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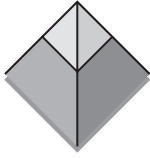
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IRISH BUSINESS AND  
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1. Contributions should be typed double-spaced on A4 paper, with ample left- and right-hand margins. A cover page should contain only the title, author's name(s) and institutional affiliation(s) and the address (one only) to which proofs should be sent, together with full contact details (email, phone and fax numbers). An abstract of 100–150 words should be included on the second page, together with 3–6 key words. A short biography of 50–75 words should accompany the article. To ensure anonymous review, authors should not identify themselves in the text.
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# CEO Power and CEO Stock Options Design



D O L O R E S   Á L V A R E Z   P É R E Z \*  
E D E L M I R A   N E I R A   F O N T E L A \*

## ABSTRACT

This paper analyses the types of stock option plans (SOPs) used to compensate the CEOs of the 115 Spanish firms that best represented the General Index of the Madrid Stock Exchange during 1999–2001. In addition, it examines the relationship between the types of stock option plans and the determinants related to managerial power theory.

We find that most SOPs used in Spain offer CEOs great possibilities for gains, not always linked to the creation of real value. The results also support the hypothesis of managerial power. They suggest that the probability of plans offering the CEO high potential gains increases as: a) the participation of the majority shareholder in the firm's capital decreases; b) the participation of the non-executive directors in the firm's capital decreases; and c) the CEO's tenure increases.

**Key Words:** CEO Power; Stock Options; Compensation.

## INTRODUCTION

Stock option plans (SOPs) have been recommended by academics and by consultants as an effective means of aligning the interests of managers with those of shareholders, given their capacity to link

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managerial wealth to the performance of the firm and to promote executive equity ownership (Murphy, 1999; Ofek and Yermack, 2000).

In English-speaking countries stock options became the most popular instrument for remunerating top management in early 2000 (Canyon and Schwalbach, 2000; Murphy, 2002). Brown (2002) points out that the percentage of the CEO's remuneration paid in stock options rose from 27 per cent in 1992 to 60 per cent in 2000.

The use of SOPs as a component of CEO compensation has been favoured by the lengthy 'boom market' of the 1990s, the tax advantages to both firm and executive, the financial attractiveness of stock options in start-up firms and the institutional pressures created by the growing acceptance of stock options (Murphy, 1999). But the key factor for explaining the popularity of stock options is the corporate governance system. The outsider or Anglo-Saxon system, characterised by diffuse ownership, tends to rely more on managerial compensation to solve the agency conflict.

However, several studies have highlighted the negative relationship between stock options and research and development (R&D) expenditure (Henderson and Frederickson, 2001), the payment of dividends, the level of risk assumed and the search for new business initiatives (Deyá, 2004).<sup>1</sup> For their part, Gerety et al. (2001) have shown that the reaction of the US stock market to the adoption of this type of incentives system for managers is neither economically nor statistically significant. Also, Ofek and Yermack (2000) and McGuire and Matta (2003) indicate that it has little impact on CEO ownership levels.

Perhaps because of these results, in recent years large British firms have replaced share-purchasing rights with other formulas of variable remuneration for their managers. According to a report by Deloitte & Touche (2005), of the 250 principal firms of reference quoted in the FTSE-250 index of the London Stock Exchange, only 48 per cent still used 'stock options' as an incentive for their managers, as against the 76 per cent that did so in 2003.

The decision to replace 'stock options' with other systems of remuneration is influenced by aspects as diverse as taxation of remunerations, the principles of corporate governance or the fact that share options have to figure in the firm's profit and loss

account. According to the study by Deloitte & Touche (2005), the latter has been the reason why many British firms have sought other types of remuneration.

Outside the Anglo-Saxon countries, stock options have been less common and have represented a smaller percentage of the remuneration package (Loewenstein, 2000; Kahan, 2001; Murphy, 1999). Once again this reality can be explained by the corporate governance system. In an insider system, typical of Japan and Europe (except the UK), stock options have been considered less necessary to solve the agency problem because ownership is concentrated and control is assumed to be exercised by banks, companies and families (large shareholders).

However, the use of stock options is gradually increasing outside the Anglo-Saxon countries (Conyon and Schwalbach, 2000; Kalmi et al., 2005). According to the report of the Towers Perrin consultancy (2005), between 2001 and 2004 the use of stock options increased by 30 per cent in Italy, 20 per cent in Spain, Japan and Germany, 10 per cent in the Netherlands and 5 per cent in France. This increase is justified by the need to compete in an increasingly global executive labour market (Conyon and Murphy, 2000). SOPs may be critical to attracting talent (Levinson, 2001). Once a firm has hired skilled executives, stock options may enable it to keep them, or at least may increase the costs that other firms will incur in luring these executives from their present employment (McGuire and Matta, 2003).

In Spain, according to the report titled 'Compensation of Top Management in Europe 2006' by the Watson Wyatt consultancy (2006), 43 per cent of Spanish CEOs participated in SOPs. This, however, is the lowest percentage among western European countries, with the exception of Luxembourg. In Europe, Norway has the highest use (69 per cent), followed by Finland (61 per cent), Switzerland (58 per cent), Austria (57 per cent) and the United Kingdom (56 per cent). Percentages closer to Spain's are those of France (45 per cent), Greece (45 per cent) and Ireland (49 per cent).

In this paper we propose to analyse to what extent the design of SOPs can be explained by the hypothesis of managerial power (Bebchuk et al., 2002; Bebchuk and Fried, 2003), according to which the CEO's remuneration will be higher and/or less sensitive to performance in firms where the CEO has relatively more power than the Board.

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To reach this objective, the paper is structured as follows. The next section analyses different SOPs and their implications for managers and shareholders. Section Three explores the managerial power approach as a determinant of the mode of SOP implemented, and outlines the hypotheses tested in subsequent sections. Then, we explain the research design and review the findings from a sample of Spanish firms. In the final section the results will be discussed and suggestions for further research will be proposed.

### TYPES OF SOP

SOPs are complex compensation systems. They have multiple characteristics on which those responsible for designing them must decide. Despite the importance of the specific design of SOPs, Hall (2000: 126) says, ‘most of the companies I’ve studied don’t pay a whole lot for attention to the way they grant options. Their directors assume that the important thing is just to have a plan in place, the details are trivial’. As a result, companies often end up having options programmes that are counterproductive (Hall, 2000).

From the combination of these dimensions arise different types of options:

- Conventional options establish a fixed exercise price and the only condition for exercising the purchase of stock is that the beneficiary is required to remain in the firm.
- Restricted stock options are conditioned to the achievement of goals (performance-vested options) or to the possession of a certain number of shares. These are therefore conventional options to which clauses have been added restricting the right of exercise.
- Indexed options establish an exercise price in terms of a pre-defined index (general or sector index or benchmark index).

### **Types of SOP and Implications for the CEO and Shareholders**

Conventional options violate a basic proposition in the incentive compensation literature that contracts should insure agents against uncertainty generated by common factors beyond their control, while retaining controllable, idiosyncratic effects to provide the appropriate incentives (Johnson and Tian, 2000). This type of

option can both reward the manager without him making any effort, simply taking advantage of a 'stroke of luck' propitiated by outside forces, and deprive him of reward even when he deserves one (Bebchuk et al., 2002). Consequently, this type of option wastes shareholders' money and sends inappropriate messages to managers, who may perceive that to obtain profits from their SOPs it is not necessary to make an effort, but that they can be achieved by taking advantage of the trend of the market.

The Behavioural Agency Model (BAM), developed by Wiseman and Gómez-Mejia (1998), also allows us to question the capacity of traditional options to encourage managers to take risks.

Conventional stock options, and especially those granted 'in the money', offering high potential profits because there is a high probability that they will result in gains for the manager, will lead the manager to perceive the remuneration as a secure income, thus creating a situation of expectation of gains. According to the BAM, this encourages the manager, in order to protect these expected gains, not to undertake risky projects even when they are profitable for the shareholders.

The disadvantages of the above types can be overcome by using other types of stock options, such as indexed stock options and restricted stock options.

Since executives holding indexed options are rewarded only to the extent that their performance exceeds the market, these plans utilise a less noisy performance measure, protect executives from market shocks and also protect shareholders from rewarding poorly performing executives in bull markets.

Indexed stock options offer managers a lower potential for gains than traditional options. According to Murphy (2002), the probability of obtaining a reward with an indexed option is 50 per cent, whereas with a traditional option granted 'at the money' it is 80 per cent. Following the postulates of the BAM, indexed stock options, by increasing the probability that managers will perceive a situation of expectations of losses, encourage the manager to develop investment projects that lead to an increase in the price of the firm's shares greater than that of the index selected.

Options conditioned to the achievement of objectives (performance-vested options) subject the right of exercise to the achievement of certain objectives (return on equity, market share, share price, etc.).

The motivating capacity of performance-vested options depends on how the objectives are established. When they affect the creation of value, this type of option, like indexed options, will encourage a linkage between remuneration and the creation of value, preventing the manager from obtaining reward thanks to a ‘stroke of luck’. Also, when the objectives are achievable, though challenging, they will encourage the taking of risks.

Options conditioned to participation in capital, i.e. those types that require possession of a certain number of shares to be able to exercise the option right, increase the manager’s personal commitment to the firm. The best guarantee of improving managers’ future performances is to link their gains to the firms’ results even before receiving the incentive.

Therefore, the CEO will prefer conventional stock options, especially granted ‘in the money’, because they offer him a potential gain greater than indexed options and restricted options. However, if the Board wishes to stimulate the creation of value conventional stock options, especially ‘in the money’, are not suitable, as they do not always link reward to creation of value.

### **Types of SOP and their Use by Firms**

Although conventional options can reward the manager without him making any effort, Álvarez and Neira (2005), in their study of SOPs in Spain, found that conventional stock options, especially those granted ‘at the money’, were the most frequently used, though performance-vested options were also used.

This result shows that Spanish firms resort to types of SOP resembling those used in the USA to a greater extent than those applied in European countries like Germany, Sweden and the Netherlands. Indeed, conventional options ‘at the money’ are the most frequently granted in the USA (Bebchuk et al., 2002; Murphy, 2002), whereas options restricted to the achievement of objectives (performance-vested options) are not common, only 5 per cent of the USA’s 250 largest listed firms having them (Levinshon, 2001). On the other hand, performance-vested options are very frequent in Germany, Sweden and the Netherlands (Pilv, 2003; Tower Perrin, 2005). In Japan, conventional stock options granted ‘out of the money’ predominate (Kato et al., 2005).

The differences in design between the SOPs used by Spanish firms and those applied in other European countries characterised by an 'insider' system of governance may be due to the fact that the Spanish model departs from this system in some respects and presents certain similarities to the Anglo-Saxon countries. Spain has a one-tier system (with a board) and the duality chairman/CEO is very frequent, as in Anglo-Saxon countries. These characteristics may enable the CEO to influence the process of remuneration.

### MANAGERIAL POWER AND TYPES OF STOCK OPTIONS PLANS

The managerial power view predicts that pay will be higher and/or less sensitive to performance in firms in which the CEO has relatively more power than the Board.

CEOs can use their power to increase their pay through conventional stock options rather than cash, in an attempt to camouflage pay to mitigate external scrutiny and criticism. The directors could justify these features of option plans as optimal to shareholders and society in general, alleging accounting benefits or the need to retain the executive in the face of the intense job competition in the market.

The literature (Beatty and Zajac, 1994; Tosi and Gómez-Mejía, 1989) suggests that the power of the CEO depends in large part on: 1) the ownership structure of the firm, 2) the composition of the Board and its incentives to monitor the CEO, and 3) personal characteristics. Thus, it can be argued that these variables will also influence the type of SOP used to compensate the CEO.

#### **Ownership Structure and CEOs' Power**

The presence of large outside shareholders committed to maintaining their participation in the long-term plays an active role in the monitoring of top management because they have the capacity to exercise control and incentives to carry it out. The greater the percentage of capital controlled by the shareholders, the greater the correlation between the CEO's personal earnings and that of the firm, with greater incentive to monitor the management and to design an SOP that will favour the creation of value rather than only the interests of the CEO.

Gómez-Mejía et al. (1987) show that, while in owner-controlled firms there is a positive and significant relationship between the CEO's compensation and the company's performance, in management-controlled firms the most significant determinant of the level of compensation is the size of the firm and not its performance. These results may indicate that in management-controlled firms the CEO uses his power to increase his compensation (Finkelstein and Hambrick, 1988). In a later study, Tosi and Gómez-Mejía (1989) confirm this argument. They find that in management-controlled firms the influence exercised by the CEO and by outside consultants on the CEO's compensation is greater than in owner-controlled firms.

We therefore establish the following hypothesis:

H1: The less concentrated the ownership:

- (1.1) the greater the probability that conventional options will be used to compensate the CEO, rather than restricted options or indexed options;
- (1.2) the greater the probability that conventional options granted 'in the money' will be used to compensate the CEO, rather than any other type (restricted options, indexed options and conventional options granted 'at the money' and 'out of the money') .

### **Composition and Motivation of the Board of Directors and CEO's Power**

The literature shows that CEO power is enhanced by the poor working of the Board (Hill and Phan, 1991). One cause is the directors' lack of incentives.

To resolve the problem of directors' incentives, Boyd (1994) supports the thesis of convergence, according to which the Board's motivation to monitor the management increases proportionally to their participation in the firm's capital. Boyd (1994) also revealed that the CEO's level of compensation decreased as the Board's stock ownership increased.

In Spain the directors who represent a controlling shareholder (companies, banks) as well as not having any share in the capital of the firm may be CEOs of other firms. Directors-CEOs seem likely to be sympathetic to their colleague's desires. They may also face a



conflict of interest on compensation issues; they are likely to find it easier to argue for increases in their own compensation by means of traditional options granted 'in the money' if the chief executives of comparable corporations are paid with this type of option.

We therefore posit:

H2: The smaller the percentage of capital owned by non-executive directors:

- (2.1) the greater the probability that conventional options will be used, rather than restricted or indexed options;
- (2.2) the greater the probability that the CEO will be compensated by means of conventional options granted 'in the money', rather than by any other type (restricted options, indexed options and conventional options granted 'at the money' and 'out of the money').

A much-debated question is 'CEO duality', which occurs when a firm's CEO also serves as Chairman of the Board of Directors. CEO duality provides the CEO with a wider power base and locus of control (Hambrick and Finkelstein, 1987). It cannot be ignored that, as well as presiding the meetings of the Board, the Chairman supervises the procedure of assessment and compensation of the CEO. It is open to doubt whether he will perform the latter function without taking into account his personal interests (Morck, Shleifer and Vishny, 1989). Furthermore, the Chairman of the Board of Directors can control the appointment of directors, achieving the appointment of persons close to him, which will limit their independence in defending the interests of shareholders (Hart, 1995; Singh and Harianto, 1989).

Some papers that analyse the influence of the composition and structure of the Board on the CEO's compensation (Boyd, 1994; Conyon and Peck, 1998) indicate a positive and significant relationship between the level of compensation for the CEO and CEO duality.

We therefore posit that:

H3: When CEO duality exists, as against non-CEO duality:

- (3.1) the greater the probability that conventional options will be used, rather than restricted or indexed options;

- (3.2) the greater the probability that the CEO will be compensated by conventional options granted ‘in the money’, rather than by any other type (restricted options, indexed options and conventional options granted ‘at the money’ and ‘out of the money’).

### **CEO’s Personal Characteristics and Managerial Power**

Longer service in the post of CEO, leading to greater familiarity, may increase his influence over members of the Board (O’Reilly et al., 1988).

Mangel and Singh (1993) show a positive and significant relationship between the CEO’s level of compensation and his length of tenure in the post. This result shows that the CEO’s length of tenure gives the CEO power to influence the Board to design systems of compensation in accordance with his preferences, even when they are contrary to the interests of shareholders. This characteristic can give him power over the appointment of directors, so he will select people close to him for the posts, thus reducing their independence when they come to design an optimum plan of incentives (Daily, 1995).

We therefore establish the following hypotheses:

H4: The longer the CEO’s tenure:

- (4.1) the greater the probability of using conventional options rather than restricted or indexed options;
- (4.2) the greater the probability that the CEO will be compensated by conventional options granted ‘in the money’ rather than any other type (restricted options, indexed options and conventional options granted ‘at the money’ and ‘out of the money’).

Also, the more shares owned by the CEO, the greater will be his influence on director elections and his ability to discourage a hostile takeover attempt (Hermalin and Weisbach, 1988). Holderness and Sheehan (1991) reveal a positive and significant relationship between the CEO’s level of compensation and his ownership of shares. This finding reveals that greater CEO share ownership

improves the CEO's power to influence the directors to design a compensation package in accord with his interests.

We therefore establish the following hypotheses:

H5: The greater the CEO's holding of company stock:

- (5.1) the greater the probability of using conventional options rather than restricted or indexed options;
- (5.2) the greater the probability that the CEO will be compensated by conventional options granted 'in the money' rather than any other type (restricted options, indexed options and conventional options granted 'at the money' and 'out of the money').

## EMPIRICAL ANALYSIS

### Sample

To test the working hypotheses we selected the 115 listed companies that best represented the General Index of the Madrid Stock Exchange in December 1999. From this total we excluded twelve firms in which the top executive was not a director. In the remaining 103 companies we verified whether they had used SOPs to compensate the CEO in the period 1999–2001. Twenty-three had used this type of incentive.

### Measurement of the Variables

The study examines two dichotomous dependent variables: 1) use of conventional options versus indexed or restricted options; and 2) use of conventional options granted 'in the money' versus any other type of options or grant (see Table 1.1).

The explanatory variables fall into three categories: 1) ownership structure; 2) composition and incentives of the Board; and 3) personal characteristics of the CEO. We also considered a control variable: the size of the firm. The description of the variables is given in Table 1.1.

The data corresponding to the variables examined in this study were obtained from the following databases:

- Summary report on share option rights of companies owned or controlled by their directors (National Stock Market Commission – CNMV<sup>2</sup>).

**Table 1.1: List of Variables**

<b>Dependent Variables</b>	<b>Description</b>
Conventional option	Dichotomous variable, taking value 1 when the type of option used to compensate the CEO is conventional and 0 when it is indexed or restricted
Conventional option 'in the money'	Dichotomous variable taking value 1 when the CEO is compensated by conventional options granted 'in the money', and 0 otherwise
<b>Explanatory Variables</b>	<b>Measurement</b>
<b>Structure of Ownership</b>	
Holding of majority shareholder	Measured by the percentage of capital owned by the majority shareholder
<b>Composition and Incentives of the Board</b>	
Duality Chairman/CEO	Dichotomous variable taking the value 1 when the chairman of the Board is the CEO and 0 in all other cases
Holding of non-executive directors	Measured by the percentage of capital owned by the non-executive directors
<b>Personal Characteristics of the CEO</b>	
CEO tenure	Measured by the number of years that the CEO has occupied the post
CEO's holding	Measured by the percentage of capital owned by the CEO
<b>Control Variable</b>	
Firm size	Measured by the logarithm of the firm's sales

- Significant holdings presented to the CNMV.
- Audited annual reports presented to the CNMV.
- Good governance reports presented to the CNMV.

RESULTS

The characteristics of the twenty-three companies that use SOPs, in terms of the variables analysed, are given in Table 1.2. The correlation matrix shows a single negative and significant correlation between the firm’s size and the holding of the majority shareholder. Therefore the greater the size of the firm, the smaller the percentage of the firm’s capital owned by the majority shareholder.

Some of the twenty-three firms that used SOPs had more than one plan, which explains why thirty-nine plans were identified. Of these, twenty-seven (69.2 per cent) are of the conventional options type and the remaining twelve (30.8 per cent) are restricted options, conditioned to the achievement of objectives and the possession of a certain number of shares (see Table 1.3). No SOPs were of the indexed options type.

In both the conventional options mode and the restricted options mode, the most frequent alternative is the grant ‘at the money’, though the conventional options granted ‘in the money’ are not negligible, as they represent 25.6 per cent of the total of SOPs.

**Table 1.2: Descriptive Statistics (Means and Standard Deviations) and Correlations Matrix**

	<b>Mean</b>	<b>S.D.</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>
1. CEO’s holding	1.97	8.54	1					
2. CEO tenure	5.32	4.30	0.19	1				
3. Holding of majority shareholder	31.62	30.56	0.08	-0.04	1			
4. Holding of non-executive directors	4.13	9.50	-0.08	-0.08	-0.07	1		
5. Duality Chairman/CEO	0.56	0.50	0.19	-0.02	0.22	0.10	1	
6. Firm size	12.27	2.03	-0.11	0.23	-0.53**	0.13	-0.24	1

\*\*\* $p < 0.001$ , \*\* $p < 0.05$ , \* $p < 0.1$

**Table 1.3: Frequency of Option Type**

	<b>Conventional Option</b>	<b>Restricted Option</b>	<b>Total</b>
Granted 'in the money'	10 (25.6%)	1 (2.6%)	11 (28.2%)
Granted 'at the money'	11 (28.2%)	7 (18%)	18 (46.2%)
Granted 'out of the money'	6 (15.4%)	4 (10.2%)	10 (25.6%)
Total	27 (69.2%)	12 (30.8%)	39 (100%)

By means of the Mann-Whitney non-parametric U test<sup>3</sup> we examined the differences of means in the continuous variables between the two sub-samples obtained based on use of: 1) conventional options versus restricted options; and 2) conventional options granted 'in the money' versus other type (restricted options and conventional options granted 'at the money' and 'out of the money') (see Table 1.4).

The test of differences of means between the firms that use conventional options and those that use restricted options shows that the size of the firms that resort to the conventional mode is larger than that of the firms that employ restricted options. It also shows that the holding of the majority shareholder in the company's capital and the holdings of executive directors in the company's capital are significantly smaller in the group of firms that use conventional options, whereas the CEO's tenure and his holding in the company's capital do not differ significantly between the firms that use conventional options and those that resort to restricted options. The Pearson Chi-Square test ( $\chi^2$ ) does not find a significant relationship between chairman/CEO duality and the use of one or other type of options.

The results of the test of differences of means between the group of firms that use conventional options 'in the money' and the group that use restricted options and conventional options granted 'at the money' and 'out of the money' indicate that the percentage of company capital owned by the majority shareholder is significantly less in the first group, while the CEO's tenure and the size of the firm are significantly greater. The differences in the CEO's holding in the firm and

Table 1.4: Comparison of Means

	Conventional Option		M-W-U Test Z (sig.)	Conventional Option 'in the Money'		M-W-U Test Z (sig.)
	Yes Mean (Standard deviation) n = 27	No Mean (Standard deviation) n = 12		Yes Mean (Standard deviation) n = 10	No Mean (Standard deviation) n = 29	
Holding of majority shareholder	26.25 (28.8)	45.50 (31.87)	-2.377 (0.01)**	13.57 (20.06)	38.71 (31.31)	-3.659 (0.000)***
Holding of non-executive directors	2.02 (2.34)	10.73 (17.10)	-1.917 (0.05)*	3.45 (2.31)	4.43 (11.30)	-1.466 (0.15)
CEO's tenure	5.11 (4.54)	5.77 (3.77)	-0.359 (0.79)	7.54 (5.41)	4.38 (3.44)	-1.921 (0.06)*
CEO's holding	0.83 (2.78)	0.17 (2.2)	-0.368 (0.73)	0.19 (0.34)	0.8 (2.78)	-0.692 (0.39)
Firm size	12.63 (2.17)	11.45 (1.43)	-2.125 (0.03)**	13.42 (2.05)	11.82 (1.86)	-2.187 (0.02)**
	<b>Mean (S.d.)</b>	<b>Mean (S.d.)</b>	<b>Test <math>\chi^2</math> (sig.)</b>	<b>Mean (S.d.)</b>	<b>Mean (S.d.)</b>	<b>Test <math>\chi^2</math> (sig.)</b>
Duality Chairman/CEO	0.53 (0.50)	0.36 (0.5)	2.436 (0.27)	0.54 (0.50)	0.46 (0.48)	2.504 (0.28)

\*\*\*p < 0.001, \*\*p < 0.05, \*p < 0.1

the holdings of non-executive directors are significant. Nor is there a relationship between the type of SOP and chairman/CEO duality.

To test the hypothesis we used two logistic regression models, one to model the probability of use of conventional options and the other to model the probability of use of conventional options granted ‘in the money’. The two models are expressed as follows:

$$P(Y) = 1/1 + e^{-z}$$

where  $Y$  is the dependent variable (model 1: use of conventional options, model 2: conventional options granted ‘in the money’) and  $z$  is the linear combination of the independent variables for the period prior to the formulation of the plan.

$z = \beta_0 + \beta_1$  holding of majority shareholder  $+ \beta_2$  holding of non-executive directors  $+ \beta_3$  CEO tenure  $+ \beta_4$  CEO’s holding  $+ \beta_5$  duality chairman/CEO  $+ \beta_6$  firm size  $+ \epsilon$ .

The fact that the ‘holding of majority shareholder’ and ‘firm size’ variables present a high correlation, as can be seen in the correlations matrix (see Table 1.2), together with the limitation imposed by the size of the sample, led us to follow the ‘forward Wald’ procedure, in order to avoid possible problems of multicollinearity among the regressors. This procedure only introduces the variables that contribute to the overall fit of the model and excludes the variables that are not significant.

Table 1.5 presents the results of estimating the two logit models.

The model corresponding to the probability that conventional options will be used correctly classifies 91.2 per cent of the observations. The ‘holding of majority shareholder’ variable negatively influences the probability ( $\beta = -0.03$ ,  $p < 0.1$ ) in the same way as ‘holding of non-executive directors’ ( $\beta = -0.45$ ,  $p < 0.05$ ). Therefore, hypotheses 1.1 and 2.1 are supported. The remaining variables are not significant, so hypotheses 3.1, 4.1 and 5.1 are not supported.

The model corresponding to the probability that conventional ‘in the money’ options will be used is also significant, correctly classifying 72.3 per cent of the observations. The ‘holding of majority shareholder’ variable has a negative influence on probability ( $\beta = -0.03$ ,  $p < 0.1$ ) and ‘CEO tenure’ has a positive one ( $\beta = 0.18$ ,  $p < 0.1$ ). Therefore, the results support hypotheses 1.2 and 4.2. The remaining variables are not significant, so hypotheses 2.2, 3.2 and 5.2 are not supported.



Table 1.5: Logit Model

<b>Variables in the Equation</b>					
<b>Model 1 Dependent Variable: Conventional Option</b>			<b>Model 2 Dependent Variable: Conventional Option 'in the Money'</b>		
<b>Independent Variable</b>	<b>β</b>	<b>Wald (sig.)</b>	<b>Independent Variable</b>	<b>β</b>	<b>Wald (sig.)</b>
Holding of the majority shareholder	-0.03	3.03 (0.08)*	Holding of the majority shareholder	-0.03	2.74 (0.09)*
Holding of non-executive directors	-0.45	6.13 (0.01)**	CEO tenure	0.18	3.12 (0.07)*
Constant	5.03	8.95 (0.003)**	Constant	-1.06	1.6 (0.20)
-2 log-likelihood = 26.028 $\chi^2 = 12.11$ , sig. 0.002 R2 nagelkerke = 0.343 Percentage correct 91.2%			-2 log-likelihood = 35.203 $\chi^2 = 9,113$ , sig. 0.01 R2 nagelkerke = 0.31 Percentage correct 72.3 %		
*** $p < 0.001$ , ** $p < 0.05$ , * $p < 0.1$					
<b>Variables not in the Equation<sup>1</sup></b>					
<b>Model 1 Dependent Variable: Conventional Option</b>			<b>Model 2 Dependent Variable: Conventional Option 'in the Money'</b>		
CEO's holding Chairman/CEO Duality CEO tenure Firm size			CEO's holding Chairman/CEO Duality Holding of non-executive directors Firm size		

<sup>1</sup> The 'forward Wald' procedure only introduces the variables that contribute to the overall fit of the model and excludes the variables that are not significant.

The probability that conventional options will be used to reward the CEO therefore increases as the participation of the majority shareholder in the firm's capital decreases and as the participation of the non-executive directors decreases; whereas the probability

that conventional ‘in the money’ options will be implemented decreases with the participation of the majority shareholder and increases with the CEO’s tenure.

## DISCUSSION

In Spain the use of SOPs as a mechanism for remunerating managers has increased in recent years. Nevertheless, Spanish research into options-based remuneration of CEOs is recent and sparse.<sup>4</sup>

Our study finds that traditional stock options are used by Spanish firms more than conditioned stock options. Traditional stock options, especially those granted ‘in the money’, do not have the capacity to motivate the manager to orientate his activities towards the creation of value. The expectation of gains generated may incentivise the manager to act conservatively in order to protect such expectations. Furthermore, the influence of exogenous factors on the share price may cause the manager to obtain a high reward without having made any effort or deprive him of it even when it is deserved. Hence the questioning of the capacity of this type of option to incentivise the manager to seek and exploit new opportunities to achieve a competitive advantage.

Our study shows that: 1) the probability of using conventional options rather than restricted options increases as the participation in the firm’s capital of the majority shareholder and non-executive directors decreases; and 2) the probability of using conventional ‘in the money’ options decreases with the participation of the majority shareholder and increases with the CEO’s tenure. These results confirm that CEOs use their power to extract rents disguised as incentive pay.

In theory, ‘outrage cost’ should limit these rents. In practice, however, firms resort to ‘camouflage’ to minimize outrage costs. Traditional stock options seem to be perfect for such camouflage. Boards dominated by the CEO could justify this type of option by claiming that the outside consultant has recommended them in order to retain the CEO and that they are remuneration mechanisms very common in other countries (for example in Anglo-Saxon countries).

However, these arguments are not acceptable. First, the outside consultant may be vulnerable to pressure from the CEO. He knows that displeasing the top executive will mean the end of further lucrative work with the audit or human resources departments. Second,

in 77 per cent of SOPs, catalogued as traditional options, the length of the exclusion period is less than three years and there aren't clauses that slow the vesting of the right of purchase during the exercise period. It can therefore be questioned whether the aim of these plans is to retain the CEO. They clearly encourage a short-term orientation and may even offer an incentive to actions aimed at artificially increasing the share price (e.g. buying back shares of the firm that are on the market).

Although the results of this study cannot be extrapolated to other countries, they allow a debate to be opened in the European countries where research into the design of stock option plans is very under-developed. Thus, we consider that future studies should attempt to answer the following questions: what factors affect the design of SOPs in other European countries? In which countries is CEO power a determinant of the design of SOPs?

As in the Anglo-Saxon countries, in Europe codes of good governance have been developed that establish a set of 'best practice' recommendations regarding the behaviour and structures of the board of directors. Thus, another important theme to investigate is the repercussion of compliance with the codes of conduct on the design of SOPs, in different European countries.

Although the codes of good governance published in the different countries agree in their general recommendations – to include a significant number of independent directors, to reduce the size of the Board, to separate the posts of CEO and Chairman, transparency of remuneration, etc. – they present some differences that could have repercussions for the design of SOPs. For example, while the Cadbury and Greenbury reports (United Kingdom) recommend total transparency regarding the remuneration of executive directors, the Olivencia and Aldama reports (Spain) only recommend partial transparency (reporting the remuneration of executive directors in the aggregate). Furthermore, while in the United Kingdom most firms follow this recommendation, in Spain, it is the least obeyed, according to the Spanish Supervisory Agency (CNMV). Total transparency in disclosure of executive pay and disclosure of how market movements affect options values would help outsiders understand executives' compensation arrangements and thereby check the use of their less desirable elements.

Also, while the codes of good governance in the Netherlands and Germany make several suggestions for the design of SOPs (for example, that exercise of options should be linked to relative company performance targets (Pilv, 2003)), in Spain the Olivencia report confines itself to recommending variable remuneration.

Another important subject for research in the European setting is the influence of SOPs on managers' behaviour, because unfortunately we are not aware of any paper that analyses this. Some studies carried out in the Anglo-Saxon sphere (Brian et al., 2000) and in Japan (Kato et al., 2005) revealed wide differences. In the U.S. it is evident that SOPs contribute to reducing dividend payouts (Lambert et al., 1989), and have little impact on CEO ownership levels (Ofek and Yermack, 2000; McGuire and Matta, 2003). In contrast, Kato et al. (2005) found that in Japan the SOP increases the overall ownership of the board and found no evidence of dividend reductions.

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- 1 For this author, the current design of SOPs may be one of the causes explaining these 'strange' effects. Since managers present aversion to losses, they will tend to take a relatively conservative attitude, with the ultimate aim of protecting the current value contained in their SOP, instead of embarking on business initiatives to increase the value of the firm.
  - 2 The CNMV requires listed firms to provide up-to-date information on the different systems of remuneration linked to the price of shares, such as share option plans. Royal Decree 1370/2000, of 19 July 2000, on reporting of significant participations in listed companies and of acquisitions by the latter of their own shares, establishes that listed firms have the obligation to report the granting and approval of option plans within a period of seven working days following the signing of the contract, agreement or decision by which those option rights are recognised, acquired or transferred.
  - 3 Unlike other tests, such as Student's *t* test for difference of averages that require normality in the distribution of the random variables that are being analysed, Mann-Whitney's test requires no hypothesis as to the type of distribution.
  - 4 Melle-Hernández (2003) analyses whether the Spanish market values positively or negatively the adoption of SOPs; Álvarez and Neira (2005) the types of options used to remunerate the CEO, and Deyá (2005) studies the effects of SOPs in the framework of the Behavioural Agency Model.

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# Methodological and Research Issues Using E-S-QUAL to Measure Online Service Quality in Irish SMEs



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## ABSTRACT

The analysis of service quality in an online context has become a popular research activity. In this paper the research process of an empirical study in this area is described. At the time of writing, the survey instrument, E-S-QUAL, had not been utilised in Ireland, and as far as we know has been used very little internationally. Following a brief literature review, we describe our research process and methodology in some detail, and outline the initial stages of the data analysis. Concluding remarks summarise the research to date and indicate the potential for future research in this area.

**Key Words:** Online Service Quality; E-S-QUAL; Research Methodology.

## INTRODUCTION

The objective of this paper is to outline the methodology for a research project that the authors carried out in 2006. This aim of the research was to investigate online service quality expectations in an Irish context, as well as determine the specific dimensions that are particularly relevant in Ireland. We believe the research process undertaken for this project is interesting for a couple of reasons.

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First the survey instrument we used has been developed internationally but at the time of writing had not yet been utilised either in or outside of Ireland. The survey instrument is called E-S-QUAL and is a development of the SERVQUAL questionnaire that is more widely known. Both are questionnaires designed to elicit customer responses regarding the levels of quality in dimensions such as trust or loyalty they perceive in a service that they are using. The E-S-QUAL survey has been specifically developed for online retailing. The second novel aspect is the data collection methodology. We obtained permission from a premier Irish web-based portal, Buy4Now, which offers online shopping from a number of retailers, to survey both the vendors themselves and their customers.

#### LITERATURE OVERVIEW

Online consumers have clear expectations regarding their interactions with online vendors and demand high levels of service (Bitner, 2001; Cox and Dale, 2001; Alzola and Robaine, 2005). It is therefore essential for vendors to understand the dimensions of service excellence that their customers value. Once they know the online consumers' service quality needs, their marketing strategies are more likely to be successful. At present there are more than two million users of the Internet in Ireland, representing just over 50 per cent of the population (Internet World Stats, 2006). While the percentage of those using the Internet to purchase goods and services remains undetermined, based on previous studies it is likely that the percentage of Internet users purchasing online is likely to remain substantially lower than those using it as an information medium. In the past, consumers' resistance to online purchasing was explained as a consequence of the fact that although Internet and mobile communications usage in Ireland is similar to other European Union countries, Ireland has a comparatively under-developed broadband market (both residential and business) with poor levels of DSL and cable modem adoption. However, as these problems resolve and broadband penetration of the domestic market increases, it has become more difficult to explain low rates of online retailing adoption in terms of technological barriers. In fact, as technological barriers are reduced, consumers' increasing dissatisfaction with the quality of service being provided by online retailers has become

more apparent, and this is one of the main reasons why we decided to undertake this research.

Traditional service quality is a multi-attribute construct that compares the consumers' expectations and their perception of the vendors' actions. In the literature the SERVQUAL survey instrument (Parasuraman, Zeithaml and Berry, 1988) is frequently employed to examine service quality. The SERVQUAL scale encompasses five dimensions of service quality and 22 explanatory items. The research presented in this paper employs the new E-S-QUAL survey instrument (Parasuraman, Zeithaml and Malhotra, 2005) within the context of small-to-medium enterprise (SME) business-to-consumer (B2C) electronic commerce in a number of service industries in Ireland. It investigates the specific dimensions of service quality that Irish online consumers value, and the degree to which those dimensions of service quality predict the generation of consumer trust beliefs. We hope that the results obtained will provide evidence that Irish online consumers' perception of service quality is driven by specific factors, all of which are possible for the vendor to manage.

### SURVEY UTILISED

Having reviewed the relevant literature, the decision was taken to use the more recent E-S-QUAL questionnaire (Parusaman et al., 2005), which was developed by the original authors of the SERVQUAL survey (Parusaman et al., 1988). The final survey utilised, based on the Parusaman et al. (2005) questionnaire, was divided into two sections, 1 and 2. This was first formatted in Microsoft Word and then set up in a web-based format. Customers completed Sections 1 and 2 and vendors completed Section 1 only.

In Section 1 of the survey a varying number of questions were asked in several areas of online customer quality dimensions. In Table 2.1 the dimensions and the number of questions in each are listed. Also included was one statement on trust at the end of each quality dimension. For example within the 'Efficiency' dimension, customers were asked to address the following: *The ease of use of a website increases my trust in the online vendor.* A Likert scale from 'Strongly Agree (5)' to 'Strongly Disagree (1)' was utilised for this section.

**Table 2.1: E-S-QUAL Quality Dimensions and Number of Associated Questions (Section 1)**

<b>Quality Dimension</b>	<b>Number of Questions (Plus one in each dimension on trust)</b>
Efficiency	8
System availability	4
Fulfilment	7
Privacy	3
Responsiveness	5
Compensation	3
Contact	3
Perceived value	4
Loyalty intentions	5

In Section 2 the following questions were asked with choices given for each section. This section was not in the original E-S-QUAL survey, but was subsequently developed by the authors of this paper.

- How frequently do you purchase from online websites?
- What is your most frequent online purchase?
- Which of the following is the most accurate reflection of your average cash spend per online transaction?
- Do recommendations from others influence your decision as to whether you will purchase from an online vendor?
- Have you ever opted out of (started but not completed) an online purchase?
- At what stage of the purchase process have you done this?
- What was the reason you opted out of the online purchase?
- Age, gender and education questions.

Before placing the final questionnaire on the web we contacted and spoke to one of the authors of the E-S-QUAL survey in order to make sure that they had no objection to our using it. We also found out that as far as they knew, no study had been carried out that

utilised their latest work. We felt it was important to get permission to use E-S-QUAL, but it was also very useful to find out that potentially we were the first people to utilise the survey in the new format, specifically developed for online purchasers.

#### ADAPTATIONS OF SURVEY

As we were publicising the survey on the Buy4Now portal, and we had specific research objectives, we decided to adapt the questionnaire for the purposes of this project. Altogether there were five separate adaptations of the original E-S-QUAL survey made:

1. Before customers started to complete the survey they were asked to indicate how they were directed to it, i.e. the name of the vendor website that informed them of the survey. This was done in order to see the volume of responses from the different websites included in the portal.
2. At the end of the set of questions for each dimension, a further question on 'trust' was added, e.g. 'the ease of use of a website increases my trust in the online vendor'. The purpose of this addition was to extend and develop the potential research results as 'Trust' in an online purchase context is of specific interest to one of the authors.
3. 'Perceived Value' and 'Loyalty of Intentions' scales were modified as the shopping portal was not comfortable with some of the questions being asked. We are not sure yet of the implications of these changes but hope that it will not affect the results substantially.
4. An additional section, Section 2 (described above) was added to determine specific customer information, including demographics such as gender and age range as well as frequency and amount of online purchases. Again this was perceived to be a useful addition in order to be able to determine descriptive statistics about the type of customer who responded to the survey, as well as their purchasing patterns.
5. Three managers from each of the vendors were asked to complete a similar survey to their customers, but without Section 2 included. This was included in order to investigate whether the managers had different views to the customers in terms of the ease of use and efficiency of the website and the follow-up delivery

service. The effectiveness of this decision is still under review as not all vendors completed the survey, and thus the data is incomplete in this area.

### RESEARCH METHODOLOGY

As already indicated, the Dublin-based online shopping portal Buy4Now was used to host the questionnaire. This portal assists a number of vendors in maximising their online selling potential through advertising special offers, coordinating deliveries and taking advantage of Internet business models. It was felt that as there was a mix of businesses selling goods ranging from holidays to flowers, there would be a good cross-section of customer types in terms of age, tastes and spending power. Using the portal as a host would have the added advantage of targeting the research at the correct population, i.e. those who regularly shop online.

The authors met with Buy4Now's marketing manager and web content manager to discuss the possibility of the research being carried with them. The discussions with the managers culminated in an agreement that Buy4Now would host the questionnaire on their partner stores' websites. It was also decided that three managers from each of the stores (vendors) would be invited to complete an online questionnaire similar to the customers so that responses to the same statements could be compared. The authors agreed to provide a confidential report for each individual vendor as well as a comparative report for Buy4Now.

