in their provision of a business class (CAA, 1998). However, this element should be offset by higher yields. The real cost advantages of the LFAs are therefore smaller than the bare figures indicate. These cost advantages are sustainable and stem from the nature of the low-fare product. Premised on a more basic no-frills service, the LFA product cannot or will not be emulated by traditional full service carriers. Such an approach would damage a traditional airline's quality reputation, alienate passengers (particularly many business customers) and undermine its market position.

LFA Performance in Time of Crisis

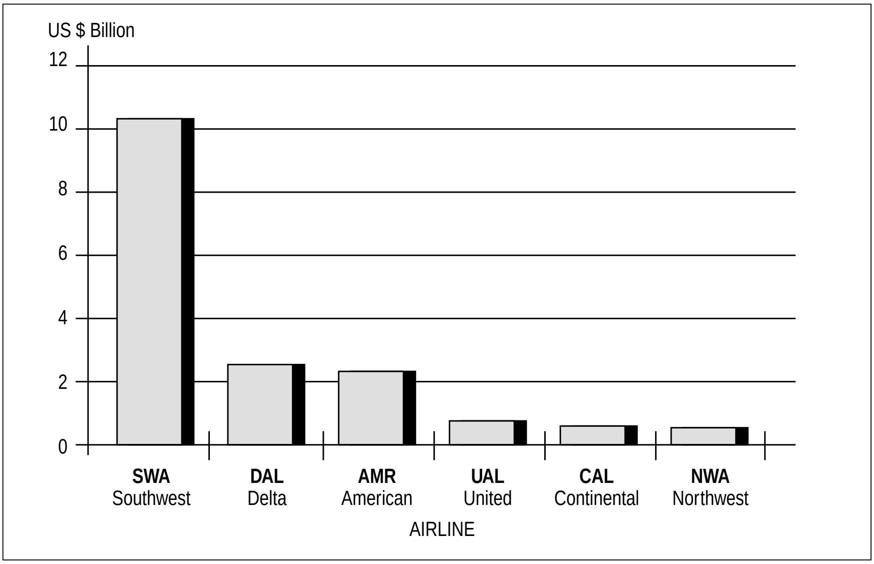
Zorn (2001) argues that LFAs are more resilient than traditional airlines to market downturns. Southwest Airlines has proven this fact on numerous occasions in the US. Zorn cites several reasons for the resilience of LFAs in times of recession: first, a lower overall and more variable cost structure; second, lower breakeven load factor; and third, business and leisure traveller migration from expensive airlines to LFAs. All of the evidence in the US and Europe indicates that the leading LFAs fared significantly better than their full-fare rivals in the wake of the September 2001 terrorist attacks on the US. Nonetheless, a significant variance did emerge between US and European low price carriers. In the US, LFAs were not as fortunate as their European counterparts. Location (all operations being within the US) combined with the post-attack industry shutdown imposed by the Federal Aviation Administration, meant that all American airlines were adversely affected by the airline industry crisis that developed after September 11th 2001. In early October 2001, the low far leader and fourth largest airline in the US, Southwest Airlines, announced that the company flew 2.6 billion revenue passenger miles (RPMs) in September 2001, a 21.6 per cent decrease from the 3.3 billion RPMs flown in September 2000. Available seat miles (ASMs) decreased 3.6 per cent to 4.8 billion from the September 2000 level of 5 billion. Also, the load factor for the month was 53.4 per cent, compared to 65.7 per cent for the same period in 2000. Expressed in an even more obvious manner, Southwest's load factor averaged 66.8 per cent for the period from 1–10 September and 45.4 per cent for the period from 14–30 September. Bookings for the week ended 23 September were approximately 60 per cent below normal targets. However, bookings for the week ended 30 September improved and were only 10–15 per cent below normal targets. The airline acknowledged explicitly that its September 2001 traffic results were severely affected by the September 11th terrorist attacks on the US.[9] Unlike the other major US airlines, Southwest avoided schedule reduction and staff redundancies in the wake of the terrorist attacks. However, it was forced to defer the delivery of eleven new Boeing 737-700, citing as the reason the slowdown in air traffic after the September attacks.[10]

The second most successful US LFA, JetBlue Airways, delayed the start of two new services in light of declining demand after the terrorist attacks (Sobie, 2001). However, unlike its full-fare competitors, JetBlue said that it has no plans to furlough any employees or delay deliveries of new Airbus A320 aircraft.

Several other US low-fares carriers, including AirTran Airways and Frontier Airlines, avoided laying-off some groups (such as pilots) through wage concessions. In addition to AirTran and Frontier, other US LFAs that slashed jobs and schedules in the wake of the September 2001 attacks included American Trans Air, National Airlines, Spirit Airlines and Vanguard Airlines.

Despite these low-fare sector travails, leading budget airlines emerged from the crisis in a stronger market position relative to their full-fare rivals. A prominent and inclusive measure of this disparity is the comparative market capitalisations[11] of leading LFAs and major full service carriers. Morrell (1997) points out that for airlines with stock market quotations, the market capitalisation shows investors' valuation of the airline as a whole on a daily basis, including an assessment of intangible assets (such as slot allocation), management strength and business prospects. The durability of LFA market capitalisations post-US attacks was significant. Broadly speaking, there were three main reasons for this divergence. First, leading LFAs on both sides of the Atlantic had strong balance sheets and very little – if any – debt. Second, consumers are more price sensitive in times of recession and more likely to fly with a LFA than a full service carrier. Third, airlines that outsource much of their activities (as LFAs do) stand to gain during industry downturns, as they can usually avail of better prices from their subcontractors. Moreover, they are not forced to lay off a large number of employees within their own organisations. Two weeks after the World Trade Centre explosions, despite its problems, Southwest Airlines had the strongest market capitalisation of all the US airlines (Figure 11.1). The Texas-based low price leader was in fact worth more than the five largest US carriers combined ($10.8 billion versus $8.56 billion).

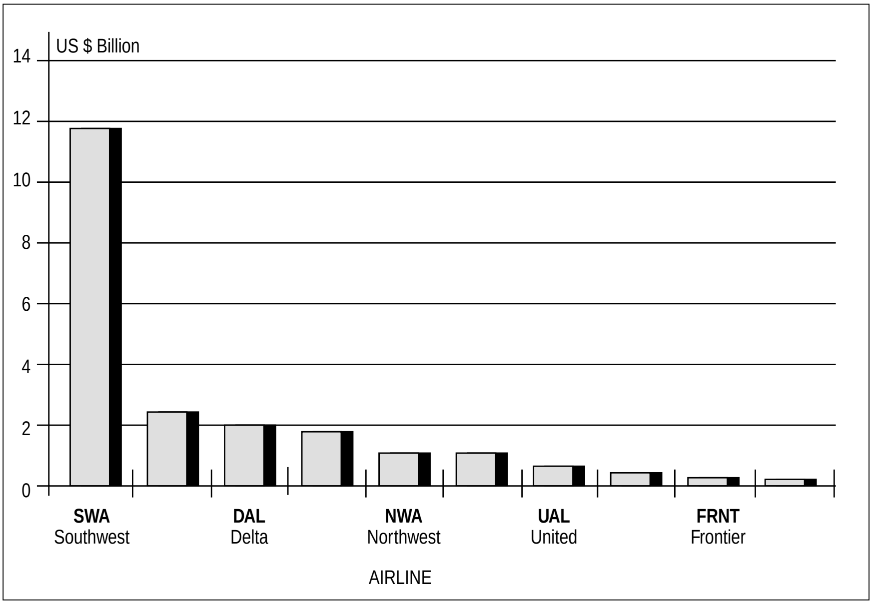
Figure 11.1 Market Capitalisations of the Major US Airlines Post-September 11, 2001



Source: *data derived from New York Stock Exchange statistics, 26 September 2001.*

These figures can obviously change rapidly and the data point offered here is random. However, it does provide an indication of how the market can value a leading LFA relative to major carriers during a time of industry crisis and economic uncertainty. Furthermore, with virtually no debt, the highest net worth in the industry[12] and operating margins of 16–17 per cent (compared with an industry average of 3–5 per cent), Southwest Airlines was in a considerably stronger market position than all other large US airlines. Shares in Southwest outperformed all of its rivals after the calamities of September 11th 2001, beating the American Stock Exchange's Airline Index by about 50 per cent. In the weeks after the attacks, Southwest stock was up 76 cents – 5.4 per cent – to $14.74 on the New York Stock Exchange.[13] By comparison, other majors fared badly on the stock exchange after September 11th. Within two weeks of the bombings, Continental Airlines shares fell 67 per cent, making it among the cheapest stocks in the sector.[14] Before the attacks, Continental was the only major hub-based airline to post a profit year-to-date. Similarly, American Airlines stock value fell by 37 per cent during the same period. Moreover, as Figure 11.2 illustrates, nine months after the US attacks, Southwest remained the most highly valued US airline. In fact, its value relative to the other large airlines had increased during the intervening period.

Figure 11.2 Largest US Airline Market Capitalisations as of 21 June 2002[a]



a SWA (Southwest), AMR (American), DAL (Delta), JBLU (JetBlue), NWAC (Northwest), CAL (Continental), UAL (United), AAI (AirTran), FRNT (Frontier), U (US Airways).

Notes

- Market capitalisation figures were sourced from the New York Stock Exchange, via Bloomberg.com, 21 June 2002.
- Total values are rounded up to the nearest ten million dollars.

In September 2001, airline analysts and the air transport industry as a whole were in agreement that the US hijackings would reduce domestic and international passenger demand in Europe (Wagland, 2001). In a warning to investors, Schroder Salomon Smith Barney stated that, 'the terrorist attacks in New York and Washington on September 11th 2001 are likely to have a catastrophic effect on European airline profitability'. Schroders estimated that air travel would fall by as much as 20 per cent initially, using the Gulf War of 1990/91 as a reference point. In the first quarter after the war, traffic dropped 23 per cent, followed by a drop in traffic of 6 per cent year-on-year for the subsequent three quarters.

This was certainly the case for traditional, full-fare carriers. However, a different story emerged in the low-fare sector. This was acknowledged by market analysts such as Schroders, who saw Europe's low-fare carriers as the only ones to remain in profit:

> We expected all major European airlines to report net losses for the current fiscal year and most likely extending into next year as well. Only short-haul, low-fares airlines are likely to remain profitable through the current situation.[15]

The overall situation for Europe's LFAs was considerably more upbeat than in the US. All three leading LFAs – Ryanair, easyJet and Go – adopted proactive strategies, launching ticket price promotions to maintain sales, eschewing all forms of state aid and remaining on target to increase their passenger numbers and profit margins.[16] A statement in late September 2001 from Barbara Cassani, Go's CEO, stated that Go was well positioned to weather the storm and had no plans to make job cuts.[17] She went on to argue that LFAs would be much less affected than traditional airlines and that with no exposure to the North Atlantic and much lower fixed costs, LFAs could manage their businesses more flexibly to remain profitable. Although Go's sales did drop by 20 per cent in the immediate aftermath of the US attacks, they recovered within two weeks. As with other LFAs on both sides of the Atlantic, Go embarked on a massive low price 'seat sale' in late September to encourage people back on to airplanes. In early October 2001, easyJet announced that it flew 680,383 passengers in September 2001, an increase from 534,913 in September 2000. The month's load factor also increased slightly, rising from 83.03 per cent in September 2000 to 83.16 per cent one year later.

Ryanair gained from the crisis by adding capacity rather than retrenching. In part as a result of its ticket sale, the airline realised a growth of 30 per cent in passenger volume during the third quarter of 2001 and load factor up by 2 per cent to 79 per cent. However, also because of its post-September 11th promotional fares, yields declined by 10 per cent during the period.[18] In the wake of the attacks on the US, Ryanair emerged with the second highest market valuation of all Europe's airlines, preceded only by the German aviation giant, Lufthansa. For instance, just over two weeks after the attacks, Ryanair had a NASDAQ market capitalisation of $2.68 billion. By comparison, Europe's largest airline, British Airways, was listed with a market capitalisation of only $2.65 billion.[19] Other large, full service European carriers fared even worse. For example, the Dutch flag carrier, KLM, had a market capitalisation of just over $400 million in late September 2001.[20] Ryanair management declared that the company had no real decline in business as a consequence of the terrorist attacks on the US.[21] Out of a total schedule of 1,800 flights during the week after the September 11th attacks, the company was obliged to cancel 16 and only half of those cancellations were due to the cumulative impact of additional airport security measures at airports in the early part of the week. Overall, during the week after the atrocities, bookings were down 10 per cent on normal. These subsequently returned to normal levels, and the carrier quickly recovered the week of slippage with a number of seat promotions. Advance bookings and loads remained strong, and therefore the immediate consequences of the US events on Ryanair were not significant.[22] The carrier expressed confidence that it could weather the market storm following the US attacks much better than the national flag carriers due to a lower cost base and greater operational efficiencies, together with a lack of aircraft debt and substantial cash resources (all of Ryanair's airplanes are owned by the company and the airline had cash resources of IE£700 million in late 2001). As with Southwest, Ryanair's cash resources ensured that it did not have to lay-off any of its workers and allowed the company to embark on its largest ever seat sale in direct response to the post September 11th drop in demand.