In order to try and increase participation in the study, the web content manager wrote to each of the vendors to ask them to take part in the web-based survey and also designed a 'pop-up' information box to alert customers to complete the questionnaire online. Around this time Buy4Now was undergoing a review of their 'check-out' procedure and so the management decided to release the questionnaire request simultaneously with this review. This led to a major delay of a few months in the survey going 'live' as each vendor's system was completed at a different time. Also around this time, some vendors decided either not to take part, or dropped out of the study, leaving fourteen vendors and their customers involved in the research. Finally however, all vendors except one had the survey up on their site, and it was left there for three weeks to allow customers time to respond.

At the end of this time there had been quite a low reaction to the survey, so an email indicating DCU's involvement in the study was sent to a number of the portal's regular customers. This resulted in a good response, and at the close of the study 361 responses were received, allowing the potential for meaningful statistical analysis. In this regard two kinds of data analysis are envisaged. Using Excel, summary and descriptive statistics will be calculated to get an overview of the customer responses. Then, using SPSS, correlation and regression analysis will be undertaken to determine more in-depth results from the data

### COMMENTS AND CONCLUSION

This has been an interesting research study from a number of perspectives. First, using E-S-QUAL was advantageous in one way as it gave us a 'first-mover' advantage, at least in Ireland. However as it has not yet been tried and tested, there may be technical difficulties that we are yet to find during the data analysis process. One other aspect of interest is the collaboration with the shopping portal. On the one hand this relationship allowed access to a large number of consumers who regularly shop online. On the other hand having a practitioner-based partner meant that we were subject to difficulties out of our control such as the long delay in getting the questionnaire live on the vendor sites.

The potential findings of this research are significant, as they will provide SMEs with insights into the key dimensions of service that are valued by Irish online consumers, as well as contributing to the academic literature. The research is also important as it is one of the first studies to use the newly developed E-S-QUAL survey instrument in the electronic commerce service environment in general, and it is the first in an Irish context. These contributions will assist both practitioners and researchers in developing an understanding of the factors that contribute towards the creation and maintenance of consumer satisfaction in Irish online transactions. Among other things we hope to be able to compare responses from small and large organisations and different industries as well as other perspectives, such as male/female variances.

Further research could be also undertaken to determine whether the results of this research are applicable to online transactions in other countries.

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# Development of the Leader Behaviour Assessment Profile



S U S H A M A C H A U D H A R I \*  
U P I N D E R D H A R \* \*

## ABSTRACT

Leadership as a concept has interested psychologists, sociologists, political scientists and management scientists. Significant efforts have been made by researchers since the 1920s to understand the concept of leadership. The more we research leadership, the more complexity comes to light. Leadership can be simply defined as the act of making an impact on others in a desired direction. The present paper summarises the development of the leader behaviour assessment profile, which measures leadership styles in terms of telling, selling, participating and delegating.

## INTRODUCTION

Managers can effectively run organisations, but it is only leaders who can build them. Managers are goals driven, whereas it is purpose that motivates leaders. There are almost as many definitions of leadership as there are persons who have attempted to define the concept. Leadership has been defined in terms of individual traits, leader behaviour, interaction patterns, role relationships, follower

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perceptions, influence over followers, influence on task goals and influence on organisational culture. Hemphill and Coons (1957) defined leadership as the behaviour of an individual when he is directing the activities of a group towards a shared goal. Tannenbaum et al. (1961) had defined leadership as a process of interpersonal influence exercised in a situation and directed through the communication process toward the attainment of a specified goal or goals. However leadership is also understood as the initiation and maintenance of structure (Stogdill, 1974). It is the influential increment over and above mechanical compliance with the routine directives of the organisation (Katz and Kahn, 1978). It is a process of influencing the activities of an organised group toward goal achievement (Rauch and Behling, 1984).

Leadership process is a process of giving purpose (meaningful direction) to collective effort and causing willing efforts to be expended to achieve the purpose (Jacobs and Jaques, 1990). Therefore, leaders are those who consistently make effective contributions to social order and who are expected and perceived to do so (Hosking, 1988). Leadership is an attempt to influence the behaviour of another individual or group. Management, on the other hand, is working with and through others to accomplish organisational goals (Hersey, 1984). Researchers have tried to find out what makes an individual a leader; or what kind of behavioural patterns are exhibited by the leader; or why leadership styles differ from individual to individual. The cumulative findings from more than eighty years of research indicate that some traits, e.g. intelligence, increase the likelihood of success of a leader, even though none of these traits guarantee success (Lord et al., 1986; Bass, 1990). The leaders are responsible for accomplishing organisational goals as well as for the well-being of their subordinates. In general, effective leaders show substantial concern in their behaviour, both for task objectives and for the people who must carry out the task (Blake and Mouton, 1982). Although some task-oriented and people-oriented behaviour is necessary for any leader, the relative importance of specific forms of behaviour varies from situation to situation (Yukl, 1989).

Effective leaders select behaviour which is appropriate for a given situation and they also act to modify the situation to make it more favourable (Yukl, 1981; Blake and Mouton, 1982). Situational

approaches to leadership emphasise the importance of contextual factors, such as the leader's authority and discretion, the nature of the work performed by the leader's unit, the attributes of subordinates and the nature of the external environment. Situational leadership theories are divided into two major sub-categories. One line of research treats leader behaviour as a dependent variable: the researchers seek to discover how the situation influences behaviour and how much variation occurs in leader behaviour across different types of leader positions. The other line of research seeks to discover how situational variables moderate the relationship between leader attributes (e.g. traits and behaviour) and measures of leader effectiveness. There has been much more research on the latter approach than on the former, perhaps because it is compatible with the common bias to perceive leaders as causal agents who shape events rather than being shaped by them.

The theory and research on situational demands is concerned primarily with explaining leader behaviour across situations, not with explaining why one particular type of behaviour is more effective in one particular situation. Some insights into the reasons are useful for understanding situational demands for organisational effectiveness, especially to understand what aspects of the job to emphasise, how to allocate time and with whom to interact (Kotter, 1982). Situational approaches maintain that leadership is determined not so much by the character of the individuals as by the requirements of the social situation.

According to this research focus, a person could be a follower or a leader depending upon circumstances. Situational leadership approaches contain an underlying assumption that different situations require different types of leadership, while the contingency approach attempts to specify the conditions or situational variables that moderate the relationship between leader traits or behaviours and performance criteria. The most popular situational theory of leadership among management practitioners is Hersey and Blanchard's situational leadership theory (1969, 1988). It proposes that the optimal amount of task-oriented behaviour by a leader depends on subordinate maturity. They combined the contingency theory (Fiedler, 1967) and grid approach (Blake and Mouton, 1982) to propose their situational theory of leadership.

Combining concerns for tasks and for people (from low to high), they proposed four leadership styles: *Style 1*: high concern for task, low concern for relationship, *Style 2*: high concern for both task and relationship, *Style 3*: high concern for relationship, low concern for task, *Style 4*: low concern for both task and relationship. They proposed that all four styles are functional; however, their relevance to situations is important. They proposed that the leader effectiveness is inversely related to the maturity of the followers. In this situational model, whether the leader should tell, sell, participate or delegate is contingent upon job maturity of the subordinate in terms of ability and willingness to own responsibility for self-direction.

Hersey and Blanchard proposed that when subordinates are unwilling and unable then a 'telling style' that clarifies direction and instructs subordinates can be more effective. When the subordinates are willing but unable then a 'selling' style of leadership may be more effective; in the case of subordinates being able but unwilling then a 'participating' style of leadership is more effective. When the subordinates are willing as well as able then 'delegating' may be more effective.

Hersey and Blanchard (1969) cited conclusions of Korman (1966) as a basis for their theory, and they argued that Korman suggests the possibility of a curvilinear relationship rather than a simple linear relationship between initiating structure, consideration and other variables. They stated that situational leadership style is based on a curvilinear relationship between task behaviour, relationship behaviour and maturity. In 1982, Hersey and Blanchard presented a model with multiple styles that displayed both ability or 'job maturity' and willingness or 'psychological maturity' as separate components of maturity. Ability is argued to progress from a little, to some, to quite a bit, to a great deal through the four levels of increasing subordinate maturity respectively. The present paper is an attempt to describe the procedure undertaken for developing and standardising an instrument to assess the behaviour of a leader in terms of the various styles proposed by Hersey and Blanchard in their model.

#### DEVELOPMENT OF THE INSTRUMENT

The instrument is based on situations. In all, sixteen situations were developed which depicted the state of maturity of the subordinates in terms of their ability and willingness. Four possibilities were

developed for each level of maturity: 1) unable and unwilling, 2) unable but willing, 3) able but unwilling and 4) able and willing. These situations were written on cards, which were shown to ten experts or judges who were well versed with situational leadership theory. These experts had doctoral/MBA degrees and were experienced management practitioners. The sixteen situations were modified and finalised based on suggestions of the experts or judges. Each situation had four response options. Each option represented a particular leadership style, viz. telling, selling, participating and delegating. After finalising the sixteen situations and their options, the first version of the instrument was administered to 197 managers to testify the feasibility of the measure. The respondents were asked to choose their response on the basis of what they might do if they had to face a particular situation (Appendix 3.1).

### *Validity*

Face/content validity of the instrument was high, because all the situations were validated by the subject experts who were taken as judges.

### **Use of the Instrument**

The measure can be used for research and survey purposes. It can also be used for individual assessment. It is self-administering and does not require the services of a highly trained tester. It is eminently suitable for group as well as individual testing. Leader Behaviour Assessment Profile (LBAP) was designed to help managers to examine their dominant and back-up leadership styles. The respondents can examine their profiles on the basis of scoring patterns and enhance their effectiveness across situations.

### *Limitations of the Instrument*

In all measures of this nature, the respondents do manage to get some insights into what the purpose is. As such, there is always the factor of 'social desirability and faking'. The instrument is purported to assess the leadership profile on the basis of self-awareness of the respondent. Thus, it does not cover the part of knowledge unknown to the respondent him/herself.

The user of the instrument is advised to develop his/her own norms, if the instrument is administered on a large sample.

### **Instructions for Administration of LBAP**

The instructions are given to the respondents for clarity and correct understanding about the procedure required to be followed for responding to the situations given in the instrument.

### **Important Points**

1. No time limit should be given for completing the measure. However, most respondents should complete it in about twenty minutes.
2. Before administering the measure, it is advisable to emphasise orally that responses should be checked as quickly as possible and sincere cooperation is sought for the same. The responses should be kept confidential.
3. It should also be emphasised that there is no right or wrong responses. The situations are designed to highlight the differences in individual reactions. The instrument is meant to record the difference between individuals and not to rank them as good or bad.
4. It should be duly emphasised that all situations have to be responded to and no situation should be left unanswered.
5. It is not desirable to tell the respondents the exact purpose for which the measure or instrument is used prior to administration of the instrument. However, this can be disclosed afterwards when respondents have completed the work.
6. Though the measure is self-administering, it has been found useful to read out the instructions printed on the response sheet to the respondents.

### **Instructions for Scoring the LBAP**

Manual scoring is done conveniently. A scoring sheet is provided to identify corresponding leadership styles as per responses:

1. Each alternative is representative of one of the leadership styles.
2. The tick-marked (✓) alternatives are identified in terms of the styles represented by them. Each style can, therefore, be tick-marked (✓) sixteen times in the measure.
3. Each tick (✓) mark is awarded a score of one if the style is appropriate for the situation. In each situation, there is only one

alternative that is appropriate for it, as per the Hersey and Blanchard Model. Hence, the maximum possible score for each style is four and the minimum is zero.

4. Award a score of 'one' for each response if your answer matches the key: 1(d), 2(a), 3(a), 4(b), 5(d), 6(a), 7(a), 8(b), 9(d), 10(a), 11(a), 12(b), 13(d), 14(a), 15(a) and 16(b). All other answers score zero. Here, the number refers to the serial order of the situation and the letter in the parentheses is the indicator of the appropriate style for each specific situation.
5. The style having the highest score is considered to be the 'dominant' style, whereas the next highest score is considered as the 'back-up' style.
6. However, it is possible to have more than one dominant and even back-up styles, which is so only if there are two or more styles with the same scores. If this occurs, then the respondent is considered to have multiple 'dominant or back-up' styles.
7. The measure yields the leader behaviour profile in terms of four leadership styles with dominant and back-up styles for an individual.

### APPENDIX 3.1: LEADER BEHAVIOUR ASSESSMENT PROFILE

**Instructions:** In this questionnaire certain situations are given. Place yourself in these situations and choose one of the four options by encircling your choice. There are no right or wrong answers.

#### **Situation 1**

You have recently joined an organisation as head of one of the departments. Your subordinates seem to be enthusiastic and efficient. The top management has given you higher targets than the previous year.

- (a) You would assign the tasks to your subordinates without consulting them.
- (b) You will take your subordinates into your confidence and assign them tasks to accomplish the targets after discussing it with them.

- (c) You will allow your subordinates to have their say in finalising the action plan to accomplish the targets.
- (d) You will apprise your subordinates of the targets and allow them to accomplish them in their own way.

**Situation 2**

Your department is given the responsibility of organising a programme for all employees. Your subordinates have volunteered and have shown keen interest in organising the event. They have not demonstrated ability in the past for organising such programmes.

- (a) You will take your subordinates into your confidence and assign them tasks after discussing their responsibilities with them.
- (b) You will allow your subordinates to have their say in finalising the action plan afresh.
- (c) You will apprise your subordinates of the situation and allow them to work out a new plan and implement it.
- (d) You will assign the tasks to your subordinates and instruct them in detail about how to perform these tasks.

**Situation 3**

You have recently joined an organisation. Your department is considered quite efficient in its work. You are given an important assignment. Your subordinates seem to be reluctant and uninterested in your proposals.

- (a) You will allow your subordinates to have their say in finalising their responsibilities and action plan.
- (b) You will apprise your subordinates of the assignment and allow them to prepare an action plan and implement it in their own way.
- (c) You will assign the tasks to your subordinates on your own without discussing it with them.
- (d) You will take your subordinates into your confidence and assign them tasks after discussing it with them.

**Situation 4**

The performance of your department is declining. The team members blame each other. They seem to be confused over their



roles and responsibilities. They are not able to coordinate different activities.

- (a) You will apprise your subordinates of the current situation and allow them to find a solution on their own.
- (b) You will reassign the tasks to your subordinates and clarify your expectations.
- (c) You will take your subordinates into your confidence and reassign them tasks after discussing it with them.
- (d) You will allow your subordinates to share their views and revise their roles and responsibilities.

### **Situation 5**

You are appointed to take charge of a special task force. Your team members are experienced, skilled and enthusiastic. They have handled similar assignments successfully in the past.

- (a) You will assign the tasks and closely monitor the progress.
- (b) You will take your subordinates into your confidence and assign them tasks to be performed after a detailed discussion with them.
- (c) You will allow your subordinates to finalise their roles and prepare the action plan in consultation with you.
- (d) You will acquaint your subordinates with the objectives of the task force and allow them to work out an action plan themselves.

### **Situation 6**

Your organisation is planning to restructure its entire processes. Your subordinates are supporting the restructuring process willingly, but they are lacking in the required skills.

- (a) You will take your subordinates into your confidence and assign them tasks and arrange training after discussing the situation with them.
- (b) You will allow your subordinates to have their say in finalising the processes and understanding the training needs.
- (c) You will apprise your subordinates of the new processes and allow them to formulate a training programme in their own way.

- (d) You will instruct your subordinates on how to perform different tasks and carry out new functions.

**Situation 7**

You are heading a team of high performers for a long time. During the last few months their performance is declining. They do not show interest in their jobs.

- (a) You will allow your subordinates to share their views while assigning responsibilities and developing action plan.
- (b) You will apprise your subordinates of their new responsibilities and allow them to carry on their work in their own way.
- (c) You will reassign the tasks to your subordinates and instruct them regarding how to carry out their jobs.
- (d) You will take your subordinates into your confidence and reassign them tasks after discussing the situation with them.

**Situation 8**

You have recently joined an organisation in charge of an important division. You have observed that your subordinates are not ready to change old practices. Their skill level is below average.

- (a) You will apprise your subordinates of the current urgencies and encourage them to find a solution on their own.
- (b) You will reassign the tasks to your subordinates and instruct them on how to perform different functions.
- (c) You will take your subordinates into your confidence and reassign them tasks after discussing the situation with them.
- (d) You will allow your subordinates to share their views while redesigning their roles and responsibilities.

**Situation 9**

Your organisation is planning to introduce major changes in its practices and procedures. This will require more effort and involvement on the part of employees. So far your subordinates have supported you and they have performed well.

- (a) You will assign the tasks to your subordinates and clearly spell out instructions relating to the new practices.

- (b) You will take your subordinates into your confidence and assign them new responsibilities after discussing the situation with them.
- (c) You will encourage suggestions from your subordinates and allow them to have their say in formulating policies and procedures.
- (d) You will apprise your subordinates of the situation and allow them to structure policies and procedures independently.

### **Situation 10**

Your department is assigned the responsibility of training a group of employees. Your subordinates have taken the initiative and are willing to contribute. It is their first opportunity but you believe that they lack the basic knowledge.

- (a) You will take your subordinates into your confidence and assign them tasks and responsibilities.
- (b) You will allow your subordinates to participate in finalising the programme and roles to be performed.
- (c) You will apprise your subordinates of the programme and trust them to prepare it in their own way.
- (d) You will assign the tasks to your subordinates without taking them into confidence.

### **Situation 11**

One of your subordinates has received a 'best performance' award. He was a fast learner and enthusiastic. You want to assign him new responsibilities. He is not paying attention and has adopted a 'hands off' approach.

- (a) You will allow your subordinate to have his say in finalising the action plan and in assigning new responsibilities.
- (b) You will apprise your subordinate of your plan and allow him to take up new responsibilities in his own way.
- (c) You will assign the tasks to your subordinate without consulting him.
- (d) You will take your subordinate into your confidence and assign him responsibilities after a thorough discussion with him.

**Situation 12**

You are heading the sales department of an organisation. You are given a 40 per cent higher sales target in a new territory. Your subordinates are not able to achieve sales and are not interested in working in a new territory.

- (a) You will apprise your salespeople of the targets and allow them to accomplish the targets in their own way.
- (b) You will work out a detailed sales plan and closely monitor the sales in the new territory.
- (c) You will take your salespeople into confidence and assign them targets to accomplish after a thorough discussion with them.
- (d) You will allow your salespeople to have their say in finalising the targets.

**Situation 13**

Your department is considered as one of the best performing departments. The team members are consistently performing well. Recently you have been assigned an important project.

- (a) You will assign the tasks to your subordinates (as per your judgement) and keep a continuous watch on their progress.
- (b) You will take your subordinates into your confidence and assign them tasks after discussing the project with them.
- (c) You will allow your subordinates to have their say in finalising the action plan to handle the project.
- (d) You will apprise your subordinates of the project and allow them to work out an action plan independently.

**Situation 14**

Your subordinates have cordial interpersonal relations. They cooperate with each other. The team's performance is below average. You feel that they lack the requisite set of skills and knowledge in work methods.

- (a) You will take your subordinates into your confidence and discuss the work methods with them.
- (b) You will allow your subordinates to acquire new skills while accommodating their suggestions relating to the work methods.

- (c) You will apprise your subordinates of the performance and allow them to handle the situation in their own way.
- (d) You will explain how to perform different tasks to your subordinates and closely monitor their performance.

**Situation 15**

Your department has successfully organised conferences on behalf of the organisation. Your subordinates have always taken initiative and have organised conferences successfully. This time you are observing that they are not coming forward with any initiative.

- (a) You will allow your subordinates to have their say in finalising different activities.
- (b) You will allow your subordinates to work out a complete plan and execute it in their own way.
- (c) You will assign the tasks to your subordinates, set performance standards and make sure that they achieve these standards.
- (d) You will take your subordinates into your confidence and assign them tasks after discussing the situation with them.

**Situation 16**

You are planning a new system for which your subordinates need training. They seem to be unenthusiastic and uninterested in training.

- (a) You will apprise your subordinates of the programme and allow them to work out one in their own way.
- (b) You will reaffirm your stand on the issue and closely monitor their performance during the programme.
- (c) You will take your subordinates into your confidence and work out a programme after detailed discussion.
- (d) You will allow your subordinates to have their say in finalising the training programme.

**SCORING SHEET: LEADER BEHAVIOUR  
ASSESSMENT PROFILE**

Enter your response in the appropriate box by putting a tick (✓) mark in it. After completing your response to all sixteen situations match your answers with the key given in the manual. Add up the

scores for each style to draw your profile for identifying your dominant and back-up styles of leadership.

<b>Situation</b>	<b>Telling</b>	<b>Selling</b>	<b>Participating</b>	<b>Delegating</b>
1	a	b	c	d
2	d	a	b	c
3	c	d	a	b
4	b	c	d	a
5	a	b	c	d
6	d	a	b	c
7	c	d	a	b
8	b	c	d	a
9	a	b	c	d
10	d	a	b	c
11	c	d	a	b
12	b	c	d	a
13	a	b	c	d
14	d	b	a	d
15	c	a	b	c
16	b	c	d	a
Total Score				

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# An Alternative Methodology for Testing a Resource-Based View Linking Intangible Resources and Long-Term Performance



V I C E N T E A . L Ó P E Z \*

## ABSTRACT

The aim of this study is to discuss, from a theoretical and an empirical perspective, the linkage between a group of intangible resources and performance in Spanish SMEs (small to medium enterprises). The relationship between intangibles (reputation, quality, participative managerial style and strategic attitude) and performance was tested using hierarchical segmentation as an alternative methodology. This study is one of the first attempts of using hierarchical segmentation modelling to monitor the relationship between intangible resources and performance in Spanish SMEs. The results of the empirical study are statistically significant and show a positive relationship between a group of intangible resources and organisational performance.

**Key Words:** Intangible Resources; Competitive Advantage; Performance and Hierarchical Segmentation Modelling.

## INTRODUCTION

This paper proposes an alternative methodology to test the relationship between intangible organisational resources and performance. The methodological tool utilised in the empirical study to test the

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resource-based view (RBV) was an application of hierarchical segmentation modelling. The influence of these intangible resources was measured through management perceptions based on a study of Spanish SMEs.

#### THEORY DEVELOPMENT: BACKGROUND

In the early 1980s, a strategic explanation of competitiveness and of a firm's success was generally held to lie within the structure-conduct-performance paradigm, which was advocated by the Positioning School (Porter, 1985) and accepted by industrialists. These ideas gradually gave way to a 'new' perspective: the resource-based view of the firm. This emphasised the importance of a firm's resources as the prime generator of sustainable competitive advantage (Wernerfelt, 1984; Grant, 1991).

RBV theory identifies intangible resources as those which essentially drive and determine organisational performance (Penrose, 1959; Wernerfelt, 1984; Prahalad and Hamel, 1990; Barney, 1991; Teece, Pisano and Schuen, 1997). The contributions of Aaker (1989) and Hall (1992) affirm that a 'resource' is that which is owned or possessed, and a 'capacity' or 'skill' is something that must be realised. According to Cuervo (1999) however, skills are interactions between resources. This occurs in such a way that capabilities become linked to 'abilities' in order to develop resources and/or competencies. It is noted from research that not all resources may be deemed 'strategic' (Grant, 1991). The literature foresees that an asset may be termed strategic<sup>1</sup> when it fulfils a series of prerequisites, that is when the asset is scarce, valuable, inimitable and non-substitutable (Barney, 1991).

The importance of the intangible nature of resources, as constituting a competitive factor that is both difficult to create and imitate is nothing new; authors such as Itami (1987), Aaker (1989) and Hall (1992) previously showed the importance of intangible factors as a source of sustainable competitive advantage.

It is relatively common to come across extremely restrictive definitions of resources that include only those items that may be subject to objective evaluation, such as physical assets (Jacobson, 1992). Jacobson highlights the plethora of empirical analyses orientated towards measuring the capacity of tangible resources as a

means of explaining the differences in profitability levels between businesses. He goes on, however, to underline the dearth of research of this type that looks at determining the actual role of intangible resources.

Studies that steered resource theory towards an analysis of intangible resources and their capacity for generating sustainable competitive advantages, and thus improved performance, were somewhat scarce until the publication of two seminal works by Hall (1992 and 1993). These studies set out two types of classifications for intangible resources:

- **Assets and Skills:** among those intangible resources that are classified as assets are commercial brands, patents, copyrights, registered designs, contracts, commercial secrets, reputation and networks of personal and business contacts. Skills on the other hand take in human capital and culture.
- **Resources that are dependent on personnel or persons and those that are independent:** the former include human capital (employees, distributors, suppliers, etc.), organisational culture, reputation and networks. The latter include those intangible resources that are independent of people and include contracts, licences, commercial secrets, intellectual property rights and databases.

As a result of his research, Hall (1992: 140–141) found that the intangible resources that most significantly influence the potential capacity of firms to generate sustainable competitive advantages are the firm's reputation, the reputation of the product, employee know-how and the organisational culture.

The dependent variable in this study is the firm's performance. This has been the object of considerable controversy in relevant literature (Venkatraman and Ramanujan, 1986). There would seem to be no clear agreement regarding what is the most important indicator of performance. The bibliographical review carried out in this study would however indicate that there are four significant and distinct blocks of indicators: profitability indicators (Venkatraman and Ramanujan, 1986), growth or market position indicators (Pettus, 2001), sector-adjusted economic profitability indicators (Dehaene, De Vuyst and Ooghe, 2001) and subjective performance indicators (Powell, 1996).

This analysis uses sector-adjusted average economic profitability for the period 1994–1997. It formulates a hypothesis which expresses the positive relationship between a firm's performance and the presence of intangible resources within the organisation. The analysis takes this hypothesis as its starting point. Managerial perceptions are used to proxy the presence of these intangibles. It is important to highlight that all the variables utilised are taken from the literature reviewed within this study (Likert, 1961; Buzzel, Bradley and Sultan, 1975; Dees and Davis, 1984; Barney, 1986; Weigelt and Camerer, 1988; Fombrun and Shanley, 1990; Juran, 1990; Hall, 1992 and 1993; Brown and Perry, 1994; Doppler and Lauterburg, 1998). The constructs used to analyse the item-based intangibles are however derived from the variable reduction statistical technique known as Principal Components Analysis. The research output contained results which were not entirely consistent with those contained within the pertinent literature of the study bibliography (Hall, 1992).

#### EMPIRICAL STUDY: OBJECTIVES, SAMPLE AND METHODOLOGY

This empirical study attempts to identify those intangible resources that affect a firm's profitability. These resources are measured by referring to the perceptions of company managers. Specifically, the analysis sets out hypotheses that look at the relationship between levels of profitability and factors such as reputation, quality, managerial style and strategic attitude. The hypothesis to be tested states that a firm's profitability will increase when:

- H1: its reputation improves
- H2: there is an increased orientation towards quality
- H3: participative management styles are introduced
- H4: greater levels of strategic attitude are perceived within and by the management.

The sample population used for the empirical model was taken from the Ardán data base (financial and economic data of Spanish SMEs) and was made up of 166 Spanish SMEs, all of which possessed the ISO 9000:1994 quality certificate. The sample was finally reduced

to 72 firms. The data gathered via postal surveys and personal interviews with management personnel focused on their perceptions of the presence of a series of intangible resources within their respective organisations.

After a preliminary analysis of the data and the subsequent purging of the original data set, the study was carried out using 61 of the 72 firms for which data was obtained.

The methodology was carried out as follows:

1. The four factors corresponding to Reputation (NREPUTAC), Quality (NQUALITY), Participative Managerial Style (NSTYLE) and Strategic Attitude (NATTITUDE) were established using main components analysis, based on items evaluated on a seven-point Likert scale.
2. The factorial scores (metric variables) were transformed into categorical variables (ordinal) by using the quartiles of the corresponding distributions. As a result there were four groups for each variable, each containing four observations.
3. A hierarchical segmentation was carried out based on the dependent variable (Average Economic Profitability) in three categories, in order that each category had the same number of cases (low, medium and high profitability). The categorical variables cited in previous paragraphs were used as explanatory variables.
4. A factorial analysis of the variance was carried out in order to detect which of the four (ordinal category) constructs significantly affected the Average Economic Profitability criteria variable, in this case measured on a metric scale. A further hierarchical segmentation was then undertaken, in order to check the extent to which the results of the ANOVA were corroborated; also in order to discover which factors best explained the metric criteria variable.

## RESULTS AND DISCUSSION

Table 4.1 gives the most important statistical values for the 'criteria' variable used in the study. The Average Economic Profitability for the four-year period immediately prior to the field study was converted into an ordinal categorical variable with three levels

**Table 4.1: Dependent Variable Statistics**

	<b>Statistic</b>
Mean	0.1036
Median	0.0937
Variance	0.0379
Standard deviation	0.0616

(low, medium and high),<sup>2</sup> in such a way that each of the groups contained the same number of observations.

For a better understanding of the contents of each of the profitability groups, Table 4.2 sets out the basic statistics grouped according to the three basic categories (low, medium and high profitability).

Table 4.3 exhibits the results of the Principal Components Analysis used in the elaboration of the four constructs that serve as explanatory variables for economic profitability.

In accordance with the methodology proposed, four new ordinal variables were created, based on the factorial scores derived from the factorial elaboration of the four constructs described above. Quartiles were used as a means of converting the metric variables into categorical variables. As a result, four groups were obtained which each contained an identical number of observations for each of the constructs being considered.

The main goal of the analysis is to use the set of four explanatory tetratomic profitability variables, in order to discover which of them exerts a significant influence on the criteria variable, and which of them are the best predictors. The CHAID<sup>3</sup> algorithm, which is provided by the SPSS AnswerTree application, is utilised as the basic tool for carrying out this analysis. The tree that is generated can be seen in Figure 4.1.

The tree contains six nodes, four of which are final nodes. The most significant variable in terms of explaining economic profitability is the Quality variable ( $p = 0.0000$ ;  $\chi^2 = 46.30$ , degrees of freedom = 1).

The firms that fall into the lower categories of the Quality variable (groups 1 and 2) are also those firms that scored worst in terms of economic profitability. Nineteen (65.5 per cent) of these firms

**Table 4.2: Levels of Profitability**

		<b>Statistic</b>	<b>SE</b>
<i>Group 1</i> Low Economic Profitability	Mean	0.0444	0.0045
	Median	0.0487	
	Variance	0.0004	
	Deviation	0.0201	
	Minimum	0.0032	
	Maximum	0.0710	
	Range	0.0678	
<i>Group 2</i> Medium Economic Profitability	Mean	0.0940	0.0035
	Median	0.0937	
	Variance	0.0003	
	Deviation	0.0158	
	Minimum	0.0714	
	Maximum	0.1236	
	Range	0.0522	
<i>Group 3</i> High Economic Profitability	Mean	0.1730	0.0111
	Median	0.1581	
	Variance	0.0025	
	Deviation	0.0496	
	Minimum	0.1243	
	Maximum	0.3386	
	Range	0.2142	

SE: Standard Error

obtained low profitability, ten (34.4 per cent) medium profitability, whilst none whatsoever obtained high profitability levels. The scenario was effectively reversed for those firms in the high Quality categories (levels 3 and 4). The vast majority of these firms obtained either high or medium levels of profitability, 62.50 per cent and 34.38 per cent respectively. Only one of the firms (3.13 per cent) belonging to the high Quality category obtained low profitability.

For the firms in the low Quality categories (1 and 2), the Reputation variable ( $p = 0.0098$ ;  $\chi^2 = 7.9142$ , degrees of freedom = 1) is the only one that goes some way to explaining profitability. These results therefore indicate that the better the firm’s reputation, the more

**Table 4.3: Principal Components Analysis: Constructs**

<b>Factors</b>	<b>Factorial Score</b>
<b>Items</b>	
<b>Reputation (NREPUTAC) (Alpha = 0.71; KMO = 0.715)</b>	
Firm's social compromise	0.814
Financial position	0.757
Monitoring of established objectives	0.686
Presence of quality products	0.593
Prestige of management	0.570
<b>Quality (NQUALITY) (Alpha = 0.68; KMO = 0.68)</b>	
Quality control	0.807
Customer-tailored product development	0.797
Annual quality planning	0.797
<b>Participative Managerial Style (NSTYLE) (Alpha = 0.57; KMO = 0.606)</b>	
Subordinate–director interaction	0.807
Effective ascendant vertical communication	0.776
Attraction–tenure of skilled personnel	0.657
Managerial confidence in subordinates	0.341
<b>Strategic Attitude (NATTITUDE) (Alpha = 0.57; KMO = 0.609)</b>	
Quality of the explicit formulation of strategies	0.836
Team work	0.768
Predisposition to change	0.530
Effectiveness of the implementation of strategies	0.520

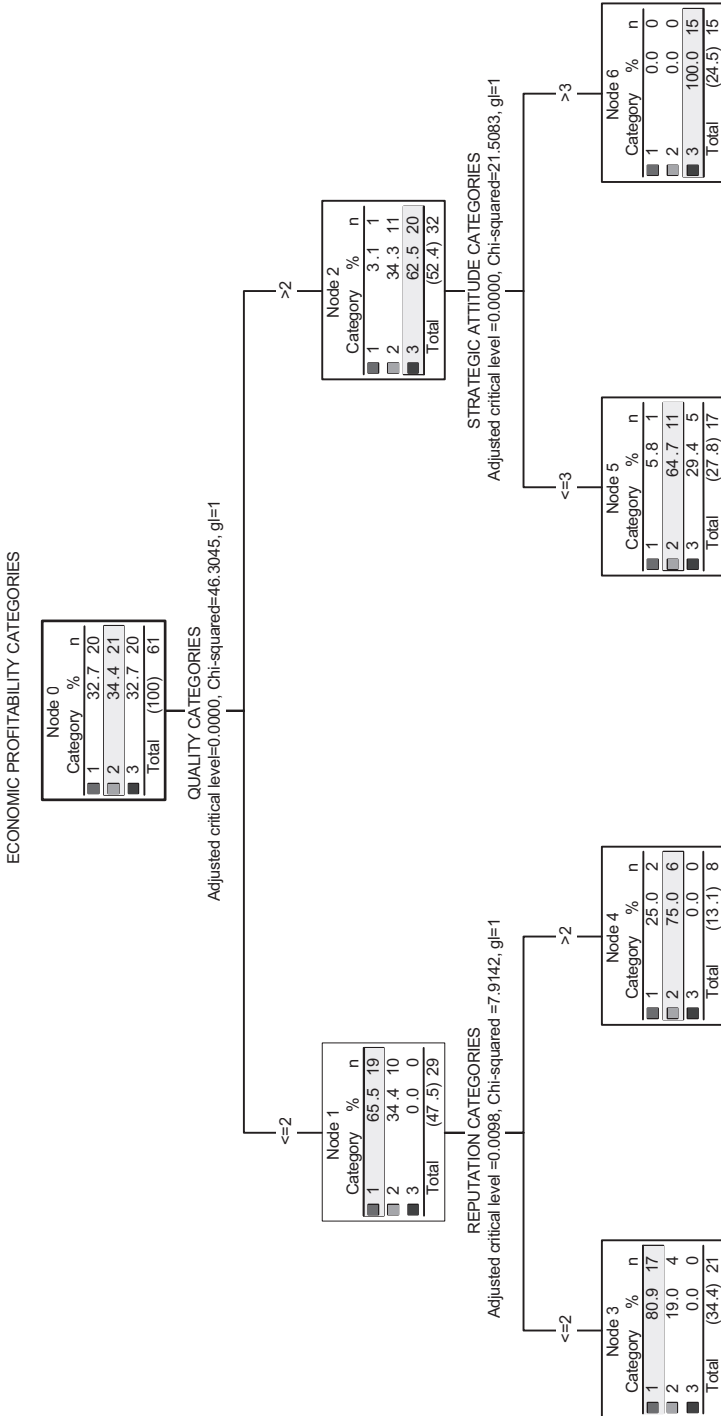
KMO: Kayser-Meyer-Olkin Measure

Alpha: Cronbach's Alpha

positively the criteria variable evolves, although evidently without reaching high levels of profitability. Similarly, of the firms in the first and second levels of the Quality category, 80.95 per cent of those that were deemed to have a low Reputation obtained low levels of



**Figure 4.1: Hierarchical Tree 1**



profitability. The majority of those with better reputations, on the other hand, were able to obtain medium levels of profitability (75 per cent).

On looking at the high Quality categories (3–4), it is found that the Strategic Attitude variable ( $p = 0.0000$ ;  $\chi^2 = 21.5083$ , degrees of freedom = 1) only really helps to explain the criteria variable in the analysis. This result indicates that the companies within the high quality levels, and which also have a strong strategic attitude (groups 3 and 4) are assured high levels of economic profitability (100 per cent). Conversely, if the firms are to be found in the lower levels of the Strategic Attitude category they, more often than not, obtain medium levels of profitability (64.71 per cent), given that those with low profitability levels constitute a figure of only 5.88 per cent and those in the maximum category 29.41 per cent.

As a consequence, there are four clearly distinguishable groups of firms, differentiated according to their levels of profitability:

- Group I: organisations with low levels of reputation and quality which, in the main, fall into the low profitability category (80.95 per cent of the firms that make up the group).
- Group II: organisations with high levels of reputation and low levels of quality, the majority of which fall into the medium profitability category (75 per cent of the firms that make up the group).
- Group III: organisations with high levels of quality but relatively low levels of strategic planning; firms that form part of medium profitability category (64.71 per cent of the group members). 29.41 per cent of the firms that obtained high profitability levels are to be found in this group.
- Group IV: organisations with high levels of quality and a strong orientation towards strategic planning. 100 per cent of these firms achieve high profitability.

It is worthwhile mentioning that none of the firms in groups I and II attained high levels of profitability, whereas none of the firms in group IV sustained either low or medium levels of profitability.

Table 4.4 provides a matrix of the classification and the risk estimation<sup>4</sup> for the process carried out. The table indicates that more than 80 per cent of the cases are classified correctly. Specifically, 100 per cent of the high profitability firms are classified correctly,

**Table 4.4: Classification Matrix**

Risk Estimation	0.196721	<b>Actual Categories of Performance</b>			
SE of the Risk Estimation	0.0508972	<b>1</b>	<b>2</b>	<b>3</b>	<b>Total</b>
Estimated Categories of Performance	1	17	4	0	21
	2	3	17	5	25
	3	0	0	15	15
	Total	20	21	20	61

80.9 per cent of the low profitability firms, and just 68 per cent of the medium profitability firms.

As Figure 4.1 shows, Participative Managerial Style has no significant effect. Thus the hypothesis tested in this analysis and laid out above is only partially verified. Quality has a significant effect on levels of profitability, reputation only has an influence when the firm’s quality levels are low, and strategic managerial outlook when firms are positioned within the higher echelons of the quality ranking.

The factors that explain economic profitability may also be explained by using the criteria variable (economic profitability) on the metric scale. Table 4.5 provides the factorial analysis of the variance. It can be observed that, with the exception of Participative Managerial Style, the rest of the variables have a significant effect on the criteria variable ( $p < 0.05$ ).

A hierarchical segmentation is now carried out in order to discover which of the variables perform as the best predictors. Figure 4.2 provides the tree generated by the CHAID.

In this case the tree has nine nodes, six of which are final nodes. In contrast to the previous analysis, the most significant variable for explaining economic profitability is now Reputation ( $p = 0.0000$ ;  $F = 51.31$ ). The firms that are to be found in the lowest set of the Reputation variable (group 1) are those that maintain the lowest scores in the criteria variable, having an average economic profitability of 4.39 per cent. Those firms that are located in the intermediate categories (2 and 3), on the other hand, possessing a Reputation of level 3 or 4 have an average profitability of 9.37 per cent which is slightly

Table 4.5: Factorial Analysis of Variance

<b>Dependent Variable: AVERAGE ECONOMIC PROFITABILITY</b>					
<b>Source</b>	<b>Sum of type III squares</b>	<b>df</b>	<b>Quadratic Mean</b>	<b>F</b>	<b>Significance</b>
Model	0.831 <sup>a</sup>	13	6.390E-02	70.408	.000
NATTITUDE	1.212E-02	3	4.038E-03	4.449	.008
NQUALITY	9.385E-03	3	3.128E-03	3.447	.024
NSTYLE	3.646E-03	3	1.215E-03	1.339	.273
NREPUTAC	1.529E-02	3	5.098E-03	5.617	.002
Error	4.266E-02	47	9.076E-04		
Total	.873	60			

<sup>a</sup>R squared = .951 (R squared corrected = .938)

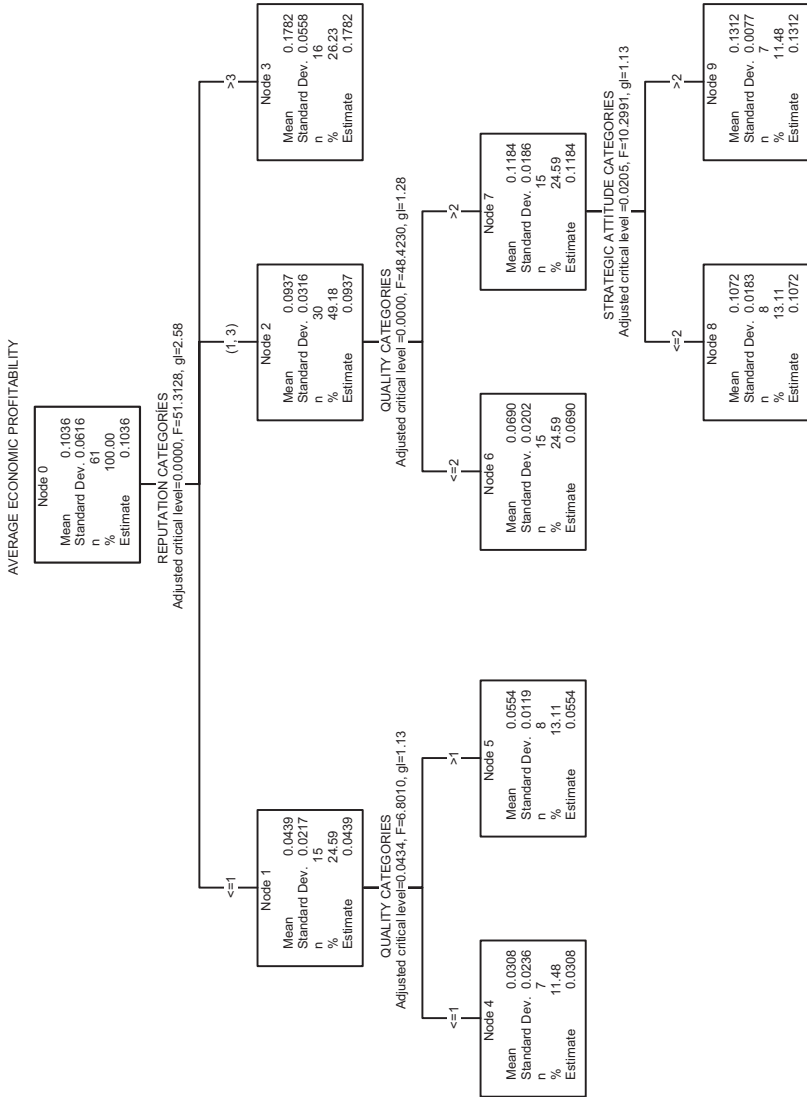
higher than those of the previous group but lower than the highest reputation group which had an average profitability of 17.82 per cent.

For the lowest Reputation group, the Quality variable helped to explain the profitability level ( $p = 0.0434$ ;  $F = 6.80$ ): the low quality group (1) has an average profitability of 3.08 per cent, slightly lower than the other three groups in the higher categories (5.54 per cent). Quality is also influential in the profitability of the medium Reputation groups ( $p = 0.0000$ ;  $F = 48.4230$ ): the groups with low levels of quality (1–2) had an average economic profitability of 6.9 per cent whilst the high quality groups (3–4) maintained an average of 11.84 per cent. It is this latter group in which Strategic Attitude has the capacity to explain profitability levels ( $p = 0.0205$ ;  $F = 10.2991$ ) given that in the groups with lower levels of strategic positioning (1–2) average profitability (10.72 per cent) is significantly lower than in higher categories for the same variable (13.12 per cent).

Thus, the tree that appears in Figure 4.2 allows us to establish the following groups:

- Group A (average profitability = 17.82 per cent): made up of firms belonging to the high reputation group (4).

Figure 4.2: Hierarchical Tree 2



- Group B (average profitability = 13.12 per cent): made up of firms belonging to the intermediate reputation group (2–3), medium to high quality levels (3–4) and high levels of strategic attitude (3–4).
- Group C (average profitability = 10.72 per cent): firms with an intermediate level reputation (2–3), medium to high quality levels (3–4) and low levels of strategic attitude (1–2).
- Group D (average profitability = 6.90 per cent): made up of firms belonging to the intermediate reputation groups (2–3) and those of low quality (1–2).
- Group E (average profitability = 5.54 per cent): firms with low levels of reputation (1) and medium to high levels of quality (2–3–4)
- Group F (average profitability = 3.08 per cent): firms with low levels of reputation (1) and low levels of quality (1).

The risk estimation<sup>5</sup> in this second tree is of 0.000975234 (Standard Error (SE) = 0.000429501). As with the previous tree, there is no level in Figure 4.2 at which Participative Managerial Style has a significant effect. The hypotheses tested within this study are therefore only partially verified, in the sense that, given the results provided by the second tree, Reputation significantly affects profitability levels. Quality only has an influence when the firm belongs to medium or low level Reputation groups and not high level groups. Finally, Strategic Attitude only affects two of the six groups analysed.

## CONCLUSIONS

The empirical study broadly verifies the explanatory power of the conceptual framework defined by the RBV. The RBV framework corroborates the relationship that exists between a firm's store of intangible assets and the possession of competitive advantages, which in turn produces higher levels of performance. Therefore, the hypothesis being tested that posits a positive relationship between economic profitability and the set of intangible assets under scrutiny is verified, but is subject to the caveats and limitations formulated below.

More specifically, Hierarchical Segmentation Methodology allowed the analysis not only to capture the main underlying relationships, but also to classify these relationships according to the extent to

which they affected the dependent variable. The methodology also provided the logical foundations for building sets of firms divided according to different levels of profitability (dependent variable) based on intangible factors measured as independent categorical variables.

Thus it may be affirmed that:

- Independently of how the criteria variable is defined (categorical or metric), there is a relationship of positive dependency between economic profitability (dependent variable) and the explanatory variables of reputation, quality and strategic attitude. Participative managerial style fails to have a significant influence on performance in every case.
- There is a hierarchical element to the factors that influence profitability. Further, whilst each of the different variables is capable of explaining profitability to a different degree, this explanatory power is also conditioned by the different levels of the other independent variables.
- When profitability is classified in terms of different levels, it is found that quality is the foremost factor when it comes to explaining different levels of organisational performance. Reputation only has an influence, and always positively, in those organisations that are situated amongst the ranks of those firms with low levels of quality. Strategic attitude, on the other hand, has an influence that appears to be capable of setting different levels of performance in those firms in which there is greater emphasis placed on quality.
- When profitability is defined as a metric variable, it is reputation that best defines the evolution of performance. This result is so evident that it can be affirmed that those firms with strong, consolidated reputations need no other intangible assets in order to assure the highest levels of profitability. The rest of the firms, on the other hand (that is, those organisations that lack high levels of reputation), need to fall back on quality, a factor that moderates the profitability of all the firms within the lower reputation groups. Strategic attitude would improve profitability in those firms that possess medium levels of reputation and high levels of

quality. Strategic attitude has no influence on any other groups of firms.

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- 1 A review of the different conceptual frameworks that have been used in analysing the strategic nature of resources appears in Fernández and Suárez (1996: 76–77).
- 2 The three stepped levels of profitability were defined using the centiles 33 and 66 for the corresponding frequency distributions, as the limits of the intervals for each profitability levels.
- 3 CHAID: Chi-Squared Automatic Interaction Detector.
- 4 When the criteria variable is categorical (nominal or ordinal), the risk is calculated as a proportion of the cases making up the sample that are erroneously classified by the tree.
- 5 When the criteria variable is continuous, the risk is calculated as the variance within the node compared to the average of the node.

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# The Usefulness of Budgets in the Healthcare Sector



M I C H A E L B Y R N E \*

## ABSTRACT

In addition to setting the performance agenda for the year ahead, (revenue) budgets in the healthcare sector can facilitate tighter financial control, more responsive decision-making and staff motivation. However, many healthcare managers may lose respect for the use of predominantly incremental budgets given that they typically do not explore historical service redundancies that may exist nor reward efficient use of resources or facilitate long-term service planning. The lengthy budgetary process can also predispose to out-of-date budgets. Top-down budgetary allocation can also be susceptible to political influence and as supplementary estimates can be accessed, managers (and senior clinicians) may not exercise budgetary discipline. Rigid systems of budgeting can also stifle creativity and innovation. Hence, there is a need to link budgeted levels of multi-annual expenditure to recognised and meaningful performance indicators.

## INTRODUCTION

While budgets are an integral component of service level agreements with the private sector, for example private finance initiatives (Broadbent et al., 2001), this short essay will focus on the usefulness of revenue budgets as employed within the Irish Health Service Executive (HSE). Having defined the term ‘budget’, its

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usefulness will be briefly discussed under five distinct (but overlapping) sections. The conclusion then follows a short consideration of the ways in which budgets may be non-value-adding.

### BUDGETING IN THE HEALTHCARE SECTOR

Ideally, the annual budgeting process sets the performance agenda for the year ahead (Hope and Fraser, 2001b). However, healthcare budgets are often only an estimate of income and expenditure, with incremental budget setting the dominant budget type employed (Commission on Financial Management and Control Systems in the Health Service, 2003).

#### **Financial Control**

Official accountancy terminology defines budgeting as an integral part of the control process (Croft, 2001) whereby monthly budgetary variance analysis can cue corrective action by operational managers (Chartered Institute of Management Accountants, 1992). However, such managers may not be able to influence their budgets (Croft, 2001). On a more global level, budgets are susceptible to political influence (Cassell, 2003) whereby financial control can be diluted by the personal preferences of 'well-connected' individuals or groups with vested interests. Hence the term 'budgetary control systems' may be a misnomer, at least at a global level (Flamholtz, 1983).

#### **Delegation**

Given that no one person alone can manage the HSE, budgets can facilitate the necessary delegation of managerial responsibilities. Delegating expenditure consumption up to a certain level can also improve the speed of decision-making if there is no need for authorisation from a higher-level manager (Prowle and Jones, 1997). The quality of decisions may also increase given that (better-informed) individuals closer to the point of service delivery can make them (Hope and Fraser, 2001a).

#### **Resource Allocation**

Given that funding is finite, budgeting facilitates internal distribution of resources to competing healthcare services (Prowle and Jones, 1997). Thus, although departmentalism may be reinforced

(Bourne et al., 2002), resources can theoretically be directed at particular elements of a service, such as specific clinical populations or geographical areas where they are most needed.

### **Planning**

As an expression of the annual service plan in financial terms, budgets can be a critical element in the planning process (Prowle and Jones, 1997). However, their incremental nature results in baseline funding for predominantly ‘doing more of the same’, to the extent that letters of determination are little concerned with (new) service planning. In contrast to the multi-annual planning framework for capital expenditure, the annual and ‘rear-view mirror’ nature of (revenue) budgets (Hope and Fraser, 2001a: 24) also militates against long-term service planning (Commission on Financial Management and Control Systems in the Health Service, 2003).

If aligned to regional strategy, budgets can facilitate regional goal congruence (Laurence, 2001). However, such alignment is often absent (Bourne et al., 2002), with managers submitting budgets based on unfounded or unrealistic assumptions (Hope and Fraser, 2001a; Hyndman et al., 2003). Hence, for example, there have been incidences of unapproved capital expenditure. Ideally, the HSE will allocate resources according to evidence-based needs assessment (Commission on Financial Management and Control Systems in the Health Service, 2003). Additionally, it is necessary to review the lengthy estimates process that creates a predisposition to have both budgets which are out of date by the time they are signed off on (Hyndman et al., 2003) and a lack of responsiveness to new demands for service during the financial year (Bourne et al., 2002).

### **Motivation**

Given that HSE staff create what it sells, they are its most important asset. Hence, it behoves the HSE to make every effort to build employee motivation (Byrne, 2006). This can be achieved by a process of appropriately devolving budgets so that employees or departments can assess and adjust their own service contributions (Chartered Institute of Management Accountants, 1992). However, healthcare budgeting is typically a top-down annual event. Such ‘macho’ management (Lilly, 1994: 38) and use of accounting data

to control employees can make them feel undervalued (Bourne et al., 2002). Ideally, employees at all levels need to be consulted to promote budget ownership and, where possible, those responsible for improvements in service delivery need to be acknowledged and rewarded (Howard, 2004). One mechanism for facilitating this is to link employee (or departmental) goals and the appraisal process to overall service objectives (Hope and Fraser, 2001a).

Exclusive use of traditional budgets in isolation from other key operational performance indicators can also demotivate employees (Hope and Fraser, 2001a; Bourne et al., 2002; Hyndman et al., 2003). But performance indicators are poorly developed in the healthcare sector (Butler, 2000). Budgets may also have little credibility among managers who have learned from experience that they are no more than a management accounting exercise (Cassell, 2003). Hence, such managers may play games with, and manage around, budgets (Hope and Fraser, 2001a). For example, despite a commitment to the contrary, it appears that (considerable) supplementary estimates are still being accessed to cover some normal budgetary costs (Commission on Financial Management and Control Systems in the Health Service, 2003). Managers may not exercise budgetary discipline if there is a potential 'get-out' clause late in the financial year.

### **Non-Value-Adding**

The budgeting process has become even more expensive (Hope and Fraser, 2001a; Bourne et al., 2002), consuming up to one-third of financial managers' time (Littlewood, 2000) and distracting them from more important responsibilities, such as strategy formulation and implementation (Cassell, 2003). While the risk of budgetary overspend is highly problematic in the healthcare sector (Wren, 2003), the overarching bureaucracy of what appears to be a rigid system of budgeting that rewards good housekeeping can stifle creativity and innovation (Hope and Fraser, 2001a).

The incrementally based estimates process does not explore any historical service redundancies that may exist. Thus, healthcare budgeting can compound existing inefficiencies (Lilly, 1994) and fail to align services to address demographic and social changes. Budgeting has also rarely been brought down to the first line of

healthcare service management. For example, there have been few incentives for professional groups such as consultants and general practitioners to manage expenditure to produce agreed outputs (Commission on Financial Management and Control Systems in the Health Service, 2003). Hence, there is a need to link budgeted levels of expenditure to projected workload and/or globally recognised performance indicators. The use of bottom-up budgets by well-informed front-line staff, once ratified by senior managers, could also identify and eliminate avoidable costs before they occur (Howard, 2004).

Annuality has traditionally motivated managers to inflate their funding requirements so that they will have more to spend (Hyndman et al., 2003). As unspent resources have also been used as a benchmark to reduce subsequent budgets, 'prudent' managers have typically had stand-by projects to ensure that unspent resources are consumed. Such wasteful year-end spending sprees (Cassell, 2003) have often not added to service improvements in a best value-for-money manner (Hyndman et al., 2003). Sometimes voluntary healthcare agencies have also been under pressure to provide extra services at short notice such that year-end service quality has been sacrificed. If, like supplementary estimates, annuality is not completely phased out by the HSE, (year-end) value for money could be facilitated by having an early identification system of potential under-spending and allocation of unused resources to projects consistent with organisational objectives (Hyndman et al., 2003).

### CONCLUSION

It appears that the increasingly expensive healthcare sector (Dranove and Satterthwaite, 2000) is, by necessity, 'wired for control', with budgeting systems serving as its 'traffic lights' (Hope and Fraser, 2001a: 25). However, these traffic lights could be wired somewhat differently without compromising the sector's inherent vertical command and control structure (Bourne et al., 2002). As espoused by the Beyond Budgeting Round Table (Cassell, 2003; Hope and Fraser, 2001a), budgetary reform could include the use of multi-annual, real-time and bottom-up activity-based budgets whereby individual departments (or services) are allocated resources based on evidence-based needs assessment (Commission

on Financial Management and Control Systems in the Health Service, 2003) and evaluated and rewarded using a more balanced set of key relative improvement performance measures (for example quality) (Cassell, 2003). To realise this, improved communication between different management levels and healthcare organisations is necessary (Howard, 2004). The latter recognises that rather than the principle of budgeting being at fault, the less-than-optimum application of budgets may have compromised their usefulness to date in the healthcare sector.

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# Building a Partnership Model to Manage Irish Heritage: A Policy Tools Analysis



P A T C O O K E \*

## ABSTRACT

For many years, the Irish State has had the role of both owning and operating the majority of heritage sites and resources in Ireland. However, with the dramatic growth in the range and variety of heritage phenomena requiring protection over recent years, the State has found its resources under increasing pressure and has begun to explore the possibility of building a partnership structure to manage more of the country's heritage better. This article seeks to clarify the options available to government by outlining the policy tools available and attempting to map these onto the governmental, agency and trust structures that might form the elements of a partnership. It concludes that the optimal role for government is one of strategic coordination, that provision of information is the tool best suited to this purpose, and that ownership and operation should be devolved to local government, agencies and trusts.

**Key Words:** Heritage; Policy; Policy Tools; Partnership.

## THE POLICY CHALLENGE

The structural arrangements for managing Ireland's heritage are among the most centralised in Europe. While most other EU countries seek to spread the management of heritage across a mix of

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governmental, agency and trust structures, Ireland has been slow to develop a model that widens the distribution of the burden. Despite initiatives like the recent restructuring of the National Museum and National Library into semi-state institutions, the regulation, financing and operational management of heritage is mediated overwhelmingly through government departments. Meanwhile, the role of local government remains limited, and that of non-governmental agency and trust structures is comparatively weak by international standards. The recent setting up of a non-statutory Irish National Trust (July 2006) was accomplished without the involvement of An Taisce, the body that for years has claimed the *ex officio* role of being Ireland's national trust.

The past twenty years have seen a dramatic expansion of the range and variety of heritage phenomena in Ireland requiring support and protection. 54 per cent of all existing heritage attractions were commissioned in the ten-year period 1989–99, including 44 per cent of all existing museums (Cooke, 2003). The burden of financing this expanded portfolio of heritage assets, along with heightened public expectations on heritage protection generally, has compelled the state to explore a broader social and institutional partnership to manage it.

However, in taking its first tentative steps towards building a partnership for heritage, the State finds itself in a double bind that is largely the product of its own overwhelming dominance of the field. On the one hand, its failure over the years to enable the development of strong non-governmental and private structures means that potential partners lack credible experience or substantial capacity in the management of heritage. On the other hand, heritage protection and management is still publicly perceived as largely the responsibility of government – because government largely takes direct responsibility for it anyway. The latter perception was crystallised in a survey of heritage awareness carried out by the Heritage Council in 1999. The survey found that 'heritage is perceived to be largely in public ownership, and its protection...is generally deemed to be the responsibility of the government' (Heritage Council, 1999: 6).

As we entered the new millennium, the State began to look for a policy model that would involve a greater range of stakeholders in

managing heritage. The first significant result of these efforts was the *Heritage Plan* of 2002. The Plan was published in the run-up to that year's general election, and was the first ever strategic analysis of the State's heritage policy, and the first comprehensive attempt to set cohesive, integrated goals for the future management of heritage in Ireland. Central to the Plan's vision was the idea of partnership; its leading proposition was that:

Individuals, communities, non-governmental organisations, regional and local authorities, and Government Departments and agencies all play a role and share responsibility in protecting heritage. Without the co-operation and active involvement of all concerned, there is little chance of success (Department of Arts, Heritage, Gaeltacht and the Islands, 2002: 13).

Yet, peculiarly for a plan that so enthusiastically embraced the principle of inclusiveness, the section entitled 'Supporting the Plan through Improved Structures and Resources' mentions only State agencies and local authorities. There is no reference at all to the potential contribution of the private and voluntary sector in a way surely implied by the kind of partnership vision just quoted. Not once, for example, is the name of An Taisce, the most significant voluntary body with a statutory role in protecting heritage, mentioned.

Where we stand today (2007) with the goal of partnership is difficult to determine, not least because of the Plan's fate. Within two months of its publication the Fianna Fáil/PD coalition returned to power. It immediately scrapped the Heritage Plan, along with its sponsoring department (Arts, Heritage, Gaeltacht and the Islands) and Dúchas, the departmental 'quasi-agency' which had been set up only six years earlier to manage the State's regulatory and property management functions in relation to heritage. The heritage functions of Dúchas were then split between the Department of Environment, Heritage and Local Government (DEHLG) (natural heritage and policy functions) and the Office of Public Works (OPW) (the built heritage), while the national institutions went to the new Department of Art, Sport and Tourism. None of this had been presaged in the Plan, and the initiative to set up an Irish National Trust only gained momentum from 2003 onwards.

Overall, the administrative arrangements for heritage have been shuffled so frequently and so erratically over recent years that it suggests some confusion about the nature of the tools available for policy-making in the sector and how to apply them consistently in the pursuit of goals.

Broadly, therefore, two questions arise about strategic policy-making for the heritage sector in Ireland:

- (1) Are the policy tools available to be deployed in pursuit of a partnership goal sufficiently well understood?
- (2) Is the strategic thinking sufficiently dynamic and reflexive to generate a new partnership model – one which, radically conceived, might well include a reconfiguration of the State’s own role within the policy framework?

In attempting to provide answers to these questions, the present essay will offer a two-part analysis:

- An outline of the policy tools available to clarify options and set goals for the heritage sector in line with a partnership strategy.
- An attempt to map the policy tools onto the configuration of partnership structures available (which contains essentially four dimensions: the State, local government structures, non-governmental agencies and trust-like structures).

#### THE POLICY ENVIRONMENT

Early in 2003 the Department of Environment, Heritage and Local Government (DEHLG) commissioned a report on the feasibility of setting up trust-like structures for Ireland. Though there is reference in the brief to proposing ‘suitable models for the operational arrangement of trust-type or other organisations’ (DEHLG, 2003a), the functional viability of whatever might be proposed is not an explicit aspect of the brief. Moreover, the research is directed towards assessing how new legislation ‘might apply to safeguarding heritage properties which are likely to be under threat *in the future*’ (DEHLG, 2003a) (my italics), implying that the portfolio of heritage properties currently in State care constitutes a *status quo ante*. The question of whether the existing portfolio of 740 properties in

State care has any substantial implication for the potential viability of any trust-like structure is not prescribed as a necessary dimension of the analysis.

An earlier memorandum had indicated that the need to investigate new trust-like structures had been prompted by the State's coming under increasing pressure to acquire historic properties in jeopardy. No less than thirteen such properties (almost all stately homes and historic houses) that had recently been the subject of appeals for State acquisition are listed. The acquisition costs for all these properties were estimated at some €28 million, and the combined running costs thereafter at approximately one million euro a year (DEHLG, 2003b: 4).

While the brief for the study of trust-like structures is prompted by an essentially economic challenge (looking to private and voluntary efforts to build capacity for managing more heritage resources more efficiently), the exercise assumes that the management of the State's portfolio is efficient, or that its existence has no implications for the efficiency of any putative trust or other players in the partnership model envisaged. It could be argued, however, that if the goal is to optimise the efficient management of heritage resources within a partnership framework, a much more comprehensive review is required, one in which the State's own management of heritage resources is examined in tandem with agency and private sector options.

#### THE NEED FOR A MORE DYNAMIC FRAMEWORK FOR HERITAGE POLICY

The search for the optimal mix of structural arrangements for the management of the heritage resource within a partnership framework must begin by recognising the dynamic interdependence of all the elements.

One of the primary features of this more dynamic model is competition. Regardless of whether heritage assets are State-run or managed by an agency or trust, there will be competition between them for visitors and their spend capacity. This economic reality is implicitly acknowledged in the 2003 memorandum 'Property Acquisitions' in the way it describes the contribution of State-owned heritage sites to sustainable tourism. According to this memorandum, between

1991 and 1997 there had been a 174 per cent growth in the number of Irish fee-paying attractions, and the overall number of heritage attractions (both public and private) had grown by 32 per cent. However, when expressed in terms of visitor numbers, much of this growth had occurred at a minority of larger sites, while 67 per cent of sites received less than 20,000 visitors. Against this background, the memorandum notes, ‘the Department performed better than the industry average – 53% of its sites received less than 20,000 visitors’ (DEHLG, 2003b). In other words, the Department saw State-run visitor sites as being in competition with other players in the sector, and performing well according to that parameter. Moreover, in a survey of Dúchas sites carried out in 1999 it was shown that ‘only the very dramatic sites or those on prime tourism routes attracted over 100,000 visitors’ (DEHLG, 2003b). It so happens that most of the truly iconic heritage sites in the country are already in the government portfolio (places like Glendalough, the Rock of Cashel, Kilkenny Castle and Brú na Bóinne). This prompts the comment that ‘there is a potential danger that many of the lesser-used sites, which are not in State ownership, will not remain viable with additional pressure arising on the Department to intervene’ (DEHLG, 2003b).

But one clear implication of this last observation is not explicitly drawn: that the State’s operation of the prestige portfolio of heritage properties has a direct impact on the potential viability of privately run heritage sites, whether managed individually or under some trust-like structure. In addition, because the State is not obliged to optimise the commercial potential of its portfolio, privately run sites or trusts are likely to find it correspondingly more difficult to compete and survive. The competition presented by the State’s own portfolio of properties, therefore, is one of the significant challenges facing the new Irish Heritage Trust as it struggles to gain financial viability.

This point was highlighted in the British context in a submission made in October 2002 to the Parliamentary Select Committee on Culture, Media and Sport by the English Tourism Council. The Council opened its submission by expressing a concern that ‘the impact of free admission to government-funded visitor attractions remains a key concern for the Attractions Forum as it is believed



that free entry creates a displacement effect' (English Tourism Council, 2002). It explained this concern as follows:

Commercial operators feel that they are disadvantaged by preferential pricing initiatives for Government-sponsored museums. Most commercial attractions have very high fixed costs and narrow operating margins and are highly susceptible to the detrimental effect of factors beyond their control. A government policy that creates a situation that adversely affects the viability of paid attractions and distorts the market may have a negative long-term impact on the number and range of tourist attractions (English Tourism Council, 2002).

Thus, while State-run attractions are cushioned from the full rigours of the market by direct government subvention, they are in competition with more market-dependent heritage attractions for visitors and income. Though motivated primarily by a concern for access, education and equity, the State's use of zero or sub-optimal pricing policies enhances its ability to attract visitors, thereby making the sustainability of more commercially exposed sites all the harder. (In June 2005 the OPW announced that it was eliminating entry charges at a number of its sites with poor visitor numbers to boost visitor levels.) It needs to be recognised, therefore, that the State's anxieties about having to take responsibility for failed private sector sites is not entirely unconnected with its own dominance in the market for visitors and their income.

This competitive scenario has another important dimension: almost all heritage sites are subject to market failure to some degree. Even sites that generate high levels of income still strive for marginal (most often capital) subvention from public funds. The more the State chooses to deploy its resources on wholly State-owned sites, the less it has available for the subvention of others. The question of optimal marginal support is directly related to the potential of sites to optimise income (the more income they can generate, the less subsidy they will need). In purely fiscal terms, it is a question of distributional efficiency.

However in arbitrating this issue the State finds itself both player and referee, regulator and operator. To gain a deeper insight into

how the goal of optimal configuration of partners in the heritage field can be achieved, it is necessary to look at the nature of the policy tools available.

### THE POLICY TOOLS

De Monchaux and Schuster have asserted (1997: 5) that there are really only five tools the State can use to design policy for the built heritage. These are:

- Ownership and operation
- Regulation
- Incentives and disincentives
- Establishment, allocation and enforcement of property rights
- Information

Before examining each of these in some detail, it is worth stressing an important point about how the use of this set of tools developed historically. According to Schuster (1997a), reliance on the first tool tends to be typical of State management of heritage in its initial growth phase. When society's understanding of heritage is relatively narrow, and the number of properties to be protected relatively limited, it is conceivable, he says, 'both financially and logistically, that the most important government tool to promote preservation would be direct ownership and operation of historic properties'. However, with the exponential growth in heritage globally over the past thirty years, private initiatives have begun to be taken more seriously, such that 'forms of intervention that draw out and promote multiple partners are generally seen as a good thing' (Schuster, 1997a: 49–51). It is the pressure to cope with an expanding resource, therefore, that tends to bring the full set of tools into play.

#### **Ownership and Operation**

This tool is at its most efficient when the scope of the heritage resource is within the capacity of the State to manage and fund it. But as the pressure on public finances develops, the question of opportunity cost comes into play; could better use of resources have been made elsewhere (on education or infrastructure for example)? State dominance in the management of heritage resources, as

already noted, may also serve to pre-empt the development of a culture of shared responsibility, with the buck being passed to the State whenever a threat to an individual property is manifested.

The term 'operation' implies resources that have visitor attraction potential. However heritage assets present no simple market failure profile, but a range of characteristics embracing market failure and commercial potential (you can, for example, have a very profitable shop at a stately home that otherwise does not pay its way). In this context, the need to match expenditure transparently with income to reveal optimal marginal relationships tends to favour accrual accounting over government accounting methods (the cash-based government accounting system handles budgetary allocations separately from income).

### **Regulation**

The State remains the most effective user of the regulatory tool, commanding the power to make and amend laws governing the field. But governments need to be circumspect in the way they use regulation, as it can result in even stronger pressures on resources. Pignataro and Rizzo (1997: 97) point out that using regulation to implement a strong conservationist ethos can end up restricting private sector intervention and increasing demands on government, with the ultimate effect of 'draining an ever increasing amount of resources from the public sector'.

The effectiveness of this tool is also seen to depend on levels of decentralisation within political systems. In the US for example, regulation tends to be the principal tool at state level, while the federal government favours incentives. Schuster (1997c: 125–126) says that over-centralised states (such as Ireland) tend to favour the regulatory tool above all others. He cautions that in countries 'accustomed to a highly centralised government bureaucracy' policy is often reduced to 'a search for the right law'.

In Ireland in recent years growth in the scope of heritage has been accompanied by an unprecedented enthusiasm for using regulatory measures to achieve protection. Over the years 1988–99 an additional 977 national monuments were registered for care, and preservation orders were issued on 65. The Planning and Development Act (2000) set in place a mechanism for the protection of architectural structures of historic significance. During the 1990s, the ratification

of a series of international protocols for the protection of the natural environment led to over 30 per cent of the country's land area being declared Special Areas of Conservation (Craig, 2002).

Such developments involve a substantially widened exposure to claims for compensation by owners whose properties are listed as architecturally significant, and to farmers when their lands are designated for protection. So also do research, storage and conservation costs (of archaeological finds unearthed under the planning regulations), or taxes forgone (the relief afforded under section 482 of the Taxes Consolidation Act (1997) to owners of houses of historic significance). Netzer (1998: 139) has drawn attention to the implications of an ever-widening gap between the compliance costs of regulation and available resources: 'it is almost certain', he says, 'that if the costs of the full protection of all of the heritage are equal to a high fraction of GDP even in a rich country, such protection will not be forthcoming and the supply of heritage services will diminish over time, as heritage elements decay and eventually disappear from the stock'.

There is a link here with the incentive tool. Benhamou (1997: 200) insists that, 'public intervention, which links regulation to permanent subsidisation, leads to a continual increase in spending'. Bianca (1997) advocates decentralisation as a way of checking such tendencies. Placing direct responsibility for heritage regulation at the lowest possible level of government, he says, 'ensures a more tangible interrelation between the society and its heritage' (Bianca, 1997: 49–51).

Throsby (1997: 42) has pointed to some economic problems with regulation: it creates inefficiency by restricting market forces; it is costly in terms of administration and the compliance costs of meeting regulations; it offers no incentive to do better by not inspiring people to go beyond minimal prescribed standards; and it is amenable to capture by private owners and experts. He also emphasises the subsidiarity principle by insisting that financial provisions associated with regulation should work at national, regional and local levels.

### **Incentives/Disincentives**

Incentives can be either *direct* (grants to individuals or matching grants and donations to non-profit organisations) or *indirect* (tax exemptions, loans, guarantees or exemption from regulations). The

key to the effective use of incentives is their conditional nature. Schuster (1997a: 51) says that grants should be made in a way that does not threaten property rights, thereby triggering compensation. To increase their effectiveness, the principle of subsidiarity should also be observed. In Switzerland, for example, the use of incentives is systematically linked to levels of government. All properties are graded according to national, regional and local significance, and government grant schemes are proportioned accordingly (30–40 per cent for buildings of national significance, 15–25 per cent for buildings of regional significance, and 10–15 per cent for buildings of local significance).

In the case of tax incentives, while they may be cheap and easy to implement, there are difficulties linking them to effective certification and compliance procedures to ensure that they are not captured by private owners. For example, in Ireland section 482 of the Taxes Consolidation Act (1997) allows owners of historic buildings to claim relief for renovations to their properties, subject to those properties being advertised and opened to the public for sixty days a year. A total of 386 properties successfully applied for tax relief under section 482 between 1983 and 2000 (Cooke, 2003: 12). Concerns have been expressed that some owners have not been complying with the public opening requirements. The effect of such non-compliance is the capture of a portion of the public good dimension of the property for private purposes. On the other hand, tax relief linked to income can depend on income levels for effectiveness. A recent report on Irish historic houses claimed that such provisions as section 482 ‘is of relatively little value to any owner who does not have a high taxable income’ (Dooley, 2003: 33). Overall, one of the advantages to the State of effectively implemented incentives is that they facilitate much wider private sector participation in heritage conservation and ‘allow the State to stay out of the actual process of conservation’ (de la Torre and Mason, 1998: 40).

### **Property Rights**

Heritage regulations usually place restrictions on what the owner can do with a property, affecting property rights, which tends to include development rights. Heritage regulations can, for example, restrict what one can do with the façade of a building. Such devices as façade easements and land swaps can be used to mitigate the

encroachment on property rights and to minimise exposure to compensation claims relating to listed buildings.

Owners generally become sensitive to property rights only if there is a real or perceived drop in property values due to listing or other regulatory provisions. The evidence for how regulation affects property values is mixed. Netzer (cited in Hutter and Rizzo, 1997: 175) says that property values in the US are reduced by conservation provisions, whereas Benhamou (cited in Hutter and Rizzo, 1997: 208) says that grants and tax deductions combine in France to sustain the value of properties. However, the latter case reveals that it is often only the addition of a public subsidy that sustains property values. Overall, it would appear that whether property values rise or fall varies between jurisdictions, depending on how interventionist the legislation is and the mix of subsidies and relief available.

### **Information**

This is the one tool that can transcend purely financial resource constraints. Like preventive medicine, preventive conservation is largely achieved by promoting understanding of the practices and methods by which the need for more extensive intervention, and thereby higher costs, are avoided. It is closely related to incentives in the way it encourages property owners to undertake conservation efforts voluntarily.

Over the past decade in Ireland the Heritage Council (a non-departmental statutory body set up under the Heritage Act of 1995) has wholeheartedly taken on the role of gathering data and disseminating information with the overall goal of raising awareness of heritage through society.

The 1985 Convention for the Protection of the Architectural Heritage of Europe called for the establishment of processes to foster the supply of information, consultation and cooperation. Through the concerted use of information, says Schuster (1997b: 102), ‘the certainty that a particular property will be preserved either through State ownership and operation or through regulation is traded for the possibility that the overall level of preservation activity will rise when more actors become involved’. Indeed, once fiscal and financial resources have been stretched to the limit, ‘information may in fact be the only tool that can be deployed with

any effect' (Schuster, 1997b: 102). A further benefit of the information tool is that, when effectively exercised by government, it can contribute positively to the climate of civic engagement on which voluntary organisations depend for support. As Taboroff points out, trusts are 'an expression of civic engagement' (2002: 1).

#### HOW A TOOLS APPROACH CAN HELP CLARIFY ROLES AND FUNCTIONS

The key question prompted by Schuster's (1997b) typology of tools, as outlined above, is this: how can the State sustain the difficult balancing act of being both regulator and operator? Understanding the distinctions between these tools, and when and how they should be used separately or in combination, can help clarify the policy-making process in heritage.

Historically, the State's dominant role in managing a limited resource meant that there was only a limited call for it to act as regulator, and that it could meet most of its actual or perceived protective obligations through owning and operating a portfolio of properties. But the spectacular widening of the range of phenomena now demanding protection as heritage, along with the obligation to implement related EU and UNESCO protocols, has seen the State become a more pervasive user of regulatory tools over the past thirty years. As a consequence, being both owner/operator and regulator has become an increasingly complex task for the State to execute with clarity and equity. In particular, it is difficult for the State to apply its regulatory processes to itself. Following public controversy in the early 1990s over the State's intention to build visitor centres for the Burren and Wicklow national parks, a Supreme Court judgment directed that the State's heritage site developments should henceforth be subject to the planning laws. Up to then, the State had been exempt from the planning regulations it imposed on citizens.

Another problem with the dual regulator/operator role is that the State finds it difficult to make practical administrative distinctions between the policy and operational aspects of its own role. In the 2003 restructuring of heritage functions between the DEHLG and the OPW, for example, at least two elements that appear to be essentially operational in nature (and thus appropriate to the OPW role)

are defined as policy functions to remain with the DEHLG (responsibility for deciding which sites should have a guide service and responsibility for World Heritage Site Plans) (DEHLG, 2003a: 22).

### THREE PRINCIPLES GUIDING THE APPLICATION OF THE POLICY TOOLS

Schuster (1997b: 150) observes in many countries a trend towards the involvement of more and more actors in the preservation effort. As these partnership models develop, the role of coordination becomes increasingly important, and it is this coordinating role that the State is most suited to play. Bergami and Senn (cited in Ellger, 2001: 30) put this another way when they insist that to clarify the State's role in heritage it is necessary 'to separate the responsibility for cultural supply and the responsibility for cultural policy'. In other words, there needs to be a clear distinction between the ownership/operation tool (cultural supply) and the regulatory tool (cultural policy).

This gives the first of three propositions relevant to the analysis being conducted here: **the optimal role for the State in relation to other players is that of coordinator**. The most relevant tools to this role are regulation and information.

The next key point to emerge from Schuster et al.'s (1997) account of the policy tools is that their effectiveness is considerably dependent on the principle of subsidiarity. In Ireland, however, the over-centralised management of heritage reflects the relative weakness of local government and other structures to deal with heritage. The abolition of household rates in 1977 – a system particularly suited to heritage regulation and incentivisation as so many heritage costs are more accurately captured through local taxation systems – has made it very difficult to link incentives with effective listing and protection processes. Instead, government funds local authorities for compensation claims through a central fund administered by the DEHLG.

As far back as 1991, a report entitled *Local Government Reorganisation and Reform* recommended that local authorities should be 'given prime responsibility in the general amenity and heritage area,' and specifically that 'non-national parks, historic sites and



buildings should become the responsibility of local government' (Barrington, 1991: 23). Though some local authorities do manage significant heritage resources, the devolution of power and responsibility for heritage management on a systematic basis has yet to take place. Bianca's observation on how subsidiarity can reinforce a tangible inter-relation between society and its heritage was anticipated by the Barrington report (1991: 11) when it stated that 'there must be some link between spending and raising money in order to promote responsibility and accountability'.

The second proposition, therefore, is that **effective use of the tools is dependent upon the principle of subsidiarity** forming part of the strategic framework within which they are deployed. Regulation is deemed to work best when linked to a decentralised (national, regional, local) classification system that allows the tool of incentives to be deployed at the appropriate level of effective government.

The third proposition is that **information is the tool that can best reinforce the State's coordinating role**. Information remains a relatively neglected tool. It is the only one of the five capable of expanding participation in heritage protection at relatively little cost to public funds. Because consistency is an essential aspect of effective information processes, it is a strategic tool that is particularly well-suited to the State's exercise of the coordinating role. In the 2003 review information was perceived as part of policy, but it is more helpful to see it as one of the most effective functional tools the State can deploy, whether through interpretative programmes at heritage sites or by grant-aiding heritage bodies (both public and private) to provide people with the self-help resources to protect heritage through preventive measures.

#### TOWARDS PARTNERSHIP: THE ROLE OF AGENCIES AND TRUSTS

At the end of this article you will find an attempt to map the policy tools onto the various structural arrangements available to manage heritage within a partnership framework (Appendices 6.1 and 6.2). However, to provide further insight into these maps, two of the key components – agencies and trusts – need further analysis. It comes

down to the question: what is it that agencies and trusts are better suited to delivering than the State, and how can these functions be aligned with the policy tools?

All players in the heritage sector, including the State, are in competition for scarce resources. The dynamics of this competitive environment implies that any strategic review of the sector ought to involve a close analysis of the role each element plays. The role of government itself cannot be ring-fenced. The overarching goal of creating a workable partnership means building a system of trust where each organisation has a clear understanding of its distinctive contribution. The strategic design of a partnership involves optimising complementarity between all of the players, which in turn means eliminating as many confusions and functional overlaps as possible. It can be brought down to one question: what distinctive contribution can each player (government, local government, agencies and trusts) bring to a partnership, the overall purpose of which is to manage as much heritage as possible to a high standard?

The role of the State in the English context (via the Department of Culture, Media and Sport) is overwhelmingly one of coordination. The State manages no properties directly and confines itself to setting strategic policy goals and objectives for non-government agencies, such as English Heritage (EH). And while EH's broad remit obliges it to be both a regulator and operator, it is clear that exercising both of these functions has caused it some difficulty. As a result of a quinquennial review in 2003, the organisation was obliged to further streamline its operational functions from its regulatory role by setting up a Properties and Outreach division.

In Ireland, the State has consistently sought to carry out both the regulatory and operator roles directly at departmental levels. At present, the operational functions are spread across two departments (DEHLG and OPW), while one of the objectives of the recent re-organisation was to concentrate regulatory functions in the DEHLG. It could be argued however that in a context where the State has set up an Irish National Trust, it would make sense to divest itself of the operational role by setting up a non-governmental agency, along the lines of EH, to manage its heritage portfolio as a coherent resource

management enterprise. A number of benefits would follow from such a move:

- (a) The State would be less directly vulnerable to unrealistic public expectations that virtually all threatened heritage properties should be salvaged by the State.
- (b) It would be in a much freer position to act as regulator and arbiter of resource allocation issues arising between local authorities, an agency and a trust.
- (c) It could concentrate its resources on strategic planning and policy for the sector, and would be free to concentrate the energy of skilled personnel on setting and monitoring targets for local authorities, agencies and voluntary bodies.
- (d) Cooperation through service level and inter-site management agreements would be more easily accomplished between two institutions that shared a business-like approach to resource management, with the State acting strategically to encourage and support such cooperation.