Europe's LFAs took maximum advantage of the problems afflicting their full-fare rivals in the wake of the September 2001 US attacks. For example, following the 2 October 2001 announcement that the entire Swissair fleet was grounded, easyJet offered to fly stranded passengers on services between London Luton and London Gatwick to Geneva, London Luton to Zurich, and Geneva to Barcelona and Nice for just £20 one way.[23] These special fares were made available upon production of a valid Swissair ticket at the airport sales desks and were valid until 5 October. Ryanair also refused to be pessimistic, moving ahead with plans to expand its fleet through the acquisition of up to 50 more aircraft. The belief within the company was that not only could they survive an economic downturn but they could in fact benefit from it. As mentioned earlier, this is because recession means that people become more price conscious for both business and leisure travel - albeit that this growth may be generated at lower fares and yields. Also, taking advantage of an aircraft surplus and downturn in aircraft prices, Ryanair can increase its fleet at a relatively low cost during times of crisis for its traditional competitors.

Challenges Ahead: The Sustainability of Divergent Low-fare Business Models

Since the inception of the low-fare business model, differences have often emerged in its application. The principle divergence arises over the cost-service trade-off (Lawton 2002). Southwest and Ryanair have long adhered to the principle that cost reduction must be at the heart of everything they do. Being the low-fare leader is essential to their sustainable advantage. Rival LFAs – JetBlue in the US and easyJet in Europe – advance a different proposition (see Appendix 1 for a brief comparative profile of the leading European and US LFAs). They are willing to forego certain cost reduction opportunities so as to augment customer service. For example, both operate to and from more expensive airports. As a result they rarely match Southwest or Ryanair for the lowest fares. These contrasting approaches have been particularly vivid in Europe, where easyJet's acquisition of the third largest LFA, Go, put it on a par with Ryanair in scale and scope. Which business mode is strategically best positioned to succeed in the turbulent airline industry of the future?

Martin (2002) notes that the easyJet/Go merger is a gamble that will pit two models of low-fare airline against each other. He further argues that only one of the two concepts for Europe's budget airlines can win. Martin's assessment corresponds with Porter's (1996) thesis that market straddling can result in competitive disadvantage. Applied to the LFA sector, the logic is that carriers should compete on cost/price if they are to succeed. Differentiating on service may be precarious, as it takes LFAs into direct competition will full service airlines. This may result in a company like easyJet competing on two fronts: with Ryanair on cost and price and with British Airways on customer service. To successfully straddle both competitive arenas is not impossible, particularly if a firm is not seeking to be the lowest price competitor or the highest quality service provider. However, the history of the airline industry is strewn with examples of firms that have tired and failed to strike the balance. In Europe, the collapse of Debonair in September 1999 symbolised the most potent such example in recent history. Debonair commenced operations with the philosophy 'lower fares with minimal restrictions and no compromise on comfort' (Sull, 1999). As Debonair CEO Franco Mancassola stated, 'Debonair was designed to offer high-quality service at extremely competitive fares'. Sull (1999) points out that inexpensive fares, more legroom and quiet jets were three of Debonair's key selling points to business travellers, who made up 58 per cent of the airline's passengers. The problem with this approach is that it was not sustainable from a cost perspective. As the Ryanair model illustrates, low fares and operating profits can only be sustained in tandem if operational costs are minimised and flight capacity is maximised. Contrary to Sull's (1999) argument, operational efficiency and a reconciliation of the price/service equation cannot be achieved simply through concentrating on point-to-point markets, operating a uniform fleet, concentrating service costs in the UK and subcontracting functions such as maintenance and check-in. On the first point, Debonair's route network was point-to-point but the airline also encouraged passengers to fly from point-to-point and then on to another point. This could result in delays and customer dissatisfaction as it builds an interlining expectation in the minds of passengers. Furthermore, Debonair's 'bus stop principle' simply did not make economic sense. The strategy of operating a single service from London to Munich, Munich to Perugia and Perugia to Rome does not work because the related costs are too high. Much of the fuel cost associated with a flight is expended on the takeoff and landing of the aircraft, thus rendering the Debonair approach extremely fuel intensive. Fuel costs are a large part of an airline's total cost base and passenger numbers on each leg of the flight did not offset the extra costs caused by higher fuel consumption.

On the second point, uniformity of aircraft is important in order to minimise maintenance and crew training costs. However, it must be a uniform *and* cost efficient/revenue maximising fleet. The Bae 146 is a much more costly airplane to operate than the Boeing 737. It also has a significantly lower seat capacity (96 seats on a Debonair Bae 146-200 aircraft, compared with 148 on an easyJet Boeing 737-300). Sull's other points are valid but inadequate. LFA success is premised on a much more extensive and rigorous adherence to cost reduction than was evident at Debonair. Finally, Debonair's brand positioning was confused, particularly towards the end of the company's existence. It could not decide whether it was an LFA or a business airline and the resultant confusion and service contradictions severely damaged its cost base. Moreover, Debonair never succeeded in building adequate market awareness or customer recognition.

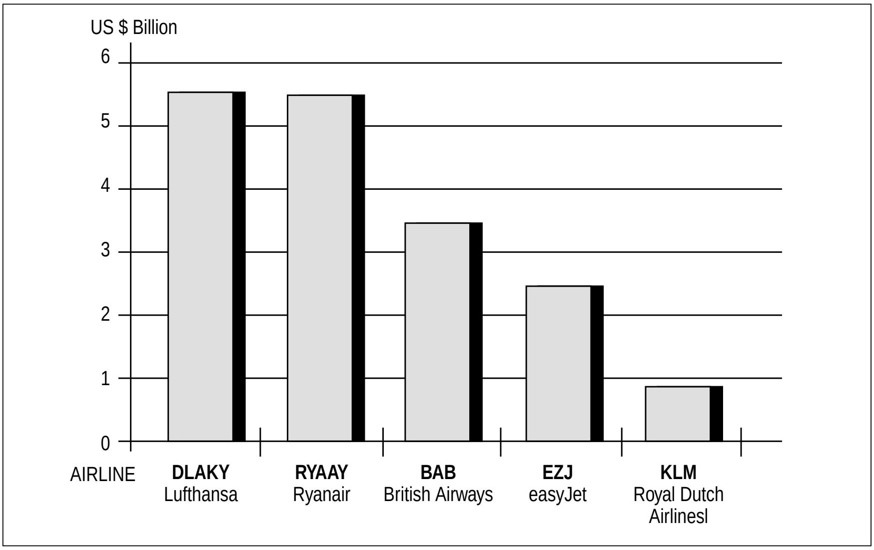
The easyJet business model differs from the Debonair approach in a variety of ways. Most importantly, easyJet has a uniform Boeing 737 fleet, orthodox point-to-point route network, extensive service subcontracting and strong brand recognition and customer loyalty. However, questions do surround easyJet's emergent brand positioning and the associated cost structures. In positioning itself as the airline for price conscious business people, easyJet has developed significant operating bases at airports favoured by business travellers. These include expensive and congested airports such as London Gatwick and Paris Orly. The problem with this strategy is that it risks unravelling the basis of a low-cost model, with the destruction of what Porter (1996) terms the 'strategic fit'. By operating to and from primary airports, an airline adds both direct and indirect costs. The direct costs include higher landing charges. The indirect costs accrue from airport congestion as this increases average aircraft turnaround time, thus reducing the average daily utilisation per aircraft. By reducing overall operational efficiency and neglecting to squeeze out cost wherever possible, an airline faces two choices: increase fares or accept reduced profits. easyJet respond by arguing that their revenue per passenger is significantly higher than low-fare competitors (Ryanair) and that this is a direct consequence of focusing on business travellers who want low fares but not necessarily the lowest fares. As such, they can afford to accrue higher operating costs than rival LFAs, if the extra costs incurred contribute directly to gaining and maintaining higher yield passengers. easyJet's performance figures to date indicate that their approach is effective: interim results for 2002[24] showed a 36 per cent increase in revenue and a pre-tax profit for the first half of the year – the first such profit in its history, given the seasonal nature of the company's business. It should be further noted that these figures represent the immediate post-September 11th period.

Market performance indicators to date support the easyJet strategy. But a number of variables raise a note of caution for the future. First, easyJet's acquisition of Go makes easyJet the largest LFA in Europe, measured by total revenue and passenger numbers. However, it remains too early to assess the market and organisational implications of this merger. Second, in establishing a hub at Paris Orly, easyJet is ratcheting up its cost base in a market where new competitors are emerging (French low-fare start-up Jetway) and established competitors are responding (e.g. the relaunch of Air Lib).

Davy Stockbrokers (2002) argue that lower costs are the only source of competitive advantage in the low-fare sector since air travel is effectively a commodity product. If this is the case, easyJet appears to be at a disadvantage relative to Ryanair. The most recent available data[25] show that easyJet's cost structures are significantly higher than those of Ryanair. Although easyJet enjoys a unit revenue advantage, with average fares 34 per cent above Ryanair's, some analysts argue that this is negated by its higher cost base. Consequently, the per unit profit at Ryanair is 57 per cent higher. Analysis of quarterly costs over a number of years indicates that Ryanair enjoys the lowest operating costs of all scheduled European carriers (Davy Stockbrokers 2002: 4).

Furthermore, in terms of current market worth, Ryanair's market capitalisation far outstrips its low-fare rivals, notably easyJet (Figure 11.3). Ryanair remains the second most highly valued airline in Europe, not far behind the global carrier Lufthansa and well ahead of BA.

Figure 11.3 European LFA Market Capitalisations in Context (21 June 2002)



Notes

- DLAKY (Lufthansa), RYAAY (Ryanair), BAB (British Airways), EZJ (easyJet), KLM (KLM Royal Dutch Airlines).
- Market capitalisation figures were sourced from the New York Stock Exchange, via Bloomberg.com, 21 June 2002.
- easyJet is not quoted on the NYSE, therefore the figure cited here is taken from the London Stock Exchange and converted to US dollars at a rate of £1 to $1.527 (exchange rate as of 26 June 2002).
- Total values are rounded up to the nearest 10 million dollars.

There is room for both business models to survive and prosper in Europe. However, this scenario is in no small part premised on the plans and actions of the national flag carriers. As Martin (2002) astutely observes, the easyJet model will thrive more at the expense of the full service airlines. If the large carriers fail to respond to easyJet's cost/price challenge and regulators ensure that a level playing field is maintained, easyJet could realise huge revenue growth. In contrast, Ryanair's business model is based more on creating 'new market space' (Kim and Maubourge, 1997). The larger part of its revenue is accrued through enticing people to fly more often or to fly rather than to travel via another mode of transport.

CONCLUSIONS

Airline Business magazine's profitability analysis of the world's top 150 airline groups added further evidence to our argument that efficient LFAs are the undisputed success story of the world airline business and the role models for future profitability and growth in the industry. Ryanair emerged as the airline with the highest operating margin in the world in 2000 (23.4 per cent), followed by Southwest Airlines with 18.1 per cent. Of the top 25, six were LFAs and less than half were large, full-fare carriers. The remainder were efficient niche players like EVA Air of Taiwan and successful regional airlines such as Mesa Air Group in the US. In the same study, easyJet had the fastest traffic growth of the top 150 ranked airlines in the world.

A key feature of successful LFA business models is a willingness to make hard choices and strategic trade-offs (Porter, 1996) in order to maintain or develop a successful market position. This requires a focus on profitability and cash generation, rather than on gaining immediate market share. Put another way, it involves avoiding lucrative markets if entry entails a significant rise in operating costs. Companies such as Southwest and Ryanair have been willing to forego dense, often high-yield routes that might distort their cost-reduction models.

Low price can increase a firm's customer base but, unless the firm maintains *the* lowest prices in the industry, it will not guarantee customer loyalty. Even with the lowest prices, a firm can lose market share if it fails to respond to changing customer needs and demands. To compete on price *and* turn a profit requires an airline to be extremely strict on cost. The consistent and enduring success of firms like Ryanair and Southwest indicate that this is feasible. Low operating costs and cheap ticket prices are essential to LFA success. However, the success of any airline also depends on providing a safe and reliable product. Safety standards for European airlines are applied universally and carefully regulated. Reliability is not so readily assured. The essential feature of a reliable airline product are on-time departures and arrivals, low cancellation rates, minimal lost or damaged baggage and helpful and informed customer service staff who are readily available when problems occur. Achieving operational cost reductions through diminished service standards can weaken an airline's brand image and loyalty and undermine its long-term market competitiveness. Cost reduction is therefore a necessary *modus operandi* for LFAs but should not be achieved at the expense of an unreliable service product.