Schuster (1997a: 51) strongly suggests that it is no longer efficient for the State to exercise the owner/operator tool directly. The exponential growth in heritage witnessed internationally over the past thirty years has resulted in the State no longer being able to carry the burden of caring for heritage directly from its own resources. In fulfilling its strategic planning role for the sector, the State needs to be deploying all of the tools appropriately if it is to fulfil the goal of building capacity through partnership.

Close attention must also be paid to how the regulatory tool is used, and particularly to the need for effective forms of decentralisation to underpin the effectiveness of regulation. Both Bianca (1997: 49) and Benahmou (1997: 200) have cautioned that when regulation is linked to permanent subsidies it leads to continual increases in spending. Decentralisation is seen as a way of checking these tendencies. Ensuring a more tangible relation between a society and its heritage, as Bianca puts it, is a realistic way of making public expenditure on heritage more efficient.

In Ireland in recent years there has been unprecedented enthusiasm for using legislative measures to manage heritage. The National

Monuments Act, for example, has been amended three times in recent years (1987, 1997 and most recently in 2004). Schuster (1997c) sees this tendency as a symptom of over-centralisation, with the search for the right policy reduced primarily to a search for the right law. Again, over-regulation only compounds the public perception of heritage as a responsibility of State; its ultimate effect is to discourage private sector involvement and drive up the public costs of heritage protection. It makes sense, therefore, not only to make greater use of the incentive and information tool as a way of reducing dependency on regulation, but also to push out the use of regulatory functions to other bodies, and particularly to local government.

Given Ireland's now ingrained habits of centralised government, bringing about this kind of change is not going to be easy. However, there is no real responsibility without power. If the State's long-term objective is to build capacity in the local government sector, it is going to have to begin somewhere with a genuine devolution of powers to manage heritage locally. The long-term aim might be not so much to regulate through laws, as through supervising the operational activities of local authorities and trusts through clear strategic policies, best-practice standards and consistent monitoring of performance. In turn, these organisations might be invested with appropriate levels of statutory power to regulate heritage locally in a manner consistent with their remit.

The correct use of the information tool holds perhaps the best potential for government initiatives in the sector. By withdrawing to a less dominant role in the management of heritage resources, the State sends out a message that heritage is a collective civic responsibility. If it accompanies this shift with a strong information campaign to raise civic consciousness of heritage values, it will simultaneously improve the environment for trusts and agencies. It is difficult for a trust to thrive and achieve the high levels of voluntary involvement on which it depends if there is a prevailing perception that heritage is ultimately a State responsibility. Here is a very good example where a clarification of existing roles based on a clear understanding of the policy tools can contribute directly to the strategic goal of effective partnership.

Mason and Mitroff (1998: 42) describe three key characteristics of a complex policy-making environment:

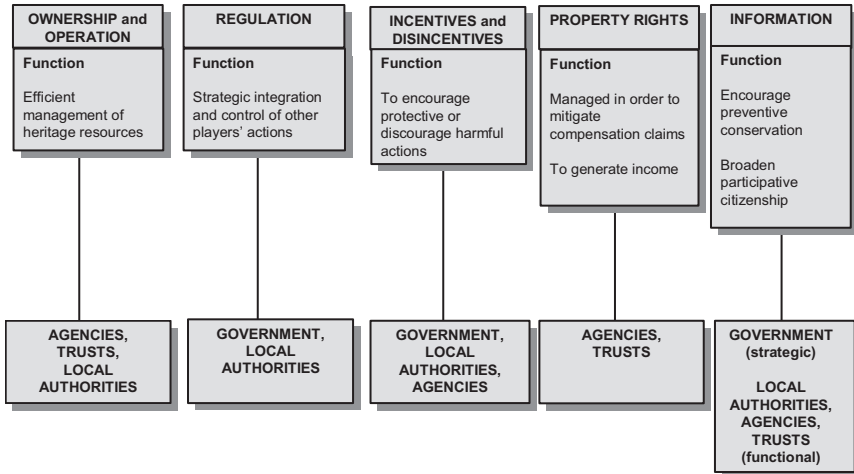
- Policy-making situations comprise many problems and issues.
- Problems and issues tend to be highly inter-related. Consequently the solution to one problem requires a solution to all the other problems. At the same time, each solution creates additional dimensions to be incorporated into the solutions to other problems.
- Few, if any, problems can be isolated effectively for separate treatment.

The kind of dynamic thinking required for strategic planning in the heritage sector reflects these symptoms of complexity.

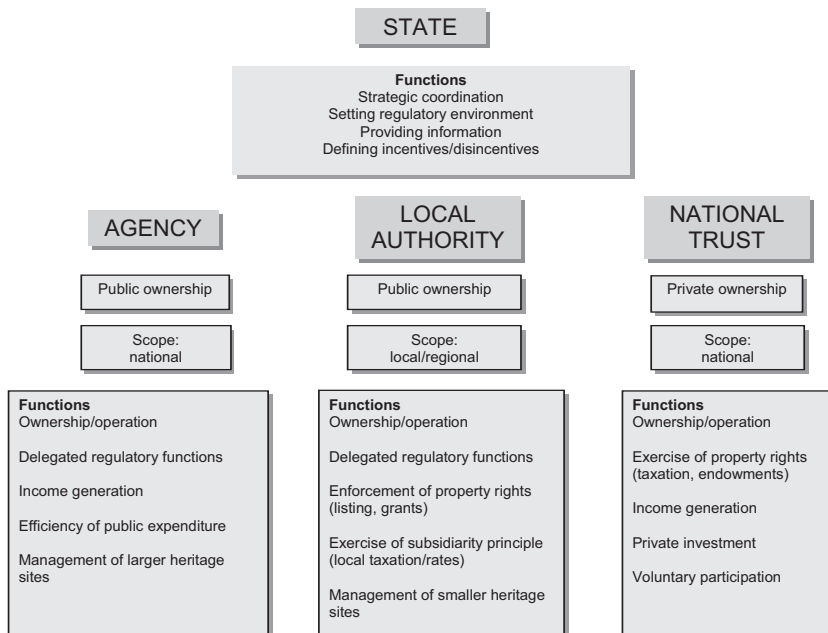
As the Getty Institute research (de la Torre and Mason, 2002: 3) shows, drawing up useful and practical planning tools for a phenomenon that is elusive in nature (heritage, like health, can be whatever you decide it should be) is a daunting challenge. Moreover, strategic planning requires the successful integration of qualitative (cultural) and quantitative (economic) values. An attempt to solve one problem (getting additional players into the field to help deal with the scarcity of resources) immediately raises others that require new solutions (the State is not outside the loop; it must be identified as part of the problem and included in any putative solution). And because the range of stakeholder interests (public, private, professional, voluntary, corporate and individual) cuts across any attempt to define neat boundaries, it is difficult to isolate any one problem for separate treatment.

Heritage, in other words, conforms to what Mason and Mitroff (1998: 42) have famously described as a 'wicked' problem. Virtually all countries are at present wrestling with how to find effective organisational solutions to the challenges posed by the heritage explosion of the past few decades. One of the characteristics of 'wicked' problems is that they set in train iterative processes: finality is usually not achievable. 'Like a Faustian bargain,' say the authors (Mason and Mitroff, 1998: 46), 'they require eternal vigilance'. But vigilance is better than a complacent assumption that limited tinkering will suffice to dispel the wickedness.

## APPENDIX 6.1: MAPPING THE POLICY TOOLS ONTO THE MOST APPROPRIATE STRUCTURES



## APPENDIX 6.2: OPTIMISING STRUCTURES FOR MANAGING HERITAGE: FUNCTIONAL APPLICATION OF TOOLS



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# Sidelined? The Future of Marketing in the Contemporary Organisation



J O H N E G A N \*

## ABSTRACT

This paper reports on the perceived sidelining of marketing, and in particular Relationship Marketing, within the contemporary organisation and analyses the potential consequences of this. Based on in-depth interviews with eleven top European marketing practitioners the research suggests that marketing's status has moved on little from the time when Whittington and Whipp (1992: 53) lamented that 'the marketing profession appears to still lack influence' and the call went out to bring marketing back to the centre stage by ditching the marketing mix in favour of the relational paradigm. Indeed, if anything, the position of marketing (and the marketer) appears, from this research, to be even more out of step in the contemporary organisation despite the general acceptance of customer-centric strategies, the traditional domain of the marketer. The reality of the new century is marketers are rarely seen to have either the competence or the powerbase to influence senior management. As a symptom of this demise the paper notes that marketers have effectively lost control of relational strategy as Relationship Marketing transforms, in many cases, into general-management-dominated and -controlled Customer Relationship Management (CRM).

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## INTRODUCTION

As marketing entered the last decade of the twentieth century its reputation was becoming decidedly tarnished. Whittington and Whipp (1992: 53) lamented at this time that, ‘the marketing profession appears to still lack influence’. The marketing function was being marginalised in many organisations (Sheth and Sisodia, 1999: 84), including marketing pioneers such as Proctor & Gamble and Unilever (Doyle, 1995: 23), where the posts of Marketing Director were abolished. Companies were questioning large expenditure on marketing without a measurable return on investment (ROI) and accountants were looking to reduce costs and increase rates of return. Brand-building exercises with largely immeasurable outcomes were no longer seen as justifiable. Marketing was openly criticised for lack of innovation in the face of hostile markets and for adopting defensive strategies to cope. The call went out to bring marketing back to the centre stage by replacing the marketing mix model with the up-and-coming relational paradigm.

Relationship Marketing (RM) was ‘the hot topic of the marketing discipline in the 1990s’ (Möller and Halinen, 2000: 29). By the end of the last millennium it had almost become ‘synonymous with marketing’ and as such it was ‘difficult to conceive a marketing problem or issue that does not have the notion of building, maintaining or dissolving relationships at its core’ (O’Malley and Tynan, 2003: 38). Relationship Marketing had become ‘the new phenomenon’ (Petrof, 1997: 26) or, conversely, was taking the discipline ‘back to its roots’ (Grönroos, 1996: 13). Relationship Marketing became the leading subject for discussion at academic and dedicated practitioner conferences, academic journal articles and specialist marketing magazines. It formed the basis of a host of specialised academic and practitioner texts by writers such as McKenna (1991), Christopher et al. (1991, 1994, 2002), Payne and Christopher (1995), Buttle (1996), Mattsson (1997), Gordon (1998), Gummesson (1996, 1999), Sheth and Parvatiyar (2000b), Hennig-Thurau and Hansen (2000), Barnes (2001), Donaldson and O’Toole (2001), Wong (2001), Varey (2002), Egan (2003), Little and Marandi (2003) and Bruhn (2003). Such was Relationship Marketing’s perceived importance that few, if any, marketing books failed to include at least one section dedicated to the concept.<sup>1</sup>

RM was 'in vogue' among contemporary marketing academics as well as practitioners, not only in services and business-to-business markets where it initially emerged, but also in mass consumer markets where it was originally shunned (O'Malley and Tynan, 1999: 587). Even scholars who were at one time leading proponents of the previously dominant transactional or 'exchange paradigm' (including, for example, Kotler and Hunt) became intrigued by the relational aspects of marketing (Sheth and Parvatiyar, 2000a: 121). Surely a concept of such magnitude would prove marketing's salvation.

Despite the prominence of Relationship Marketing and its interest amongst academics and practitioners alike there was still nothing to suggest in 2005 that marketing's status within organisations had improved significantly as a result of this 'paradigm shift' (Kotler, 1992; Sheth and Parvatiyar, 1993; Grönroos, 1994; Morgan and Hunt, 1994; Buttle, 1997; and Gummesson 1997, 1999 and 2001). As if in response to this continued perceived failing changes in the nature of Relationship Marketing began to become evident over the period. In particular, some researchers challenged the notion of a breadth of internal and external relationships so central to the Relationship Marketing concept, arguing that non-customer relationships were 'outside the domain of marketing' and that their inclusion in the marketing research agenda 'risks diluting the value and contribution of the marketing discipline in directing relationship marketing practice and research and theory development' (Parvatiyar and Sheth, 2000c: 7). Closely associated with this reversion to the single dyad was the rise of Customer Relationship Management (CRM) as a distinct, albeit ill-defined, concept.

#### RM/CRM CONUNDRUM

Although 'breadth of domain' and its 'permeable and elastic' boundaries have always been an issue in Relationship Marketing (see Brodie et al., 1997; Coviello, Brodie and Monro, 1997; and O'Malley and Tynan, 2000), the new millennium saw a rift develop between those who conceived marketing from a broad and pluralistic orientation and those who took a narrower functional marketing perspective (Egan, 2003). In effect ideas are polarising between those researchers who continue to support the holistic, multiple-relationship understanding of relationship marketing and those whose focus is solely

concerned with the 'customer–supplier dyad' (Payne, 2000) and the functional integrity of the marketing department. It would appear that many of the practitioners and academics who, in the past, wholeheartedly embraced the philosophy of a web of relationships have 'moved-on' (or is it back?) to concepts that claim to focus on the fundamentalism of customer relationships (Egan, 2003). In this version of RM the content is, according to Gummesson (2003: 168), 'locked in a box of simplistic, one-to-one, customer–supplier relationship, an approach touted especially in CRM'.

It is this ruthless focus on CRM and its associated technology as a means of 'managing the relationship' with customers in mass markets which challenges marketing and the relationship marketer. Whether or not the customer wants or values this type of relationship, it is effective from the company's perspective and a means of manipulating customer behaviour. Among RM researchers relational strategies were rarely seen as a universally applicable approach, rather they were seen as being context-specific, usually restricted to services or business-to-business operations. It was generally acknowledged that most consumers of mass-produced and mass-distributed convenience goods were not looking for a relationship and might just as well be handled by a mix-management approach (Baker, 2002). On the other hand service operations, together with business-to-business relationships (Ford, 1997; O'Malley and Tynan, 2003), were always seen to be 'relationship oriented' (Grönroos, 1995: 252) and the natural home for RM strategy development. Ironically, in practice, it was the mass marketers who have appeared to be determined to make relationships work through the medium of CRM. As O'Malley and Tynan (1999: 595) note, these marketers have 'ignored the fact that RM was intended as an alternative approach to marketing in contexts which differ significantly from mass marketing situations and where high interpersonal interaction occurs'. In this brave new world RM, in the attempt to take it into the mass market, seems to have transmogrified into Customer Relationship Management.

### CRM

To its many advocates in academia and marketing practice, CRM is seen as the practical application of Relationship Marketing. The

definition of CRM as 'technology-enabled RM' (Little and Marandi, 2003: 197) would hold more credence, however, if it were more directly influenced by RM philosophy. Much of the foundation for CRM technologies can be found, not in the relationship marketing literature, but in the database, data-mining and decision-support literatures (Wetsch, 2003). It has manifested itself not in shared and managed customer knowledge across a learning organisation but rather as the purchase of a software package (Evans, 2003) and its subsequent application. Companies would appear to be using technology they don't understand very well in order to help them implement a process (RM) they are also largely unfamiliar with (O'Malley, 2003).

None of this would matter much if CRM projects were seen to be working. The return to a concentration on the customer-supplier dyad and/or dependence upon CRM technology could be forgiven by relational marketers if, as a result, companies were seen to be benefiting but, for the majority, this does not seem to be the case. According to Gartner, CRM has risen from the bottom 3 of 25 possible management tools surveyed in 2001 to the top half in 2003, when 82 per cent of the global executives in the study said they planned to employ it (Rigby and Ledingham, 2004: 118). In Europe and North America, where nearly 40 per cent of the companies in high technology, aerospace, retailing and utilities have invested in CRM systems, including two-thirds of all US telecom operators and half of all US financial service companies (Ebner et al., 2002), reports persist (e.g. Wetsch, 2003; Ebner et al., 2002) of high, perhaps 70 per cent to 80 per cent, failure rates. In the banking sector, the biggest users of CRM technology, Ebner et al. (2002) estimate that barely 20 per cent of organisations had raised their profitability as a result of CRM implementation and that few, if any, will ever see a return on investment (Rigby and Ledingham, 2004).

So the managerial context of CRM is that of a popular, innovative, technologically enabled approach which has been oversold and is currently under-delivering to its adopters. Despite these appalling results Wetsch (2003) estimates that businesses would spend \$12 billion worldwide on CRM technology in 2004. Add to this the cost of training, opportunity costs and, in certain situations, loss of goodwill from inappropriate application, and the cost to businesses of

what must be regarded on the surface as a failing philosophy puts this in a realm of its own. The general findings, as O'Malley and Mitussis (2002: 234) note, must at the very least, 'serve to put advocates of CRM on notice'.

The conundrum of RM and CRM coupled with the perceived lack of influence by marketers raises a great many questions. Why has a concept such as RM, with a reasonable and perhaps age-old track record, transmogrified into CRM and under whose influence, that of practitioners or academics? Might CRM be marketing's potential salvation? Does CRM share (or indeed have any) theoretical foundation with RM (beyond the rhetoric) and, if so, what's gone wrong? Is CRM a consequence of marketers losing control of marketing and/or is CRM a management process rather than a marketing strategy? Why does CRM appear to have more intrinsic appeal amongst practitioners than RM and why? Have those academics who have accepted the CRM mantle and redefined RM theory got it wholly wrong, been misunderstood, lacked empirical verification or can they blame misapplication by practitioners? Perhaps those academics associated with CRM have simply 'gone native' in search of practitioner acceptance or are under pressure to raise further research funding. Have marketers any real strategic influence on the contemporary organisation or is it being relegated to a functional silo? There is a complex series of questions that cry out for further research into the interchange between academic developed theory and practitioner action. The long-term objective of this continuing research is to resolve some of these uncertainties. This paper represents a first step towards that aim as it reports on the views of senior marketers, heads of marketing departments and others purporting to develop marketing strategy within their particular organisations.

#### METHODOLOGY

The complexity and social interaction surrounding this research seems to dictate the use of a qualitative research methodology to take a 'broader and more holistic' perspective (Carson et al., 2001: 66) and address people's 'lived experience' (Miles and Huberman, 1994: 10) through exploring the 'richness, depth and complexity of social science research such as that involved with relationships'



(Malhodra and Birks, 2000: 155). According to Janesick (2000: 387–388) common ‘rules of thumb’ amongst qualitative researchers are that they are looking for meaning (the perspectives of the participants), relationships (regarding structure, occurrence, distribution, etc.) and tension (misfits, conflicting evidence, etc.). So theory building, where the purpose of the study is to seek out meaning and understanding of the phenomena, replaces theory testing (Carson et al., 2001: 11).

Of the various data collection methods available, in-depth interviews with ‘elite informants’ was seen as the methodology most likely to achieve results in this research. These focus on elite interviewees, individuals who ‘are considered to be the influential, the prominent, and the well informed people in an organisation or community, and are selected for interview on the basis of their expertise in areas relevant to the research’ (Marshall and Rossman, 1995: 83). The advantages of such interviewees are that these ‘elites’ have valuable information gleaned from experience. They are likely, given their seniority, to have a clearer view of their own operation, industry and wider domains in the past, present and future, and there are indications that their evidence tends to be more reliable (Mitchell, 1994). These advantages have to be balanced against the disadvantages of the limited accessibility of such elite interviewees. In this regard a researcher’s business contacts, experience and ability to reach individuals at the top of organisations is crucial.

A convenience sample of eleven interviewees were chosen on the basis of their seniority as managers or directors, their status as relationship-orientated marketers – as indicated by the job title or job description – or where relational strategies were evident or claimed publicly by their company. Anonymity was promised to the interviewees and so generalised descriptions of the sample are shown in Table 7.1 below. The interviews were semi-structured with open-ended questions, which addressed the interviewee’s experience of and reflections upon marketing practice, the contribution of marketing in general and that of RM and CRM in particular. The average interview was of forty-five minutes duration. They were audio-recorded and then transcribed verbatim. The text was analysed following the generalised sequence of steps including data reduction

**Table 7.1: General Description of Interviewees**

<b>Interviewee</b>	<b>Job Title</b>	<b>Company Description</b>
A	Managing Director	Major consultancy specialising in RM/CRM
B	Chief Executive Officer	Business-to-business automotive industry
C	Director	Relationship marketing top 5 consultancy
D	Marketing Director	UK top 10 financial institution
E	Head of Relationship Marketing	Top 5 UK supermarket retailer
F	Development and Communications Director	Charitable foundation
G	Marketing Consultant	Top 5 computing organisation
H	Chief Executive, Marketing	Top 5 petroleum company
I	Marketing Director	Top 10 UK conglomerate
J	Marketing Director	Major UK daily and Sunday newspaper
K	Managing Director	Major UK service company

and transformation, data display and conclusion drawing/verification (Miles and Huberman, 1994: 10). Patterns and themes, which were similar across scripts, were noted to allow for earlier readings of the text to inform later readings, and to allow for later readings of the transcripts to explore patterns not noted on the initial analysis (Thompson and Haytko, 1997).

## FINDINGS

The research suggests that, regardless of the 1990s perceived dominance of the Relationship Marketing paradigm, the position of marketing (and the marketer) appears even more contentious in a growing number of organisations than at the beginning of that decade.

Whereas in the 1970s the President of American Express (Amex) said to one interviewee, 'if you ever want to make it to senior levels in American Express then you should go into Marketing' [I], the reality of the new century is marketers are rarely seen to have the 'competence or power to influence senior management' [G]. The recipient of the Amex President's advice took a more general management career path and, despite his marketing title, 'wouldn't describe myself as a marketer ...and a wonder if in some ways that's a sort of defensive statement right from the start, which says something about marketing' [I].

Senior management have a poor view of marketers. As one director noted, in the marketing arena, 'it is not obvious to me that there is a sufficiently powerful body of ...deep insight and intellect' [H]. Despite general support among interviewees for 'marketing-led' [H], [I] and [K] strategies within an organisation, marketers apparently are 'still not ...taken that seriously' [I] in the modern organisation. As one interviewee noted, 'until marketing can really hold their own with some of the very bright, very capable, finance directors around I don't think they will ever have the credibility, even I think to have the stature or status within the business, forgetting about even getting on the board' [I].

Marketers are seen (by nature and/or nurture) to be different from their colleagues. It is suggested that 'certain types of people that tend to go into [the marketing] discipline [who] tend to have a different non-structured view of the world and therefore ... [are] not going to fit well within a corporate environment' [E]. Above all they tend to 'take risks' [E]. They are gambling with the organisation's resources in an attempt to 'get the odds tipped 5 per cent in your favour' [D] in the hope, but not expectation, that you will 'win more often than you'll lose' [D]. Others would not see the odds as being that favourable. Because these people are 'entrepreneurial ... [they] tend to get it right 1 times out of 10 possibly ...calculated risks, you will get them wrong as [many] time[s] as you will get them right' [E]. A marketer, for example, is seen to be 'prepared to just splash £5 million on a new advertising campaign ...with the hope that it's going to do a job' [J]. By comparison 'it is very rare [to see] a finance guy take a risk' [E].

Because they are perceived to take risks the supposed corollary is that 'most marketing people aren't that commercial' [J] and that

‘most marketers probably have ten percent of the understanding of ...financial issues and ...financial data [knowledge] that accountants do and ... [this] holds them back’ [I]. It was also claimed that marketers are ‘quite immature in terms of the way they approach things ...business naïve’ [J]. They are widely perceived as being these ‘creative types, [who] spend lots of money but aren’t really accountable, don’t understand anything about value creation and are not very numerate’ [I]. They are characterised as ‘creatives’ who ‘wallow in how good the advertising is ...and at the end of the day, all market shares are probably going down and the markets falling but no one cares because they made a wonderful ad the other day that won an award’ [J]. Although these generalisations may be ‘as ridiculous as the generalisation that every accountant is a complete bastard cutting costs’ [I] when ‘70 per cent of CEOs in the FTSE 100 are accountants or come from a finance background’ [J], the view from the top is that of a not very prudent risk-taker, whose instincts are at odds with the commercially minded businessman/woman. They have ‘this rather woolly flavour’ [H] which causes them stand out as misfits in a commercially minded company.

Whether these perceptions are fair or not they are reinforced by the general view that ‘marketing is a cost, it’s not a revenue’ [J]. As a result those ‘from outside marketing, from the financial perspective, see marketing [as] those who spend the money and finance guys who actually turn that into profit’ [E]. So marketing is seen to be about ‘spending money (and) not necessary gaining the return ...finance is about saving costs and helping to churn out and achieve profit margins’ [C]. Rather than hard facts, ‘they start arguing on emotional principles, which aren’t fact based, they’re not P&L [profit and loss] based, and people don’t ...treat them and trust them; credibility ...is what it comes down to’ [J]. Because they are perceived to be ‘not sufficiently accountable for the expenditure’ [K] they are seen ‘from a shareholder point of view [as] not as safe a pair of hands as somebody with an accountancy background who’s used to being very accountable’ [K]. In particular, ‘don’t talk to marketers about shareholders, they haven’t got a clue’ [G].

There is little sympathy, therefore, for the perceived derogation of fiscal duty by marketers. The ‘fact that Marketing Directors are

being asked about ROI shows how bad they are' [G]. They 'have to be prepared to justify [the] investment in marketing in exactly the same way as anybody else in your business would be asked to justify their investments' [D]. They are 'a cost that has to work for the company' [J]. The call has gone out from management that 'it's only through metrics that you can improve your learning ...they need to test and learn and re-test' [C]. They are still seen as so inept that they have 'failed to win the hearts and minds' [G] of their organisational colleagues. As a result 'what you don't see is marketing graduates graduating up through the company to become big leaders and sitting on the board of their companies' [H]. As marketers are not perceived as leaders or rational decision-makers, 'they're not involved in the strategy ...End of game for the marketers' [G].

The recognition of the lack of a marketing (and marketer) power-base within an organisation is widespread and accepted with a certain resignation. One marketing director of a major newspaper noted, for example, that in his organisation 'we ultimately don't dictate where the paper goes and we don't ultimately dictate what's in the paper, so why on earth should we be central [to] decision-making' [J]. As a result marketers are seen to have little 'influence over all the money-making departments' [J] of the organisation and 'have no competence or power to influence senior management' [G]. Marketers are seen to 'generally ...live and work [at] a marketing level' [C] rather than at the strategic end of the business. They would appear to be constantly fighting against the organisation. As one interviewee noted, 'I've been talking about this concept for probably a year and a half and it scared the hell out of everyone' [J]. As a result management 'tend to put [out] all the blocks' [C], raising barriers in front of marketing initiatives. As one respondent observed, 'what could be a fantastic relationship marketing strategy ends up being watered down by all the politics of an organisation' [C]. Risks still continue to be taken, however. As was noted by one marketer, 'we are probably the only people ...who are trying to talk to people on an individual basis. No one else is doing that yet because, to be honest, we're doing this in a very clandestine way, so it doesn't get screwed by anyone else' [J]. Such are the pressures on the marketer to conform that there is a danger of the spirit of

contemporary marketing being subsumed back towards the level of corporate functionalism.

One symptom of this loss of status would seem to be that marketers are being usurped in their traditional role as the principal interface with the customer. The question being asked is ‘who owns the customer ... is it the marketing department ... the after-sales [or] is it the accounts department?’ [B]. The answer is, perhaps, not as clear as in the past when it might generally be assumed that marketing was a major influence at the customer interface. For example, when questioned regarding marketing strategy, Relationship Marketing was perceived by some senior marketers as a cog in a bigger Customer Relationship Management (CRM) system (for example [A] and [B]). This view of marketing includes ‘doing all the data and understanding customers, taking external research, driving the insights around what the custom needs’ [I]. Rather than a functional marketing responsibility CRM was seen as ‘about customer management’ [I] and was frequently described as a company-wide approach. It was where ‘you have the whole enterprise geared-up to relate [and] interact with customers and prospects’ [B]. The same respondent added somewhat wistfully it was ‘marketing [as] we used to call it in the old day’ [B]. This general feeling that marketers had lost control of customer interaction to general management was widespread. As one interviewee noted, ‘marketing is part of management ... only one element’ [C]. As control is seen not to rest with functional departments it has become a management role with steadily less marketing input. Although it was mused that ‘maybe marketers should be in charge of CRM’ [B] they were not seen currently to be taking a lead in the process. Marketers rather were seen to live in ‘an ivory tower, central function ... [and to have] lost sight of what it actually feels to be a customer’ [I]. In contrast organisations are encouraging a more process-driven management of the customer. In this respect CRM, in particular, was seen as a means of recognising consumer behaviour and either encouraging or modifying it. The suggestion was a need to restructure systems and processes so that companies ‘can target the right thing and not the wrong things and reward people for doing the right things’ [H]. It was a means of either helping to ‘look for behaviour they want from customers, rewarding that behaviour and helping perpetuate it’ [A] or alternatively, ‘change their behaviour’ [I] and ‘the

way customers interact with you' [I]. Rather defensively, behaviour change (when challenged on its meaning) was described as 'just ... a chance to market' [I] rather than any attempt at 'brainwashing' [I]. Several interviewees felt that practice had gone beyond RM and CRM to what was variously called 'relationship management' [G], [K] or 'customer management' [H], if anything further emphasising the managerial approach at the expense of marketing. Cross-organisational 'management control' was in this way regularly highlighted as, it was suggested, CRM 'is when you have the whole enterprise geared up to relate with, interact with, customers and prospects' [B] or 'saying the whole enterprise, dealing with the whole customer' [G]. The concept of developing longer-term relationships, although undoubtedly part of the rhetoric, would appear to have been replaced by this management and a form of manipulation of customers reminiscent of the charges against traditional marketing in another decade.

Despite the criticism of marketers and marketing it was still proposed that 'the most successful businesses are the ones that are marketing-led organisations' [K] and that 'it's only where marketing is truly at the centre of businesses [that] it dictates strategy, and... changes the way the business works tomorrow' [J]. The question arises as to why there is such a distinction perceived between marketing as a philosophy and marketing as practiced by marketers. The drive to be a market-led organisation is seen as emanating from organisational 'leadership, [because] you've got to have somebody who comes in with passion' [B]. Indeed it is suggested that 'in all the best companies ... the marketing function is much less important as a function but as an activity it's recognised as a board concern. In the worst companies marketing is recognised as a functional activity with very strong rights to itself' [G]. In these companies marketing is 'very much up on the agenda of the CEO and their first line. But there [it is] not even called marketing although you and I would recognise them as marketing topics. They're about us and our customers and our staff. Let's not call them marketing. Let's talk about how we and our customers and our staff and our suppliers can work together to create value. Many of the techniques will clearly be the same' [G].

The importance of marketing per se is, therefore, recognised but this is disassociated from the marketer who is in danger of being eclipsed and/or relegated back to a functional input into the

organisation. Whereas an earlier marketing age might have seen the marketer's contribution as covering a wide context (associated with the marketing mix) today's marketer has increasingly less influence on the strategy of the organisation. Although, as one respondent noted, there should be 'no difference between a business plan and a marketing plan' [B], it is perceived that marketers 'have failed to win the hearts and minds' [G] of decision-makers. No longer could marketers claim that, 'whereas not everything is marketing, marketing is everything'.<sup>2</sup> This failure has left marketing with limited influence and responsibility and where 'perhaps the most important thing in the marketing department is marketing comms [communications]' [K].

Marketers and contemporary marketing have been left, therefore, in the unenviable position of being poorly regarded as the misfits in the organisation. Marketers are seen to be working to a different agenda than that of general management and using a different language to express it. The lapse is not because of a lack of communication per se but appears to be, more fundamentally, a difference in understanding as to the nature and form of marketing.

This may be reflected in what appears to be differences in values which in turn influence preferred strategies. Thus the marketer's added value is the management's added cost. Organisational efficiency on the one side is de-investment on the other. Whereas marketers talk of a creative looseness, flexibility, long-term investment and relish an element of risk-taking, general management's language is that of positive action and speedy results with, as far as possible, an absence of risk.

The general movement has been to restrict the influence of marketing. As one respondent noted, 'I think marketing is part of management ...so marketing is only one element of that and therefore relationship marketing is only one element' [C]. It was certainly conceded that 'you can't manage the customer [base] in its entirety just through marketing' [C]. CRM, therefore, was seen as a management tool where 'you have the whole enterprise geared up to relate with, interact with, customers and prospects ...which means not just your marketing and communications people but also your call centres, your accounts department [, etc.]' [B]. Management is looking to fill the gap and providing the coordination of 'marketing [as] we used to call it ...in the old days' [B].



The management approach to marketing may well take the perceived short-term view that ‘if you [just] invested in improving the relationship you’d lose an enormous amount of money’ [G]. Management of customers, in this regard, is seen to be about ‘organisational structure’ [I] and about ‘re-engineering the processes in order to make sure the processes are compatible’ [H]. Marketing’s vision of the ‘special relationship’ [D] and ‘understanding customer needs and mapping those customer needs’ [C] is engulfed by the ‘more serious issues [of] project management, programme management [and] change management’ [G]. This management model begins to resemble claims associated with CRM that it can help companies ‘look for behaviour that they want from customers and rewarding that behaviour and helping it to be perpetuated’ [A].

### CONCLUSION

This paper reported on a small but influential group of marketers and their views on relationship marketing. CRM is seen as important, valuable and difficult to implement. It is seen to be largely under the control of general management with functional input (including marketing) to the process. It is looking for the most profit at lowest cost and in the shortest time. Relationship building is confined largely to offers and promotions and communication is mechanised. The focus is on the customer–supplier dyad at the expense of other (particularly internal) relationships and customers are segregated on the basis of what they can contribute to the company in profit. The similarities to the traditional marketing management transactional paradigm seems to suggest companies are moving away from the theories and concepts of Relationship Marketing but still using the relational rhetoric to cover their retreat. If marketers are to recover their status within organisations it is unlikely to be through the further development of CRM.

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- 1 For example Michael Baker’s popular *The Marketing Book* and Philip Kotler’s *Principles of Marketing* both acquired a Relationship Marketing chapter in later editions.
  - 2 See McKenna (1991: 18) and Ballantyne (1997: 345) for variations on this theme

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# The Impact of Organisational Culture Factors on Innovation Levels in SMEs: An Empirical Investigation



B R E D A K E N N Y \*  
E I L E E N R E E D Y \*

## ABSTRACT

An innovative organisational culture is one in which continuous improvement throughout the organisation is the norm. This is achieved through the generation and implementation of ideas. In other words, innovation is not confined to something that a small minority are charged with doing (e.g. those in R&D), with the results appearing at fixed times.

Literature in the area shows little agreement on the type of organisational culture needed to improve creativity and innovation. Previous research findings are paradoxical in the sense that organisational culture can stimulate or hinder creativity and innovation. Several researchers have worked on identifying values, norms and assumptions considered to be important in promoting and implementing creativity and innovation. However, very few empirical studies involving quantitative research have been carried out to support the findings of researchers.

This paper presents the results from a quantitative study on innovation in SMEs (small to medium enterprises). Data was obtained from a total of twenty-five respondents to a questionnaire regarding innovation within companies.

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The findings deal with issues such as current innovation strategies, product and process innovation, drivers, constraints and sources of innovation, and the company environment and cultural factors that contribute to innovation within companies.

The paper concludes with a discussion of the salient cultural factors that can contribute to the stimulation of innovation and creativity within organisations. Further expansion of this research is also explored mindful of the constraints of the sample size.

## INTRODUCTION

In today's business world successful product or process innovation provides companies with major opportunities and advantages. Successful innovation is increasingly important in the current globally competitive economy. There is a considerable amount of literature on innovation from a variety of disciplines. Furthermore, many research studies have attempted to gather information on different aspects of innovation. Given this body of information, one would expect that most companies could successfully innovate. However, many SMEs have difficulty achieving successful innovation, despite significant investment in research and development (R&D) (O'Regan et al., 2006).

This paper presents the results from a study on innovation in rural SMEs. The purpose of this research was to investigate issues such as current innovation strategies, distinction between product and process innovation, main drivers, constraints and sources of innovation. The study also investigated the company environment and cultural factors that contribute to innovation within companies, e.g. information sources, role of management/leadership, attitude to success/failure, staff creativity, attitude to risk-taking and strategic direction. These, and other factors, were examined in the context of Cumming's (1998) three stages of innovation: namely, the creative/invention stage, the development stage and the application stage. The results provide an insight into the factors impacting innovation in SMEs and confirm an association between various aspects of organisational culture, commitment to R&D and innovation.



## LITERATURE REVIEW

This paper draws from literature on organisational culture, innovation and innovation culture. General literature on innovation with specific reference to SMEs is also reviewed in this section.

### **Organisational Culture**

The empirical work on organisational culture can be traced back to the early work of classical organisation theorists such as Lawrence and Lorsch (1967). Literature on the subject began with writers such as Peters and Waterman (1982) who put forward a theory of excellence which identified cultural characteristics of successful companies.

Earlier studies such as Kotter and Heskett (1992) produced evidence which highlighted the importance of culture to organisational performance and effectiveness. More recently, Deshpandé et al. (1993) linked culture types to innovativeness.

Furthermore, Dennison and Mishra (1995) identified four cultural traits and values that are associated with cultural effectiveness: involvement, consistency, adaptability and a sense of mission. Denison and Mishra (1995) proposed that for effectiveness, organisations need to reconcile all four of these traits. This focus is consistent with Schein's (1985) observation that culture is developed as an organisation learns to cope with the dual problems of external adaptation and internal integration.

There are few quantitative empirical research studies on the impact of culture on innovation (Ashkanasy et al., 2000). O'Regan et al. (2006) focused on organisational culture with specific reference to leadership and innovation. Lau and Ngo (2004) investigated the link between the HR system, organisational culture and product innovation. Some qualitative work was carried out in the context of innovation within the Biotechnology Industry by Terziovski and Morgan (2006) and the effects of a firm's size on innovation was investigated empirically by McAdam et al. (2004). This study adds to this growing stream of research by focusing on manufacturing SMEs in a rural setting.

### **Defining Innovation**

Rogers (1995: 11) defined innovation as 'any idea, practice or object that is perceived to be new by an individual or other unit of

adoption'. Innovation involves the adoption of new products and/or processes to increase competitiveness and overall profitability. It involves new ways of identifying the needs of new and existing clients. Innovation is one of the principal challenges to the management of SMEs.

Innovation represents an orientation fundamentally different from traditional financial or market-based outcomes of a firm. Muffatto (1998) suggested that in the innovation process the creation of an innovative climate and related professional knowledge and capabilities are needed to support innovation activities. Hence, there is a need to change organisational arrangement and culture in order to foster innovation. This argument is in line with human capital theory used to explain an organisation's competitiveness in innovation outcomes (Chan et al., 2004).

Hitt et al. (2001) stated that innovation is critical to enable SMEs to compete in domestic and global markets. The importance of innovation for SMEs and start-up firms was highlighted by Lee et al. (2001) who argued that due to resource shortcomings, scale diseconomies and questionable reputation, innovation is a key competitive advantage for SMEs because it depends on quality and quantity of R&D personnel and complex social relationships. All of these are difficult to mimic.

Innovation is increasingly seen as a contributory factor to higher performance in a growing number of industries (Zahra et al., 1999) and in particular, strengthening the firm's competitive advantage (Mone et al., 1998). Yet earlier literature indicated that many firms believed their existing ways and processes were sufficient for the preceding decade (Utterback, 1994).

SMEs are renowned for their creativity and new product development. This applies in particular to SMEs that have the ability to innovate effectively and develop new products more rapidly than larger firms (Vossen, 1998). Indeed, Harrison and Watson (1998) contended that there was little doubt that SMEs were capable of effective innovation. However, many SMEs still fail to see the opportunities and advantages that are open to them, such as the flexibility of customising products to the requirements of the consumer, an advantage adopted by larger firms (O'Regan et al., 2006).

Innovation is holistic in nature. It covers the entire range of activities necessary to provide value to customers and a satisfactory return to the business. As Buckler (1997: 45) suggested, innovation 'is an environment, a culture – almost spiritual force – that exists in a company' and drives value creation. Cumming (1998) highlighted that many studies have been conducted on the important elements required to achieve the successful application of a new idea, but in general all relate to three basic steps to be considered:

- (1) Idea generation (creativity).
- (2) The successful development of that idea into a useable concept.
- (3) The successful application of that concept.

These stages will be revisited later in the findings section of this paper.

### **Innovation Culture**

An innovation-oriented culture may be initially defined as the need for the maximum number of innovative ideas to appear within a certain period (Fons-Boronat, 1992). A more precise definition was proposed by AECA (1995) and refers to an innovative culture as a way of thinking and behaving that creates, develops and establishes values and attitudes within a firm, which may in turn raise, accept and support ideas and changes involving an improvement in the functioning and efficiency of the firm, even though such changes may mean a conflict with conventional and traditional behaviour. For innovative culture to succeed certain requirements must be met, involving four kinds of attitudes: corporate management is willing to take risks, the participation of all members of the firm is requested, creativity is stimulated and there is shared responsibility. Deshpandé et al. (1993) pointed out that without a strong, shared culture which is clearly innovation-oriented a firm can hardly be competitive due to innovative development.

A similar view was that of Canalejo (1995) who considered that an innovation-based organisational culture must possess the following values: client-orientation, commitment towards objectives, challenge and initiative, exemplary behaviour, team work and permanent improvement.

## LINK BETWEEN CREATIVITY AND INNOVATION AND ORGANISATIONAL CULTURE

Organisational culture seems to be a critical factor in the success of any organisation (Martins and Terblanche, 2003). Successful organisations have the capacity to absorb innovation into the organisational culture and management processes (Tushman and O'Reilly, 1997). Organisational culture was believed by Tushman and O'Reilly (1997) to lie at the heart of organisation innovation.

Organisational culture affects the extent to which creative solutions are encouraged, supported and implemented. A culture supportive of creativity encourages innovative ways of representing problems and finding solutions (Martins and Terblanche, 2003). Creativity is regarded as both desirable and normal and innovators are favoured as models to be emulated (Lock and Kirkpatrick, 1995).

Against the background of the systems approach, which sees organisations as open systems consisting of different sub-systems interacting with one another, Martins and Terblanche (2003) explained the relationship between organisational culture, creativity and innovation as follows:

- External environment (e.g. economy and competitiveness encourage continual changes in products, technology and customer preferences) (Tesluk et al., 1997).
- Reaction to critical incidents outside and within the organisation, which is reflected in the strategy (e.g. innovation strategy) of the organisation (Tesluk et al., 1997).
- Managers' values and beliefs (e.g. free exchange of information, open questioning, support for change and diversity of beliefs) (Tesluk et al., 1997).
- The structure of the organisation, which in turn allows management to reach organisational goals (e.g. a flexible structure characterised by decentralisation, shared decision making, low to moderate use of formal rules and regulations, broadly defined job responsibilities and flexible authority structure with fewer levels in the hierarchy) (Hellriegel et al., 1998).
- Technology, which includes knowledge of individuals and availability of facilities (e.g. computers, the Internet) to support the creative and innovative process (Shattow, 1996).

According to the literature there is some broad agreement on the type of organisational culture needed to improve creativity and innovation. However, there is a subtle balance required as there also seems to be a paradox in the sense that organisational culture can stimulate or hinder creativity and innovation (Tushman and O'Reilly, 1997). Researchers such as Martins and Terblanche (2003) have worked on identifying values, norms and assumptions involved in promoting and implementing creativity and innovation. The current study aims to expand on this work within an Irish SME context.

### METHODOLOGY

Data was collected by means of 'face-to-face' administered questionnaires and semi-structured interviews with senior management. All respondents were involved in the decision-making process within their SME.

The sampling frame for this research was derived by combining company listings from relevant semi-state agencies. A sample of twenty-five manufacturing SMEs (companies with 10 to 249 employees) was randomly selected. The manufacturing sector was considered capable of providing greater scope for measuring innovation issues. The sample included a range of manufacturers, from food and beverages to wood and furniture.

### RESEARCH FINDINGS

The research findings are presented in the following six sections: sample profile, markets and customers served, number of new products or services, general organisational culture, specific organisational culture regarding innovation, and the relationship between organisational culture factors and successful innovation.

#### **Sample Profile**

A broad range of manufacturing enterprises were included in the sample. Food products and beverages accounted for a quarter of the sample ( $n = 6$ ) with textile manufacturing the next most frequent ( $n = 4$ ), followed by machinery and equipment manufacturing ( $n = 3$ ) and medical and optical manufacturing ( $n = 3$ ). Companies manufacturing electrical items, non-metallic minerals, wood and furniture, chemicals and fabricated metal were also sampled.

Almost half the sample companies had between ten and forty-nine full-time employees. Three-quarters of the sample companies were in operation for ten or more years.

Nineteen companies answered the question on turnover and reported robust figures. The minimum reported turnover was €1 million. Furthermore, these nineteen companies expected their turnover to increase year-on-year for the next three years. The remaining six companies refused to disclose their turnover figures. A number of different sources of capital funding were listed but the majority of companies ( $n = 17$ ) indicated their sources were internal.

### **Markets and Customers Served**

Respondents were allowed to make multiple responses with regard to the markets and customers they served. Almost 90 per cent of the sample ( $n = 22$ ) served the domestic market. The next most frequent response was the UK ( $n = 17$ ); European ( $n = 14$ ), North American ( $n = 8$ ) and Australasian ( $n = 5$ ) markets were also served. Nineteen companies (76 per cent of the sample) served business-to-business (B2B) customers and the remainder served a combination of business-to-business and business-to-customer (B2C) customers.

### **New Products or Services Launched in the Past Five Years**

Successful innovation is highly dependant on external factors such as the nature of the market, industry sector and competitive behaviour. A particular focus of the current research was to investigate a possible link between new products and services and certain internal factors such as organisational culture. In the current study, innovation was measured by asking respondents how many new products or services their company had launched in the past five years. The measure was reliant on the respondents' self report. The results are categorised in Table 8.1.

### **General Organisational Culture**

The general organisational culture factors measured in relation to innovation were the existence of and familiarity with a company mission statement and R&D aspects of the company.

**Table 8.1: New Products or Services Launched**

<b>New Products or Services Launched Past Five Years</b>	<b>Frequency</b>
0	4
1 to 9	9
10 to 49	5
50 to 99	4
100+	3
Total	25

*Mission Statement*

One of the findings from the literature was that correctly formulated corporate philosophies and mission statements can have a positive impact on the organisation. Martins and Terblanche (2003) included vision and mission as strategic determinants of organisational culture that influenced innovation. In the current study, nineteen companies reported they had a mission statement.

The extent of their employees’ familiarity with the mission statement was then probed. Of the nineteen companies who had a mission statement, approximately one-third of these did not have all their employees familiar with it. This finding suggests that even when companies subscribe to the philosophy of a mission statement it does not necessarily receive the required follow-through. Therefore the benefits of such a statement, in terms of driving the organisation forward, may be lost.

Having a clear corporate philosophy enables individuals to coordinate their activities to achieve common purposes, even in the absence of direction from their managers (Ouchi, 1983). One effect of corporate statements is their influence in creating a strong culture capable of appropriately guiding behaviours and actions.

Despite these concerns, Ledford et al. (1995) suggested that if correctly formulated and expressed, philosophy statements can guide behaviours and decision-making, express organisational culture, and contribute to organisational performance by motivating employees or inspiring feelings of commitment (Lock and Kirkpatrick, 1995).

### *Research and Development (R&D)*

The organisational culture with respect to research and development (R&D) was believed by the authors to be very important in relation to innovation. R&D in relation to innovation has also been identified in the literature (Lee et al., 2001). Three aspects of R&D were measured in the current study: number of employees in R&D, who was responsible for R&D within the company, and, finally, the company's commitment to R&D. It was found that 60 per cent of the sample ( $n = 15$ ) did not have any specific R&D employees and the maximum number of R&D employees in any sample company was seven. The fact that such a high number of companies did not have any specific R&D employees would indicate that this function may be carried out within companies but subsumed within other departments/roles and/or on an ad-hoc basis.

Respondents were also questioned on who was responsible for R&D within companies. A number of specific functions were mentioned but these could be generally classified under managing directors, directors and management.

Respondents were asked to rate their company's commitment to R&D on a five-point scale ranging from very low to very high. It was hoped to examine the relationship between number of employees in R&D and the quantity of new products or services launched by the company in the past five years. However as only ten of the companies had specific R&D employees, this analysis was not carried out.

The rating of the company's commitment to R&D was correlated with the number of new products or services launched by the company in the past five years. A significant positive correlation was found between the two variables, ( $r = 0.469$ ,  $p < .05$ ). This result indicates that there is a positive relationship between the company's commitment to R&D and the number of new products and services launched.

### **Specific Organisational Culture Factors Regarding Innovation**

The specific aspects of organisational culture examined in relation to innovation were the company's innovation strategy, the type of innovation engaged in, and drivers and constraints of innovation.



### *Company Innovation Strategy*

Respondents were asked whether their company's innovation strategy was proactive, reactive, pre-emptive or any combination of same. The most common strategy was proactive ( $n = 15$ ), followed by reactive ( $n = 7$ ). Two companies used both strategies while one company used all three strategies (proactive, reactive and pre-emptive).

An innovation strategy is a strategy that promotes the development and implementation of new products and services (Robbins, 1997). Covey (1993) claimed that the origin of creativity and innovation lay in a shared vision and mission, which are focused on the future. Judge et al. (1997) described successful innovation as chaos within guidelines; in other words top management prescribes a set of strategic goals, but allows personnel great freedom within the context of the goals. Organisational goals and objectives reflect the priorities and values of organisations and as a result may promote or hinder innovation (Arad et al., 1997).

### *Innovation Type*

Respondents were asked to indicate the type of innovation their company engaged in. For the purposes of the current study, product innovation is production of a new product on a commercial basis and process innovation is the establishment of new methods of production (for a product and/or a service) or of supply and distribution, or introduction of changes in work organisation, management and the working conditions and skills. The majority of respondents ( $n = 16$ ) engaged in product innovation. The next most frequent response was a combination of both product and process innovation ( $n = 6$ ) and three companies engaged in process innovation only.

### *Training on Innovation*

Another important aspect of innovation is the investment in training. Respondents were asked if they invested resources to train staff or management to adopt and manage innovation within the company. Sixteen companies did invest resources while the remaining nine did not.

In analysing the alignment of different operations in a technology firm to improve innovation performance, Leede, de Looise and Alders (2002) found that high-performing organisations spend more time

on education and training – not just on technical, task-related skills, but also on communication and team skills. In the implementation of innovation, firms have to create an organisational climate that fosters innovation by ensuring employee skills, providing incentives and removing obstacles (Klein and Sorra, 1996). Furthermore, having an innovation budget is one of the factors that distinguishes innovative firms from their less innovative counterparts (Souitaris, 2002).

### *Innovation Drivers*

The drivers of innovation within the company were then investigated. Some categories were prompted to respondents and any open-ended responses were probed. Multiple responses were possible. The biggest drivers of innovation were the market ( $n = 22$ ) and customers ( $n = 20$ ). Company culture ( $n = 9$ ) and technical developments ( $n = 9$ ) were believed to drive innovation to a lesser extent. Employees, suppliers, legislation and finance were all mentioned as innovation drivers.

In a review of current research on the determinants of innovation, Read (2000) found that the most important determinant identified was management support for innovation and an innovative culture. This was followed by customer/market focus and communication/networking. Other drivers that featured in Read's (2000) review were human resource innovation strategies, team emphasis and knowledge management.

The basis of innovation is knowledge, and innovation is realised through the ability to use knowledge to identify and pursue opportunities. This notion is supported by Day (1994), who suggested that a market orientation is the basis of innovation. This market-oriented culture is evident in the organisation's ability to equip employees with the necessary innovation-related behaviours to support ideation and engagement (Dobni, 2006).

### *Innovation Constraints*

Respondents were asked to consider the constraints of innovation in their company. Again, some response categories were prompted, any open-ended responses were probed and multiple responses were possible. Financial constraints ( $n = 8$ ), market size ( $n = 8$ ) and

customers ( $n = 7$ ) were mentioned as the most restrictive obstacles to innovation. These were followed closely by management risk-taking ( $n = 6$ ) and technical ( $n = 6$ ) and legislative constraints ( $n = 6$ ). Financial constraints may always play a part in innovation, but in the current study only five (20 per cent) of the companies mentioned grants as a source of capital funding.

In a similar vein, Loewe and Dominiquini (2006) listed the major obstacles to innovation as follows: short-term focus; lack of time, resources or staff; leadership expects payoff sooner than is realistic; management incentives are not structured to reward innovation; lack of a systematic innovation process; and belief that innovation is inherently risky.

McAdam et al. (2004), in a study of SMEs in Northern Ireland, found that the barriers or weaknesses were culturally based issues that required substantial effort and time to overcome. McAdam et al. (2004) stated that there is a need for SMEs to take a long-term strategic approach to innovation rather than a short-term quick-fix initiative.

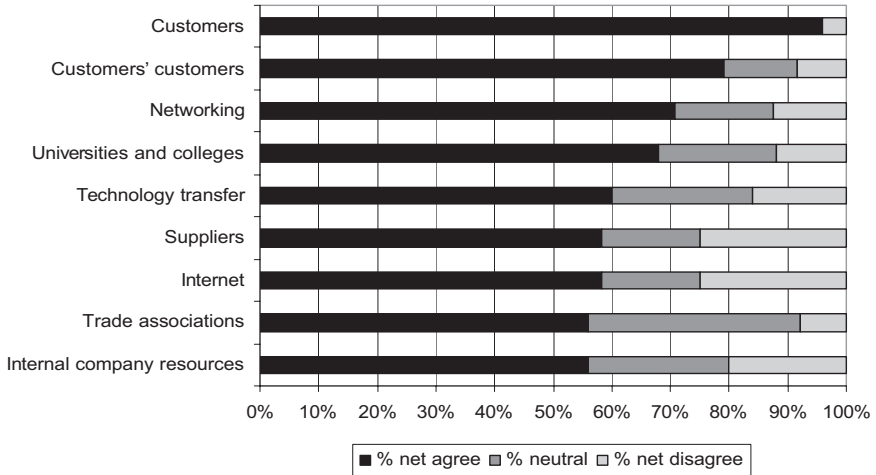
### *Sources of Innovative Ideas*

Respondents were asked from whom or where they sourced ideas for innovation. This was an open-ended question where the interviewer probed for clarification where necessary. It was found that innovative ideas came from a range of internal and external sources. This is interesting as customers, suppliers and knowledge/education institutes are generally found to be significant sources for innovation in SMEs (Appiah-Adu and Singh, 1998). However the top sources for innovative ideas volunteered by the respondents were management ( $n = 8$ ), the managing director ( $n = 4$ ) and customers ( $n = 4$ ). Other sources were designers, sales, marketing, research, suppliers, competitors, trade shows and seminars.

### *Sources of Innovation*

The last section of the questionnaire contained two questions, each comprised of a series of statements relating to innovation. The first question contained eighteen statements relating to important sources of innovation. Respondents rated each statement on a five-point scale as to the degree to which they agreed each was an important source

**Figure 8.1: Top Nine Important Sources of Innovation  
(based on % net agree)**



of innovation. The scale ranged from strongly disagree (1) to strongly agree (5). A broad range of sources was provided, e.g. exhibitions, the Internet, customers, technical literature and suppliers. The data was recoded into net agree (strongly agree, agree), neutral, and net disagree (disagree, strongly disagree) for analysis purposes. The top nine statements sorted by the percentage net agree are shown in Figure 8.1. Customers, customers' customers and networking were the top three important sources. This is consistent with previous findings identified in the literature (Appiah-Adu and Singh, 1998).

With regard to networking, McAdam et al. (2004) recommended that there should be much more use of cluster networks and university-SME links (e.g. science parks) to develop and spread innovative practice, thus overcoming the limited resources and knowledge of the individual SME. Buhalis and Main (1998) referred to these actions as increasing the 'interconnectivity' of SMEs to overcome the effects of being situated in a peripheral region such as Ireland. However, Gomez Arias (1995) cautioned that networks can simultaneously promote and block innovation in partner companies.

### **The Relationship Between Organisational Culture Factors and Successful Innovation**

Based on a review of the innovation literature, Cummings (1998) identified a number of variables that have a positive effect on innovation. The current study adapted these variables into a series of statements, which respondents rated on the degree to which they considered each would contribute to the successful launch of a new product or service. Ratings were on a five-point scale ranging from very low (1) to very high (5). Ultimately the authors' aim is to develop a measurement scale of company culture positively impacting on innovation. This final question was an initial step in that direction, was purely exploratory and the results are reported here in that context only.

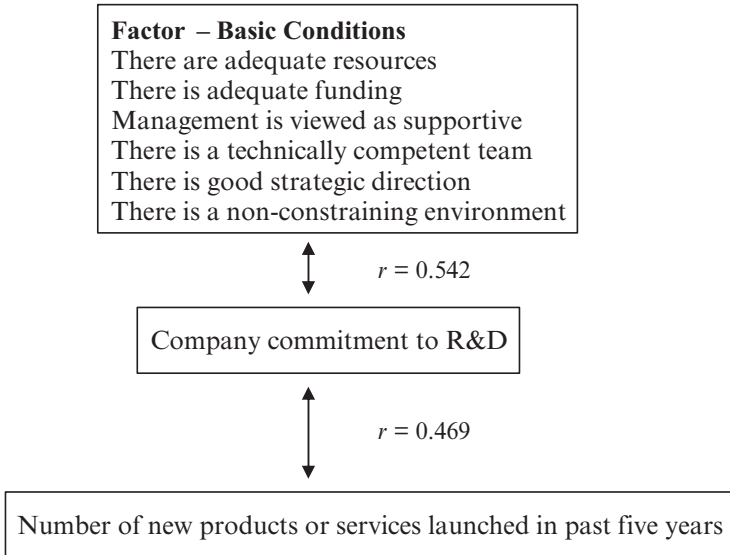
After an examination of the initial correlation analysis (Pearson and partial correlations), twenty statements were included in the factor analysis: Principal Components Analysis (PCA), varimax rotation. Three statements had missing data from one or two respondents and in those cases mean substitution was used. Initial statistics from PCA produced a measure of sampling adequacy (KMO MSA) = 0.474 and Bartlett's Test of Sphericity = 231.593,  $p < .001$ . Four, five and six factor solutions were obtained because the authors believed that this would be the optimum range to conceptually represent the statements. A cut-off loading of 0.50 was used to screen out statements that were weak indicators. The five-factor model was determined to be the best in terms of representing the dimensions of the statements. Eighteen statements loaded on the five factors and these are shown in Table 8.2. All statements had communalities  $\geq 0.50$  except 'diverse information sources are used' = 0.38. However, it was decided to retain this statement as it fitted well with the other two items in the factor. Summated scales were then constructed for each of the factors and the internal consistency of statements corresponding to each factor was analysed (see Table 8.2).

These five factors were then correlated with the number of new products or services launched in the past five years and the degree of commitment to R&D. No statistically significant relationship was found between any of the five factors and the number of new products or services launched. A statistically significant relationship

**Table 8.2: Five-Factor Solution: Statements, Loadings and Cronbach's Alpha**

<b>Factor</b>	<b>Statement</b>	<b>Factor Loading</b>	<b>Cronbach's Alpha</b>
Basic Conditions	There are adequate resources	.852	
	There is adequate funding	.798	
	Management is viewed as supportive	.751	
	There is a technically competent team	.743	
	There is good strategic direction	.684	
	There is a non-constraining environment	.635	$\alpha = 0.868$
Open Communication	Staff have diverse interests	.888	
	Brainstorming is encouraged	.700	
	There is access to external stimuli	.689	$\alpha = 0.740$
Entrepreneur	Failures are willingly tolerated	.798	
	Risk-taking is encouraged	.784	
	Staff have freedom to pursue own ideas	.740	$\alpha = 0.723$
Organisational Empowerment	There is a challenging environment	.752	
	Nonconformity is tolerated	.711	
	Diverse information sources are used	.574	$\alpha = 0.562$
Procedures	Patent programmes are in operation	.804	
	Suggestion programmes are in operation	.705	
	There is adequate manpower	.648	$\alpha = 0.665$

**Figure 8.2: Relationship between Organisational Culture Factors and Reported Successful Innovation in Past Five Years**



was found between the ‘Basic Conditions’ factor and the degree of commitment to R&D,  $r = 0.542, p < .01$ . No other statistically significant relationships were found between the remaining four factors and the degree of commitment to R&D. These relationships are displayed in Figure 8.2.

Therefore, there is a positive relationship between the basic conditions (for innovation) in terms of organisational culture and companies’ commitment to R&D. A statistically significant relationship was found between the company’s commitment to R&D and the number of new products or services launched in the past five years. This is in contrast to O’Regan et al.’s study (2006), which found that empowerment culture, transformational and human resources leadership, and the staff creativity characteristic of strategy are associated with successful innovation to a significant extent.

With regard to management style, Delbecq and Mills (1985) argued that if decisions regarding innovation are left to a single executive, power and personality can be strong determinants in the allocation of resources to support innovation rather than the feasibility of the

proposal. However, Laursen and Foss (2003) observed that relatively little attention has been paid in the literature to management practices and how they affect innovation performance.

Terziovski and Morgan (2006) argued that if managers are to become more effective and focus on a faster time to market, there is a need to change from traditional management approaches that focus on processes, R&D, cost savings and stand-alone improvements to an approach that places a strong emphasis on the value of knowledge and innovation. This approach fosters faster new product development and increased cost effectiveness, particularly if management practices are strategically aligned with the corporate objectives.

Baptista and Swann (1998) also found that organisations that had 'seamless' interfaces between functions are likely to perform better than organisations that had functions which were managed as separate and discrete entities with their own independent supporting mechanisms.

On the management of innovation, Pavitt (1999) argued that as products and firms are incorporating an increasing range of technologies, a more precise and practical understanding of both the firm-specific 'routines' associated with innovation and the factors determining what might be called the 'knowledge boundaries' of the firm is called for.

In SMEs the owner/entrepreneur has a larger direct influence on employees, as compared to managers of large organisations (Bodewes and de Jong, 2003). Leaders in small firms can successfully instil an 'entrepreneurial dynamism' in the behaviour of others in their organisations. A positive attitude towards innovation correlates with continual attention being paid to innovative opportunities and it provides employees with support for their innovative behaviour. This, in turn, strongly affects the decision to innovate and the ways that innovation is carried out in small firms (Hoffman et al., 1998).

## CONCLUSION

From the data available, some salient points emerge from the innovative actions of these companies in this region:

- Companies have a strong reliance on their own internal funding for innovation and R&D.



- The majority of companies had a mission statement; however, only a third of these stated that their employees were familiar with the exact content of these statements.
- Over half of the companies did not have any specific R&D employees and this would indicate that this function may be carried out within other departments/roles, and/or on an ad-hoc basis.
- A significant correlation was found between a company's commitment to R&D and the number of new products and services launched.
- Over half of the companies consider their innovation strategy to be proactive and are involved in product innovation.
- Over half the respondents invested in training for innovation and R&D.
- The biggest drivers of innovation were the market and customers.
- Financial constraints, market size and customers proved the most restrictive factors on innovation.
- Innovative ideas came from a range of internal and external sources, and the top two sources mentioned were management and the managing director.
- Customers, customers' customers and networking were the top three important sources of innovation.
- There is a relationship between the following elements of culture factors and companies' commitment to R&D: adequate resources, adequate funding, supportive management, technically competent team, good strategic direction and a non-constraining environment.

This study provided two levels of information. Firstly, a snapshot of organisational culture factors and innovation within SMEs in this region. A number of the findings were consistent with previous studies, e.g. drivers and constraints of innovation. Other findings gave an insight as to how certain key elements of innovation actually operate within SMEs, e.g. sources of ideas for innovation and the lack of specific R&D employees. Secondly, the study has gone some way to identify the management perspective as to what organisational culture determinants impact on innovation within SMEs in this region. The latter finding must be treated with a

certain element of caution due to the sample size, and further research is necessary to both validate the current results and provide a better understanding of the relationship between management thinking and innovation.

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# Reflexivity in Management and Business Research: What Do We Mean?



T E R E S A B R A N N I C K \*  
D A V I D C O G H L A N \* \*

## ABSTRACT

Reflexivity is the concept used in the social sciences to explore and deal with the relationship between the researcher and the object of research. Being reflexive seems to be the favourite word with which to conjure in contemporary research. However, the concept of reflexivity is vague. Reflexivity is used to explore and deal with the relationship between the researcher and the object of research. Reflection means thinking about the conditions for what one is doing, and investigating the way in which the theoretical, cultural and political context of individual and intellectual involvement affects interaction with whatever is being researched. This article explores current discussions of what reflexivity means and how different epistemological and ontological approaches encourage different kinds of reflexivity.

## INTRODUCTION

Reflexivity is the concept used in the social sciences to explore and deal with the relationship between the researcher and the object of research. According to the sociologist Goldthrope (2000), at the

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moment 'reflexive' seems to be the favourite word to conjure with. Pink (2004) agrees that it is something of a buzzword in recent qualitative literature. Goldthorpe goes on to argue that all attempts to delineate the term 'reflexive' remain obscure and vague. Holland (1999) holds a similar view when he says that various authors in the human sciences address different levels and types of reflexive processes and point to different consequences. However he pursues a line of argument that sees reflexivity as an essential human process, attribute or condition.

Many sociological ethnographers have sought a 'third way' which allows them to avoid the equally unacceptable extremes of 'positivism' or the abandonment of science in favour of art. This 'third way', as outlined by Goldthorpe, is characterised as 'critical', 'humanistic' or 'reflexive'. He goes on to pose the question of what differentiates a non-reflexive from a reflexive approach when both approaches accept that the 'orientation of researchers will be shaped by their socio-historical locations or that behaviour and attitudes are often not stable across contexts and the researcher may influence the context' (Goldthorpe, 2000: 68–69). Hertz (1997) also draws attention to the epistemological tension between non-reflexive positivism on the one hand, and on the other hand reflexivity referred to as *naval gazing*. Hertz poses the question: does reflexivity constitute an unwarranted narcissistic display?

This paper explores Goldthorpe's contention that the concept of reflexivity is vague and is not a distinguishing characteristic. How the concept is understood in different research traditions is also presented. This exploration looks in detail at how pragmatic realists and action researchers treat the 'action in learning concept' and whether this concept is a definite concrete form of reflexivity.

#### THE SCOPE AND MEANING OF REFLEXIVITY

Even though reflexivity is not a new concept to the social sciences its importance has only come to the fore in recent times (Bourdieu, 1990). Reflexivity is used to explore and deal with the relationship between the researcher and the object of research. Dupuis (1999) refers to a reflexive methodology as one that demands the conscious and deliberate inclusion of the full self throughout the research process; this involves continuous, intentional and systematic self-introspection.



A reflexive methodology means making personal experiences, belief systems, motivations and tensions, as well as political agendas, explicit and continually assessing the impact these factors may be having on the research endeavours. According to Hertz (1997) to be reflexive is to have an ongoing conversation about experience while simultaneously living in the moment. The reflexive researcher does not simply report 'facts' or 'truths' but actively constructs interpretations of field experiences and then questions how these interpretations came about. Reflexivity becomes a continuing mode of self-analysis and political awareness. Alvesson and Skoldberg (2000) argue that meta-theory is about a comprehensive frame of reference for inspiring and structuring reflection; 'reflexive interpretation' is such a frame of reference. Reflexive interpretation is a way of indicating the open play of reflection across the four (or so) levels of interpretation. Reflexivity then is ubiquitous. It permeates every aspect of the research, challenging us to be more fully conscious of the ideology, culture and politics of those we study and those we select as our audience. The process of engaging in a reflexive methodology as implied by most authors, with the exception of Alvesson and Skoldberg, appears in essence to be very similar to our conventional understanding of the process of reflection. Reflection means thinking about the conditions for what one is doing and investigating the way in which the theoretical, cultural and political context of individual and intellectual involvement affects interaction with whatever is being researched, often in ways difficult to become conscious of (Alvesson and Skoldberg, 2000).

Knowledge is produced through a 'qualitative' research encounter that should be understood as the product of a specific interaction between researcher and informants. According to Pink (2004) informants tell and show us, because they are in a research situation, that his encounter and the knowledge produced by it can never be objective. Therefore it is essential that we attempt to understand the subjectivities through which our research materials are produced. When doing research this means being aware of how our experiences, knowledge and standpoints inform our behaviour with and interpretation of our informants. Central to ethnography is the constant and tiring process of reflecting. Reflexivity is the way that qualitative researchers strive for reliability and validity and the

development and training of one's reflexive skills and empathies is the keystone of what Coffey calls the 'Ethnographic Self' (Delamont, 2004). In Goldthorpe's view (2000) the ethnographer aims not to represent some independently existing lifeworld or culture but rather to give a fictive account of a self-exploratory 'experience of the other', and one to which the critical standards of art rather than science must apply.

Reflexivity is often condemned as apolitical. However Hertz (1997) suggests that on the contrary it can be seen as opening the way to a more radical consciousness of self in facing the political dimensions of fieldwork and constructing knowledge. In a similar vein Reason and Bradbury (2001) see that engagement in a good quality action research project energises and empowers those involved, through which they may develop newly useful reflexive insights as a result of growing critical consciousness. Back (2004) also highlights the radical potential of reflexivity and he proposes an orientation called 'reflective engagement', which involves political interventions that realise the limits of writing and the complexities of dialogue and listening. The urgency and speed of politics mean that the window of opportunity for making an intervention will not wait for a well-crafted monograph three years after the fact. According to Back (2004) the notion of 'engaged detachment' is not only a literal contradiction but also confused and obfuscating. Similarly Lynch (1999) argues that ongoing subjective reflexivity does not alter structural conditions and an ethically disinterested reflexivity would not suggest any change in research practice. If reflexivity is to facilitate change it needs to be guided by principles of democratic engagement and a commitment to change.

#### REFLEXIVITY AND THEORY DEVELOPMENT

According to Weick (1999) theorizing in organisational studies has taken on a life of its own in the last ten years. Its concerns seem to be more inward than outward. This inward turn is not surprising, since an earlier *Academy of Management Review* special issue on theory development (1989) essentially made it legitimate to make the tacit craft of theorizing more explicit. Hence, we find people more preoccupied with intellectual fashions, reflexivity and paradigm proliferation than with anomalous data, compelling exemplars

or enhancements of methodology. What is surprising is the destabilization that followed. When people took a closer look at theorizing, they discovered: 1) diverse styles, 2) pretensions to theory, 3) potentially incommensurable paradigms, 4) irrelevance to practice or singular relevance to small elites, 5) people searching for power rather than understanding, and 6) value-laden inquiries. These discoveries occurred in the larger context of an ascendant postmodernism and a deeper understanding of the limits of positivism. Holland (1999) agrees with Weick (1999) when he argues that in recent times the human sciences have been infused with a new sense of flexibility and uncertainty concerning theory, knowledge and learning. A key term in this change is 'reflexivity' and yet the word is used in so many different senses that it may lead to confusion rather than clarifying any underlying issues.

Holland (1999) argues that human reflexivity defines personal existence and is the basis on which people form social units. It is therefore the process which needs to be kept at the centre of any method of investigating human existence, including accounts provided explicitly by theorists or meta-theorists. Reflexive movement or realisation depends on breaking out of an existential disciplinary, professional, paradigmatic or specialty 'thought style' (basic assumption, mindset) which limits awareness and thereby movement. Reflexive movement does not need to be argued for since it is the human capacity that defines our existence. However, such movement is a struggle, reminding us that the journey to a sociopsychological metaposition is an attempt to reconceive our human existence.

Holland (1999) suggests that a study of paradigm arguments provides one 'pathway to reflexivity'. In other words, the reflexive process of using a paradigm framework descriptively to make others and ourselves aware of the theories they are using (or may be pulled into in practice) is a reflexive realisation. It requires a 'disrespectful' interpretation of authors' motives and the attribution of unconscious thought styles to account for their positions.

According to Weick (1999) theory construction in 1989 was partly an exercise in disciplined imagination but theory construction in 1999 is partly an exercise in disciplined reflexivity. In response to paradigm wars and postmodernism, imagination is now treated as a dialogical activity with a voice, values, vocabulary and a self. This

move towards reflexivity puts a growing pressure on theorists to prolong and deepen those benign moments of introspection so that they will then see just how situated and constructed their universals are and how few voices their situated assertions incorporate. While it is hard to fault a plea for deeper awareness, it is easy to fault the consequences that can follow if people are unable or unwilling to bound or voluntarily terminate their reflecting. Those darker consequences include things like narcissism, self-indulgence, an inability to stop the regress of doubting the doubting and the doubts, an inability to act because self-consciousness is paralysing, and heightened concern about making mistakes. Weick (1999) argues for reflexivity to become disciplined and this comes about when theorists selectively modify some of these components of imagination to see what changes that makes in theoretical understanding. Closer attention to self-as-theorist makes for better theory if that attention is instrumental in spotting excluded voices and if it serves as a data platform for thinking more deeply about topics. If, however, reflexivity is not instrumental, then it is more open-ended and harder to shut down. These difficulties may be more pronounced for those who work with the abstract, general, contemplative, exegetical world of theory than for those who work more closely with the empirical, particular, practical and heuristic.

It is conceivable that failures to manage reflexivity can serve as a drag on theory development. Theorists may reflect on their reflectiveness and write autobiographies rather than theory. Or they may abandon the traditional in favour of the fad of the moment. To overcome this problem Weick (1999) suggests that Kant was probably right: perception without conception is blind; conception without perception is empty. Theorists who find it difficult to move back and forth between perception and conception may find themselves stuck in reflexive acts and be unable to help us see anything other than doubt as the core of the human condition. To some theorists that may be a move in the right direction because it loosens the tight coupling between power and knowledge.

Reflective conversation about organisational theory is possible; one way of doing this is to 'drop our heavy tools' in the interest of refashioning our identities as theorists. By this Weick (1999) means that we should drop things like paradigms and monologues, writing

styles, definitions of what constitutes research, and pretensions to expertise and still retain our intuitions, feelings, stories, experience, awe, vocabulary and empathy. Most of all, we still have our capacity for attentive listening. Those are dramatic shifts, but shifts happen.

### REFLEXIVITY AND RESEARCH TRADITIONS

Systematic reflexivity is the constant analysis of one's own theoretical and methodological presuppositions and this helps one to retain an awareness of the importance of other people's definitions and understandings of theirs (Lynch, 1999). A reflexive research methodology explicitly incorporates the researcher and her experiences into the analysis and theory-building endeavours and it demands the conscious and deliberate inclusion of self-disclosures and personal experiences in the written account. Dupuis (1999) suggests that a reflexive methodology requires researchers to do four things. Firstly, they need to conduct a pre- and post-data collection self-assessment. Secondly, they need to embrace the direct incorporation of their own feelings into the analysis, using emotions and experiences documented in personal journals to support or refute their initial assumptions. Thirdly, a reflexive methodology recognises the active, collaborative role that both the participants and researchers play in the meaning-making process. Finally, reflexive researchers must detail explicitly in their written accounts how the research process developed over time, how research design decisions were made throughout the process and what factors affected those decisions.

Johnson and Duberley (2000) subdivide systematic reflexivity into two forms: epistemic and methodological. Epistemic reflexivity focuses on the researcher's belief system and is the process for analysing and challenging our meta-theoretical assumptions. Methodological reflexivity is concerned with the monitoring of our behavioural impact upon the research setting as a result of carrying out the research. This requires us to follow the research procedures and protocols identified and demanded by the different research traditions. Johnson and Duberley (2003: 1292) go on to argue that, 'different understandings of reflexivity and associated research practices arise according to particular combinations of constitutive assumptions about ontology and epistemology'.

**Table 9.1 Overview of Research Paradigms**

<b>Research Paradigms</b>			
<b><i>Philosophical Foundations</i></b>	<b>Positivism</b>	<b>Hermeneutic and Postmodernism</b>	<b>Critical Realism and Action Research</b>
<i>Ontology</i>	Objectivist	Subjectivist	Objectivist
<i>Epistemology</i>	Objectivist	Subjectivist	Subjectivist
<i>Theory</i>	Generalisable	Particular	Particular
<i>Reflexivity</i>	Methodological	Hyper	Epistemic
<i>Role of Researcher</i>	Distanced from Data	Close to Data	Close to Data
<i>Task Technology Model</i>	Craft	Bricolage	Professional

Different epistemological and ontological approaches encourage different kinds of reflexivity (see Table 9.1). Pragmatic–critical realism demands a reflexive political praxis. In other words, knowledge claims do not relate to some quest for foundational knowledge, as is the case for positivists and postmodernists, but instead looks to practical and political consequences.

Hammersley (2004) also acknowledges that there is much disagreement about the proper scope of reflexivity and this has very significant implications for teaching research methodology. In an attempt to clarify this situation he proposes three alternatives to the procedural task technology model, organised around the notions of craft, profession and bricolage. He suggests that the concept of reflexivity is important in differentiating these three task technology types. For the craft model there is considerable flexibility in relation to means; the notion of a craft assumes that what is the intended product of inquiry is fixed and unproblematic, that there is little need for reflection on this. The craft model involves minimal reflexivity and this is where it differs from the bricolage and professional models.

The dominant approach or paradigm in management and organisational studies has been positivism and its successors (explanation,

hypothetico-deductive model, multi-method eclecticism). These approaches are defined primarily by their view that an external reality exists and that an independent value-free researcher can examine this reality. In other words they adhere to an objectivist (realist) ontology and an objectivist epistemology. Positivists adopt a methodological approach towards reflexivity and concentrate on improving methods and their application (Johnson and Duberley, 2000). Hence they adhere to the craft model where there is considerable flexibility in relation to means; the notion of a craft assumes that what is the intended product of inquiry is fixed and unproblematic and that there is little need for reflection on this. The craft model involves minimal epistemic reflexivity and this is where it differs from the bricolage and professional models. The aim of positivist science is the creation of generalizable knowledge or covering laws. In positivist science findings are validated by logic, measurement and the consistency achieved by the consistency of prediction and control. The positivist scientist's relationship to the setting is one of neutrality and detachment.

The hermeneutic tradition, the other main approach (sometimes referred to as phenomenology, constructivism, interpretivism or the postmodern-interpretivism-relativist approach), argues that there is no objective or single knowable external reality, and that the researcher is an integral part of the research process, not separate from it. This distinction is based on the subject-object dichotomy. This ontological 'subjective vs. objective' dimension concerns the assumptions social theories make about the nature of the social world. This approach follows a subjectivist (relativist) ontology and epistemology. Inquiry is inherently value-laden. Postmodernism tends to adopt a hyper-reflexivity which focuses on reflexive deconstruction of own practice. Hammersley (2004) aligns postmodernism with bricolage, which views research as a form of art, but there is ambiguity as to the meaning of 'art'. Generally speaking bricolage is personal expression focusing on imaginative freedom and audience impact. It seems almost by definition that bricoleurs are born, not made, and are self-taught. According to Hammersley (2004), reflexivity becomes all embracing but essentially negative. Hermeneutic inquiry is directed toward the development of particular or idiographic knowledge. Nothing can be measured without

changing it and this closeness to the data perspective provides valid rich and deep data.

The third approach identified by Johnson and Duberley (2000) is critical realism incorporating pragmatic critical realism, which aligns with our concept and understanding of action research. This approach follows a subjectivist epistemology similar to the hermeneutic tradition but an objectivist ontology like the positivists. This approach concentrates on epistemic reflexivity, which looks at exposing interests and enabling emancipation through self-reflexivity. Reflexivity is not a neutral process and is in itself socially and historically conditioned. If reflexivity is to facilitate change it needs to be guided by principles of democratic engagement and a commitment to change. Reflective knowledge has to do with normative states in social, economic and political realms. It concerns a vision of what ought to be, what is right and what is wrong and arises through the process of consciousness raising and conscientisation (Reason and Bradbury, 2001). The critical realists and action researchers adhere to the professional model which involves the exercise of considerable reflexivity on the part of researchers, both individually and collectively, about how they pursue their work. This requires the cognitive resources necessary to engage in such reflection; they need to be introduced to literature on methodology, social theory and philosophy that will facilitate this. Furthermore they must learn to participate in communal discussion about these matters (Hammersley, 2004).

#### LEARNING IN ACTION AS REFLEXIVITY

To better understand reflexivity we can turn to the action research literature, which provides specific examples of how reflexivity can be seen in action. Action research focuses on knowledge in action. Accordingly, the knowledge created through action research is particular, situational and out of praxis. Action research approaches are radical to the extent that they advocate replacement of existing forms of social organisation. Action research challenges normal science in several action-oriented ways. Sharing the power of knowledge production with the researched subverts the normal practice of knowledge and policy development as being the primary domain of researchers and policymakers. Action researchers work on the



epistemological assumption that the purpose of academic research and discourse is not just to describe, understand and explain the world but also to change it (Reason and Torbert, 2001). The issue is not so much the form of knowledge produced or the methodology employed to gather data/evidence but who decides the research agenda in the first place and who benefits directly from it.

In action research the researcher is immersed in the research setting and is not a 'neutral' outsider but an active intervener making and helping things happen. The data generated is contextually embedded and interpreted. The basis for validation is the conscious and deliberate enactment of the action research cycle. Accordingly, a critical feature of action research is the action researcher's self-awareness and learning in action. This is presented as a first person inquiry which has its 'upstream' and 'downstream' expressions (Reason and Bradbury, 2001). The former refers to how the researcher inquires into his/her own values and assumptions and the latter how these are expressed in action. Accordingly, reflexivity can be understood in terms of upstream and downstream reflection.

The realness of learning in action is in effect a concrete example of reflexivity. The process of reflexivity is an exercise in learning. Learning is in itself a neutral activity; however the outcome can be viewed as progressive, empowering and positive, or negative and regressive, depending upon ideology. Within the other research traditions reflexivity, sometimes referred to systemic reflexivity, appears to be a passive subjective introspective process rather than potentially acting as a change agent.