During the airline industry crisis of late 2001, the high market capitalisations of low-fare leaders Southwest and Ryanair – relative to their larger, full-fare peers – was further proof that LFAs had come of age. The market capitalisations of low-fare leaders held steady in the wake of the US terrorist attacks, while the major carriers on both sides of the Atlantic were decimated. Moreover, by mid-2002, the market capitalisation of Southwest, Ryanair, easyJet and JetBlue continued to outperform most full-fare rivals by substantial margins. This situation may not endure but it is illustrative of the market power and resilience of the LFA business model. This paper has illustrated how such power and resilience derive from a proactive approach to strategic management, premised on an aggressive pursuit of the customer coupled with a clear and relentless emphasis on operational efficiency. Firms from within and beyond the airline business can derive valuable management insights from these principles and practices of LFA market leaders.

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1. The Economist 'uncharted airspace', 22 September 2001, p. 73.
2. 'Strategy adapters' are described as firms who take the existing and future industry structure and conduct as given.
3. These include Cranfield University's Air Transport Group's 2000 study of productivity, costs and yields in 24 of the world's airlines, titled 'Measures of strategic success: the evidence over ten years'.
4. A version of this table was included in a presentation titled 'A new age for Europe: the impact of low-cost airlines on European airport operations', given by Mr Tom Haughey, Director of Strategy and Market Development at Aer Rianta, to a conference in Amsterdam on 27 February 2001.
5. Quoted in "Super models", Airfinance Journal, February 2000.
6. Interestingly, in an interview with this author, a former senior Virgin Express manager argued that Virgin Express is not and never was intended as an LFA. Rather, it was conceived more along the lines of British Midland, serving primarily business travellers at a good price and with good service. This position appears somewhat at odds with the original Virgin Express marketing, which emphasised the airline's no-frills, low-cost image.
7. Moreover, it appeared likely in 2002 that parent company KLM would integrate the operations of Buzz, Basiq Air and Transavia, allowing only the Buzz brand to survive.
8. Airfinance Journal, op cit.
9. This was confirmed in a Southwest press release of 3 October 2001, www.iflyswa.com
10. Taken from Yahoo! Finance, 'Southwest Airlines says defers 11 Boeing deliveries', 26 September 2001.
12. Morrell defines market capitalisation as the 'market share price per share multiplied by the number of shares outstanding' (1997: 61).
13. In mid-September 2001, Southwest had $3.8 billion worth of hard assets to borrow against. This compared to $3 billion for American, $2.8 billion for Delta, $2.3 billion for United and $200 million for Continental. Northwest and US Airways had negative net worths of -$606 million and -$1.8 billion respectively.
14. This data are derived from a Reuters report dated 28 September 2001.
15. Stacey L. Bradford writing in Yahoo! Finance, 25 September 2001.
16. Schroders report cited in Maria Wagland, 2001.
17. Joanna Walters 'More job losses a certainty as passengers desert skies', the Observer, 7 October 2001, p. 8.
18. Go press release, 24 September 2001, www.gofly.com
19. Figures derived from a Flight International article titled 'Rebel Skies: Case Study of

Ryanair', 9 April 2002.

20. British Airways is approximately ten times larger than Ryanair, measured in fleet size and cities served.
21. Data derived from New York Stock Exchange statistics listed on the Yahoo! Finance website as of 26 September 2001.
22. This was stated by Sean Coyle, Commercial Director at Ryanair, in a communication to this author on 20 September 2001.
23. Information derived from a Ryanair press statement made by CEO Michael O'Leary, 18 September 2001. This can be found at www.ryanair.com
24. This was stated in a press release on easyJet's website, 2 October 2001.
25. easyJet plc, Interim Report, 31 March 2002.
26. This data are sourced from Davy Stockbrokers equity note on Ryanair, February 2002. It should be noted that Davy's are stockbrokers to Ryanair. **[Where is note indicator?]**

Appendix 1 Company Profiles of the Leading European and US Low-Fare Airlines

Ryanair

Turnover (million):	560.0 USD (2001)
Net profit (million):	134.8 USD (2001)
Passengers (million):	11.1 (2001)
Employees:	1,531 (2001)
Fleet:	50 aircraft in service
Destinations:	58

EasyJet

Turnover (million):	815.0 USD (2002)
Net profit (million):	72.4 USD (2002)
Passengers (million):	7.1 (2001)
Employees:	1,632 (2001)
Fleet:	60 aircraft in service
Destinations:	21

Southwest Airlines

Turnover (million):	5,522.0 USD (2002)
Net profit (million):	241.0 USD (2002)
Passengers (million):	63.0 (2002)
Employees:	31,580 (2001)
Fleet:	374 aircraft in service
Destinations:	58

JetBlue Airways

Turnover (million):	320.0 USD (2001)
Net profit (million):	38.5 USD (2001)
Passengers (million):	5.8 (2002)
Employees:	2,116 (2001)
Fleet:	37 aircraft in service
Destinations:	20

Source: *Air Transport Intelligence, January 2003.*

Author

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Changing Sub-Unit Boundaries During a Merger

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Introduction

The desire to leverage intellect, knowledge and technology across rapidly changing industries and markets has formed the logic behind many mergers and acquisitions (M&A) within the past number of years. Integrating the firms post amalgamation, however, is often more difficult than anticipated and has been identified as a factor in many firm's failure to realise expected gains (Ravenscraft and Scherer, 1989; Coopers and Lybrand, 1992; Smith and Hershman, 1997; Marks and Mirvis, 1998; Angwin, 2000). Creating synergies involves financial control and the reduction or elimination of one firm as it becomes part of the acquirer. In contrast, when the aim is to harness knowledge the task becomes one of creating effective transfer mechanisms between the combining firms to allow that knowledge to cross between the combining firms in a bi-directional manner. The critical challenge is to ensure that the staff and skills of both firms remain intact as the planning for and creation of the new organisation takes place. Boundaries play a pivotal role in this process. The many 'dense connections' (Checkland, 1993) between components within organisational systems create the means by which competencies are created within that system. It is the boundaries of the system, the definition of what that system does, its self-identity, who is a member and its relationships to external parties that protect and regulate the system (Scott, 1998). By, intentionally or otherwise, disturbing the boundary of the firm the very capabilities the acquisition is aiming to utilise may be damaged. The competencies may not be fully understood and alterations to the people, processes or structure may inadvertently damage connections that create competencies. Unintended effects may occur in a number of ways. Prematurely disturbing the boundaries may result in the organisation feeling threatened and as a result their boundaries may erect to close off the firms from one another. Social identity processes (Tajfel, 1974; Tajfel and Turner, 1986) that create 'them' and 'us' behaviour patterns or that create lower levels of post-merger identity with the new firm may emerge (van Knippenberg and van Leewen 2001; Terry, 2001) resulting in low levels of integration. Disturbing boundaries too early may also result in staff feeling that undue interference is taking place and the levels of staff turnover, stress and distrust may rise as a consequence (Marks and Mirvis, 1998). The key human assets of the firm will accordingly be lost or disengaged. In contrast, disturbing the boundaries too late may result in the knowledge and skills of each firm polarising within the pre-merged structures and not transferring between them. The potential to create transfer mechanisms may be lost or become sub-optimal as a result and the commercial opportunities arising from the merger may be missed.

This discussion points to the importance of understanding what happens to organisational boundaries as firms embark upon integrating an acquisition. Surprisingly, however, little has been written to date on this specific issue. The paper takes on the challenge by examining the boundaries of two sets of similar organisational sub-units (retail branches) that amalgamated within a merger between two international organisations. Both sets of branches faced the same operating environment, sold the same product ranges and are subject to the same central head office systems and controls. The merger was driven by the need to adopt the best products and procedures from each firm and create a new 'best of both' organisation. Yet the extent to which a new unified boundary was achieved within the combined branches varied, with one sub-unit creating a more unified boundary than the other. This paper attempts to explain why the boundaries of the new units differed between the two combined units by reference to the processes undertaken in each set of combining branches. This paper will start by building a construct of what constitutes a boundary and how that boundary might alter and change. It will then discuss the two studies undertaken and discuss the variations in the way the boundaries changed in each. The aim of this discussion is to develop a set of propositions that might serve as the basis for future research and also identify critical areas of attention that practicing managers might address.

Understanding Boundaries

The concept of boundary is common to many disciplines as diverse as geopolitical theories (Paasi, 1999), communication (Petronio et al., 1998), transaction cost economics (Wiliamson, 1994; Barney, 1999), psychology (Tajfel and Turner 1985; Puddifut, 1997), sociology (Hawley, 1995), leadership (Gilmore, 1982) and strategy (Jemison, 1984; Brooks, 1995; Barney, 1999). In recent years the concept of boundary management or boundary maintenance has entered into the lexicon of management and organisation theory. It has developed to mean the ways in which the organisation balances the external instability in the environment with the internal need for order (Llewellyn, 1994). It recognises the important role that organisational boundaries play in filtering and interpreting environmental clues in an effort to maintain identity (Llewellyn, 1994) and sustain the balance between 'autonomy' and 'dependence' (Clegg, 1990). Issues of identity, dependence and autonomy are central to much of the emerging literature on M&A integration (Hogg and Terry, 2001), as they represent the potential for inter-group conflict to occur within the integration process. In this regard mismanaged boundaries may represent potentially significant impediments to the creation of a unified group post-integration.

Boundaries are a complex phenomenon and there are many challenges in defining them. Unpicking the variety of works that address boundaries (usually indirectly), two consistent concepts emerge that may be used to define and measure boundaries: the concept of boundaries as signifying difference and the concept of boundaries as varying in salience within any given context.

Boundaries as Difference

The most common approach to defining boundaries is to consider what is within or without the organisation and the way inside and outside are differentiated. Aldrich and Herker (1997) talk about the distinction between members and non-members, while Scott (1998) talks about the criteria used in determining whom to admit or reject. This is linked to a view of a boundary as a protective device that limits the external influence on the organisation (Thompson, 1967; Leifer and Deldecq, 1978). Organisations must manage dependencies that arise from their need to acquire resources from and dispose of outputs to the environment (Pfeffer and Salancik, 1978). A boundary exists at the point between the organisation and its environment and serves to reduce or eliminate the power others may potentially hold over the organisation by regulating the flow of information, people and resources. For instance, Thompson (1967) reviews the mechanisms by which internal operations may be closed off from external variations, and Pfeffer and Salancik (1978) consider how boundary spanning and linkages may reduce the influence of outside interest groups on the organisation. The common characteristic of these views is the presence of a clear definition of the differences that distinguish between inside and outside the organisation, through the identification of physical entities, people, technology or products, that reside in a defined space relative to the organisation.

In addition boundaries can be considered as the created or enacted (Ashford et al., 2000) difference between the organisation and its environment. As well as physical elements a boundary will also have cognitive elements. Boundaries are ways in which individuals (or organisations) can simplify and order their environment (Zerubavel, 1991; Michaelsel and Johnson, 1997) by building 'mental fences' (Zerubavel, 1991) around domains that make sense to the individual. Simplification occurs when the boundary helps to define what roles and responsibilities exist within that domain and what behaviour is expected when situated within that domain and how that differs from those outside of that domain. Similarly, the existence of demarcated domains facilitates a clearer understanding of the relationship between those domains and reinforces the expected behavioural characteristics of individuals or organisations situated within those domains. Ashforth et al. (2000) consider how individuals construct role boundaries within organisations to understand the way in which they cross from work to other domains of activity. They argue that the existence of domains enables groups to evolve and differentiate within those domains along physical, cognitive and relational dimensions. This discussion suggests that boundaries are socially constructed, residing in the minds of those who create the boundaries. They are, as Bacharach et al. (2000) suggest, 'limits of self' and, as Nippert-Eng (1996a; 1996b) have shown, 'idiosyncratically constructed'.

The Salience of Boundaries

Defining boundaries as differences between groups can be problematic in so far as not all differences may create a boundary within a given context. A distinction needs to be created between differences as the potential to form boundaries and differences as boundaries. Some group differences, for example gender or nationality, may be permanent and unchangeable but will not always differentiate groups. It may be relevant in some cases, for example a social discourse, but not in others, such as a work context. For any given social context, therefore, there may be a number of possible dimensions on which groups can be divided but that is not to suggest that the division is one that the groups themselves enact as a difference in that social context. In this respect, the existence of boundaries per se will not have any influence on events; it is the group's definition of that boundary as salient in the given context that counts. In M&A terms integration problems can be expected not because of the existence of differences, whether actual or perceived, but when the differences become defined as important and salient. Critical questions for this paper are how do boundaries become salient within the M&A and how do changes in boundaries subsequently occur. Little in the literature fully explains how boundary changes occur in social contexts. Hawley's (1995) explanation of the Amish entrepreneur who continually redefined her boundaries with her community provides some explanation of boundary changes. In this instance, the entrepreneur continually 'pushed the limits' of acceptable behaviour until she was refused permission to continue. In this way, the boundary was identified through it being physically challenged. A key element of the challenge was the manner in which the boundary extension was justified and positioned by the entrepreneur and its alignment with the interests of the community. Similarly, Gilmore (1982) has considered the leader as a creator of environments through the negotiation of boundaries and the regulation of transactions across those boundaries while Bacharach et al. (2000) have discussed boundary setting as a managerial device used to manage relationships. Central to these works is the importance of inter-subjective assessments in understanding both the existing boundaries and the logic of why those boundaries are changing.