In action research projects that are aimed at an academic award there are two action research cycles operating in parallel. One cycle is the cycle of diagnosing, planning, taking action and evaluating in relation to the project. Zuber-Skerritt and Perry (2002) call this the 'core' action research cycle. The second cycle is a reflection cycle which is an action research cycle about the action research cycle. Zuber-Skerritt and Perry (2002) call this the 'thesis' action research cycle. In other words, at the same time as action researchers are engaging in the project or core action research cycles, they need to be diagnosing, planning, taking action about and evaluating how the action research project itself is going and what they are learning. They need to be continually inquiring into each of the four main

steps, asking how these steps are being conducted and how they are consistent with each other, and so shaping how the subsequent steps are conducted. As Chris Argyris (2003) argues, this inquiry into the steps of the cycles themselves is central to the development of actionable knowledge. It is the dynamic of this *reflection on reflection* that incorporates the learning process of the action research cycle and enables action research to be more than everyday problem-solving. Hence it is learning about learning; in other words, meta-learning.

Learning in action is grounded in the inquiry–reflection process. Schon’s (1983, 1987) notion of the ‘reflective practitioner’ captures the essentials of knowing-in-action and reflection-in-action. Knowing-in-action is tacit and opens up outcomes that fall into the boundaries of what one has learned to treat as normal. Reflection-in-action occurs when one is in the middle of an action and asks questions about what one is doing. The outcome is immediate as it leads to an on-the-spot adjustment of one’s action.

Coghlan and Brannick (2005) suggest that an individual experiential learning cycle, epistemic reflexivity, can be utilised in parallel with an action research cycle. They distinguish the two by using different terms in order to emphasise the two parallel cycles and to avoid confusion. The experiential learning cycle comprises four activities: experiencing, reflecting, interpreting and taking action. They are located and placed alongside the action research activities of diagnosing, planning action, taking action and evaluating, where the researcher is engaging in an experiential learning cycle on the action research cycle. So the researcher is experiencing what it is like to engage in diagnosing, planning action, taking action and evaluating, and continuously reflecting and interpreting and taking action within those activities. In our view this is the essence of epistemic reflexivity.

#### REFLECTION AND REFLEXIVITY

Reflection, while it is individual, is not private. Reflection is the process of stepping back from experience to process what the experience means, with a view to planning further action (Seibert and Daudelin, 1999; Raelin, 2000). It is the critical link between the concrete experience, the interpretation and taking new action. As

Raelin (2000) discusses, it is the key to learning as it enables researchers to develop an ability to uncover and make explicit to themselves what they have planned, discovered and achieved in practice. He also argues that reflection must be brought into the open so that it goes beyond privately held, taken-for-granted assumptions and helps researchers to see how their knowledge is constructed. In action research reflection is the activity which integrates action and research. Mezirow (1991) identifies three forms of reflection: content, process and premise. These are useful categories. *Content* reflection is where one thinks about the issues and what is happening. *Process* reflection is where one thinks about strategies, procedures and how things are being done. *Premise* reflection is where one critiques underlying assumptions and perspectives. All three forms of reflection are critical. Reflection on content, process and premise is critical to reflexivity.

Alvesson and Skoldberg (2000) articulate a view different to our argument that sees reflection in an experiential learning cycle to be the essence of reflexivity. They see reflection as a way of responding to insights regarding the socially and textually constructed and constructing nature of research. Reflection means investigating the ways in which the theoretical, cultural and political context of individual and intellectual involvement affects interaction with whatever is being researched, often in ways difficult to become conscious of. When we reflect we try to ponder the premise for our thoughts, our behaviour and our language. Reflection occurs when one mode of thought is confronted by another. Meta-theory is about a comprehensive frame of reference for inspiring and structuring reflection; 'reflexive interpretation' is such a frame of reference.

Reflexive interpretation is a way of indicating the open play of reflection across the four (or so) levels of interpretation. According to Alvesson and Skoldberg (2000) the four levels of interpretation are: 1) interaction with empirical material, 2) interpretation, 3) critical interpretation and 4) reflection on text production and language use. Methodologies strongly emphasising one particular aspect are reflective in a specific way but are not reflexive. Reflective is reserved for that aspect which consists of the focused reflections upon a specific method or level of interpretation. The focused and specialised nature of reflection contrasts with the multidimensional

and interactive nature of reflexivity. Reflexivity only arises when the different levels are played off against each other.

### DEVELOPING REFLECTIVE SKILLS THROUGH JOURNALING

In this final section we outline how reflexivity can be enacted by means of techniques such as journaling. Lincoln and Guba (1985) discussed 'a reflexive diary' as a way of establishing credibility, transferability, dependability and confirmability, in other words trustworthiness in naturalistic inquiry. Underpinning this concept of trustworthiness is an ability to be aware of how the inquirers' (researchers') biases influence the research outcome. They suggest that the reflexive journal should consist of three separate elements: 1) daily schedule and logistics of study, 2) methodological log outlining methodological decisions and accompanying rationale and 3) a personal diary recording reflections upon what is happening in terms of one's own values and interests. Lincoln and Guba's approach (1985) parallels the reflexive enabling techniques outlined by Dupuis (1999). He is however the only author who outlined four concrete activities: 1) conduct a pre- and post-data-collection self-assessment, 2) use emotions and experiences documented in personal journals to support or refute one's initial assumptions, 3) both researched and researchers collaborate in the meaning-making process and 4) write a detailed and explicit account of how research design decisions were made throughout the research process and what factors affected those decisions.

The technique of journaling within an action research approach would parallel the reflexive-enabling techniques outlined by Lincoln and Guba (1985) and Dupuis (1999). However within the action research tradition journal-keeping is a significant practical mechanism for developing reflective skills rather than recording daily research activities or methodological decisions. In an action research journal one notes one's observations and experiences, and over time learns to differentiate between different experiences and ways of dealing with them. It enables integration of information and experiences which, when understood, helps researchers understand their reasoning processes and consequent behaviour and so anticipate experiences before embarking on them. These reflective skills

are central to the whole data or research evidence generation process. This key distinction is a consequence of the distinct nature of research in action rather than on action. Naturalism, like positivism, is research on action (usually other people's action) whereas action research is research in action. Keeping a journal regularly imposes a discipline and captures experience of key events close to when they happen and before the passage of time changes perceptions of them.

### CONCLUSIONS

Reflexivity is an ambiguous concept: sometimes it is presented as a passive introspective activity, other times it is seen as opening the way to a more radical consciousness of self, on other occasions it is looked at in relation to theory development and authors argue that it means different things depending on research tradition. Theorists like Weick (1999) argue that theory construction is partly an exercise in disciplined reflexivity. Closer attention to self-as-theorist makes for better theory if that attention is instrumental in spotting excluded voices and in knowing when to voluntarily terminate reflecting. If, however, reflexivity is not instrumental the consequences may include narcissism and self-indulgence. Reflective conversations about organisational theory is possible if we drop things like paradigms and monologues, writing styles, definitions of what constitutes research, and pretensions to expertise and still retain intuitions, feelings, stories, experience, awe, vocabulary and empathy.

Different understandings of reflexivity and associated research practices arise, 'according to particular combinations of constitutive assumptions about ontology and epistemology' (Johnson and Duberley, 2003). To a certain extent we are in agreement with Goldthorpe (2000) that reflexivity is the current buzzword, but contrary to Goldthorpe's position, attempts to delineate the term 'reflexive' have been partially successful.

In this paper our particular focus is on epistemic reflexivity, which aligns with the 'third way'. This 'third way', as outlined by Goldthorpe (2000), is characterised as 'critical', 'humanistic' or 'reflexive'. The 'third way', including pragmatic realists and action research, has a key concept – 'action in learning' – as part of its

methodology and, in our view, this concept is a definite concrete form of reflexivity. It is the dynamic of reflection on reflection that incorporates the learning process of the action research cycle and enables action research to be about learning about learning; in other words, meta-learning. Accordingly, a critical feature of action research is the action researcher's self-awareness and learning in action. This is presented as a first person inquiry which has its 'upstream' – how the researcher inquires into his/her own values and assumptions – and 'downstream' – how these are expressed in action – expressions (Reason and Bradbury, 2001). In our view reflexivity can be understood in terms of upstream and downstream reflection. We have drawn on action research to provide an illustration of how reflexivity can be enacted by means of techniques such as journaling.

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# What Makes for Top Team Success? A Study to Identify Factors Associated with Successful Performance of Senior Management Teams



M A L C O L M H I G G S \*

## ABSTRACT

Within organisations there is a growth in the use of team development interventions designed to enhance effective team performance. This had been particularly notable in senior management and leadership teams. However this development has not been underpinned by rigorous, organisationally based research (West and Slater, 1995) and the research which has been undertaken has not adequately addressed the issues (Lorsch, 1989; Higgs et al., 2005). It is therefore important to undertake systematic empirical research to underpin the validity of such interventions.

The relationship between top team performance and organisational performance was given a clear focus and a sense of direction as long ago as the 1980s by Hambrick and Mason's 'Upper Echelon Theory' (Hambrick and Mason, 1984). This promoted a stream of demographically based research, but the results have been limited and sometimes contradictory (Pettigrew, 1992; Higgs et al., 2005), in part as a result of the absence of direct data relating to the impact of teams on performance. Also both team and group research have

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failed to analyse the importance of the mix of personalities and team processes in achieving high performance (Higgs, 1999).

This paper presents the results of a research programme involving fifty-four senior management teams using direct data. The research assesses the importance of the mix of personalities in a team and the processes they employ in working together, in determining performance outcomes. The results highlight the benefits of successful team processes, many of which relate also to Higgs and Dulewicz's studies of board processes (1997). This finding indicates the potential value of process intervention as a means of developing team performance.

**Key Words:** Teams; Teamworking; Belbin Team Roles; Competencies; Team Processes; Team Performance; Team Mix; Top Teams.

## INTRODUCTION

The contribution of effective teamworking, particularly amongst top teams, is an enduring topic within management literature. Within this literature there is a frequent critique suggesting that focusing on teams and teamworking is something of a fad and is viewed as the solution to many pressing, and often complex, issues relating to organisational performance (e.g. Industrial Society, 1995; West and Slater, 1995). In the popular literature there appears to be a common assumption that the case for teamworking is proven and well understood. In their book *The Wisdom of Teams* Katzenbach and Smith (1993) make two statements which typify the assumptions frequently adopted. These are:

- i) 'It is obvious that teams outperform individuals'.
- ii) 'Team is a word and concept well known to everyone' (Katzenbach and Smith, 1993: 4).

However, even a cursory review of the vast literature on teams and teamworking reveals that these assumptions are, at the best, questionable. West and Slater, in a review of the evidence for the benefits of teamworking, comment that, 'assumptions about the value of teams are plausible, but the research shows this value is difficult to demonstrate'. (1995: 24). Furthermore a number of authors have

highlighted a degree of confusion and divergence in the use of the concept of a team in an organisational context (e.g. Roosevelt, 2001; Pegels et al., 2000).

This paper explores these issues and assumptions and, based on a recent research study, provides insights into the factors accounting for successful senior team performance.

The importance, ascribed by organisations and authors, to teams and teamworking necessitates the provision of rigorous evidence to support such assertions. Much of the evidence presented does tend to be derivative from group research (e.g. Ray and Bronstein, 1995; Tjosvold, 1991; Higgs et al., 2005). However, the direct team-based evidence tends to be derived from case studies and anecdotal illustration and a clear need for empirical and organisationally based research into teams has been highlighted (e.g. West and Slater, 1995; Furnham et al., 1993; Barsade et al., 2000).

Some have suggested that the lack of specific studies of managerial teams (particularly in an organisational context) may be due to the difficulty in gaining access to such teams (e.g. Higgs and Dulewicz, 1997; Kilduff et al., 2000). In addition, the need to understand the specific issues relating to senior management and top teams has been reinforced by the range of studies emanating from the links demonstrated between organisational performance and top team characteristics and embedded in what has been termed 'Upper Echelon Theory' by Hambrick and Mason (1984). This has led to a growth in top team studies. However, these have been limited to studies predominantly based on archival and demographic data (Lawrence, 1991; Higgs, 1999; Lichtenstein et al., 2005). As a consequence, while there is a growing body of data on relationships between senior teams and organisational performance, the results are often contradictory and the studies fail to shed any significant light on the processes through which such teams come to achieve performance outcomes (Higgs, 1998). While the number of studies which address both inputs and processes at senior level remain rare, those reported (e.g. West and Anderson, 1996; Higgs, 1999) provide intriguing and tantalising insights.

### **What is a Team?**

The range of definitions of teams and teamworking is, indeed, extensive. From Table 10.1 it is evident that, while there is strong

**Table 10.1: Common Elements in Definitions of Team**

<b>Element</b>	<b>References</b>
Common Purpose	Katzenbach and Smith, 1993; Hastings et al., 1986; Woodcock, 1989; Higgs et al., 2005; Lichtenstein et al., 2005
Interdependence	Ray and Bronstein, 1995; Woodcock, 1989; Belbin, 1993; Higgs et al., 2005
Clarity of Roles and Contribution	Critchley and Casey, 1984; Ray and Bronstein, 1995; Katzenbach and Smith, 1993; Higgs et al., 2005; Aritzeta et al., 2005
Satisfaction from Mutual Working	Katzenbach and Smith, 1993; Hastings et al., 1986; Belbin, 1993
Mutual and Individual Accountability	Katzenbach and Smith, 1993; Aritzeta et al., 2005
Realisation of Synergies	Katzenbach and Smith, 1993; Higgs et al., 2005
Empowerment	Ray and Bronstein, 1995; Tjosvold, 1991

agreement that common purpose, interdependence and distinct roles are widely shared components in defining a team, there are differences in the other definitional components. Much of the definitional literature is theoretical with clear antecedents in the literature relating to group dynamics.

### **Teams and Performance**

The rationale underpinning the role and growth in importance of teams in organisations is that teams produce superior performance to individuals (Ray and Bronstein, 1995; Tjosvold, 1991; Higgs et al., 2005).

The validity of this rationale for teamworking requires a brief review of the evidence on performance which is provided by the research. However, the debate around measures of organisational performance in the context of organisational behaviour influences the interpretation of these studies (e.g. Kaplan and Norton, 1992; Furnham, 1992; Aritzeta et al., 2005), which highlights the potential validity of employing ‘hard’ and ‘soft’ measures of performance.

Overall such authors highlight the need for ‘mixed measures’ in evaluating team performance.

While the group dynamics movement has shaped the nature of much of the research into groups and performance, the focus of much of this research was empirical, with a tremendous emphasis on laboratory methods. However, the generalisability of the outcomes of such studies to organisational settings is questionable (Furnham, 1992). Nevertheless, moving away from experimental designs raises a major challenge of defining and operationalising performance measures. To deal with this Hackman and Morris (1975) presented a useful way of categorising the **outcomes** of group behaviour in terms of *Solutions* and *Other outcomes*. Whilst this framework does not obviate the problems of operationalisation, it does provide an indication of elements of performance, each of which may be more readily operationalised. A further complication in establishing clear evidence in terms of the contribution of groups to enhanced performance is the array of variables in terms of the composition of the group, nature of the group task and appropriateness and efficiency of processes which in turn impact on the performance of the group. The interplay of these variables is well summarised in the model of group interactions described by Hackman and Morris (1975), which was built from the model proposed by McGrath (1964) and is summarised in Figure 10.1.

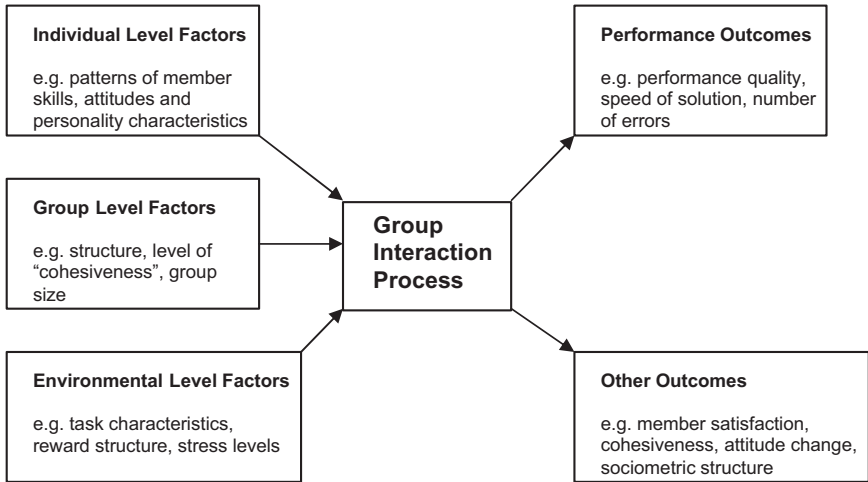
In examining the team literature the evidence to support the added value of managerial teams is less extensive and clear than that relating to operational or work teams. In part this may be due to the purpose and nature of such teams being concerned primarily with strategic rather than operational decisions (Higgs and Dulewicz, 1997; Higgs, 1999; Lichtenstein et al., 2005).

Overall the literature relating to relationships between teams and absolute performance is thus by no means conclusive or consistent. Indeed, based on a significant review of the evidence Tannenbaum et al. (1992) highlight that whilst there is evidence of the positive impact of teamwork on individuals’ attitudes and perceptions *they find no relationship between this and performance*.

### **Summary**

From the above it is evident that Katzenbach and Smith’s assertions (1993) are by no means borne out by the literature. Research

**Figure 10.1: An Interaction Process Model**



Note: Adapted from Hackman and Morris (1975)

into teams is a complex process (Furnham, 1992; West and Slater, 1995; Higgs et al., 2005; Aritzeta et al., 2005) which presents challenges in terms of methodology and measurement. The model proposed by Hackman and Morris (1975) demonstrates the complexity and has led to a range of research designed to explore aspects of the overall model in order to begin to build a picture of the relationship between elements of teamworking and performance outcomes.

### THE PRESENT STUDY

The aim of the study reported was to explore the relationship between the individual characteristics of the members of managerial teams, the processes employed within the teams and the interaction between these variables, and the effectiveness of the team. From the above review it appears that a number of factors are more likely to be dominant in explaining variation in team performance. These factors relate to: i) the nature and mix of individuals comprising the team; and ii) the processes employed within the team to convert these inputs to productive outputs. It was within this context that the current study was designed.

## Hypotheses

From a review of the literature the following hypotheses were developed:

- H1: Management teams with an ‘optimum’ balance of Belbin Team Roles will be rated as higher performing teams in terms of both ‘hard’ and ‘soft’ outcomes.
- H2: Management teams with a ‘balanced’ mix of competences will be rated as higher performing teams in terms of both ‘hard’ and ‘soft’ outcomes.
- H3: A model which accounts for interactions between input and process factors will account for more variation than a main-effects model.
- H4: A model which accounts for interactions between input and process factors will provide evidence to show that team processes act as a mediator variable between input and outcome variables.

## Sample

Three organisations agreed to participate in this study. These comprised two major UK financial institutions and a local government organisation. Researching in the arena of top teams inevitably leads to a challenge in achieving a large sample (Higgs et al., 2005; Lichtenstein et al., 2005). Given that the proposed analyses would be using the *team* as the unit of measurement, the research design required a sample size of no less than fifty teams. In effect this required access to *all* of the senior level management teams in the participating organisations. The level of interest in this study within the participating organisations resulted in an initial sample of fifty-six teams. Ultimately data could not be obtained in relation to two teams due to organisational changes. This resulted in a final sample of fifty-four teams. In looking at empirical research that examines more senior level management teams the current sample represents a relatively large number of such teams. Within the sample the average age of participants was 38.4 years (S.D. 6.06) with an average tenure of 1.31 years (S.D. 0.96). The average team size comprised 3.6 members (S.D. 0.61). Overall the data for the 54 teams was provided by 196 team members.

## **Measures**

The main measures employed in the study were:

### *i) Belbin Team Roles/Team Role Mix*

Few top team studies have explored the Belbin team roles. However, Lessem and Baruch (2000) did demonstrate its validity with such teams. The Belbin Team Roles for each member were calculated from the 16PF using the formula published by Dulewicz (1995), which was that originally employed by Belbin (1976, 1981).

The essence of Belbin's work (1981) was the identification of the significance of the mix of roles in a team and the relationship between a 'balanced' mix of Team Roles and the performance of a team. Berry (1995) pointed out the difficulties of operationalising the construct of 'Balance'. He developed a statistical Team Role Index model which was employed in this study.

### *ii) Supra-Competences*

A number of authors have hypothesised that a mix of competences may be important when examining team performance (e.g. Hambrick, 1995; Aritzeta et al., 2005; Young and Dulewicz, 2004). Dulewicz (1995) conducted a study in which he found statistically significant relationships between the Supra-Competences (derived from the Job Competence Survey) and Belbin Team Roles. From this it would not seem to be unreasonable to hypothesise that a measure of 'balance' in terms of Supra-Competences may be similar to the Team Role Index (Berry, 1995). Thus a Supra-Competence Index (based on the Job Competence Survey: Dulewicz, 1992) was employed as a measure of the Team Competence mix.

### *iii) Critical Thinking Appraisal*

The Watson Glaser Critical Thinking appraisal (Watson and Glaser, 1964) was employed in the original development of the Belbin Team Role model (Belbin, 1981). It was decided to examine the critical thinking abilities of teams within this study in order to determine its relative impact on team outcomes based on an assessment of the overall average level of team critical thinking ability for the team.



*iv) Team Processes*

A Team Process Questionnaire was employed which was developed from the Dimensions of Board Effectiveness Questionnaire (Dulewicz and Herbert, 1996), which was modified to take account of input from a series of focus groups and interviews conducted in a preliminary stage of the study. This instrument had been examined for construct validity and reliability in a separate study (Higgs and Dulewicz, 1997). Analysis of the process questionnaire produced a 14-factor model with scales and reliabilities as shown in Table 10.2.

*v) Team Outcomes*

Team outcomes were assessed by the executive director to whom the team reported using a 16-item questionnaire developed by Higgs and Rowland (1992) and which identified three elements of performance: team cohesion/climate, team achievements and overall team improvement orientation. The scales and their reliability are also shown in Table 10.2.

## RESULTS

A total of 226 responses were received from members of 56 teams. The response rate from executives to whom teams reported reduced the number of teams to 54 and thus usable participants (team member responses) to 196. The sample structure of allowable responses comprised 74.5 per cent males ( $n = 146$ ) and 25.5 per cent females ( $n = 50$ ).

### **Preliminary Analyses**

Intercorrelations among each of the measures are shown in Table 10.3. From this table it is clear that there are a number of significant correlations between the Belbin Team Role Index and both Team Process and Team Outcome factors. Similarly there are a number of significant correlations between the Supra-Competence Index and Process and Outcome factors. Further analyses of the data revealed that team size, team tenure and company did not influence any of the outcome variables.

In using the Team Process Questionnaire within the overall study and analysis of the results it is important to emphasise that the unit

**Table 10.2: Senior Managerial Team Process and Outcome Factors**

<b>Factors</b>	<b>Reliability (Cronbach's Alpha)</b>
<b><i>Team Environment</i></b> <i>Team atmosphere:</i> The general climate for interaction and working between team members	0.95
<i>Confidence and Comfort:</i> Processes which the team use to acquire external input and expose their thinking to others	0.65
<i>Learning and Improvement:</i> The way in which the team uses feedback to learn and identify improvement opportunities	0.70
<i>Performance Orientation:</i> Team processes which focus members on results and means of improving results	0.76
<i>Alignment:</i> The way in which the team attempts to align individual member's values and goals with those of the team	0.48
<b><i>Team Interaction</i></b> <i>Communication and Interaction:</i> The processes within the team which address interaction and communication between team members	0.79
<i>Involvement and Participation:</i> The way in which team members are involved in goal-setting, problem-solving and decision-making	0.87
<i>Process Orientation:</i> The processes which the team has in place to review the way in which they function	0.75
<i>Realistic Focus:</i> The way in which the team relates to the practical world and demands of the business	0.60
<b><i>Team Leadership</i></b> <i>Enabling Leadership:</i> The processes employed by the team leader to facilitate performance and growth	0.77
<i>Interface Management:</i> The way in which interfaces with other parts of the organisation are managed	(i)

*(Continued)*

Table 10.2: (Continued)

<b>Factors</b>	<b>Reliability (Cronbach's Alpha)</b>
<b>Team Structure</b> <i>Roles:</i> The processes in place to ensure clarity of individual roles and accountabilities	0.76
<i>Composition and Contribution:</i> The way in which the team ensures optimum use of the skills and knowledge of team members	0.69
<b>Outcome Factors and Reliabilities</b>	
<i>Team Climate:</i> The overall degree of cohesion within the team	0.85
<i>Team Achievements:</i> Assessment of the team's achievement of goals and delivery to 'customers'	0.74
<i>Improvement Orientation:</i> The team's ability to be proactive and focus on continuous improvement	0.75

N.B. (i): Reliability cannot be calculated as a single item factor

of analysis is the *team* rather than individual team members. This raises potential issues in relation to the use and analysis of multiple response data and the aggregation of such responses to form a group response (Seidler, 1974). In practice there are few recognised techniques available for the analysis of multiple responses and aggregation of such responses. However, one approach to the examination of consensus (employed in this study) was proposed by James et al. (1984) and employed in a range of previous studies (e.g. West and Anderson, 1996). Using this calculation it was found that the inter-rater agreement values ranged from 0.82 (Involvement and Participation) to 0.92 (Confidence & Comfort, and Composition & Contribution), suggesting that it is appropriate to aggregate individual responses on all of the Process factors.

It is also important to examine differences between groups to determine the discriminating power of the Team Process measures being

**Table 10.3: Intercorrelations between Variables Included in the Study ( $n = 54$ )**

	TE01	TE02	TE03	TE04	TE05	TE06	TE07	TE08	TE09	TE010	TE011	TE012	TE013	TE014	TPM1	TPM2	TPM3	BTR	Comp.	CTA
TE0 1	1.00																			
TE0 2	***	1.00																		
TE0 3	***	0.701																		
TE0 3	***	0.716	1.00																	
TE0 4	***	0.823	0.607	1.00																
TE0 5	***	0.787	0.823	0.607	1.00															
TE0 5	***	0.761	0.539	0.543	0.73	1.00														
TE0 6	***	0.760	0.55	0.582	0.624	0.58	1.00													
TE0 7	**	0.40	0.397	0.442	0.339	0.44	0.39	1.00												
TE0 8	***	0.522	0.543	0.528	0.529	0.495	0.31	0.408	1.00											
TE0 9	***	0.602	0.59	0.596	0.545	0.427	0.573	0.17	0.415	1.00										
TE0 10	**	0.436	0.56	0.298	0.513	0.419	0.431	0.201	0.431	1.00										
TE0 11	***	0.693	0.406	0.589	0.485	0.533	0.025	0.33	0.483	0.355	1.00									

(Continued)

Table 10.3: (Continued)

	TE01	TE02	TE03	TE04	TE05	TE06	TE07	TE08	TE09	TE010	TE011	TE012	TE013	TE014	TPM1	TPM2	TPM3	BTR	Comp. CTA
TE0 12	*** 0.530	** 0.432	*** 0.479	*** 0.566	*** 0.569	*** 0.48	** 0.43	** 0.451	** 0.438	*** 0.585	** 0.393	1.00							
TE0 13	0.082	0.132	0.096	0.195	0.061	0.076	0.166	0.116	0.34	0.184	0.227	0.228	1.00						
TE0 14	*** 0.480	** 0.454	** 0.295	** 0.374	** 0.278	** 0.36	0.066	** 0.451	0.21	* 0.260	*** 0.459	0.085	-0.104	1.00					
TPM 1	** 0.275	** 0.310	** 0.27	** 0.284	** 0.365	0.075	** 0.301	*** 0.497	* 0.25	** 0.29	** 0.122	*	0.036	0.154	1.00				
TPM 2	0.228	** 0.273	0.02	0.165	0.227	0.15	* 0.24	** 0.340	0.09	0.301	* 0.248	0.069	-0.116	0.24	*** 0.49	1.00			
TPM 3	0.026	0.102	0.02	-0.025	0.135	0.048	0.23	** 0.276	0.15	** 0.340	0.096	0.022	-0.018	0.069	*** 0.571	*** 0.51	1.00		
BTR Index	0.153	0.007	0.12	0.08	0.026	0.23	-0.097	0.42	** 0.37	-0.162	* 0.232	0.008	*	0.031	*	0.34	1.00	0.197	
Comp. Index	0.16	0.197	0.08	0.136	0.166	0.045	0.22	* 0.23	-0.20	* 0.223	-0.011	0.106	-0.192	0.111	** 0.032	** 0.33	** 0.029	** 0.39	1.00
CTA	0.18	-0.014	-0.095	0.022	0.153	0.077	0.006	0.07	0.036	0.072	0.04	0.136	-0.093	0.116	0.122	0.09	0.18	-0.17	-0.163

\*\*\* $p < 0.001$ ; \*\* $p < 0.01$ ; \* $p < 0.05$  (See Appendix 10.1 for Key)

used in this study. This entailed the use of a one-way analysis of variance (ANOVA) which found appropriate levels of discrimination.

### **Regression Analyses**

To use regression analysis with the models indicated by the hypotheses it was necessary to reduce the number of process variables to be included in order to obtain a more parsimonious model which could be tested with the available data. This was done through a combination of theoretical perspectives and review of the preliminary analyses (Hair et al., 1995). Thus the scope for including interactions within the model provides for the inclusion of no more than eleven interactions. Those to be included were determined through reference to the literature. Based on this it was decided that the variables to be included in the model examination would be:

- i) *Input Variables*: Belbin Team Role Index, Supra-Competence Index and CTA.
- ii) *Process Variables*: Communication and Involvement (composite factor), Performance Orientation, Enabling Leadership.
- iii) *Interaction Variables*: Belbin Team Role Index with all Process Variables, Supra-Competence Index with all Process Variables, CTA with all Process Variables.

The proposed models were examined using multiple regression analysis with the outcome factors as the dependent variable. The requirements for regression analysis were tested and found to be met (Hair et al., 1995). Stepwise regression analyses were employed to examine two models. Model 1 was a main effects model and Model 2 a full process interaction one. The results of the examination of these models are summarised in Table 10.4.

In reviewing the results from the main effects model there is unsurprising support for the relationships between the BTR Index, the process factors of Communication, Interaction and Involvement, and the outcome factor of Cohesion.

In relation to the Improvement Orientation outcome factor the regression model supports the relationships with the BTR Index and the Communication and Involvement variables found in the earlier correlational analyses (see Table 10.3). However, somewhat

Table 10.4: Stepwise Regressions of Alternative Models ( $n = 54$ )

	<b>Outcome Factors</b>	<b>Input, Processes and Interaction Factors</b>	<b>Standardised Betas</b>	<b>Significance of T</b>	<b>R<sup>2</sup></b>
Model 1	Cohesion	BTR Index	0.313	0.016*	0.19
		Communication, Interaction and Involvement	0.325	0.013*	
	Improvement Orientation	BTR Index Communication, Interaction and Involvement	0.352 0.239	0.008** 0.037*	0.17
	Achievements	Enabling Leadership	0.226	0.04*	0.05
Model 2	Cohesion	Communication, Interaction and Involvement	0.573	0.0002***	0.30
		BTR Index $\times$ Communication, Interaction and Involvement	0.546	0.0009***	
		Supra-Competency Index $\times$ Performance Orientation CTA	0.231 0.182	0.042* 0.142	

(Continued)

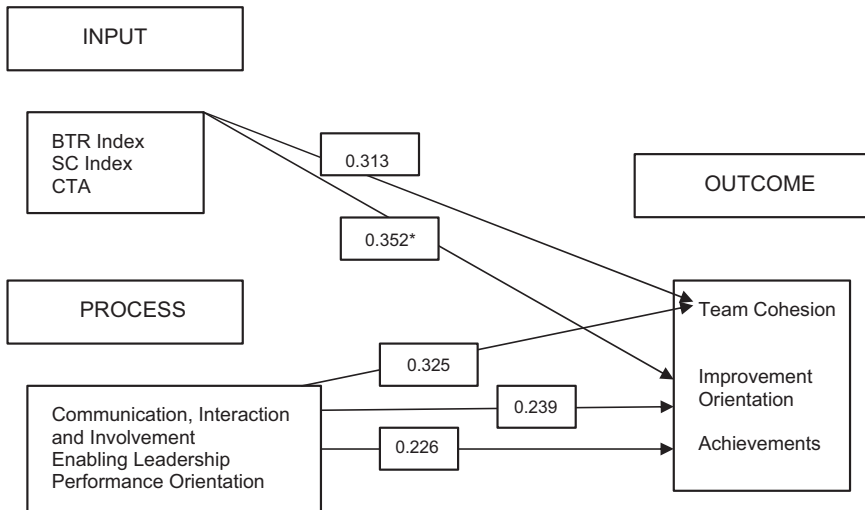
Table 10.4: (Continued)

	<b>Outcome Factors</b>	<b>Input, Processes and Interaction Factors</b>	<b>Standardised Betas</b>	<b>Significance of T</b>	<b>R<sup>2</sup></b>
Model 2	Improvement Orientation	Communication, Interaction and Involvement	0.297	0.036*	0.25
		BTR Index	0.310	0.028*	
Supra-Competency Index		0.215	0.038*		
CTA × Leadership		0.240	0.042*		
Achievements	Achievements	Enabling Leadership	0.273	0.05*	0.15
		BTR Index × Communication, Interaction and Involvement	0.282	0.044*	
		CTA	0.203	0.062	

Note: \*\*\* $p < 0.001$ ; \*\* $p < 0.01$ ; \* $p < 0.05$



**Figure 10.2: One-stage Regression Model of Team Outcomes**



Note: \* $p < 0.05$ ; all coefficients significant

surprisingly, the relationship with the Supra-Competences Index is not encountered in this model. This may well be due to the nature of the Stepwise regression analysis and the impact on the parsimony of relationships due to the elimination of co-linearity (Hair et al., 1995). However, the results from the one-stage regression model are more closely in line with the literature than the results encountered in the correlational study (e.g. Senior, 1996). The model emerging from this analysis is summarised in Figure 10.2.

The results from the analysis of the full process model (Model 2) show a larger number of significant relationships than found in the main effects model. In relation to the ‘Cohesion’ outcome it is interesting to note that the interaction of the BTR Index and Communication and Involvement Process factor produces a higher level of explanation of variance than the BTR Index alone (either in the correlational analysis or in the main effects model). This may be viewed as evidence of the process factor of Communication, Interaction and Involvement acting as a mediator variable. This was hypothesised by Hackman and Morris (1975) but not demonstrated in their subsequent research. Furthermore, the finding does provide

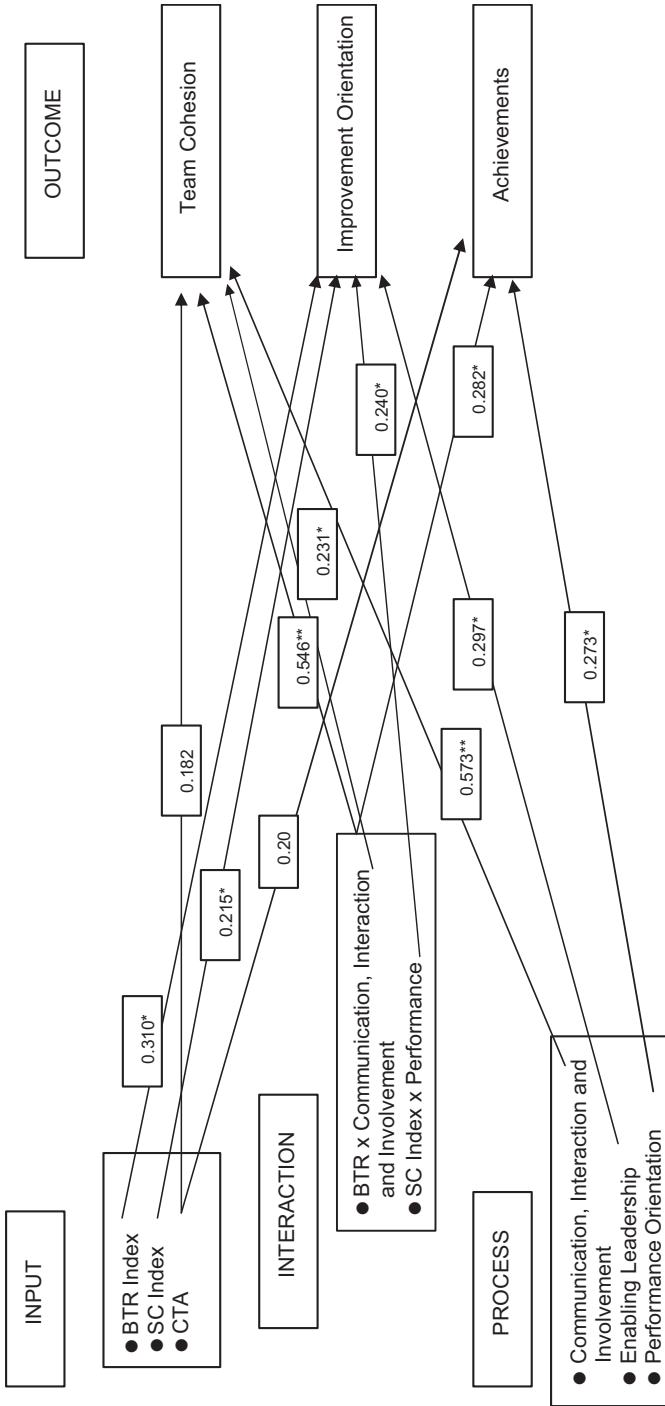
a degree of support for the view, frequently encountered in the literature, that process in a team is an important factor in releasing the potential of the combination of talents and skills within the team (e.g. Anderson et al., 1990; Higgs, 1999; Higgs et al., 2005). The emergence, in this model, of the Supra-Competence Index as a variable related to Cohesion in combination with the Process factor of Performance Orientation provides further evidence of process as a mediator variable.

In relation to the outcome factor of Improvement Orientation it is extremely interesting to note the significant relationship which is found with the interaction of the CTA and process factor of Enabling Leadership. This, together with the relationship of Enabling Leadership to achievements, tends to provide supporting evidence for a significant role of leadership in terms of team performance (e.g. Woodcock, 1989; Senior, 1996). Furthermore, the analysis brings the CTA into the team effectiveness arena for the first time. The absence of relationships between CTA constructs and team performance (or even apparently negative relationships: Belbin, 1981) have contradicted practitioner experience. Belbin's Apollo Team findings (Belbin, 1981) have caused a degree of dissonance with practitioners in this area for some while. However, a set of leadership behaviours able to release the critical reasoning abilities of a team combined with the CTA scores of the team members leads to a higher degree of understandability of previous research findings.

The relationship, within Model 2, between the Achievements outcome factor and the combination of the BTR Index and Communication and Involvement could indicate that the process interaction explains the result of outcome findings originally reported by Belbin (1981), but subsequently the subject of significant debate (e.g. Senior, 1996). The model emerging from the interaction analysis is summarised in Figure 10.3.

In reviewing these results it is important to exercise caution. In multiple regression analysis an important final stage is the validation of the model with a different sample. Practical and logistical barriers prevented this being done in the current study. Therefore validation and confirmation of the encountered models with different samples should be considered as an area for further research.

Figure 10.3: Interaction Process Model of Team Outcomes



Note: \* $p < 0.05$ ; \*\* $p < 0.001$

## DISCUSSION

The results examined above have produced a mixture of expected and surprising findings. In part this may be due to the limitations of the sample and a number of the methodologies employed. The somewhat mixed findings may also be a reflection of the complexity of researching into teams which have been highlighted by many authors (e.g. Furnham, 1992; Kurtzberg, 2000; Roosevelt, 2001).

The extent to which the findings support the research hypotheses is discussed below:

*H1: Management teams with an 'optimum' balance of Belbin Team Roles will be rated as higher performing teams in terms of both 'hard' and 'soft' outcomes.*

The initial correlational analysis provides partial support for this hypothesis with significant correlations between the Team Role Index and the Team Cohesion and Improvement Orientation outcome factors. This clearly provides evidence to support the relationship to 'soft' or psychosocial outcomes. The extent to which Improvement Orientation may be considered a partially 'hard' outcome is questionable. The regression analyses provide support for the hypothesis in relation to 'soft' outcomes. However, when the BTR Index is combined with the Communication, Interaction and Involvement process factor a significant relationship with the Team Achievements outcome factor (a 'hard' outcome) is evidenced.

Overall, the results may be seen as providing partial support for this hypothesis. However, the operationalisation of the outcome factors does not include an objective criterion for the measurement of 'hard' outcomes. Thus, further research with such a measure may well reveal a clearer and complete support for the hypothesis.

*H2: Management teams with a 'balanced' mix of competences will be rated as higher performing teams in terms of both 'hard' and 'soft' outcomes.*

As with the Team Index results the correlational analysis of competence mix (operationalised as the Supra-Competence

Index) indicates partial support for this hypothesis. The encountered relationship from this analysis is with the outcome factor of Improvement Orientation. As discussed above it is by no means clear whether or not this factor can be seen as purely 'hard' or 'soft'. However, when analysing the differences between high and low performing teams, evidence of relationships between the Supra-Competences and all three outcome factors emerges. The regression analyses support these findings. When the Supra-Competence index is combined with the process factor Performance Orientation a relationship with the outcome factor of Team Cohesion emerges. Thus, from an overall analysis it would appear that the results do offer partial support for this hypothesis. As with the previous hypothesis the need for further research using a more objective measure of 'hard' outcomes may prove fruitful.