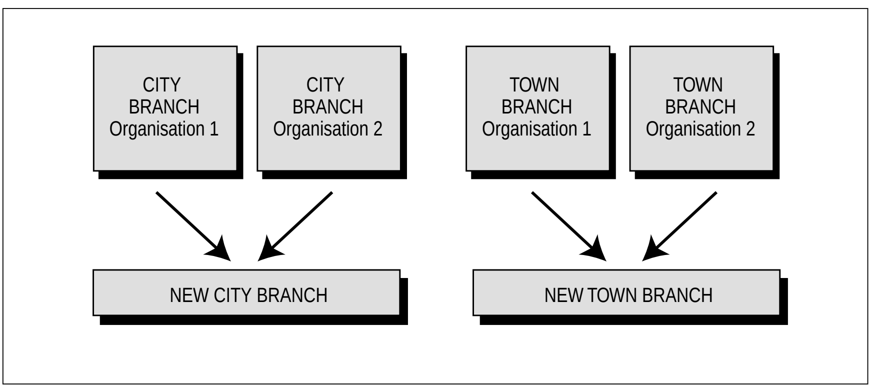
Any measurement of boundaries must therefore focus on two dimensions. First, boundaries are concerned with differences, whether perceived or actual. Second, boundaries can only have an influence when they are salient within a given context. Any useful definition of boundary must therefore include these two aspects. Hence the definition applied here is that a boundary is any difference between two groups that is used to differentiate between those groups

Methodology and Method

The exploratory nature of the research question suggests the case method (Yin, 1993; 1994) would be appropriate as the broad methodological approach to be used. The unit of analysis adopted was at the sub-unit, more specifically the branch network within the organisation. Two studies were undertaken containing a set of merged branches from each of the combining firms (see Figure 12.1). This represented four amalgamating branches combining into two post-amalgamation branches. The purpose of the study was to explore how the boundaries of a unit reformed within an M&A. Two sets of merging sub-units were chosen for study as the sub-units faced the same environment and processes and shared a similar history and culture. In this respect, the data allowed comparisons between the two sub-units to be made and any variations in the boundaries of the units post-amalgamation to be explored and explained in terms of the sub-unit processes rather that the integration process as a whole.

The focus on the sub-unit rather than the organisation as a whole is methodologically novel within the M&A field, with no other reported study comparing and contrasting intra-organisational differences as a main research focus. Where sub-units have been the focus of analysis it is usually in terms of functional units (i.e. Research and Development) across organisations (for example Birkinshaw et al., 2000). There are some notable advantages of using the sub-unit as the unit of analysis. First, the sub-unit is the actual level at which combining organisations merge. It is therefore more appropriate to discuss the merging of sub-units than the merging of organisations. Second, there is a strong acceptance that individual sub-units differ in their structural and operational characteristics even within a single firm (Lawrence and Lorsch, 1967) and accordingly by inference the boundaries they support may vary intra-organisationally.

Figure 12.1 The Two Studies



The data reported here were collected over a three-month period through the use of semi-structured interviews. In total, twelve interviews were conducted with each interview lasting approximately one hour. The City study consisted of five interviews (the branch manager and two staff from each of the two combining units) and was conducted six months post-amalgamation of the branches. The Town study was undertaken on a longitudinal basis with data collected one month prior (three interviews) to the amalgamation, at the amalgamation date (two interviews) and two months post amalgamation (two interviews). All interviews were conducted in the premises of the informant and were recorded. Significant archival data were also collected prior to the commencement of the data collection phase. This consisted of internal management reports developed by the integration planning office and internal company communication materials such as newsletters and memos. Data were also collected through discussions with the integration manager and with the senior regional managers of the sub-units via telephone and email.

B***Measures

A research protocol instrument was developed to ensure consistency in the manner in which the interviews were conducted. Given the exploratory nature of the research the protocol consisted of general themes to be explored. The interviews were conducted with a general theme being introduced and then followed up with more specific questioning and discussion arising from that general theme.

Two key constructs needed to be measured: first, a means of identifying boundaries for each of the sub-units; second, a means of assessing unity of boundaries post amalgamation. Boundaries were explored in interviews by asking the informants about their unit and the differences between their unit and others. A boundary was identified when the data pointed to a clear factor that facilitated categorising the two merging units into separate groups. Physical, behavioural or cognitive differences emerged from the data. Boundaries typically manifested themselves in terms of product and work-flow differences, behaviour toward customers and values or attitudes held. For instance, at a general level, one of the organisations within the study was perceived as handling 'retail' products and was perceived as behaving and thinking in a manner consistent with that product set and that these were different to the longer term outlook of the other merging partner.

A second measurement required was the unity of boundaries that was achieved post-amalgamation. The unity of boundaries is the extent to which the two firms are integrated into a co-ordinated whole. In merger terms, this means the extent to which the activities of the combining firms are co-ordinated together. Shrivastava (1986) considered integration in terms of the physical, procedures and socio-cultural measures. Drawing on this a number of measures were developed to assess the level of integration, notably the extent to which the staff of one sub-unit was capable of conducting the work previously completed by the other sub-unit, the familiarity of both sets of staff with the work processes and procedures of the other, the perceived level of social interaction and lastly the extent to which the new group considered themselves as a unified team.

Data Analysis

All interviews were transcribed and input into the qualitative software package Nvivo. An iterative approach to data analysis was adopted (Strauss and Corbin, 1997). The first phase consisted of reviewing the transcripts and tapes and identifying recurring themes that emerged. These themes were coded. The codes were repeatedly reviewed and collapsed into the major themes identified. The themes identified were then discussed with an informant within the organisation (manager within another branch) to confirm that they were valid interpretations.

The Case Context[1]

The case involves the acquisition of the Retail Company (RC) by Contract and Capital Sales (CCS). The RC was a reasonably small company in terms of the industry. It specialised in the consumer retail sector of the market. It had a head office structure and 82 branches throughout the country with a staff well in excess of 1,000. The business concentrated on day-to-day products and services that would be used on a frequent and regular basis by the customer. The company resold some of the products of CCS but also resold many competing offerings. RC had been aware that they needed greater scale and scope to compete in an ever more competitive market and had been the target of several suitors prior to the acceptance of the CCS deal.

The CCS group emerged from the merger of Contract Ltd and Capital Ltd some years previously. Both firms were market leaders in their segments of the market. While Capital Co., had some retail operations it remained focused on capital (long-term) products. A huge hindrance to it developing its retail operations was the lack of access to specific parts of the distribution system which were critical factors in the delivery of effective services to the customer. Indeed CCS was using a competitor to provide these services, resulting in longer processing times, slower services to the customer and greater cost.

The strategic logic behind the acquisition of RS was reasonably simple yet very powerful. By merging the Capital operations and the RS operations into one large retail force, it would enjoy full access to the distribution systems of RS and have the necessary scale and extended product ranges of both RS and CCS to compete effectively within the industry. This new force would also be a tied agent for Contract's products, increasing the capacity to cross sell services and products. While there would be some cost efficiencies from the elimination of duplicate head office and support functions and from the rationalisation of the branch networks, the real value in the deal was the capacity to offer an extended range of products to a wider customer base. This extended range of products would emerge from combining the best products and processes from each firm.

1. All names of companies, persons and dates have been altered. The help of the case company and its staff is very gratefully acknowledged.

The Branch Network

One of the major challenges in achieving the strategic goals was designing and implementing an effective branch network. Combined, Capital and RS operated a branch network of 150 branches. The new organisation, Capital RS, was to reduce this figure by about 40 branches to 110. This reduction was to come about through the merging of branches and the redistribution of staff rather than any rationalisation of the staff or operations. Indeed guarantees of no redundancies were presented. Many of the branches were located in close proximity to one another and were easily identifiable as potentially mergeable. The product range adopted by the new firm built on the strengths of each partner with the main products of each being selected as the new firm's offering. Both organisations therefore retained what they would have seen as their key products. Decisions regarding the technical infrastructure such as IT systems also logically followed from the key strengths with aspects of both firms' systems being combined. Key technical issues had to be resolved to facilitate this technology combination and dual systems, with both the RS and Capital systems used within each branch, operated until June 2002 when a unified IT system developed by the IT department became operational. Branch amalgamations were undertaken on a phased basis. A small number of branches were combined prior to the end of 2001 with the remaining completed between February and May 2002. A key element of this phased process was the ability of the integration team to 'learn' about the issues and problems on a phased basis and adjust their preparation for each branch combining in the face of this experience.

The Organisational Cultures

On the surface, the cultures of the two combining organisations looked similar. Both organisations espoused the importance of customer service and their commitment to providing quality services. Capital was, however, very focused on achieving volume and aggressively selling their product ranges. In contrast, RS focused more on the long-term relationship with the customer and was more service focused and facilitatory in the way it sold its product range. It was more risk adverse and procedurally driven than Capital. The general feeling toward the merger was that RS staff were more favourably positioned that the Capital staff; they had substantial benefits from an employee share option scheme, had better terms and working conditions and were likely to dominate the amalgamation given the focus on retail operations. The integration management allocated considerable resources to the development of cultural understanding through significant investment in communication and intra-organisational contacts. These contacts took the form of training in products/services, pre-branch amalgamation meetings and forums, and local social events. Many of these events were also organised by local branch managers.

The State of the Merger

Sixteen months after the acquisition had been approved and almost two years after the initial offer, the new Capital RS had amalgamated its branch network and its support structures. Its success was summed up in a press interview up by the director who headed up the new firm when he stated that the merger was 'as close to a textbook merger as you can get'. Difficulties were acknowledged, however, especially around the nature of customer service, which, given the demands on staff, may not have been as good as it should have been. But generally, the integration of the two organisations as a whole had gone broadly according to plan and the financial outlook for the firm was very positive.

The Case Study Units

Two sets of combining branches form the basis of the discussion. For convenience, they will be called the City study and the Town study (there is no significance in the location). The City study consisted of two merging branches based in a regional city. They were located in very close proximity, practically next door to one another, within a newly built complex of shops located just off a busy main road in a reasonably affluent suburb. Both branches had traded for approximately three years and both were of similar size with five to six staff each. The amalgamation of these branches occurred early in the cycle of branch amalgamations and was considered somewhat of a pilot amalgamation. The second set of amalgamating branches, the Town study, was located in a major provincial town with a population of circa 10,000. The branches were located a couple of hundred metres apart on adjoining roads in the town centre. The Capital unit had been in the town for around twenty years while the RS had been operating there for the last ten years. The manager in each branch was the only staff member to be in the branch since it began trading in the town. Again, the branches were of similar size with a staff complement of around eleven in each branch. The Town branch amalgamation was one of the last branch amalgamations to take place, occurring approximately six moths after the City study.

Findings and Discussion

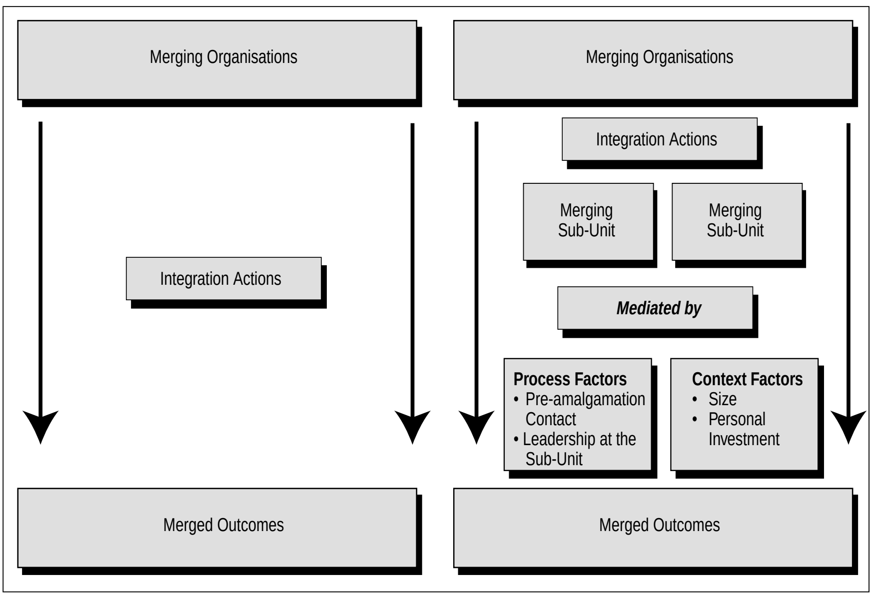
There was a clear variation in the perceived level of integration achieved between the two studies. In the City study, there was a clearly co-ordinated effort and an emerging consistent perspective on how the branch would move forward to meet its targets. There was a sense of everyone pulling together and working as a team. While differences and conflicts emerged between branch members, effective mechanisms for dealing with them had been developed. In contrast, the perceived level of integration post-amalgamation in the Town study was somewhat lower than in the City study. While teams were working together, there were clear outliers and the conflicts and differences that were emerging in the branch were not perceived as being dealt with effectively. The climate in the branch was described as poor and the level of stress experienced by staff was seen as very high.

The Integration Processes

While the integration process was consistent for all the branches amalgamated there were none the less some differences in the ways in which the two studies engaged that process and these may explain the differences in the level of integration achieved in the studies. Traditional approaches to integration assume that the level of integration achieved is determined by the actions taken at the firm level. However, the data here suggest that the sub-units operations and actions influenced the way the integration unfolded. Figure 12.2 suggests a traditional interpretation in which new organisational boundaries emerge as the actions undertaken by the corporate head office affects all the sub-units in a similar manner. The data, however, suggest that the there were a number of factors that mediated the relationship identified in Figure 12.2. Figure 12.3 identifies the key themes that emerged from the data. There were clear forces driven by the head office that facilitated the creation of unified boundaries post-integration but the manner in which two of these forces were engaged at the level of the two combining sub-units studied varied. These variations can be tied to the differences in the perceived extent to which unified boundaries were created post the amalgamation. The first issue is the extent to which the pre-merged branches interacted prior to the amalgamation and the second is the role the leaders of the branches played in shaping the integration processes. Two contextual factors may also have affected the process, the size of the branches and the level of personal investment in the new branch.

Figure 12.2 Traditional Approach to Integration

Figure 12.3 Mediating Variables



Pre-amalgamation Contact

A clear pillar of the integration process was the aim of creating dialogue and contact between the RS and Capital branches prior to the physical amalgamation. In this way the staff within each branch would have a clearer understanding both of the requirements of the new branch and also of the additional staff that they would be working alongside. There were many initiatives that created the contact, directly and indirectly. There was a substantial investment in training both off-site and on the job. This took the form of a general cross training in systems and procedures where the RS staff would learn about the Capital systems and vice versa. There was also extensive communication through organised 'road-shows,' intra-nets and newsletters aimed at explaining the integration and the new cultural and procedural values going forward. In addition, communication liaison officers were assigned in each RS and Capital branch to act as co-ordinators of the branch amalgamation and disseminators of information. The integration team also had pre-amalgamation meetings where the staff of the amalgamating branches came together and discussed their fears and concerns. A critical aspect of the pre-amalgamation contact was a programme of staff 'swapping' where staff of one of the amalgamating branch would spend the day at the other branch seeing how they performed the same tasks. This was seen as a potentially effective way of conducting on-the-job training and also getting to know the branch and the staff.

The experience of the City and Town studies, however, varied in the manner in which these initiatives were engaged. In the City study, the process of creating high levels of pre-merger contact was clearly evident. The two sides were quick to open dialogue with staff 'dropping in and out' of the two branches and exchanging pleasantries pre-amalgamation. The groups reported 'getting on grand' very early on, driven by the two managers' visible attempts at getting the two groups together. There were many attempts at morale and team building both on the work side, through training and staff contact, and also on a social side with a number of nights out going to a bar or to dinner.

While the same procedures were in place in the Town study, there appeared to be a lower level of contact and cross fertilisation actually achieved. While an amount of staff swapping and training took place pre-amalgamation, neither side appeared to engage it wholeheartedly. It was described as 'wavering' and 'stopping.' This was in part attributed to the extensive work pressures that both the RS and Capital branches were under and the problem of having only one manager across two branches. There was also, however, an impression that the 'other side' 'didn't seem to want to' or that they had a desire to stick with what they knew. In addition, there was less meaningful contact in staff moving from one branch to another and there was less of a sense of being welcome when actually in the other's branch. This was also reflected in the social outings that the branches organised, which were poorly attended and described as 'strange.'

The discussion ties closely with the suggestions of Haspeslagh and Jemison (1991) who call for the need to create interim processes that allow for the transfer of capabilities to occur. Similarly, Marks and Mirvis (1998) emphasise the importance of interim structures to facilitate working together and getting to know one another. The data here, however, show that merely creating the contact is insufficient to generate unified boundaries. The two sub-units had exactly the same contact structures and had exactly the same opportunities in terms of pre-merger contact. They had the same support structures from the head office and the integration team and had similar contexts to one another. However, the extent to which the boundaries were unified and the group operated as a single team was different in each group, with the Town branch showing lower levels of unification. The data clearly showed a lower level of effectiveness in the contact achieved in the Town study. A number of factors may account for the lower level of effectiveness. There were some contextual influences such as work pressures and staff shortages and there was also the impact of leadership and direction (this issue will be addressed later). The contact was seen as positive in the City study. It was frequently referred to in terms of how it facilitated an understanding of what each set of staff from the branches was about and how it facilitated an understanding of what the work environment would be like post-amalgamation. The role of the branch manager in co-ordinating this effort and being a key driver of it was central to the perception of the importance the staff assigned to the activities. In contrast, the Town study staff felt too busy to engage in contact activities or to participate in the branch exchange programme. This was supported by stories of how staff were rude to one another or failed to facilitate or explain. For instance, when during staff exchanges they were faced with a question or task they could not complete they were often 'bundled out of the way' rather than shown how to resolve the issue. In this way, contact was seen as not being relevant and as time wasting, given the time pressures that the branches faced. The link between the value of contact and the final outcome of the merger was not clear.

The data point to the need to consider the concept of contact between the parties in more detail. Three dimensions appear within the studies. The first is the extent of the contact. The City study showed far greater frequency of contact than the Town study. The messages being portrayed with the socialisation of two combining groups are complex and ambiguous and, as a result, the extent to which the groups meet more frequently may facilitate a greater clarity in decoding those messages. Staff in the City study explained how they grew in confidence with as the extent of contact between the combining staffs progressed. The second dimension is the type of contact. The branch staff made contact with each other (and with other staff in the wider organisations) in a variety of ways. These included branch exchanges, branch training days, social events as well as wider organisational events such as off-branch training, workshops and general informational road shows. It is not clearly evident in the data what affects the variety of contacts had individually within the cases. The City study clearly engaged the full range more positively but they did have the benefit of being amalgamated early in the schedule of amalgamations. In contrast, the Town branches, being amalgamated much later, may have had more exposure to a variety of types of contact but may also have been confused by the variety of differing signals or by a sheer overload of activities. The third dimension identified is the relevance of the contact to the branch. The staff in the Town study, in particular, felt much of the contacts they experienced did not have relevance for them. For example they felt training took place on systems they would never use or would only use in the future and that they would have forgotten by then, that the staff in the other branch they were combining with did not want staff exchanges to take place and that they were too busy to participate. It appears from the data that the perceived relevance of the contact will determine the extent to which the contact has any potential influence on creating a new boundary. These three dimensions of contact may be important determinants of the level of post-integration boundary formation and this leads to the following proposition.

> **Proposition 1:** The perceived extent, type and relevance of pre-merger contact affects the potential to realise new unified boundaries post amalgamation.

The Role of Leadership

The importance of leadership has been well documented in the M&A literature (Haspeslagh and Jemison, 1991; Angwin 2000; Galpin and Hernon 2000). Much of this literature talks about the need to create a vision which the new organisational members can buy into and adopt as their own. The processes discussed here, however, relate to the sub-unit level. While a clear organisational vision existed, the concern at the sub-unit was with the vision at that level. This is consistent with the findings of Hubbard (2001), who charted the differences in the concerns of staff at various organisational levels and highlighted the importance of group unity. In both the Town and City studies, the leader was the central focal point of the branch and the person to whom the staff looked for direction and leadership. A critical difference in terms of pre-amalgamation contact was the interaction the staff of each branch had with the prospective new manager of the amalgamated branch. While this interaction would have occurred partly by the socialisation and general interaction between the two branches, there were also clear indications that the presence of the manager as a visible sign of leadership in the workflow and in the amalgamation activities also had an impact. All staff informants reported the importance of the Branch Manager as their key decision maker and referent icon and often indicated the mentoring role the manager played for them in their job.

In both studies, the RS branch manager was appointed to the post of manager of the new Capital RS. In the City study, this arose as a result of the Capital manager being appointed to a post in a different section and his staff saw this as the direction in which he wanted to take his career. In the Town study, the Capital manager was appointed to an alternate branch in the region. This decision was not necessarily a popular decision among the relocated manager's former staff. The Town branch was also affected by the transfer out of the Capital manager to his new post some months prior to the actual amalgamation of the Town branches. The RS manager was consequently responsible for the management of two branches in the period leading up to amalgamation. This created a difficult position for the new amalgamated manager. On the one hand, he had a huge work pressure with two groups to manage in separate locations. On the other hand, the Capital staff had a huge expectation of leadership from their new leader, looking for direction, support and role clarity prior to the amalgamation. A clear message that came from the data was the importance of the manager as the ultimate decision maker within the branch and a concern of staff in both the Capital branch in the Town and City studies was how they would get on with the manager post-amalgamation. There was an obvious fear that the RS side of operations would be the dominant one and that former RS staff would get priority in the manager's decisions. In the City merger, this was tackled early on in the process, partly through the pre-amalgamation processes but also through conscious interventions on the part of the manager. He actively engaged the Capital staff and was very visible in trying to understand their operations and their concerns. In this manner, he was seen as a team builder and the Capital staff became exposed to the manager's expectations prior to the actual amalgamation. In contrast, the Town amalgamation had far less contact from the manager and at the time of amalgamation and indeed post-amalgamation, the Capital staff did not feel confident of the expectations of the manager or indeed the manner in which the work environment might change as a result of his leadership. They reported 'not knowing the guy' or how 'far they can push him'. The decision criteria used by the previous manager were clearly understood by the staff and they knew how to approach him to maximise the chance of getting a favourable decision. The acceptance of the manager as the ultimate decision maker and the lack of perceived guidance on decision preferences left a great deal of uncertainty with the Capital branch. This also had the impact of staff inferring in some instances that the manager might be more favourably disposed to RS staff than Capital staff, although this fear subsided as the integration progressed. The perceived lack of leadership and continuity led one informant to conclude that the lack of knowledge about the new manager meant the merger was 'like starting a whole new job'.

In contrast, the attitude within the City study was that the managers of both amalgamating branches were far more visible and active in the integration process. The Capital staff felt far more prepared for working with the new manager and knew how they fitted into the new branch structure. The manager even took it upon himself to be the integration liaison officer in the branch and directly involved himself in even the smallest staff issues around the amalgamation

The findings portray a strong picture of the way leadership creates a strong group structure. The value of 'the team' with the manager at the helm was a central theme in many of the discussions. This created a defined social order and expectation within the branch. Both studies portrayed pre-merger structures that were based on the importance of fitting into the social structure of the branch and adhering to the social norms. These structures were based on the workflow requirements stemming from the size of the branch and the nature of the work as well as cultural norms created by the leader. In effect, these local-level processes create a micro system (the branch within the larger organisation) that, while interdependent with the wider organisational system, is sufficiently autonomous as to have a discrete identity. Both sets of branches pre-merger espoused strong affinity and identity with the pre-merger firm. Post-amalgamation, however, the two studies showed differing extents to which the new identity evidenced a stable social order. In the City study, the leader rallied around both sets of staff and acted as a catalyst that created a new structure and identity. Once a new social structure becomes a possibility, that social structure itself may act as a discipline mechanism that creates a new boundary through socialisation of its members. The second proposition emerges from this discussion.

> **Proposition 2:** The greater the involvement of the unit leader in forming socialisation processes, the greater the potential to realise new unified sub-unit boundaries post-amalgamation

Branch Size

The size of the branch may have played an important part in how the integration process unfolded in each of the studies. The City study consisted of two small branches of approximately five staff each. This micro size creates a 'family' style environment with strong interdependencies within the group, both in terms of the workflow and in terms of support in the social context of the work environment. The culture of the branch was described in these terms by the staff and one of the largest concerns at the announcement of the deal was the fear of the group being broken up or transferred into a much larger branch. The importance of group membership and the influence of that membership on behaviour has been well documented in the psychology literature (for example, Tajfel, 1986; Turner et al., 1989; Doosje et al., 1995; Drury and Reicher, 1999). The effect of the importance of the 'team' and group membership in the branches is that it provides a mechanism whereby the staff of the branch can effectively moderate behaviour of its members. In a way, the size limits the capacity to have dissenting groups within the structure. Indeed a clear cultural value emerging from the data was the need for this group to have good social relations within the work environment. The extension of that group to ten staff, while significant, probably still permits the group to exercise some social control over the membership. In this way, the size created a clear boundary, on the one hand, but on the other hand, by its very presence created a mechanism to overcome that boundary (the boundary was an issue of difference but was insufficient to differentiate it or motivate the individual group to apply it as a differentiating criterion).

In the case of the Town branch, the combining branches were twice as big, with the amalgamated branch having circa twenty staff. This may allow differences to develop more readily and accordingly the potential for boundaries to emerge and to polarise groups become more plentiful. Size and leadership are closely intertwined in so far as the ability of the leader to create the micro-level system will be mediated the larger the group becomes. In this respect, another proposition may be proposed.