*H3: A team interaction model which accounts for interactions between Input and Process factors will account for more variance in Team Outcomes than a main effects model.*

Comparison of the regression results of a main effects and interaction modelling of the data from this study shows that in respect of all three outcome variables the  $R^2$  values in the interaction model are higher. This provides evidence to support the above hypothesis.

*H4: A team model which accounts for interactions between Input and Process factors will provide evidence to show that Team Processes act as mediator variables between Input and Outcome variables.*

Due to sample size and the requirements for the number of observations per variable in a multiple regression analysis (Hair et al., 1995; Money, 1997) the study was only able to examine a limited number of Input/Process interactions (eleven in total). The multiple regression analyses demonstrated that three of these produced significant standardised Betas in relation to the outcome variables. In each case, the interaction either enhanced the value of the Beta for the input

variable alone or introduced a new input/outcome relationship. From an inspection of Table 10.4 it is evident that the current study provides a degree of support for the above hypothesis. However, it does have to be borne in mind that the sample size and scope of the current research did not permit validation of the multiple regression models.

### CONCLUSIONS

Hackman and Morris (1975) had proposed that the interaction between input and process factors may be a more powerful way of explaining team performance differences than either group of variables alone. The results from this research into senior managerial teams certainly provided strong support for this proposition. The results demonstrate that the combinations of the mix of individual personalities and competences within a team, combined with the processes employed within the team, account for greater variation in the team's performance than either individual or process factors alone.

In summary this study has shown that:

- i) Team 'mix' in terms of the Belbin Team Roles is related to team outcomes (providing organisationally based research evidence to support Belbin's original research findings).
- ii) Team 'mix', in terms of the competences of team members, is related to team outcomes (providing practical evidence to support such propositions in literature (e.g. Dulewicz, 1992)).
- iii) Team processes mediate the relationship between the mix of personal characteristics and competences of team members and the performance outcomes.
- iv) The team processes relating to communication, involvement, performance orientation and enabling leadership amplify the impact of personality and competence mix on team performance outcomes.

This study addresses many of the limitations of previous research findings and provides a practical basis for addressing the managerial question relating to the appropriate strategy for building

effective team performance. While it is important to bear in mind that the results may not be widely generalisable beyond the limited nature of the sample without supporting evidence from further research, it does address the limitations of absence of direct measures in previous studies of top management teams (Pettigrew, 1992; Lawrence, 1991).

APPENDIX 10.1: KEY TO INTERCORRELATION TABLE

TEQ 1	Team Process Factor:	Team Atmosphere
TEQ 2	Team Process Factor:	Communication/Interaction Style
TEQ 3	Team Process Factor:	Performance Orientation
TEQ 4	Team Process Factor:	Involvement and Participation
TEQ 5	Team Process Factor:	Confidence and Comfort
TEQ 6	Team Process Factor:	Learning and Improvement
TEQ 7	Team Process Factor:	Roles
TEQ 8	Team Process Factor:	Composition and Contribution
TEQ 9	Team Process Factor:	Process Orientation
TEQ 10	Team Process Factor:	Realistic Focus
TEQ 11	Team Process Factor:	Alignment
TEQ 12	Team Process Factor:	Enabling Leadership
TEQ 13	Team Process Factor:	Interface Management
TEQ 14	Team Process Factor:	Distribution of Contribution
TPM 1	Team Outcome Factor:	Team Cohesion
TPM 2	Team Outcome Factor:	Improvement Orientation
TPM 3	Team Outcome Factor:	Achievements
BTR Index	Belbin Team Role Index	
Comp. Index	Supra-Competences Index	
CTA:	Average Team CTA Score	

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# Theoretical Assumptions of Knowledge Creation



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## ABSTRACT

A prominent theme in the debate about knowledge and organisations is the role of knowledge in the theory of the firm. The knowledge-intensive firm is both important economically and a source of great interest academically; it operates in highly dynamic environments, which require the firm to construct new knowledge in order to respond to changes within the operating environment. The central feature of these post-industrial firms is that knowledge is fundamental to the functioning of the modern economies in which they operate. Thus the creation and utilisation of knowledge is of major importance to the success of these firms. Knowledge has always been implicated in the process of economic development; since anything we do, how we transform resources into products and services, crucially depends on the knowledge we have at our disposal for affecting such transformation.

**Key Words:** Knowledge; Knowledge and Organisations; Social Interaction; Dynamic; Generative and Emergent; Complexity Science.

## INTRODUCTION

A prominent theme in the debate about knowledge and organisations is the role of knowledge in the theory of the firm. The knowledge-based view of the firm is an outgrowth of the resource-based view of the firm, which argues that knowledge is the key productive

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resource of the firm (Kogut and Zander, 1992; Grant and Baden-Fuller, 1995). The knowledge-intensive firm is both important economically and a source of great interest academically; it operates in highly dynamic environments, which require the firm to construct new knowledge in order to respond to changes within the operating environment. The creation and utilisation of knowledge is of major importance to the success of the firm. Bell (1973) proposed that knowledge is a central feature of these post-industrial firms and argued that knowledge is fundamental to the functioning of late modern economies (Stehr, 1994; Drucker, 1993). Knowledge has always been implicated in the process of economic development; since anything we do, how we transform resources into products and services, crucially depends on the knowledge we have at our disposal for affecting such transformation. What is distinctive about the post-industrial firm is the change in the character of knowledge itself. If one begins to observe the use of theoretical knowledge in the knowledge-intensive firm (KIF), one will see the extent to which theoretical knowledge, far from being objective and explicit as it is often taken to be, is actually grounded in personal judgements and commitments of the knowledge agents in the firm. Thus even the most theoretical form of knowledge, such as pure maths, cannot be a completely formalised system, since the basis for its application and development are on the skills of mathematicians and how their 'know-how' skills are used in practice. That is to say that all codified knowledge contains personal knowledge elements.

Knowledge in the KIF is multi-faceted and complex, being situated and abstract, implicit and explicit, distributed and individual, developing and static, verbal and encoded. Analysis of the relationships between these different perspectives of knowledge is as important as any delineation of their differences within the KIF. Thus in order to develop the analysis of the interrelations between agents and their knowledge forms within the KIF it is necessary to address the basic question: 'what is knowledge within the KIF?' Hence the knowledge-based firm's ability for knowledge creation must exhibit components and structures which can link the conceptions of their knowledge forms to language, processes and norms that can enable and constrain knowing. The nature of the KIF, as an

organisation, and its management changes dramatically. Drucker (1993) maintains that productivity is becoming dependent on the application and development of new knowledge and on the contribution of knowledge agents. Drucker (1993) holds that knowledge agents are unlike previous generations of workers, not only in the high levels of education they have obtained, but principally because they own the firms' means of production. Because of this the KIF provides a vehicle in which the importance of social interaction between agents can lead to the activities of knowledge creation and help explore the difficulties that knowledge-intensive firms have in developing and understanding their own learning processes.

#### THEORETICAL ASSUMPTIONS OF KNOWLEDGE

The science of knowledge developed as an attempt to understand the challenges that face the social sciences today. The construction of the knowledge domain involved two kinds of interconnected intellectual reactions to modern conditions, which help to define the nature of social knowing. Firstly, it involved defining the form and content of the objects of analysis, such as society, as real elements, which can only be understood through the human senses. Secondly, it involved the development of an account of knowledge construction in order to comprehend these real objects through the conscious mind of the knowing subject (Kant, 1967). In this way the social sciences emerged with a tendency to reproduce the closed-system model of scientific inquiry developed from scientific experimentation and applied to the study of humans. The closed-system environment developed a boundary between what was required to be studied and what was to be excluded in the analysis. The system assumed the relations were simple and discrete, having complete bounded rationality. The reasoning assumes that the agents' knowledge of reality is an uncomplicated mirror reflection of the natural and social world. The problem of viewing the real world in such a simplistic way is that it fails to consider the exploration of the complexity, uncertainty and interconnectedness of the objects of analysis in the social sciences. It also acknowledges the complexities of the way in which the agent understands these objects. These conditions of existence play a crucial role in the activity of constructing knowledge in the first place. The emergence of science was part of

a process through which modern societies came into existence. The focus of knowledge construction can be noted on four key transformations, which highlighted the changes in the way agents viewed the world: the intellectual and religious transformations, and the emergence of new concerns such as the political and economic transformations. The new sensibility described as 'post-modernism' was an expression of the appreciation and realisation that the world was constantly changing (Berman, 1982; Harvey, 1989). The recognition that agents can have dramatic unintended consequences upon the ecological condition of the system they operate in, at any point and time, re-emphasises how human activities are interconnected in complex and unpredictable ways with the natural world.

The most serious theoretical deficiency of existing theories of modern society which assign a central role to knowledge is the rather undifferentiated treatment of the key ingredient, namely knowledge itself. The fact that science becomes increasingly the only source of additional knowledge and that the change in the available knowledge dramatically enlarges the available options of social knowing, suggests that the investment in and the distribution and reproduction of knowledge also changes and acquires greater social significance, as does the production of knowledge. The most widely employed conception of different forms of knowledge is dichotomies. The classical distinction lies between scientific and non-scientific knowledge. The distinction has not been elaborated on, except in the sense that non-scientific knowledge became a residual form of knowledge. In order to draw understanding for the concept of knowledge, one must distinguish between what is known, the content of knowledge and knowing. Knowing can be described in relation to things and facts, but also to rules, laws and programmes. This offers the suggestion that some form of human participation is required in order to relate the knowing of things, rules and programmes or processes by including them in the human's field of orientation and competence.

A person is able, in other words, to acquire knowledge from books. The social significance of language, writing, printing and data storage is that they all constitute knowledge symbolically or provide the possibility of objectified knowledge. Thus, what we refer to as knowledge and learning is not direct knowledge of facts, rules



and things but objectified knowledge. However such participation is of course subject to stratification, life changes, lifestyle and the social influence of other individuals, which depend on their access to the stock of knowledge at hand. Knowledge, ideas and information are strange entities with properties unlike those of commodities. Knowledge is a public good, when revealed it does not lose its influence, but in fact may gain in influence. While it is reasonable and in some sense urgent to speak of the limits of growth in many resources of life the same does not appear to hold for knowledge: knowledge has no limits to its growth (Simmel, 1993). Knowledge, when taken into the context of a social sphere, is a universal phenomenon, but the role of knowledge in social knowing is restricted to this elementary observation. Giddens (1984) characterises knowledge as an ordinary, widely shared and tacit component of social action, to which knowledge is common to social knowing.

The definition of knowledge as a capacity for knowing indicates strongly that the material realisation and implementation of knowledge is dependent on being embedded within the context of specific social and intellectual conditions. Knowledge has many enabling features that allow individuals and groups to organise. The crucial importance within knowledge theory and the KIF has not been matched by extended and enlightened discussions of the concepts of knowledge. More generally speaking, the KIF's conception of knowledge about knowledge is, despite, and for a time because of, the sociology of knowledge, not very sophisticated and comprehensive. The range of knowledge forms (embrained, embodied, encoded and embedded knowledge)<sup>1</sup> that is made available dramatically enlarges the available scope of social action. The development of knowledge also changes and is bound to acquire greater social significance. The KIF relies not only on the formal knowledge of its agents, but draws heavily on the interaction between agents to create a knowledge capability from the diverse know-how and practical problem-solving skills embodied in the individual experts in the firm.

#### DOMAINS OF KNOWING AND LEARNING

To understand knowledge as a stratified phenomenon of social knowing where knowledge is uniquely created as a productive force within a particular social setting is to draw on one's ability to understand

how meaning is intrinsically related to the use of mediating language and interaction (Gherardi, 2000). The definition of knowledge as a capacity for knowing indicates strongly that the material realisation and implementation of knowledge is dependent on, or embedded within, the context of specific social and intellectual roots. Consequently, individual knowledge can be considered as the 'ability to draw on distinctions within collective domains of knowing' (Tsoukas and Vladimirou, 2001: 974). Routines are the source of stability within organisations since agents in the firm cope with new situations by reapplying routines they already know (Starbuck, 1983). Routines provide knowledge of what actions are helpful in certain circumstances and why that action is correct. Therefore paying attention to the mediating use of language means paying attention to the structures by which managers make sense of their world, along with the way in which they inhabit those structures. Knowing in organisations is conceptualised as a periodic and often volatile interaction between the various agents within the knowledge system (Blackler, 1995). These include the agents, the object of learning in knowledge, the immediate community of peers and mediating artefacts, such as technology, rules and norms. By investigating these and their interrelationships it is possible to analyse the implications of knowledge creation and hence trace the development of new knowledge (Engeström, 1987).

Learning within knowledge is based on the concept that the testing, revision and acceptance of knowledge is not cyclical but interactive, shaped by tensions between the past and present (Tsoukas, 1996). It is through such processes that knowledge is socially constructed and objectified in concrete routines, rules and procedures that are shared collectively but experienced individually. Thus knowledge has become a creative force that can be contested and has history; knowledge work is conducted at all firm levels as agents interact, improvise and develop in specific contexts (Tsoukas and Vladimirou, 2001). The creation of knowledge requires rule-breaking, improvisation and multiple voices (Nemeth and Nemeth, 2001). If knowledge work is intrinsically learning-based and experiential then one must be aware of ways in which managers identify and negotiate uncertainty to establish new areas of knowledge (Blackler, 1995). The creation of knowledge

within the firm must take into account the dynamic relationships between individuals, their communities and the objects of their activities, and provide a clear alternative to approaches that attempt to study such things and the factors which mediate the relationship between them. From this perspective the appropriate unit of analysis is the social relationships between the agents within the firm; within this process knowledge does not appear as a separate category, but rather permeates all the different knowledge-creating activities within the firm. The agents employ their knowledge in a situation which is itself constantly developing. In response to this developing situation the agents' knowledge and behaviour will also inevitably develop (Blackler, 1995). The process of knowing is at the heart of a new theory which encompasses knowledge but which overcomes its connotations of abstraction and permanency.

Knowledge can be considered as a dynamic, generative emergent process, as opposed to an attribute of an organisation, which has an intrinsically social nature. The ability to create knowledge lies in the social interactions of the firm's knowledge agents through constant exchanges, such as conversation, and practices of various knowledge types which exist in the knowledge-based firm. It is through these processes that knowledge is developed in the firm. Knowledge can be viewed as a resource of the firm or of the knowledge agents in the firm, a second perspective maybe to view knowledge as a dynamic and generative process. By viewing knowledge as a resource of the firm one can begin to view knowledge as a functional perspective on organisations, by conceptualising the firm as a machine (Morgan, 1986). Thus regarding knowledge as part of the structural system of the organisation and supportive of it, one takes for granted that the organisation 'has' knowledge and that in exploiting it, it will become the firm's main source of 'competitive advantage' (Holsapple and Joshi, 2002).

Knowledge in this context is regarded as objective, and as a result manageable – developing the understanding that the social phenomena underlying the generation and sharing of knowledge are considered as factual, measurable and delimited and therefore perceived as behaving in a functional way in terms of achieving the firm's survival.

In the post-modern era knowledge is viewed as dynamic and highly interpretive phenomena, related to meaning, understanding and process, which by their very social nature are difficult to manage. Therefore the facilitating and production of knowledge is a more conducive method of not managing knowledge. But understanding organisational knowledge as an object tends to favour explicit over tacit knowledge, and consequently individual over collective. However what an individual knows and the method in which this is practiced emerges from the interplay between the different forms of tacit and explicit knowledge. The knowledge embodied in an agent emerges from the interaction between the agent's tacit knowledge and explicit knowledge – it is inter-subjective and is inherently unpredictable and continually evolving (Tsoukas, 1996). In order for knowledge to be transferred to the collective organisational knowledge of the firm a language is required, so it can be transmitted and shared and as such becomes historically and culturally embedded in the collective knowledge of the firm. Thus individual experiences, new knowledge and skills are not considered in isolation but become entwined in the interactive and communicative action of the collective element of the firm; these have to be experienced by the social collective of the group. As the new knowledge becomes embedded in the group's experiences they become re-valued and constantly deployed in the day-to-day activity of the firm. The process of this interactive-based learning takes a contextual shift away from the individual to the collective, from possessions to processes, and the focus is on the interactions that take place as a result. By developing the social actions of learning neither the individual nor the system is allowed to predominate but rather the reflection is directed towards the actions which manifest organisational practices produced by the interaction of both, thereby relating the emerging knowledge created towards effects of self-organisation and emerging behaviour rather than that of managing. The knowledge creation process thus occurs among many variant groups in the firm.

This perspective emphasises how connections among parts of the system can enable learning and adaptation (Griffin et al., 1998; Kallinikos, 1998; Anderson, 1999; Kauffman, 2000). As a system the firm is able to gain knowledge about its surroundings, itself and its behaviour and use this diverse knowledge for guiding future

actions (Kauffman, 2000). However, the connections established among different parts of the system allow not only for knowledge exchange among collectives but also open up possibilities of generating and sharing new meanings, thus providing increased capability to share and generate knowledge. Organisational collectives play a control role in the knowledge-creating firm, as they provide a shared context where individuals can interact with each other and engage in the constant conversations on which effective reflection depends. By taking this viewpoint one is able to propose the importance of the interactive and co-evolving nature of organisations with their environments as well as the process of emergence of both knowledge and organised structures through the connection, interaction and relationships between these diverse knowledge agents (Allen, 1997). The benefit of this perspective is the conceptualisation of the KIF as a structure that is fluid, yet sensitive to the needs of the connected elements as well as in connection with its environment (Griffin et al., 1998).

Drawing from studies in philosophy, sociology and organisational theory a differing approach can be considered to understanding knowledge. That is, rather than viewing knowledge as something which an individual has, it may be better understood if conceptualised that knowing is something which the individual does. Such a standpoint turns attention to the fact that knowledge and action within the firm are changing and developing. The firm's learning environment provides a driving force for knowledge creation, one in which account is taken of the fact that the knowledge-intensive firm environment is a lot less stable and rational than is usually recognised. By encouraging new ways of knowing and doing, new methods can emerge if firm knowledge agents begin to rethink established ideals in a different context. The firm's requirements for knowledge are constantly evolving: by visualising knowing as something that knowledge agents do and understanding the dynamics through which knowing is accomplished, one may realise the process as being located in a time and space specific to a particular moment, but one that is also constantly developing. Thus rather than asking the question, 'What sort of knowledge is needed and how may a firm harness this knowledge?' the question becomes, 'How are processes of knowing and doing changing?'

### IMAGES OF KNOWLEDGE IN THE KNOWLEDGE-BASED FIRM

The theory of knowledge and organisational learning seeks to understand the nature of knowledge and organisational learning from a pluralistic epistemological perspective. It makes a distinction between explicit and tacit types of knowledge and argues that the interaction between these two modes of knowing is vital for the creation of new knowledge. The emphasis on the importance of tacit knowing as the origin of human knowledge directs our attention to the social and interactive nature of knowledge and learning.

Knowledge in the KIF can be situated at the level of the individual, or be shared amongst the agents of the firm as a collective element. Individual tacit knowledge is discrete and self-contained; it is knowledge that is owned by the individual knowledge agent in the firm, which can be applied independently to specific types of tasks or problems. Collective knowledge refers to the way in which knowledge is distributed and shared among members of the firm. It is the collective knowledge of the firm that is stored and reflected in the routines, procedures, rules and shared norms which guide the behaviour, problem-solving activities and pattern of interaction among its members. Collective knowledge in the context of the KIF can be either a stock of knowledge stored as hard data that is readily available for use by its members, or be a flow of knowledge that emerges from the interaction of the firm's agents. Collective knowledge exists between rather than within individuals, it may be centralised or disseminated throughout the firm. Taking into consideration the explicit and tacit elements of knowledge and the individual-collective dimensions of knowledge, the typology of knowledge forms suggested by Collins (1993) focuses on the socio-cognitive structures of knowledge, integrating the individual and organisational dimensions. It provides a means for relating the characteristics of knowledge to its specific embodiment, linking the process of generation and utilisation of knowledge with its cognitive dimension. The KIF is a social system based on coordination. It provides a social context in which different forms of knowledge interact and combine to achieve collective productive purposes. The firm's capacity for learning and innovation is closely related to how its knowledge is constituted, utilised and generated. What the variety

of images of knowledge attempt to identify serves to demonstrate the complexity of knowledge in the KIF. This illustration is emphasised by Orr (1990), in which the significance for the firm is the process of interaction.

Learning is a socially constructed understanding, which emerges from practical and local collaboration amongst agents in the firm. The collective wisdom depends upon communal narratives. The benefits from internal communications and collective dialogue are an essential element of organisational life in developing skills and abilities which are distributed amongst the agents in the firm. Orr's (1990) analysis of the knowledge-based consultancy firm points to the critical role which communication, interaction and integration play, with regard to creating a unified knowledge-based firm environment, which facilitates the growth and development of firm knowledge. The close relationship that exists between the various knowledge forms illustrates that it is a mistake to assume that each knowledge form can be sensibly conceived as separate to each other. Cook and Brown's (1999) study describes how maintenance personnel shared stories about technical problems, which are a core element of their daily work, illustrating the development of explicit knowledge within the collective group. What this demonstrates is that learning can be seen from a socially constructed process that emerges from the collaboration of various knowledge agents with varying knowledge forms.

Learning is an element that occurs in all types of human activities. In the field of organisational theory learning ranges from the individual to the collective. Learning in the KIF firm may be described as an emerging activity in a social system, where knowledge agents, both collectively and individually, continually expand their ability to create, in which new expansive patterns of thinking are evolving in the firm's social system. By understanding this process learning may be aligned as an interactive process of varying activities, whereby new knowledge is produced through the transformation and interpretation of knowledge forms. The concept of the learning organisation is focused on the firm as a whole entity, and all individual and collective learning is directed towards developing a common understanding of what constitutes the whole. This should be viewed as a metaphor rather than an abstract structure,

because as knowledge is created the elements and the whole will constantly change in structure (Drew and Smith, 1995). According to Pedler et al. (1991) the learning organisation is a firm capable of adapting, changing, developing and transforming itself in response to the changing needs of the firm's environment and the wishes and aspirations of people in and outside the firm. Stacey (2003: 325) defines learning as an 'activity of interdependent people, which can only be understood in terms of self-organising communicative interaction and power relating, in which identities are potentially transformed or changed'. This demonstrates the emerging shifts in the patterns of human action, in which individuals and groups are aspects of a process of interaction between people.

In the new science of complexity and chaos the process of organisational learning may be defined as a network of social interaction that facilitates the exchange of differing knowledge forms. Shelton and Darling (2003: 357) refer to this as 'quantum skills to change established mental models'. One of the most important areas of the chaos and complexity-based approach is that at the heart of the learning organisation is a shift in mind set: from seeing ourselves as separate from the whole, to being connected to the whole, from seeing problems caused by someone 'out there to seeing how our own activities create problems we experience' (Senge, 1990: 12–13), thereby illustrating the fact that people act upon a system of which they themselves are an inseparable part, so the observer and the observed are belonging to the one and the same complex dynamical system.

#### LEARNING AS A SOCIAL INTERACTION

The social interaction approach develops the assumption that the real world is actively constructed by human knowing, even though social scientists tend to behave as if it is independent of human knowledge. Interactionism treats social action and its small face-to-face interactions as the basis of all social life, so that the meaning of any concept or idea can only be located in the experimental consequences that it produces. Polanyi (1962) distinguished 'knowledge about' from 'knowledge of'. The former, which is acquired through textbooks, is conveyed in abstract general principles which



can be learned and memorised; the latter, knowledge of practical knowledge, is acquired through experience in everyday life, is established through trial and error and can take an unconscious tacit form. Thus the concept of the knowing agent as a 'thinking process' can be viewed as a continuous developing entity, rather than as a fixed element. In this way individuals can define objects and their context, identify sensible courses of action, imagine the consequences of these choices and select an appropriate course. Other interactionist theorists such as Mead (1934) identify the actual behaviour of the actors and the development of the mind as an unfolding process. They begin to learn to develop an inner mutual understanding of the process and its related parts, which allow the agent to predict the behaviour of the other constituent parts. The prediction of the routine habitual practices of the related parts of the process responding in similar predictable ways enables the social interactions of human beings to take place while avoiding conflict.

Social interaction can be seen as an ongoing process rather like the changing patterns of the weather, instead of following a definite fixed plan. Schutz (1967) argued that it is through the condition of inter-subjectivity that the individual agents are able to understand each other's routines and construct their life-world. By sharing time and space, the (individual) action involved in communication could engage in a process of understanding which involves the discovery of what is going on in the other person's mind (Schutz, 1967). Schutz argued that there were no hard facts, only interpretations of inter-subjective facts. The conception of organisational knowing builds on this conception, further developed by Spender (1980), who argues that when managers are confronted with an undetermined situation, one in which knowledge or lack of it is an issue, they characterise it with a set of corresponding rules and purposes that comprise rationality. A critical point here is that the social world is constructed by agents who possess free will and who can and will behave in spontaneous ways not anticipated by the scientific methods. For Schutz (1967) in the natural sciences it is plausible to collect 'facts', but when faced with the problem of understanding social existence, consideration needs to be given to

the motives, the means and ends, the shared relationships, and the plans and expectations of human actors.

The knowledge-intensive firm is a network of non-linear interaction. Although the firm's subsystems are conceptually distinguishable, they are so intertwined that they must be understood as a whole; the whole is nonlinear because of the alternating patterns of behaviour between the firm's agents. The firm develops over time through feedback processes in which the individual agents in the firm discover new forms of knowledge in the firm as well as those parts of the firm environment the agents are in contact with. They have the autonomy to choose a response to those states from either universal or specific rules or both. These actions have consequences for each other and for agents in the firm: they may change the internal state of the organisation by provoking a response from agents constituting the firm environment. In other words individual agents or groups of agents, and thus the whole organisation, move through continuous loops of learning (choice and actions). Agents in the firm choose to make sense of what they learn and as a consequence of this decide what action to take in response to that meaning in order to make these choices.

The firm's agents and the system that they constitute evolve around the learning loop of discovery, choice and action; they are clearly engaged in a co-evolutionary feedback process in which what one agent does affects others. The feedback has an important process in that it may be negative or positive. Negative feedback is the process of intentional development and control in an organisation that clamps down on change and looks towards stability; the opposite to this is positive feedback, which promotes learning in a way that amplifies and destabilises the system by spreading revolutionary new ways of thinking. These two forms of feedback are linked to the method by which agents and the firm learn and it is this learning that drives the co-evolutionary process. Complex learning occurs (Argyris and Schon, 1978) when the patterns of interaction are altered and, at more or less the same time, the behaviour of the system alters. The firm, via the learning process, evolves through both positive and negative feedback, both single and complex double-looped learning, co-creating and co-constructing the firm's collective knowledge environment.

### A STRATEGY FOR KNOWLEDGE CREATION USING COMPLEX EVOLVING KNOWLEDGE SYSTEMS

In the context of the KIF the firm may be described as a 'complex evolving knowledge system' (CEKS) in which the firm is comprised of knowledge that is situated in both the individual knowledge agents and their interactions. The development of new knowledge lies in the understanding of the interactions among the individual knowledge agents in the firm, which forms new emerging patterns of learning. In order to make sense of the knowledge creation phenomena one must look towards theories that can aid understanding and facilitate the interactions among individual knowledge agents that allow them to create knowledge. Whereas individuals can create embodied tacit knowledge the greater challenge is to establish a strategy that promotes the social interaction and resultant emergence of new patterns among knowledge agents, which facilitate not only the collective knowledge of the firm but also the creation of both explicit and tacit knowledge.

The creation of knowledge in the firm is better accomplished through the process of interaction among individual agents with differing knowledge forms rather than individuals with similar knowledge forms. The complexity of the firm environment and the task of how one creates knowledge requires the use and development of diverse knowledge forms (Leonard-Barton, 1995). For example, in the case of a problem exercise an individual agent may initiate a suggestion, but in order for this suggestion to become a solution to the problem in hand it has to be considered by other agents in the firm who hold differing forms of knowledge, such as technical, financial or marketing, in order to ensure that it suits the demands of the problem and its environment. Therefore the possibility of exchanging knowledge and recombining existing knowledge in order to develop knowledge is greater when the agents involved have diverse knowledge forms. In this way a firm environment of learning is developed and scope in knowledge diversity is achieved.

The creation of knowledge requires multi-directional interaction and self-organisation among agents with diverse knowledge forms, enabling them to become both sources and recipients of learning (knowledge). This multi-directional interaction can be facilitated by the development of a learning environment in which the firm's

agents participate, as it is not only the transfer of explicit knowledge that is involved but also that of tacit knowledge, which can only be acquired through the process of interaction (Nonaka and Takeuchi, 1995). Interaction among varying agents with differing knowledge forms which are shared and transferred in order to create knowledge has two critical focal points: firstly, the willingness of the agents located in different parts of the firm to share their knowledge and understanding, and secondly, knowledge agents with different knowledge forms need to be able to understand each other, in that they require a common language (Arrow, 1974) or a common tacit knowledge of the firm and its environment (Grant, 1996).

The individual knowledge agent, by been exposed to differing knowledge forms, must be able to understand the language used within the firm and between the various other agents; that is to say, there is a necessity to have a common language (Arrow, 1974). Without understanding among these individuals knowledge cannot be exchanged in a meaningful way; only when elements such as interaction, integration and interdependency of knowledge sets co-evolve is knowledge creation possible. In the KIF learning is considered to be essential in the firm (work processes are not based on routines but rather on personal commitment); it requires abstract thinking where teamwork will aid the success of the service that the firm offers. Working in these firms is interactive by nature. Emerging approaches to knowledge creation and its understanding include complex evolving knowledge systems. CEKS is different from classical approaches in terms of viewing the organisation from a holistic point of view. The concept is multi-disciplinary and a creative approach to enhancing strategic thinking and understanding.

CEKS is a system based on interaction, which can be social, ecological, economic, cultural or political (Dooley, 1997). The critical concepts of the system are self-organisation, non-linearity and emergence. Self-organisation in the system enables the learning process and is a key characteristic of complexity (Dooley, 1997); complexity thinking transfers the emphasis of control to that of learning environments and relationships. Maturana and Varela (1992) describe self-organisation as a process where reproduction is emphasised. In the context of the KIF, the process of self-organisation is that of the action in human organisations, where agents spontaneously come

together to undertake an activity (Milton-Kelly, 2004). The concept of non-linearity can be understood in that complex systems display complex patterns of behaviour that are not common to their multiple causes (Fitzgerald and van Eijnatten, 2002). In contrast a linear system is one in which the change of events can be easily recognised and repeated. The process of emergence is a novel, sudden appearance of a pattern in a non-linear-based system that is new: it is a system's behaviour which is the result of an interaction of many agents within the system (Lissack, 1999).

In the CEKS agents with differing knowledge forms are connected to and interact with one another. Because the agents are connected together in the system, the behaviour of an agent can have an impact on the system and the other agents. All agents observe and act on local information and co-evolve with one another. Co-evolution is where each agent adapts to their environment in order to suit the demands of the knowledge landscape in which they are functioning. These linkages between each agent in the system can evolve over time and change the pattern describing the strength of connections. While co-evolving these agents also compete with each other for resources (Dooley, 1997). According to Dooley (1997) a CEKS appears best suited in turbulent environments where change is imminent and frequent. Each element in the CEKS is a dynamic approach towards understanding how all agents in the firm emphasise new knowledge creation through self-organisation in a chaotic environment and the knowledge landscape. By understanding the dynamic complexity of knowledge it is possible to comprehend the whole organisation and its activities in knowledge development, through learning and interaction.

The chaos metaphor describes most systems as not only complex but dynamic and non-linear, in which both order and disorder co-exist (Nicolis and Prigogine, 1989). A chaotic system is a complex and dynamic arrangement of connections between elements forming a unified whole, the behaviour of which is both unpredictable and yet patterned (Fitzgerald, 1996). By using these theories one may begin to understand and recognise the underlying philosophies and structures that shape individual and organisational knowledge. It is a focused approach to illustrate that complex evolving knowledge systems recognise the firm not as a static structure but one that

changes and develops with new knowledge at any particular point in time. It offers new concepts to better understand uncontrollability, uncertainty and complexity in the KIF as a learning organisation, where people continually expand their capacity to create the results they desire, and where new and expansive patterns of knowledge types are integrated and evolve. Where collective thinking is nurtured and where people are continually learning to see the whole.

Knowledge has always been an organisational asset; it is only relatively recently that it has been widely recognised. Bell (1970) foresaw that what is distinctive about the post-industrial society is the change in the character of knowledge itself. What has become decisive for the organisation of decisions and the direction of change is the centrality of theoretical knowledge – the primacy of theory over empiricism and the codification of knowledge into abstract systems of symbols that, as in any axiomatic system, can be used to illuminate many different and varied areas of experience. Individual and collective knowledge is bought to bear through the interplay of knowing and doing. Blackler (1995) emphasises the collective, situational and tentative nature of this process, particularly where agents enact new conceptions of their knowledge. This interaction creates tensions and contradictions amongst firm agents, which leads them to question what constitutes the source of innovation and knowledge creation as complex tensions are explored and new patterns of knowing start a learning cycle (Engeström, 2001).

The emergence of new knowledge is critical to understanding the social construction of the complex relations between agents within the KIF, by focusing on the processes of interaction within and between individual and collective groups where existing knowledge is contested in order to contend with uncertainty. Thus an emergent social system is developed. A system whose agents have learned and established conscious communal processes for continually generating, retaining and leveraging individual and collective learning to improve performance of the organisational system in ways important to all stakeholders, and monitoring and improving performance. It is not only specific elements of knowledge but the practice of new emerging patterns of knowledge that can be contested, as knowledge is held in dynamic rather static relations. Giddens (1984) characterises knowledge as an ordinary, widely

shared and tacit component of social action in which he expresses the extent to which knowledge is common to social knowing. Knowledge is a highly differentiated stock of intellectually shared nature and society, which can constitute the cultural resource of a society. But participation in this resource is determined by changes and the social influence of agents and the knowledge to which they have access.

The theories of chaos and complexity help to describe and understand a new holistic approach to viewing the process of knowledge creation and learning. This system of learning may be described as a complex and dynamic arrangement of connections between elements forming a unified whole, the behaviour of which is both unpredictable and patterned, ordered and disordered. To view the KIF as a learning organisation in which knowledge is continuously changing, one may understand the firm as an enterprise in which the two most fundamental properties of reality are maintained in dynamic balance by virtue of an institutional process. The knowledge system in the KIF is that of a 'complex evolving knowledge system', which consists of a large number of frequent interacting heterogeneous knowledge agents, each having a particular knowledge set which is governed by second-order learning and discovering new ways of looking at the world in terms of decision-making or problem-solving.

Thus knowledge is considered dynamic, generative and emergent, which is rooted in social practice and (re)produced and shared in social interactions. What a knowledge agent 'knows' and the way in which knowledge is used emerges from the interplay between tacit and explicit knowledge. It is inter-subjective and is therefore inherently indeterminate and continually emerging. Knowledge needs a language to be transmitted, represented and shared; as a result it is always historically and culturally specific. The knowledge and the sense of reality that is shared by particular social groups are sustained by social processes. The CEKS concept suggests that individual experiences are not considered in isolation, since knowledge is the product of interaction and communication in this regard. In order for experiences and explanations to be considered as relevant knowledge they have to be experienced as meaningful by the social collective of the KIF, and in turn become part of

the firm's lived experiences. This perspective takes a conceptual draw away from the individual towards the collective knowledge agents in the firm, from possessions towards processes, and the focus is on interactions and social practices. By placing actions and social practices at the centre of attention in the CEKS, it suggests that neither individuals nor the systems are allowed to predominate and draws attention towards the processes which manifest new knowledge (which are displayed in the interactions between both the individual and collective agents of the firm).

The emergent complexity is built up through differing patterns of knowledge exchange combined in infinite variety and at different scales – phenomena that have been observed in both living and non-living entities (Pascale, 1999). The patterns are not directed by a specific learning, and continue as agents come and go in the system (Beinhocker, 1997). The firm that emerges from this state is changed in that the firm has acquired new knowledge to do something that it could not have done prior to being disturbed and allowed to emerge. Thus a firm which learns less and remains relatively unprovoked has fewer stimuli to adapt to and is at a greater risk over time of being at a disadvantage in the natural selection process. For example a lack of diversity may promote stability, whereas a stimulated interaction of diverse knowledge elements in a learning-oriented environment would seem to prepare the firm better for the future.

The largest part of learning is through interaction. It is also the case that learning opportunities and self-management are good things, that both individual and collective agents have a significant influence on learning effects, that diversity adds valuable perspectives and that knowledge involves doing and experimenting. This self-organised-based environment, in which learning can occur, is dependent upon a culture of sharing and an emphasis on learning with full access to knowledge (individual or collective) by emphasising broad and diverse participation and interaction, as well as consistent interactive communication, using a common language. Pressure is required which can push the firm towards the edge of chaos (that of dissipative structures) and disturbances within the firm landscape which can provoke the emergence of new knowledge, thus allowing the avoidance of control and procedure. The



understanding of knowledge has moved away from the scientific and philosophical prejudice that all knowledge is dependent on philosophical and scientific knowledge, which are the types of knowledge relatively most detached from social frameworks. The KIF must concentrate on the effects on the types of knowledge that are most deeply involved in social reality and the roots of its structures, such as the perceptual knowledge of the external world, knowledge of the other, and political, technical and common sense knowledge. As humans we must consider that there exist a much larger number of knowledge types, which the social element of knowledge, as well as epistemology, must take into consideration, thus eliminating the issue of the universal validity of judgement.

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- 1 The explicit–tacit and individual–collective dimensions of knowledge give rise to four categories of knowledge: ‘embrained’, ‘embodied’, ‘encoded’ and ‘embedded’ knowledge. These conceptual distinctions were first suggested by Collins (1993) to explain the psychological and behavioural aspects of knowledge. **Embrained knowledge** (individual–explicit) is knowledge that is dependent on conceptual skills and cognitive abilities of the individual. It is formal, abstract or theoretical knowledge. **Embodied knowledge** (tacit–individual) is action oriented; it is the practical, individual type of knowledge (know-how or technique) on which Polanyi (1962; 1966) has focused. **Encoded knowledge** (collective–explicit) is knowledge (or sometimes referred to as ‘information’) conveyed by signs and symbols. It is knowledge that has been codified and stored in blueprints, recipes, written rules and procedures. **Embedded knowledge** is the collective form of tacit knowledge residing in organisational routines, practices and shared norms.

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# Irish Workers' Perceptions of the Impact of Immigrants: A Cause for Concern?



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## ABSTRACT

Immigrant workers are increasingly essential to the EU economy as Europe's population continues to decline. In Ireland there has been an influx of approximately 250,000 migrants into the country since 1997. Using a recent survey of citizens in the European Union the attitudes of Irish workers towards immigrants regarding their economic, social and cultural impact are assessed. Determinants of attitudinal differences are examined using a number of possible explanatory factors widely recognised in the sociological literature on public opinion formation, such as age, gender and education. The factors with the strongest explanatory effect are education, occupational level, political orientation and political activism. Overall, a sizeable minority of respondents believed that immigrants undermine their country's culture, have a negative impact on wages and the poor and a negative impact on jobs and the economy. Given the consistent upward trend in the number of immigrants into Ireland and the ageing population demographic, such negative attitudes are a

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major cause for concern for both organisations and for government policy-makers.

**Key Words:** Attitudes; Immigrant; Workers; Ireland; European Union.

## INTRODUCTION

In the last decade of the twentieth century the number of immigrants from outside European Union (EU) countries working in the labour force had increased (Turner and Cross, 2005; Garson and Loizillon, 2003; OECD, 2001; Coppel et al., 2001). The most striking aspect of the contemporary period of migration is the increase in employment related permanent and temporary migration with a preference for skilled workers (Garson and Loizillon, 2003). Immigration has played a significant part in the population increase in the EU in the last five years; however a European Commission report (2002) shows that even doubling the immigration rates and simultaneously doubling fertility rates will not, on their own, make a significant contribution to securing sustainable labour markets and pension systems. Indeed, United Nation estimates for the EU indicate that the number of migrants necessary annually to keep the potential support ratio constant at its 1995 level by 2050 would be 15 times greater than the net migration level in the 1990s (United Nations Population Division, 2000). Furthermore, the old age dependency ratio in the EU (population above the age of 65 divided by the population aged 15–64) increased from 9.5 per cent in 1950 to 24 per cent in 2001 and is predicted to increase further (United Nations Population Division, 2000; European Commission, 2002).

Although less extreme, a similar demography situation pertains in Ireland. The number of old persons (those 65 years and older) increased by almost one third between 1971 and 2002 (CSO, 2004a). It is estimated that older people will outnumber younger people with the excess being most pronounced in those aged 65 years and over by 2036 (CSO, 2004b). This presents a number of problems, most especially with regard to future labour supply. The attraction and integration of migrants in the workplace is therefore of critical significance to Irish labour market policy. Until recent times, Ireland was essentially a nation of emigrants. The first Irish census ever to



ask a question on the nationality of the respondent was in 2002. Yet, between 1997 and 2002 approximately 250,000 migrants arrived in Ireland (International Organisation for Migration, 2002). Thus, immigrant workers are now an important feature of the Irish labour market. Consequently, the perceptions of immigrant workers by Irish citizens in the workplace are increasingly a cause for concern. There are two possible reasons to be concerned about the nature of workplace attitudes towards immigrant workers. First, there is the moral argument that outsiders should be treated fairly and humanely. The concern here would be to ensure that immigrants in the workplace are not subject to prejudice or discrimination in relation to remuneration, benefits and opportunities available to other workers. If immigrant workers are viewed in a negative or disparaging way by employees in the workplace it is likely that such attitudes will spill over into unfair treatment. A second and possibly more compelling reason is that immigrant workers will be essential to an expanding Irish economy and a changing demographic structure.