Proposition 3: The ability of the sub-unit leader to create a micro-environment that creates unifying socialisation processes may be a function of the overall size of the sub-unit. In this respect, the greater the size of the sub-unit post-merger, the lower the potential to realise new unified sub-unit boundaries post-amalgamation.

Personal Investment

Another finding that emerged was the varying extents to which the staff of the branches felt there was a personal investment for them in creating the new merged branch. This investment can be considered as the extent to which the members of the branches felt personally motivated to alter the boundaries of their organisation to accommodate the amalgamation. A similar idea to personal investment was discussed by Knippenberg and Van Leewen (2001) who suggest that the greater the sense of continuity from old to new perceived by staff, the greater the post merger identification with the new firm. The investment evident in the two studies arose from a number of sources. First, the branch unit, as has been described, was a highly interdependent environment from both a task and a socialisation point. A substantial desire was expressed by all the interviewees to maintain the cohesiveness of the unit going forward and that the team spirit that existed would be maintained. In this regard, the staff had the desire to establish good relations with their new colleagues. However, there were some variations in the extent to which the staff in the two studies felt this could be achieved. In the City study there was genuine fear that the enlarged size of the branch might hinder the ability of the branch to create this team environment. In contrast, within the Town branch, there was a stronger expectation that the new size of the branch would make it far more impersonal and that the team environment would be lost. The second issue linked to this idea of personal investment is the amount of work pressure the staff felt. The Town study reported significant work loads and staff shortages and these acted to reduce the commitment levels to the unit. This leads to the fourth proposition

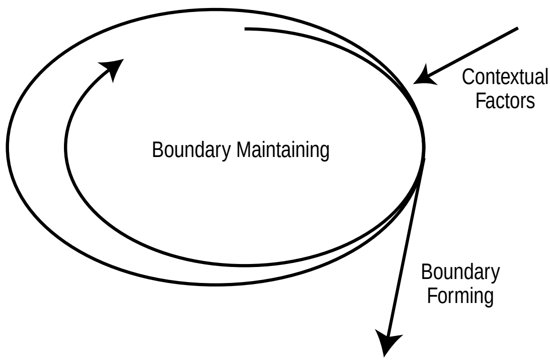
Proposition 4: The greater the level of personal investment of staff in the new organisation, the greater the potential to realise unified boundaries post-amalgamation. The level of personal investment is characterised by the cohesiveness of the group socialisation processes and the extent to which they feel the achievement of a new group is possible.

Salience: Boundary Forming and Boundary Maintaining

A critical question this paper addresses is the question of what activates a boundary and makes it salient. The differences in the integration process within each study provide some potential explanations. This was explored in the data by examining how the informants created their understanding of the differences between the two combining units and how these emerged over time. There appear to be two forces at play (Figure 12.4) set within the wider contextual pressures facing the merger. On the one hand, there are forces that are striving to maintain the existing physical, behavioural and cognitive structure that existed for the pre-merged entity. These forces valued the identity of the pre-merger unit and were usually expressed as a nostalgic sense of loss. These forces consisted primarily of the fear and concerns that staff of the branches encountered. The loss of leadership, the loss of the branch team structure, and the enlarged size of the branch were all examples. On the other hand, there were forces that were creating new boundary forms that could replace the existing physical, behavioural and cognitive structure. These included the new leadership given at the branch level, the amount of training and pre-merger contacts that shaped understandings and created a clearer expectation of the future and the motivating of staff to invest personally in the new entity. Contrasting the two cases, these forces often stemmed from the same activity but had a differing strength or direction. For example, the new leadership in the City branch drove together the two staffs forming new boundaries around the team. The Town branch in contrast saw the branch manager's actions as solidifying old boundaries rather that forming new boundaries. This finding has significant implications for the management of boundaries. Formation of new boundaries may not be related to the actual actions or interventions that occur but the way in which those actions are engaged at the sub-unit level. The critical factor that must be managed are the socialisation and identity forming process within the sub-unit and the effect the activities driving the integration have on those processes if the combined unit is to have a unified boundary. In addition, these driving forces are set within a context of the wider integration and the context of the micro system that was created within each sub unit. At the micro level, the size of the branch, socialisation processes and the personal investment of staff are probably the best examples of contextual influences. At the organisational level, issues or events outside of the control of the branch such as work pressures would also impact. Boundaries will become salient when the boundary maintaining forces are equal to or greater than the boundary forming forces. To the extent that an organisation builds effective boundary forming forces, the integration should proceed more effectively and fewer boundary problems will occur. Another implication of this model is that the extent of integration is a function of the relative strength of both forces vis à vis each other. Where one force out-weighs the other then that force will shape the process. When the forces are more evenly balanced, then the integration will proceed at a slower pace. This is entirely consistent with the lower level of integration achieved in the Town study. The forces for boundary formation would appear to be stronger than those that are boundary maintaining but not as strong as those of City branch. It could therefore be suggested that the Town branch will in time achieve the same level of integration but over a longer time-frame. This discussion again allows for a proposition to be put forward.

Proposition 5: For new boundaries to emerge, the forces for boundary formation must be greater that the forces for boundary maintenance.

Figure 12.4 A Model of Boundary Forming and Boundary Maintaining



CONCLUSION

The aim of this paper has been to explore how boundaries change in an M&A and to draw some exploratory propositions for future research. In this respect, the paper has suggested some new directions for development. The notion of boundary has proved useful in exploring the variation in the level of integration achieved in the studies and appears a promising angle for future research. A key concept emerging from the research is the importance of the sub-unit as the unit of analysis for research. There may be significant differences between sub-units in terms of the way the integration effort of the firm is translated into operational achievements. Indeed one of the weaknesses in the existing literature is the failure to account for variations that may occur within the organisation. This paper clearly identifies that sub-units react in differing ways to one another and may accordingly achieve differing levels of integration, notwithstanding that they operate within the same context. Management attention therefore needs to be focused not only on the process of integration but also on how each sub-unit may be engaging that process. A second key contribution of the paper is the identification of the sub-unit as a potential micro-level environment where there are simultaneous forces driving both new boundary formation and supporting existing boundaries. In this regard, boundaries are unique to each sub-unit and have the potential to vary significantly even across sub-units that are similar in task and socio-cultural ways. Whether a potential boundary becomes salient is a process outcome determined by the interaction of the sub-unit with the integration process and by whether the actions are sufficiently strong to form new organisational boundaries. Managing sub-unit integration is therefore dependent on the effective management of these forces. Two variables appear particularly important in the management of this process. Contact between the combining units appears to be a central mechanism of knowledge and information transfer. Where this contact is managed meaningfully, as in the City study, then the potential to merge more effectively and to create a unified team is enhanced. Leadership roles in M&As have been well documented in the existing literature but the findings here differ in so far as it is not corporate leadership but the leadership at the level of the sub-unit that is important. In effect, it is the middle management of the organisation that is achieving the integration goals. Staff seek support and reassurance from their immediate leaders and look to their actions as symbols of the integration as a whole.

Another key implication of this research is the need to shape reality for staff. M&As are complex times of great change for staff, characterised by stress and uncertainty (Cartwright and Cooper, 1997; Marks and Mirvis, 1998). They are times when staff seek out meaningful ways of understanding the events unfolding around them, as well as the changes they must face in both staff and task terms. The contacts between branches in the two studies showed differing interpretations of events reflecting the process and context factors identified earlier. The role of the leader as an effective participant in preparing the staff for the pending events and as the facilitator of group socialisation, particularly evident within the City study, is a clear indicator of how these difficulties can be managed. Clear expectations of the future were developed through the proximity of the leader to the staff and their issues. In calling for greater leadership at the sub-unit level, however, it is important to consider that the leader usually must also balance the task demands arising from their position. Perhaps this is the paradox of leading a unit in an M&A: there is a demand to deal with ever-increasing task responsibilities while simultaneously creating a new boundary by attuning to the socialisation and identity issues arising from combining two divergent groups.

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Subsidiary Divestment: The Case Of CDMI Ireland 1970–2002

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ABSTRACT

This paper examines an interesting and ever more common phenomenon – the decision by a multinational corporation's (MNC) corporate headquarters (HQ) to divest itself of a subsidiary. This is an important phenomenon and one that is worthy of research within the emergent academic field of subsidiary strategy. While a number of studies have examined subsidiary divestment as a HQ decision-making process (cf. Jarillo and Martinez, 1990; Benito and Welch, 1997), this paper is to our knowledge the first academic study to undertake a theoretically grounded, case-study-based analysis of the phenomenon from a subsidiary viewpoint.

It is structured as follows. First, we carefully outline the commonly used arguments (from the traditional HQ-focused MNC literature) to explain why subsidiaries are divested. We then briefly describe the subsidiary strategy literature, stressing its concentration on strategic opportunities for subsidiaries while paying no heed of the strategic threats. The second half of the paper describes the preliminary findings from an extensive empirical investigation of an individual subsidiary's strategic response when threatened with divestment. This study positions itself as an interpretive, social constructionist endeavour aimed at understanding this phenomenon. Using interview data, supplemented by ethnographic data from a multitude of sources, collected over five years, from a subsidiary that has been through five changes in ownership in the last 22 years and finally closed down in early 2002, the study suggests the following hypothesis: subsidiaries that operate within the context of a pluralistic MNC strategy are less likely to be closed than subsidiaries that operate in the context of a unitary MNC strategy. This case-study sets the agenda for further work, to examine the relative predictive power of the research hypotheses, and thus draw tentative conclusions about the reasons why some subsidiaries are closed.

INTRODUCTION AND OBJECTIVES

There is understandable interest, from a range of perspectives, in the topic of

MNC foreign direct investment (FDI). FDI is a major engine of economic growth, particularly so in Ireland (O'Connor, 2001). However, inward investment is only the starting point for understanding the MNC sector. It is useful to understand the contributing factors and processes influencing the ongoing investment decisions within MNCs, more particularly the role of subsidiaries in protecting their own futures. Boddewyn's study (1979) highlights the precarious lives that subsidiaries lead. In studying the investment and divestment events of 180 of the largest MNCs between 1967 and 1975, Boddewyn revealed that while the MNCs added 4,700 subsidiaries to their networks, they also divested more than 2,700 subsidiaries.

More recent work has observed a similar ratio of investment to divestment (Padmanabhan, 1993, on UK MNCs; Barkema, Bell and Pennings, 1996, on Dutch MNCs; Benito, 1997, on Norwegian MNCs). The topic came to prominence in the late 1970s and early 1980s (Boddewyn, 1979, 1983; Van Den Bulcke et al., 1979; Wilson, 1980; Young, Hood and Hamill, 1985), mostly linked to concerns over job losses in host countries at a time of significant restructuring (Young, Hood and Firn 2001). Given the frequency of the phenomenon, understanding the nature of divestment decisions is of considerable importance for both academics and practitioners. While prior studies have looked at subsidiary divestment as a HQ decision-making process (c.f. Jarillo and Martinez, 1990), this paper is the first academic study to undertake an in-depth theoretically grounded case analysis of the phenomenon from a subsidiary viewpoint.

Literature Review

Subsidiaries are usually conceived as being an open-ended commitment by a MNC but the Boddewyn study (1979) and subsequent studies by Padmanabhan (1993) Barkema, Bell and Pennings (1996), Benito (1997) and León-Darder and Dasi-Coscollar (2001) advise that subsidiaries are far from secure, with all these studies suggesting that for every two subsidiaries added to an MNC network, approximately one will be divested.

Understanding Divestment: HQ Perspective

Turning now to the MNC divestment literature, we might first usefully note that the term international divestment usually refers to any procedure that decreases an MNC's activities outside its home country, ranging from suspension of a minor activity at a foreign subsidiary to the complete abandonment of all activities in a region (Benito and Welch, 1997). Broadly, divestment includes any action that implies a lower level of commitment to the functional scope of the subsidiary. In this study we accept the Benito and Welch (1997) definition of divestment, which they also term de-internationalisation, and concentrate on one of the most extreme forms of divestment, namely the closure or sale of a subsidiary (Boddewyn, 1979). Having defined what constitutes divestment of a subsidiary, we will now examine the considerable body of research that has concentrated on what leads to a HQ decision to make such a divestment.

Research has focused on three triggers of divestment (Benito and Welch, 1997; León-Darder and Dasi-Coscollar, 2001). The most oft-cited trigger of divestment is weak financial performance of either the subsidiary or HQ (Duhaime and Grant, 1984; Chang, 1996; Hitt, Hoskisson and Kim, 1997).

Second, within the HQ-centric stream many researchers consider it as axiomatic that when the original motives for investment fade away, so too should the subsidiary. Dunning's paradigm (1988) establishes three types of advantages that justify FDI – ownership, location and internationalisation – and consequently considers that divestment should occur if the three advantages were to substantially recede. Many other researchers, while concentrating on the entry strategies, also relate the circumstances of entry to those of leaving the host country (Geroski, 1991; Anagnostaki and Louri, 1995; Yang, 1998). Shapiro and Khemani (1987) went considerably further, suggesting that the potential barriers to leaving a country are a component of the decisions by risk-averse MNCs to invest there. Indeed, when the UK elected not to ratify the social chapter of the 1992 Single European Agreement, attractiveness to FDI was at the forefront of its mind. Host country orientation can be a significant dynamic when HQ considers divestment.

Last but not least, Ghertman (1988) has suggested that individual instances of divestment are rarely an isolated phenomenon, but are more commonly associated with a pattern of other divestments, resulting from a reassessment of international operations. The study of the processes of internationalisation usually focuses on selecting the countries for investment, the phases of international expansion and the modes of managing foreign operations. León-Darder and Dasi-Coscollar (2001) point out that this process view of internationalisation implicitly assumes that divesting a subsidiary is a failure, when, in fact, it is more frequently a response to change in the composition of the corporation's assets in relation to its markets (Porter, 1986). Divestment is frequently part of a process of optimising international activities, which is more often than not accompanied by the preservation or growth of other parts of the MNC network (Clarke and Gall, 1987). In support of this contention, substantial work has been undertaken on the topic of international relocation and production switching (Buckley and Mucchielli, 1997). Within this well-trodden area of study, divestment is entirely regarded as being a HQ decision. In these circumstances, the HQ first decides upon a strategy of reorganising international operations, including divestment, and then makes a determination on which investments to divest (Clarke and Gall, 1987; Drummond, 1995). As a result subsidiaries can suffer the consequences of a phenomenon for which they are, at most, only partly responsible (León-Darder and Dasi-Coscollar, 2001).

Benito and Welch (1997) conclude that the extent of internationalisation of the MNC is an indicator of the level of commitment to international operations. Analogous to this view, is the fact that divestment is more likely to occur abroad than in the home country, suggesting that HQ's level of engagement with an individual subsidiary is a key variable within the context of divestment (Boddewyn, 1983; Drummond, 1995). As well as commitment, there is evidence that the multinationals with the greatest international fluency develop capabilities that enable them to reduce the barriers to entry to new markets and accumulate experience that allows them to incorporate foreign subsidiaries more successfully (Barkema, Bell and Pennings, 1996). An overwhelming amount of the studies within this area, that take a strictly HQ vantage point, conclude that the unsatisfactory performance of a subsidiary is the most common cause of divestment from the MNC (Boddewyn, 1979; 1983; Bugelman, 1983; Duhaime and Grant, 1984; Clarke and Gall, 1987; Li and Guisinger, 1991; Benito and Welch, 1997; Siegfried and Evans, 1994; Benito, 1997; León-Darder and Dasi-Coscollar, 2001).

Understanding Divestment: Subsidiary Perspective

Research in the field of international business during the past two decades has started to provide an increasingly rich picture of the nature, strategy, and organisation of the MNC. A still-emerging stream of research within the general school of MNC research, identified by Birkinshaw and Morrison (1995), takes the subsidiary as the unit of analysis. The point of departure for this stream is Hedlund's (1986) contribution of the heterarchical model of the MNC, which lead to the development of a network approach to understanding MNCs. As opposed to the traditional hierarchical or HQ centric view, whereby subsidiaries are implicitly perceived as subservient children to an all powerful parent corporation, the heterarchical model suggests that HQ and subsidiaries can more usefully be conceived of as a network where both are dependant on each other. The principal difference between this conception and that of the hierarchical perspective is the degree of power it confers upon subsidiary management. This heterarchical approach takes it as self-evident that subsidiary management is capable of deliberate and conscious strategies to affect power outcomes.

As a result of this new conception of subsidiaries, a body of research has developed around the issues of subsidiary initiatives and mandate expansion (White and Poynter, 1984; Birkinshaw 1996; Delaney, 1998; Taggart 1998), procedural justice (Kim and Mauborgne, 1997), appropriate parenting styles (Goold and Campbell, 1987) and corporate entrepreneurship (Molloy, 1992; Birkinshaw, 1997). These studies develop the idea that subsidiary roles, once established, can evolve over time, opening the way to conceive subsidiary development as a dynamic process through which foreign subsidiaries can modify their strategic position inside the whole corporation (Birkinshaw and Hood, 1998). There is no shortage of research dealing with subsidiary strategies and subsidiary roles (for an overview of the extensive literature see Birkinshaw and Morrison, 1995, or Taggart, 1998). Consistent with these themes has been the emphasis on the role of the subsidiary manager as a key instigator in the development of the subsidiary (for example, Roth and Morrisson, 1990; Molloy, 1992; Birkinshaw, 1996; 1997; Birkinshaw and Hood, 1997, 1998; Delany, 1998; Taggart, 1998; Griffin and Fairhead, 1999). For example, Delany (1998) suggests an eight-stage model of development for MNC subsidiaries with specific guidance for the subsidiary management team at each stage. The key recommendation from Delany's research is that subsidiary managers need to change their mindset from one of obedience to HQ (what he terms boy-scouts) to of one being proactive initiative takers (subversives).

Yet, even though subsidiaries are currently the object of intense interest, remarkably few of these publications address the issue of divestment. Most discuss typologies of subsidiary strategies or subsidiary characteristics associated with the different subsidiary strategies/roles. In short, the *strategic opportunities* of subsidiaries seem to generate more attention than their *strategic threats*.

While León-Darder and Dasi-Coscollar's study (2001) did specifically look at the issue of divestment from a subsidiary viewpoint, in examining the factors that precipitated subsidiary divestment in 284 Spanish subsidiaries, they adopted their hypothesis from the HQ centric stream of research, and consequently tested factors such as a decrease in competence, profitability and involvement, as well as relative size and age of joining. While their results were not resounding, they concluded that lower profitability is related to divestment, although involvement with other units reduces the incidents of divestment, and that acquired subsidiaries had a greater likelihood of being divested than greenfield units.

The literature has not, in any substantial way, examined subsidiaries' strategic response to divestment. One possible reason for this apparent lack of interest is circumstantial, since it is notoriously difficult to get data from failed subsidiaries. Not withstanding individual's reluctance and inability to discuss failure in an unbiased manner, the key actors typically leave the scene quickly (Benito, 1997), often months before the receiver arrives. However, given the high rate of subsidiary divestment it was only a matter of time before a researcher was in the middle of a longitudinal study when a receiver arrived at the research site.

Methodological Discussion and Case-Study Introduction

Against this theoretical backdrop and bearing in mind the research issues, which emerge from it, after some brief methodological discussion, an extensive case study will be introduced. This tells the story of the managers of an Irish subsidiary's 22-year long strategic response during which it was episodically threatened with divestment. Collected over four years from a subsidiary that has been through five changes in ownership in the last 22 years and was finally closed down in early 2002, the managers (and Receiver/Liquidator) clearly attribute the failure of the subsidiary to HQ intervention which prevented the subsidiary from pursuing a strategy of survival. The analysis of this case concludes by proposing a hypothesis, setting the agenda for further work that would examine the relative predictive power of the research hypotheses and thus draw tentative conclusions about the reasons why some subsidiary divestments result in closure.

Inevitably, whatever research strategy is selected it entails compromises and limitations. The quintessential characteristic of single case study research is that it strives towards an holistic understanding of a complex and unique cultural system of action (Feagin, Orum and Sjoberg, 1991). Single-case studies are ideal for bringing to light revelatory cases that confirm or challenge a theory, or represent a unique or extreme case (Yin, 1994). They are, however, not sample surveys and consequently do not offer normative or generalisable explanations of phenomena.

The fieldwork on which this paper is based took place between December 1997 and July 2002. In the case presented here, a series of personal interviews with the general manager (GM) and senior managers (an average of four in-depth interviews per informant) were supplemented not just by internal documents (which were mainly used to corroborate the interviews (cf. Denzin, 1978; Jick, 1979) but specifically by an 'action learning' dissertation written by one of the subsidiary's managers.

The research was conducted in two phases. The first phase consisted of interviewing several managers within the organisation. The research was conducted in accordance with a broadly interpretative approach (Burrell and Morgan, 1979) and consonant with many of the precepts of 'grounded theory' (Glaser and Strauss, 1967). Indeed the topic of this paper arose as a result of the activity at the research site, and were the subsidiary to have averted closure, or the study to cease earlier, the complexion of the case would, undoubtedly, have been totally different. These first-phase interviews were carried out not just with past and present GMs but also with senior managers, such as the financial controller (FC), within the subsidiary. Thus a 'convergent interviewing' method (Dick, 1990) was used, whereby inconsistencies between respondents were highlighted and investigated in later interviews. It further served to broaden and deepen understanding of the case and its context. The aim, however, was not just to take account of the subjective experiences and interpretations of the interviewees (Burrell and Morgan, 1979; Brenner, 1985) but to develop higher order explanations of their interactions (Geertz, 1973).

Thus, the second phase of the research involved the presentation of the case study and researcher interpretations of these to the interview participants. The purpose of this phase was partly to correct factual errors and to gather additional detail to enrich the case. It also, very importantly, enabled both the interviewees and researchers to further develop and refine earlier interpretations. Part of the stimulus for this was the introduction of theoretical ideas from the MNC literature. It was in this way that the researchers were able to introduce and substantiate the significant role of various discourses as high-level 'programming' devices for HQ/subsidiary interactions (Geertz, 1973). The corrections and re-interpretations of the data, made at this stage, were then fed into the case and contributed to the theory-building process.

Prior to the commencement of each interview, certain assurances were made about confidentiality. To this end, all names, places and identifying traits have been obscured from the case, which is presented below in the form of a case study, in which the participants recollect how their behaviours and interpretations, in respect of HQ, have evolved over a 22-year period.

HQ/Subsidiary Relationships within CDMI Corporation

Background

CDMI Kerry went through five HQ's before it went into receivership in

February 2002. The plant was originally established in 1980 by an Irish ex-pat Bill Daly, who had worked for Component Design & Manufacture (CDM) in Santa Fe since it was established in 1971 and was eager to relocate back to Ireland. While the plant was originally conceived as being a manufacturing site for joysticks, it swiftly moved into peripheral manufacture before evolving into a contract manufacturer for Original Equipment Manufacturers (OEMs). With significant financial support from the IDA (Irish Development Authority) and strong consumer demand for its products the plant became successful. By the end of 1982, the plant was highly profitable, employing 300 people in design, manufacture and sales. As a result of this early success, CDM had a hands-off approach in its Irish plant.

The First Divestment

CDM was bought out by a US Fortune 500 company in 1986 and as part of the sale CDMI was to be divested. After two years of uncertainty CDMI was eventually sold in 1988 to Switch Tech Inc. Soon after joining the group, Switch Tech made an acquisition of a much larger business in Asia, which placed huge demands on the senior management and the financial position of the group. Consequently CDMI were left to their own devices, with the exception of having to repatriate profits to their parent company. During this time the plant developed a survival capability, learning how to aggressively sell their contract manufacturing services and quickly reconfiguring their total operations so as to secure new orders.

The Second Divestment

Switch Tech failed to turnaround their Asian investment and eventually filed for bankruptcy. Under difficult circumstances, CDMI started to make contingency plans a year in advance of the actual insolvency. These contingencies ranged from the immediate issues, such as short-term cash flow and a communication strategy targeted at key customers, to examining the long-term strategic options for the plant. Senior management of CDMI initially considered a management buyout, but unable to raise the equity they turned their attention to a trade sale. They made contact with government agencies and systematically made overtures to possible buyers. Switch Tech was not the only company in that sector having difficulty in 1992 and CDMI grew aware that they were unlikely to find a suitable buyer. CDMI sales manager, John Rodgers made contact with a Canadian venture capital company, Atlantic Design Consultants, who specialised in making short-term investments in distressed situations.

ADC was attracted to the plant's profitability and independent management and eventually bought CDMI once Switch Tech went bankrupt. Almost immediately after the deal, both ADC and CDMI worked to find a new owner.

ADC put considerable effort and investment into enhancing CDMI for the market, and as a result of that investment and a favourable market the plant thrived. Particular effort was paid to design and sales activities. According to John Rodgers, sales manager 1989–2000 talking in 1999, CDMI "won a load of new business, had great contract diversity [and] started selling our own branded goods. ADC really nursed the business back to strength…"

The Third Divestment

The independence of CDMI management was a key aspect of ADC's sales pitch for the plant. Both ADC and the management of CDMI negotiated the third divestment which eventually came almost three years later when, in 1997, CDMI was sold to Summit, a US supply-chain operator in the PC business.

Summit had never operated outside NAFTA, or indeed the OEM contract market, and consequently part of their attraction to CDMI was the capable and self-reliant management team. However, as the relationship developed, Summit, like Switch Tech before, had difficulty managing the independent business and took steps to limit the autonomy of what one Summit manager called a 'renegade outfit'. Over time Summit encouraged CDMI to concentrate solely on the OEM market where volumes are much more substantial. CDMI vigorously resisted this effort, believing competitive strength came from being active in both the branded and the OEM markets. Traditionally, CDMI's branded market products became OEM products over time and operating in both markets had allowed the firm to skim the market before entering lower-margin, high-volume production. The argument, more a fight over autonomy than anything else, soured the relationship. CDMI felt that they were being dragged down market and during this time many of the firm's designers left to pursue better opportunities.

Unbeknown to Summit, in 1996 CDMI successfully challenged a patent held by a key competitor in the OEM market – Apex – allowing it to manufacture digit tracers for laptops. Throughout the 1990s, OEM had consolidated and often sought one supplier for tracers, rollerballs and mouses, restricting CDMI's ability to compete. This led to CDMI successfully obtaining an exceptionally large contract from Freelance Computing. The contract was generated by CDMI's own sales effort and gave the plant a huge and stable production volume as well as entry to an enormous new reseller market. CDMI were included in Freelance's planning and R&D processes.

The only competition for the contract had been Apex, who had considered and rejected the idea of building a plant in Ireland, specifically to service the Freelance contract. Apex was Freelance's preferred supplier in the US.

The Fourth Divestment

Folding the Irish plant into their operations was a more difficult task than Summit anticipated. However the HQ was still positively disposed towards their Irish plant and were focused on growing the business. Over time a rift developed between both sets of management and CDMI started, once again, to think of its options.

The obvious candidate was Apex. CDMI had got to know the team while challenging Apex's patent and the relationship had intensified between the two organisations when they were both competing for the Freelance contract.

Indeed, at the time of the competition for the Freelance contract, CDMI had suggested to Summit that a trade sale to Apex might articulate a higher price for the business than would normally be available, as Apex had a strategic need to maintain their relationship with Freelance. As the relationship deteriorated CDMI approached both Apex and their contacts in Freelance to sound them out over whether they would be interested in buying the plant. Apex took the hint and opened negotiations with Summit that led to a buyout of the plant. Under Apex, the plant initially thrived, with the Irish management given significant autonomy.

The Fifth Divestment

Once the honeymoon was over, CDMI realised that Apex was willing to do the work that Summit had not been capable of controlling CDMI. Apex demanded the plant comply with group strategy and this impacted on CDMI on many fronts. First, Apex did not allow branded sales, as they felt they harmed their relationship with their OEM customers. Without a façade of consensus building, they unilaterally informed CDMI management that they no longer would permit this activity. To ensure that this policy was implemented they directed that the sales department, lead by John Rodgers, should report directly to Apex's European HQ in London. John, who had been instrumental in the survival of the company, not least in attracting the Freelance contract, reacted badly to the new arrangement and resigned soon afterwards. A number of respondents identified John's departure as being a defining moment for CDMI's changing capabilities. CDMI management made tremendous efforts to attract John to stay, but they were hamstrung by Apex. As a result of John's departure and Apex London's focus on large OEM contracts, CDMI did not win new business and slowly lost existing contracts. Soon after John's departure, Apex integrated CDMI's accounting function with its own. From then on, although CDMI remained a net contributor to the group, new transfer pricing arrangements were used as a method of allowing CDMI's debt to rise significantly.

Towards the end of 1999, Freelance came under significant pressure, which resulted in a corporate restructuring, this led to the closure of their Irish plant. At that time the Freelance contract accounted for over 80 per cent of CDMI's production and consequently the plant was once again under significant pressure. Over the following four months the plant rapidly downsized but in the absence of new sales contracts and mounting debts, it was attractive for Apex to let CDMI collapse. On the 12 March 2002, after withdrawal of support by Apex two months earlier, CDMI's creditors succeeded in having the plants assets liquidated. On taking over the business, the Receiver noted his surprise "that they survived as long as they did, this business has been on its last legs since 1988 … I mean this business has been through so much and they just kept on going."

Analysis

The purpose of this paper, as we have suggested earlier, is to examine the issue of divestment from the subsidiary viewpoint. This case richly demonstrates the strategic threats that subsidiaries can be subject to and also draws attention to the survival instinct of subsidiaries. Thus in the following sub-section, it was considered important to briefly reiterate the triggers for subsidiary divestment from a HQ standpoint and consider them in terms of this case. In doing this, it becomes apparent that each explanation is only a part of the picture delineated by this case — emphasising some aspects and being largely blind to others. This is therefore, in effect, a multi-lensed analysis, somewhat in the manner of Allison's (1971) discussion of the Cuban missile crisis, leading us to make conclusions based on a more complete explanation of the case data. Finally, in the closing section, the implications of analysis are drawn out, suggesting an original hypothesis, to be tested in further work, developed from the case data that suggest how subsidiary divestment can be better understood.

Subsidiary divestment: HQ perspective.

As noted earlier in the literature review, a considerable body of research has focused on explaining a HQ decision to divest a subsidiary. The case data support all three of the cited triggers for subsidiary divestment (Benito and Welch, 1997). Clearly, CDMI was struck on a number of occasions by poor financial performance and the financial weakness of its parent company (Duhaime and Grant, 1984; Chang, 1996). This was most strikingly evident in Switch Tech's divestment of CDMI, but was also a component of Apex's decision. CDMI was also subject to divestment as a result of the HQ's original motives for the investment disappearing, although this is not necessarily in line with the Dunning (1988) paradigm. Apex lost interest as a result of the loss of a big contract, CDM lost interest partially as a result of Bill Daly's link with the owners of CDM being broken and ADC sought divestment when its investment objectives were met. This is not neatly explained by Dunning's (1988) three types of advantage – ownership, location or internationalisation. It was also the case in a number of instances that CDMI's divestment was associated with a new HQ strategy (Porter, 1986; Ghertman, 1988), frequently as part of a process of optimising activities but also as a form of international retrenchment. CDMI was subject to a number of the divestments, most notably Summit's divestment, as a result of its parent's inadequate international experience (Barkema, Bell and Pennings, 1996), but while a factor, again it was not the compelling motivation for the divestment.

While each of the cited reasons for closing a plant are interesting and prevalent in the case they fail to provide a complete explanation for any of the divestments that CDMI underwent. Divestment decisions tend to be messy and consequently do not easily relate exclusively to any particular trigger. In many instances the divestment decision related to the tacitly held views of the actors within the network. However, many MNCs are forced to rationalise their actions and this leads to a simplification and an unhelpful reification of the source of the divestment.

UNDERSTANDING DIVESTMENT FROM THE SUBSIDIARY PERSPECTIVE

While research in the field of international business has increasingly examined the MNC from a subsidiary viewpoint, it has to date not examined subsidiaries strategic response to divestment. This body of research has, however, firmly established the concept of subsidiary's management instrumentality in subsidiary strategy making – developing and implementing strategies to expand and sustain their subsidiary. Obviously of key interest to a strategically minded subsidiary is preventing divestment and if that is not possible surviving divestment. On four occasions CDMI survived divestment and on the fifth occasion CDMI closed. Managers clearly attribute the closure to the parenting style of Apex, which thwarted CDMI's natural survival instinct. Before each previous divestment, CDMI prepared for survival in advance of the divestment, moving aggressively to assure its own continued existence post-divestment. By the time CDMI was bought by Apex, the company's longstanding management had an acutely developed survival capability and this was dismantled by Apex as it attempted to integrate the furiously independent unit into its network. When difficult conditions arose, as they had frequently done in the past, the management of CDMI had no means of achieving a positive divestment.

This analysis suggests the following hypothesis, suitable for testing over a wider population of divestment instances: subsidiaries that operate within the context of a pluralistic MNC strategy are less likely to be closed than subsidiaries that operate in the context of a unitary MNC strategy. Pluralistic MNC strategy is one where both HQ and subsidiary recognises that differing units within the whole MNC naturally have differing agendas and these agendas include preservation instincts. This is best typified in the case by ADC's pluralistic strategy that included CDMI in the divestment process. Conversely, a unitary MNC strategy ignores the plurality of views and seeks to impose a singular strategy, organisation and agenda within the MNC, that of the HQ. Within this case, Apex enforces a unitary strategy that led to the departure of key actors within the subsidiary and a mounting burden of debt on the subsidiary that removed the plant's ability to act in its own rational self-interest. Indeed when Apex chose to divest itself of CDMI it did not consider that the unit could play a role in affecting a more seemly exit for the HQ, possibly saving the plant in the process.

Concluding Remarks and Managerial Implications

This paper has sought to provide insight into the topic of divestment from a subsidiary viewpoint by developing an extensive case study. The case study data lead us to conclude that the current comprehension of the triggers for divestment are overwhelmingly based on HQ-centric research, which are overly simplistic, and fail to capture the messy nature of divestment decisions. There are three triggers identified in the HQ-centric literature:

1. Poor financial performance and the financial weakness of the entire MNC;
2. HQ's motives for the original investment disappearing;
3. A new HQ strategy of optimising international activities.

These triggers do not appear from the case to operate as distinctively as the literature implies. Most particularly, the literature fails to consider how both HQ and subsidiary management interpret these triggers and how the resulting political and sense-making processes of both types of manager determine the outcome of divestment decisions. Perhaps HQs are not particularly interested in properly explaining why they divest subsidiaries, and many subsidiaries that are divested do not wish to, or are not capable of participating in research.

The results of this study have important managerial implications. Clearly, within the context of subsidiary strategy, a focus on strategic threats, as well as opportunities, is exceptionally important. The case illustrates that subsidiaries are in a position to participate actively in their own divestment. In this instance, being prepared for divestment and, more importantly, being in a context that allowed the subsidiary to be prepared for divestment, were critical in determining whether the subsidiary survived divestment. These findings suggest an interesting hypothesis, not looked at before, that may provide the key to better understanding the arbitrariness of outcomes for subsidiaries when they are subject to divestment.

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Understanding Enterprise, Entrepreneurship and Small Business

by *Simon Bridge, Ken O'Neill and Stan Cromie*
(2nd edn)
Palgrave: Macmillan, 2003

The authors of *Understanding Enterprise, Entrepreneurship and Small Business* provide the reader with a unique synthesis of entrepreneurial theory, small business development and the implications of public policy initiatives for job creation by new ventures. The book addresses the positives and negatives of small business enterprises, clearly delineating the antecedents and consequences of new ventures in the context of a democratic society. The text, written in a clear concise language that is devoid of jargon, should have wide appeal to researchers, public policy-makers and business students.

The first two chapters describe the concept of enterprise and the socio-economic settings that are crucial for new enterprises to develop. The authors define enterprise across a wide continuum, providing the reader with a breadth of knowledge concerning the concept of enterprise. Individual initiative is central to new venture creation and the attendant generation of wealth benefits for the entrepreneur and employment creation for society.

Chapter 3 describes the approaches that various academic disciplines utilise to define the internal factors that comprise enterprise and the profiles of the entrepreneurs that create new ventures. The authors acknowledge the complexity of defining a stereotypical entrepreneur, suggesting that an integrated model offers the best potential for defining entrepreneurship. In Chapter 4, the authors identify the complex factors that influence individual enterprise including culture, macro economics, politics and demographics. A balanced and objective view of the benefits and potential drawbacks of enterprise is presented in Chapter 5.

Chapters 6 through 9 delve into the exploration of small business and the unique features the differentiate it from a large enterprise. Chapter 6 explores the motivation for starting an enterprise, stages of new ventures from incubation to maturity and the structures of new enterprises. Chapter 7 and 8 outline the distinctive features of new enterprises associated with business planning, debt structure and the transition by the new venture founders from employee to employer. New venture growth, the implications of growth and the external factors that impact growth are explored in Chapter 8. Corporate enterprise is the subject of Chapter 9.

Chapters 10 through 13 explore the issues surrounding government intervention in the economy to promote job creation via the new venture growth. The authors explore the motivation and justifications for intervention, theoretical models to guide intervention, the methodologies for intervention and the evaluation of the interventions.

Messrs Bridge, O'Neill and Cromie provide an integrated approach to understanding the motivations of small business founders, the challenges faced by new ventures and the implications for policy-makers regarding the importance of new venture success.

The text presents a balanced view of the contributions small business can make to society. Visually the authors have effectively utilised graphical displays, short case studies and explanatory tables to assist the reader in understanding difficult concepts.

In Chapter 7, the authors' sense of portraying a balanced view may give the reader a sense of ambivalence regarding the need for enterprises to develop a business plan.

I suspect that few successful practitioners with experience establishing new ventures would be ambivalent about the importance of a business plan. The development of a business plan forces the new venture founders to crystallise their thinking, clearly articulate in writing their vision and utilise the plan to establish important milestones for the ventures development.

In Chapter 8, the authors present one of the most lucid and clear explanations of growth components and the potential pitfalls of growth that I have read. Those contemplating the start up of a new venture would be well advised to read this section of the text carefully.

Importantly, the authors recognise the inherent tensions between the goals of entrepreneurs and those of society and the requirement to balance their conflicting aspirations. They also recognise that small business and new enterprises contribute to the improvement of society in a meaningful and important way.

The authors' logical sequential approach to small enterprise development, clarity of writing and succinct presentation provide a prospective that will assist researchers, policy-makers and students of entrepreneurship in understanding an often-intangible subject matter.

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