This paper examines Irish employee attitudes and perceptions towards immigrants, in an effort to broaden our understanding of this contemporary issue. As Scheve and Slaughter (2001) note, it is only when individual preferences regarding immigration policy are understood that reasonable policy-making efforts can begin. Using a general European survey, Irish workers' views of the economic, social and cultural impact of immigrants are assessed. Determinants of attitudinal differences are examined using a number of possible explanatory factors widely recognised in the sociological literature on public opinion formation, such as age, gender, and education (Chandler et al., 2001). The term 'immigrant' used in this context should not be confused with other references to people from overseas moving to live in a host country, such as 'asylum seekers' and 'refugees'; words which are often used in the same sentence. Our analysis excludes asylum seekers and refugees. An immigrant, for the purpose of this study, is defined as someone born and brought up outside the respondent's host country who moves to live in the host country.

### TRENDS IN IMMIGRATION IN IRELAND

In a comparative European context migration in Ireland presents an interesting picture. For a prolonged period of time, from the 1840s

to the 1950s, Ireland experienced a constant decline in population due essentially to emigration outflows. Although the population decline peaked in the 1950s, emigration remained for many the only prospect for getting employment well into the 1990s. Indeed, with the onset of the recession in the 1980s emigration reached similar numbers to the exodus experienced in Ireland in the 1950s when almost half a million Irish people emigrated from Ireland (CSO, 2004b). Irish emigrants favoured two host countries in particular: the UK and the USA. Between 1981 and 1990 65 per cent of all emigrants went to the UK and 14 per cent to the USA (NESC, 1991).

However, the dramatic economic growth and expansion of employment in the late 1990s changed Ireland from a country of emigration to one of net immigration, caused both by both non-Irish and Irish nationals coming to live here. The 2002 census returned 47,500 registered immigrants, of which 18,000 were returning Irish. A recent report by the Expert Group on Future Skills Needs (EGFSN, 2005) collates available statistical information on non-nationals in Ireland. It indicates that in 2004, the non-Irish population accounted for 215,000 people, which is approximately 5 per cent of the population. 105,000 of these are non-EU nationals, with 10 per cent coming from the US. In comparison with the US and other European countries the number of immigrants at first glance may appear low. Yet, on a per capita basis this represents more than four times the immigration rate of the USA (Capell, 2004). Whilst the population of Ireland has grown by 8 per cent in the last five years, the number of non-nationals has grown by 82 per cent. The OECD has suggested that the percentage of non-national workers in the Irish labour force is higher than in the UK and most other EU countries (OECD, 2004).

The EGFSN report (2005) also provides a breakdown of the employment patterns and demographics of the non-Irish immigrants. Most are located in Dublin (one third) and the east of Ireland and one third of them are in the 25–34 age group. Most are employed in the manufacturing, hotel, health and retail sectors, with the majority located in services (e.g. waiters, chefs and childcare workers), professional (e.g. university lecturers, medical practitioners and software engineers) and associated professional occupations (e.g. computer analysts/programmers).

As a group, the study results indicate that they are highly skilled, with 44 per cent having a third level qualification. The report contends therefore that as a significant number of these non-nationals are employed in low-skilled occupations, or are economically inactive, their skills are being underutilised.

In recent years statistics indicate that immigration peaked in 2002, reaching a high of 41,000, then declined to about 32,000 in 2004 (CSO, 2004b). The report by the EGFSN (2005) clearly indicates an expectation that the non-national population will increase significantly in the coming years, particularly as a result of the recent expansion of the EU, Ireland's policy of free labour market access for the new member states who joined in 2004 and the Employment Permits Act (2006).

#### CULTURAL AND SOCIAL IMPACT OF IMMIGRANTS

With emigration outflows a central feature of life in the twentieth century, Ireland's population remained culturally and ethnically homogeneous (Mac Éinrí, 2001). However, multiculturalism is becoming a feature of Irish life. In cities and major towns the visual impact of increased immigration is evident in the range of retail stores, the array of goods on sale and the ethnicity of employees, particularly in the service sector. Yet, integration into the host country is one the most difficult challenges for immigrants. Finding a workable balance between host community respect for difference and immigrant participation remains an extremely difficult issue for most countries (ILO, 2004). In 1999 the leaders of the EU called for a common immigration policy, which would include strategies to ensure the integration of third country nationals legally resident in the Union. In June 2003, the Council set out a strategy for the development of a comprehensive and multidimensional policy on integration for the Union based on the principle of granting legal immigrants rights and obligations comparable to those of EU citizens. The Commission has also indicated that failure to promote tolerance in a society is often a precursor to discrimination, social exclusion and the rise of racism and xenophobia (European Commission, 2001). In Ireland a variety of legislative and policy measures to assist with the integration of immigrants into Irish society has been introduced, such

as the Prohibition of Incitement to Hatred Act 1989, the Equal Status Act 2000 and the Employment Equality Act 2004. The Irish Naturalisation and Immigration Service (INIS) was established in 2005, which includes a new Immigrant Integration Unit to promote the integration of lawful immigrants into Irish economic and cultural life. In addition, a national action plan on racism has been developed to create the foundations for a more inclusive and intercultural society (Department of Equality, Justice and Law Reform, 2005).

The problems facing governments attempting to develop integration policies are highlighted in the results of recent surveys conducted with European Union citizens. Immigration was believed to be the second most important issue to voters (after employment) in the European Parliament elections of 2004 (European Commission, 2004). An earlier version of the survey revealed that 45 per cent of the EU population believed there were too many foreigners in their country at that time (European Commission, 1997). The key issues in this debate on migration focus on the potentially adverse economic, cultural and social effects on the host country. While a worker's labour market position is at the core of his wider integration into society, this is only part of the complete integration process (Doomerik, 1998; Borjas, 1994). Various strategies are employed by governmental agencies to assist with the socio-economic integration of immigrants. These include language training, information referral, migrant resource centres, access to health care, employment possibilities for spouses and the right of family members to accompany the migrant. In relation to host country language, a number of studies across the world have highlighted the critical importance of being skillful in the host country language in gaining employment (International Organisation for Migration, 2002).

Policy developments in recent years at EU level reflect the need for clear and effective policies for the social integration of migrants. These often differ from one member state to another due to prevailing cultural diversities. In this paper we examine employee perceptions of immigrants in two areas: the socio-cultural requirements considered important for immigrants and the cultural impact of immigrants on the host country.

### ECONOMIC IMPACT OF IMMIGRANTS

Most of the world's developed economies have had to import large numbers of foreign workers at some stage to fill vacancies caused by a growth in manufacturing and a decreasing supply of unskilled national workers<sup>1</sup> (Doomerik, 1998). As noted earlier, much debate has taken place on the role immigration may play in easing the economic impacts of Europe's ageing and declining population. The economic effect of immigration on a country is a complex issue. Increases in numbers of immigrants into a country are often opposed on the basis of fears that significant inflows of foreign workers will increase unemployment, depress wages and lead to a decline in the employment of national workers who are available for low-skilled work (OECD, 2001). Recent research conducted on this issue however highlights a different picture. Foreigners tend to occupy blue-collar rather than white-collar jobs and tend to be concentrated in particular industries such as construction, catering, health care and services to households (OECD, 2001). Moreover, research highlights that immigrants usually command lower wages than native-born workers when they initially arrive in the host country (Friedberg, 2000). A recurring theme in the immigration literature is whether immigrants ever achieve earnings parity with nationals (Borjas, 1992; 1995). Schoeni et al. (1996) contend that immigrants probably experience a wage disadvantage for most of their working lives, given the size of the wage gap between the foreign and native population at their time of entry. Most studies in Western Europe have indicated that wages tend to resist downward pressures. The negative effect of immigration on native wage levels is small and the impact on employment is indefinite (see Coppel et al., 2001; ILO, 2004).

Although much discussion focuses on the potential negative impacts of immigration on the labour market, migration can in fact be beneficial in generating economic benefits for the host country. Immigrants who have high levels of productivity and contribute to the host nation's economy can make a significant contribution to economic growth (Borjas, 1994). Also, they address specific labour shortages and the problems associated with ageing populations in the EU (OECD, 2000). Temporary employment of foreigners brings flexibility into a labour market, relieving labour shortages, particularly

during economic upswings. Immigration in itself creates a demand for goods and services, thereby increasing the demand for labour while at the same time providing a flexible labour reserve (Coppel et al., 2001; Ben-Gad, 2004).

Given the different evaluations of the impact of immigrants on a country's economy it would not be surprising to find considerable variations in employee attitudes to the economic impact of immigrants. Here we assess the views of employees regarding whether immigrants are a net gain to the economy and whether they have an adverse effect on the conditions of the existing domestic work force.

In summary, the attitudes of employees are examined in four distinct areas: firstly, the extent to which employees believe that immigrants from poor countries should be permitted to come and live in Europe; secondly, perceptions of the importance of labour market requirements for immigrants; thirdly, socio-cultural requirements considered important for immigrants and the cultural impact of immigrants; fourthly, perceptions of the impact of immigrants on the economy. For a detailed description of the measures in each of these areas see Table 12.1 below.

#### ATTITUDINAL DETERMINANTS AND HYPOTHESES

Seven factors were identified as likely to affect individual employee attitudes towards immigrants. These are the individual's age, education, occupation, political orientation, union membership, political activism and civic concern. As the European Union has become a diverse multicultural entity, we might expect that the attitudes of Europeans towards outsiders are likely to be more liberal and inclusive than in previous generations. In particular, this is likely to be more pronounced amongst younger people. Alternatively, increasing age tends to be associated with more conservative attitudes (Hypothesis 1).

H1: Increasing age will tend to be associated with more negative attitudes towards immigrants.

Similarly, higher levels of education are associated with an increased capacity to accept social and cultural differences. Thus, increasing levels of education will tend to be associated with more

positive attitudes towards immigrants. Additionally, education and occupational level are essentially a measure of social class level with those at the bottom of the occupational hierarchy most vulnerable to adverse economic events. Research indicates that those who have more pessimistic assessments of the current and future state of the economy are less receptive to immigration than those who are optimistic (Lahav, 2004). As such, people's assessment of immigration tends to depend on the extent to which they perceive threats to the economy and their jobs. If immigrants are perceived to be competing for jobs, then it is reasoned that the employed and the prosperous will be less 'anti-immigration' (Chandler et al., 2001), leading us to Hypotheses 2 and 3.

H2: Increasing levels of education will tend to be associated with more positive attitudes towards immigrants.

H3: Employees in higher occupational levels will tend to have more positive attitudes towards immigrants than lower level occupations.

Political science research has found that judgments about general and specific policy are associated with political beliefs (McGowan, 1999). For example, Sears et al. (1980) have found that political affiliation was significantly related to attitudes toward a variety of public policy issues, such as unemployment, national health insurance, and questions about law and order. Immigration can clearly be viewed as a contemporary addition to these issues. The historical relationship between trade unions and social democratic or Labour parties is one essentially based on shared values of social justice, equal opportunities, solidarity and respect. The relationship has been seen to be a mutually beneficial one over time (see McCartney, 2003). Collective solidarity is commonly associated with the trade union movement and conjures up positive images of the strength of togetherness and community. Thus, positive attitudes towards immigration would be viewed as an expected extension of both trade union membership and leftist political orientation. This leads us to the following two hypotheses:

H4: A political left orientation will be associated with more benign attitudes towards immigrants than a right orientation.

H5: Membership of a trade union is likely to be associated with more positive attitudes towards immigrants.

Previous studies have found political participation to be more common amongst people with higher education levels, income and active citizenship (see for example Rosenstone and Hansen, 1993; Verba et al., 1995). Additionally, Schur (2003) asserts that employment directly affects interest in politics and workers' civic skills through the impact of changing work practices, such as the introduction of employee participation programmes. Participation in this type of work practice may foster skills development that facilitates political participation outside the workplace. Survey research has consistently found men to be somewhat, but not substantially, more politically active than women. Various factors have been proposed to explain the disparity in political activity between the sexes. Schlozman et al. (1999: 29) have found gender differences in workplace experiences linked to the issue that women are less likely than men to accumulate participatory factors at work because 'they are less likely to be in the workforce at all, to be in the workforce full-time, or to be in high-level jobs'. These are captured in the final two propositions:

H6: Increased political activism will be associated with more positive attitudes towards immigrants.

H7: Higher scores on the citizenship measure are likely to be associated with more positive attitudes towards immigrants.

#### DATA AND MEASURES

The data used here comes from the 2003 European Social Survey (ESS).<sup>2</sup> The European Social Survey (the ESS) is a biennial multi-country survey covering over twenty nations. The first round was fielded in 2002/2003. The survey is designed to chart and explain the interaction between Europe's changing institutions and the attitudes, beliefs and behaviour patterns of its diverse populations. It is funded jointly by the European Commission and the European Science Foundation and directed by a Central Coordinating Team.<sup>3</sup> Data collection was by means of face-to-face interviews of around an hour in duration. The objective of the ESS sampling strategy is



the design and implementation of workable and equivalent sampling strategies in all participating countries. The requirement is for random (probability) samples with comparable estimates based on full coverage of the eligible residential populations aged 15+. An essential element of the strategy is the achievement of high response rates in all participating countries, in order to ensure that the people interviewed in each country closely represent the country's total population. A target response rate of 70 per cent was set for each country. The fifteen countries used for comparative purposes are the European Union members before the recent accessions. They are Austria, Belgium, Germany, Denmark, Spain, Finland, UK, Greece, Ireland, Italy, Luxemburg, Netherlands, France, Portugal, Sweden. We have excluded the recent new entrants such as Poland and Hungary as their experience of democratic politics is relatively recent.

A total of 29,110 surveys were returned from these fifteen countries with 44 per cent or 12,779 of the respondents reporting being currently in employment. Since our focus is on employee attitudes to immigrants only the latter 12,779 respondents are included in our analysis. The sample size returned for Ireland was 2,046 of which 888, or 43 per cent of respondents, reported being in employment. The appropriate design and population size sample weights are used in the data analysis below.

Table 12.1 provides a description of the dependent and independent variables used in our analysis. Apart from the first question, all the questions defined immigrants as someone born, brought up and living outside (the respondent's country). Thus, the questions on immigrants do not distinguish between those coming from inside and outside of Europe as a single group. Since attitudes to western and non-western immigrants could plausibly be significantly different, the responses in the ESS survey may be biased in either direction. Although we can only speculate on whom respondents had in mind when answering the questions it is probable that many of the questions were answered based on their beliefs about non-western immigrants. For example, questions on the importance of cultural requirements of immigrants include 'coming from a Christian background', 'being white' and being 'committed to the way of life in the host country'.

Table 12.1a: Description of Dependent Variables

	<b>Dependent Variables Description</b>	<b>Mean</b>	<b>Standard Deviation</b>	<b>Cronbach's Alpha</b>
Allow poor in from non-EU	<p>Question: To what extent do you think the country should allow people from the poorer countries to come and live here?</p> <p>Scored: 1=Allow many to live here; 2=Allow some; 3=Allow a few; 4=Allow none.</p>	2.2	0.7	/
Labour market skill requirements	<p>Question asked: How important do you think each of these things should be in deciding whether someone born, brought up and living outside [country] should be able to come and live here? Three items are added together:</p> <ol style="list-style-type: none"> <li>1. Have good educational qualifications.</li> <li>2. Be able to speak [country]'s official language(s).</li> <li>3. Have work skills that [country] needs.</li> </ol> <p>Scored on an eleven-point scale from 0=Extremely unimportant to 10=Extremely important. The three items are added together and divided by three to give a range from 0 to 10.</p>	6.6	2.3	0.78

*(Continued)*

Table 12.1a: (Continued)

	<b>Dependent Variables Description</b>	<b>Mean</b>	<b>Standard Deviation</b>	<b>Cronbach's Alpha</b>
Socio-cultural Requirements	<p>Same question as above. Four items are added together and divided by four to give a range from 0 to 10.</p> <ol style="list-style-type: none"> <li>1. Have close family living here.</li> <li>2. Come from a Christian background.</li> <li>3. Be white.</li> <li>4. Be committed to the way of life in [country]. Scored as above.</li> </ol>	4.0	2.0	0.69
Cultural impact	<p>Composed of three items:</p> <ol style="list-style-type: none"> <li>1. Would you say that [country]'s cultural life is generally undermined or enriched by people coming to live here from other countries?</li> <li>2. Is [country] made a worse or a better place to live by people coming to live here from other countries.</li> <li>3. Are [country]'s crime problems made worse or better by people coming to live here from other countries.</li> </ol> <p>All are scored on an eleven-point scale from 0=Culture undermined, worse to live, crime worse to 10=Culture enriched, better place, crime better. Three items are added together and divided by three to give a range from 0 to 10.</p>	5.2	1.9	0.74

(Continued)

Table 12.1a: (Continued)

	<b>Dependent Variables Description</b>	<b>Mean</b>	<b>Standard Deviation</b>	<b>Cronbach's Alpha</b>
Economic impact	<p>Question: How much do you agree or disagree with each of the following statements? Four items added together:</p> <ol style="list-style-type: none"> <li>1. Average wages and salaries are generally brought down by people coming to live and work here.</li> <li>2. People who come to live and work here generally harm the economic prospects of the poor more than the rich.</li> <li>3. People who come to live and work here help to fill jobs where there are shortages of workers (reverse scoring).</li> <li>4. If people who have come to live and work here are unemployed for a long period, they should be made to leave.</li> </ol> <p>Scored on a five-point scale from 1 = Agree strongly to 5 = Disagree strongly. Four items are added together and divided by four to give a range from 1 to 5.</p>	3.1	0.7	0.65

(Continued)

Table 12.1a: (Continued)

	<b>Dependent Variables Description</b>	<b>Mean</b>	<b>Standard Deviation</b>	<b>Cronbach's Alpha</b>
Economic input	<p>Composed of three items:</p> <ol style="list-style-type: none"> <li>1. Would you say that people who come to live here generally take jobs away from workers in [country], or generally help to create new jobs?</li> <li>2. Most people who come to live here work and pay taxes. They also use health and welfare services. On balance, do you think people who come here take out more than they put in or put in more than they take out?</li> <li>3. Would you say it is generally bad or good for [country]'s economy that people come to live here from other countries.</li> </ol> <p>All are scored on an eleven-point scale from 0=Take away jobs, take out more, bad for the economy to 10=create jobs, put in more and good for economy.</p>	4.4	1.8	0.68

n=882 (weighted)

Table 12.1b: Description of Independent Variables

	<b>Independent Variables</b>	<b>Mean</b>	<b>Standard Deviation</b>	<b>Cronbach's Alpha</b>
Political orientation	In politics people sometimes talk of 'left' and 'right'; where would you place yourself on this scale? Scored from 0 = Left to 10 = Right	5.2	1.9	/
Age	Age of respondents	38	12.2	/
Education	Years of education	13.9	3.2	/
Gender	1 = Male; 0 = Female	0.47	/	/
Occupation	Occupation is classified into eight groups as follows: 1 = Senior/Managers; 2 = Professionals; 3 = Technicians/lower professional; 4 = Admin white collar; 5 = Lower services white collar; 6 = Skilled manual; 7 = Semi-skilled manual; 8 = Unskilled manual	4.1	2.1	/
Union membership	Scored 1 = Member of a trade union; 0 = Non-member	0.4	/	/

*(Continued)*

Table 12.1b: (Continued)

	<b>Independent Variables</b>	<b>Mean</b>	<b>Standard Deviation</b>	<b>Cronbach's Alpha</b>
Political activism	<p>Question: During the last 12 months, have you done any of the following?</p> <ol style="list-style-type: none"> <li>1. Contacted a politician, government or local government official.</li> <li>2. Worked in a political party or action group.</li> <li>3. Worked in another organisation or association.</li> <li>4. Worn or displayed a campaign badge/sticker.</li> <li>5. Signed a petition.</li> <li>6. Taken part in a lawful public demonstration.</li> <li>7. Boycotted certain products.</li> <li>8. Deliberately bought certain products for political, ethical or environmental reasons.</li> <li>9. Donated money to a political organisation or group.</li> </ol> <p>Scored 0 = None of these and 1 for each item done. Possible range 0 to 9.</p>	1.8	0.2	0.71

(Continued)

Table 12.1b: (Continued)

	<b>Independent Variables</b>	<b>Mean</b>	<b>Standard Deviation</b>	<b>Cronbach's Alpha</b>
Citizenship measure	<p>Question: To be a good citizen, how important are the following? Composed of six items:</p> <ol style="list-style-type: none"> <li>1. Support people who are worse off than themselves.</li> <li>2. Vote in elections.</li> <li>3. Always obey laws and regulations.</li> <li>4. Form their own opinion, independently of others.</li> <li>5. Be active in voluntary organisations.</li> <li>6. Be active in politics.</li> </ol> <p>Scored 0 = Extremely unimportant to 10 = Extremely important. The six items are summed and then divided by 6 to give a 0 to 10 range.</p>	6.9	1.4	0.72



RESULTS

The basic percentage responses for Ireland on the six dependent variables are reported in Table 12.2. One third of the respondents believed that few or no immigrants from non-EU states should be allowed into the country, indicating a relatively negative attitude to

Table 12.2: Irish Employee Attitudes towards Immigrants

	<b>Allow Many/Some</b>		<b>Allow Few/None</b>	<b>N</b>
Allow poor in from non-EU	67%		33%	865
	<b>Not Important</b>	<b>Neither</b>	<b>Important</b>	<b>N</b>
Labour market skills <sup>i</sup>	21%	13%	65%	849
	<b>Not Important</b>	<b>Neither</b>	<b>Important</b>	<b>N</b>
Socio-cultural requirements <sup>i</sup>	66%	12%	23%	845
	<b>Culture Enriched</b>	<b>Neither</b>	<b>Culture Undermined</b>	<b>N</b>
Cultural impact <sup>i</sup>	42%	26%	32%	812
	<b>Disagree</b>	<b>Neither</b>	<b>Agree</b>	<b>N</b>
Economic impact is negative <sup>ii</sup>	37%	37%	26%	819
	<b>Positive Impact</b>	<b>Neither</b>	<b>Negative Impact</b>	<b>N</b>
Economic input <sup>i</sup>	26%	23%	50%	818

<sup>i</sup> The measures of labour market skills, socio-cultural requirements, culture impact and economic input all have a continuous range 0 to 11. They are divided into three categories at the upper, middle and lower range to facilitate a frequency distribution in the following manner: 5.5–10=upper level; 4.51–5.49=central level; 0–4.5=lower level.

<sup>ii</sup> Economic impact measure has a continuous range from 1 to 5. It is divided into three categories: 0–2.5=agree; 2.51–3.49=neither; 3.5–5=disagree.

non-EU immigrants. While 65 per cent indicated that labour market skills such as language, education and work skills were important attributes for immigrants, only 23 per cent believed that socio-cultural requirements such as having a Christian background, being white and committed to the way of life in the country were important attributes. However, a significant proportion of respondents (32 per cent) believed that immigrants generally undermined the country's cultural life. Conversely, 42 per cent believed that immigrants enriched the country's culture. A total of 26 per cent of respondents agreed that immigrants have a negative impact by bringing down average wages, harming the economic prospects of the poor more than the rich and not helping to fill jobs where there is a shortage of workers. 37 per cent of respondents disagreed with this position while 37 per cent were neutral. However, half of the respondents believed that immigrants had a negative effect on the economy by taking away jobs from indigenous workers and taking out more in health and welfare services and that they are generally bad for the economy. Overall, in the six dependent variables there is a sizeable minority of respondents who hold negative views regarding the effect of immigrants on the country's culture and economy.

#### IRELAND IN A COMPARATIVE CONTEXT

In Table 12.3 the means of the dependent variables are compared across the 15 EU countries. Ireland is ranked second, behind Sweden, in permitting poor people from outside the EU to live here. It is below the EU mean regarding the importance of labour market criteria and socio-cultural requirements. Irish respondents are also above the EU average in believing that immigrants enrich their culture. On the economic impact of immigrants, Irish respondents are less sanguine having a similar mean score as the EU average concerning the negative impact of immigrants on native workers' wages. In addition, Irish respondents were significantly more likely than most other countries to believe that immigrants are bad for the economy in general. In comparative terms these results appear to indicate that Irish respondents are above the EU average regarding the positive socio-cultural impact of immigrants but below the EU average on the positive economic impact

Table 12.3: Employee Attitudes – 15 EU Countries

	<b>Allow Poor in from non-EU<sup>i</sup></b>	<b>Labour Market Criteria<sup>ii</sup></b>	<b>Socio- Cultural Requirements<sup>iii</sup></b>	<b>Cultural Impact<sup>iv</sup></b>	<b>Economic Impact<sup>v</sup></b>	<b>Economic Input<sup>vi</sup></b>
Austria	2.6	6.8	4.0	4.7	3.1	5.0
Belgium	2.4	6.2	4.3	4.5	3.1	4.4
Denmark	2.5	6.1	4.2	4.9	3.5	4.9
Finland	2.5	6.1	4.8	5.5	3.1	4.9
France	2.5	6.4	4.3	4.6	3.2	4.9
Germany	2.3	7.0	4.0	4.9	3.0	4.5
Greece	2.9	7.8	5.6	3.3	2.5	3.7
Holland	2.4	6.1	4.1	4.7	3.2	4.8
<b>Ireland</b>	<b>2.2</b>	<b>6.2</b>	<b>4.0</b>	<b>5.2</b>	<b>3.1</b>	<b>4.4</b>
Italy	2.3	5.8	4.4	4.6	3.2	5.0
Luxembourg	2.4	6.7	3.5	5.5	3.3	6.0
Portugal	2.8	6.6	4.9	4.1	2.7	4.7

(Continued)

Table 12.3: (Continued)

	Allow Poor in from non-EU <sup>i</sup>	Labour Market Criteria <sup>ii</sup>	Socio-Cultural Requirements <sup>iii</sup>	Cultural Impact <sup>iv</sup>	Economic Impact <sup>v</sup>	Economic Input <sup>vi</sup>
Spain	2.3	5.8	4.4	4.7	3.3	5.2
Sweden	1.8	4.1	3.7	5.7	3.5	5.5
UK	2.5	6.6	4.3	4.6	2.9	4.2
<b>Mean</b>	<b>2.4</b>	<b>6.4</b>	<b>4.2</b>	<b>4.7</b>	<b>3.1</b>	<b>4.7</b>
<b>Irish ranking in the EU</b>	Ranked 2 <sup>nd</sup> on allowing poor in	Ranked 6 <sup>th</sup> on criteria unimportant	Ranked 3 <sup>rd</sup> to 5 <sup>th</sup> on requirements unimportant	Ranked 4 <sup>th</sup> highest on culture enriched	Ranked 5 <sup>th</sup> to 8 <sup>th</sup> that native workers harmed economy	Ranked 2 <sup>nd</sup> to 3 <sup>rd</sup> that immigrants bad for economy
<b>N</b>	<b>13,237</b>	<b>13,439</b>	<b>13,309</b>	<b>12,983</b>	<b>12,733</b>	<b>12,804</b>

<sup>i</sup> Scored on a four-point scale from 1 = Allow many to live here to 4 = Allow none.

<sup>ii</sup> Scored on an eleven-point scale from 0 = Extremely unimportant to 10 = Extremely important.

<sup>iii</sup> Scored on an eleven-point scale from 0 = Extremely unimportant to 10 = Extremely important.

<sup>iv</sup> Scored on a eleven-point scale from 0 = Culture undermined to 10 = Culture enriched.

<sup>v</sup> Scored on a five-point scale from 1 = Agree strongly that native workers are harmed to 5 = Disagree strongly.

<sup>vi</sup> Scored on an eleven-point scale from 0 = Take away jobs/bad for the economy to 10 = Create jobs/ good for economy.

of immigrants. A possible explanation for the Irish position is the historical experience of emigration of Irish people up to the 1990s. However, since the early 1990s migration trends have reversed and substantial numbers who emigrated have recently returned to work in Ireland. The 2002 census returned 47,500 registered immigrants, of which 18,000 were returning Irish. Consequently, the experience of emigration may be a factor affecting the Irish response.

### DETERMINANTS OF ATTITUDES TOWARDS IMMIGRANTS

In Table 12.4 multivariate techniques are used to examine the determinants of Irish workers' attitudes towards immigrants. Multivariate analysis allows the separate independent effects of each measure to be estimated while controlling for possible coterminous or overlapping influences from other variables. Full descriptions of the independent variables entered into the equations are outlined in Table 12.1. Although years of education and occupation are relatively highly correlated, both measures are included in the analysis as it allows an estimation of the more dominant of the two measures. Where the independent measures are statistically significant it is in the direction predicted (Table 12.4). It appears that age and gender have no significant effect on attitudes towards immigrants. Thus, there is no support for Hypothesis 1, that increasing age will tend to be associated with more negative attitudes towards immigrants. However, years of education are associated with positive attitudes towards allowing poor people in from non-EU countries (Equation 1). Although education has no effect in the areas of labour market skills and socio-cultural criteria, respondents with additional years of education are more likely to believe that immigrants enrich the country's culture, and have a positive economic impact (Equations 4, 5 and 6). This provides considerable support for Hypothesis 2, that higher levels of education will tend to be associated with more positive attitudes towards immigrants. Similarly, there is substantial support for Hypothesis 3, that employees in higher-level occupations will tend to have more positive attitudes towards immigrants than those in lower-level occupations. The former are more likely to

**Table 12.4: Determinants of Workers' Attitudes to Immigrants**  
(Ordinary least squares regression, method: enter)

	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>
	<b>Allow poor in from non-EU</b>	<b>Labour Market Skills</b>	<b>Socio- Cultural Criteria</b>	<b>Cultural Impact</b>	<b>Economic Impact</b>	<b>Economic Input</b>
Age	-0.01	0.04	-0.08	-0.07	-0.05	-0.05
Gender	0.01	0.03	0.00	-0.01	-0.03	0.07
Years of education	-0.11*	-0.00	0.00	0.2***	0.1*	0.18***
Occupational level	0.1*	0.09	0.15***	-0.11**	-0.19***	-0.11**
Political orientation	0.03	0.13**	0.13***	-0.03	-0.05	-0.06
Union membership	-0.04	-0.07	0.02	-0.00	-0.03	0.00
Political activism	-0.06	-0.18***	-0.16***	0.14***	0.07	0.11**
Citizenship measure	-0.12**	0.06	0.08	0.17***	0.1**	0.08*
<b>F score</b>	6***	7***	9***	16***	9***	11***
<b>adjusted R<sup>2</sup></b>	0.05	0.06	0.08	0.14	0.08	0.1
<b>N</b>	658	648	645	626	628	631
<b>DW</b>	2.0	1.8	1.9	1.9	1.9	2.0

\* < 0.05; \*\* < 0.01; \*\*\* < 0.001

agree with allowing poor people into the country, to believe that socio-cultural criteria are unimportant and that culture and the economy is enriched by immigrants.

There is little support for Hypothesis 4, that a political left orientation will be associated with more benign attitudes towards immigrants than a right orientation. Although respondents with a left political orientation are more likely to report that labour market skills and socio-cultural criteria are unimportant than respondents on the right (Equations 2 and 3), there is no significant difference regarding the impact of immigrants on culture and the economy. Hypothesis 5, that membership of a trade union is likely to be associated with more positive attitudes towards immigrants, receives no support on any of the dependent variables. There is considerable support for Hypothesis 6, that higher levels of political activism are significantly associated with more positive attitudes towards immigrants. Political activism is significantly associated with four of the dependent measures: labour market skills, socio-cultural criteria, cultural impact and one of the economic measures. Hypothesis 7, that higher scores on the citizenship measure are likely to be associated with more positive attitudes towards immigrants, is also supported but the coefficients are relatively weaker than in the case of political activism.

Although the results in Table 12.4 are generally as predicted (apart from Hypotheses 1 and 5), two qualifications need to be acknowledged. Firstly, many of the standardised beta coefficients, though statistically significant, are relatively weak. A second qualification relates to the actual variance (the adjusted  $R^2$ ) explained in the dependent measures. The variance in the dependent measures accounted for in the equations ranges from 5 per cent to 14 per cent. Obviously, there are potential factors outside the scope of the survey research used here that may explain more of the variance. This raises interesting questions concerning the determinants of attitudes towards immigrants that require further, perhaps more nuanced, qualitative rather than quantitative research. In any case, there remains much to be explained about the sources and reasons for the variance in the attitudes of working people towards immigrants.

## CONCLUSION

One of the key elements of EU immigration policy is labour market integration. European employment guidelines for 2003 have been revised to require Member States to implement measures and set targets to ensure the integration into the labour market of migrant workers and reduce the unemployment gap with nationals (ILO, 2004). Yet, it appears that negative attitudes among people at work in Ireland towards immigrants are particularly pronounced in the areas of culture and the economy. A sizeable minority of respondents believed that immigrants undermine their country's culture, have a negative impact on wages and the poor and a negative impact on jobs and the economy. Given the consistent upward trend in the number of immigrants in Ireland and Europe generally such negative attitudes are a major cause for concern. Failure to address the causes or sources of these attitudes has the potential to revive nascent extreme nationalist ideologies. Yet, there is little evidence to indicate that negative attitudes toward immigrants are declining. Indeed, Eurobarometer surveys showed that in 1988 30 per cent of respondents believed there were too many foreigners in their country; by 1997 this had increased to 41 per cent (Lahav, 2004: 86). More generally, it appears that throughout the EU policy towards immigrants from outside Europe is becoming more restrictive and protectionist (Lahav, 2004).

The success of the various EU initiatives outlined in the Lisbon strategy on integrating third-country nationals (immigrants from outside the EU) into the labour market will depend to a significant extent on attitudinal change in a significant proportion of native Irish workers. Regarding the determinants of employee attitudes toward immigrants, previous studies have also found that background characteristics such as age and sex have a weak impact on attitudes towards immigration (Chandler, 2001). The variables with the strongest explanatory effect in this study are occupational level, years of education and being politically active. Though weaker, political orientation and the citizenship measure were also significant. Previous studies have indicated that employment plays an important role in creating active citizens (Schur, 2003). Thus, the determinants of social attitudes are an important consideration for governments in the development of successful policies aimed at the social and economic integration of immigrants. In addition, given



the positive attitudes registered by these particular respondent groups, the participation of sectors such as education and business in policy development could assist in developing a coherent policy on immigration at national and European level.

The integration of immigrants remains a key challenge for Irish and EU policymakers. From an economic perspective it is clear that EU member states cannot meet future skills and labour needs with the indigenous population alone. Yet, it appears that a substantial number of Irish employees in the workplace continue to express reservations regarding the adverse cultural and economic impact of immigrants.

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- 1 There has in recent years been an increasing emphasis on easing restrictions to allow inflows of skilled workers in areas such as Information Technology. For example, in August 2001 Germany introduced the 'Green Card' initiative to permit a quota of up to 10,000 specialists from non-EU countries to be employed in Information Technology for five years (International Organisation for Migration, 2002). This has however raised fears of a possible 'brain drain' in less developed countries, with the source countries losing their most qualified workers.
  - 2 Norwegian Social Science Data Services (NSD) as the data archive and distributor of the ESS data.
  - 3 Jowell, R. and the Central Coordinating Team (2003) *European Social Survey 2002/2003: Technical Report*, London: Centre for Comparative Social Surveys, City University.

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# Book Review

*Ideas at Work: Essays in Honour of Geoffrey  
MacKechnie*

edited by Frank Litton, Tony Farmar and  
Frank Scott-Lennon (2006) Dublin: A. & A. Farmar



S T E P H E N   C U M M I N G S \*

Many outside of Ireland would not have heard of Geoffrey MacKechnie. And, as management writing becomes more global and reading lists populated with articles and advice from elsewhere, perhaps fewer students and managers in Ireland may come into contact with him in the future. So, in an age of globalisation do ‘local lights’ like MacKechnie still matter?

Over the past decade globalisation has greatly affected the world of management scholarship. It is becoming almost universally accepted that schools of business everywhere should strive to be accredited by global bodies imparting best practice; that management academics must be subjected to ‘objective’ standards that rate publication in the best American journals and conferences more highly than involvement in local or regional fora and communities; and that by their faculty increasing performance in this manner management schools should seek to move up the ‘global rankings’.

This globalisation has its advantages. But at the same time it has led to a greater ‘sameness’ with regard to what business schools offer and the approach they take to teaching and research. It is what

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we might call a 'phase 1' globalisation, of the kind that Theodore Levitt famously described, where local difference is put on the back-burner in the name of cost-reduction, greater efficiency, accountability and certainty.

However, markets and business strategy being as they are has led to a second phase of globalisation. What we might call a post-modern phase where, paradoxically, local embedded difference, and how this might manifest itself in differentiating a product or service, becomes a key component in competing globally.

If management scholarship is linked to the practice of management, then a time where serious thought is given to what particular regional or national approaches to management scholarship might be, and how they might help the businesses in their community compete globally, should be approaching. This is why the Geoffrey MacKechnies of this world may matter a great deal. Their work was embedded in a world where serving and being led by the local management community was a key component of being a management academic. So, who was Geoffrey MacKechnie? What does his work suggest his particular approach to be? And what legacy might this approach provide?

Frank Litton and Frank Scott-Lennon's introductions to *Ideas at Work: Essays in Honour of Geoffrey MacKechnie* impart a great sense of the affection in which MacKechnie was held. Dr Geoffrey MacKechnie taught organisation theory for over thirty years in Trinity College Dublin, and many, if not most, of Ireland's senior managers have been influenced by his teaching, directly or indirectly. He loved scholarship and he respected management practitioners. He enjoyed abstractions and what is nicely referred to throughout the book as the academic privilege of engaging in 'long thought', especially if the results of such long thinking were then communicated in a meaningful way that helped people do things more effectively. He liked working with others to solve problems and change things that needed change, be they in the public sector or business arenas. He always had time to debate any issue with any student or practitioner. He never saw this as a burden; he thrived on it. He believed in a community. He was a gentleman. He respected Ideas and he respected Work.

These characteristics are born out in MacKechnie's writing, and a clever piece of editing places one of MacKechnie's works as the



opening chapter proper. The first thing that strikes is just how unusual his writing is in a modern global context. Here is an intelligent synthesis of complex ideas (the evolution of contingency theory) written in a way that informs an academic audience (about things they probably knew something of but had not really considered in the round) *and* in a way that is useful for students and practitioners.

To use the language of competitive advantage, this chapter nicely conveys MacKechnie's 'differences that could make a difference' in outlining, or beginning a debate about, what a particularly Irish approach to management scholarship might be.

MacKechnie's first point of difference is that he does not suffer from the separation of the academic (who writes for other academics) from the practice of management, which has emerged in recent times, in larger countries in particular. This separation has been to the detriment of management in general. It has made it easier for management academics to disappear into abstractions, and to become spectators rather than members of the management community. And it has left managers seeking good thinking with only the various forms of the 'business press', where the object is to quickly inform and sell rather than long-thinking analysis and debate, to draw upon.

Nor did MacKechnie separate things out into neat academic subdivisions; he defined his area as 'organisation theory' because he believed it to encompass all aspects of management. For him it was meaningless to view the key dimensions of management separately. I wonder what he would have made of a recent innovation in management academe where a new sub-sub discipline has been spun out of strategic management. 'Strategy as practice' takes the view that strategy is what people do rather than the plans they make or the rationality that is ascribed to decision-making, and it examines what people do. I think that MacKechnie would have never believed strategy to be removed from 'what people do' in the first place, and that he would have seen little value in further separating this out from the things that have sprung from this doing. MacKechnie was a systems thinker before it became fashionable to break things into parts and before claiming to be a superior thinker by joining them back together again.

Thirdly, MacKechnie's writing is both wise and simple. MacKechnie quickly establishes a sound and simple basis that the student or manager can then confidently build upon. One senses he is able to do this because he has devoted a great deal of time to thinking about how he could make things easier to synthesize, to connect up and to convey. His summation that management all boils down to the interplay of 'strategy, structure and culture' is one such example. From here one could design a course, develop a new training programme or begin to discuss how a firm should approach a change process. It is exceedingly well thought through, but very simple.

Associated with this is MacKechnie's dry wit. This is particularly unique in management studies, where things have become far more arid and far less witty in recent times. A nice example of the MacKechnie wit is his turn of phrase about strategy. Strategy, he said, was about finding a 'racket'. One suspects this has meant that many thousands of Irish managers have a clear and useful (and distinctive) picture of what strategy about. This is no mean feat, particularly in contrast to many MBA students today who may learn the intricacies of a dozen different schools of thought about strategy, but be stumped by trying to explain what strategy actually means to their future co-workers.

Perhaps the most remarkable thing about MacKechnie's chapter, in the current climate, is that it is 'ego-free'. MacKechnie cleverly and patiently works through and synthesizes the ideas of the leading contingency theorists and places them in evolutionary context. He then seeks to unify this thinking in ways that will be easier to understand and apply. There is no mention of his own work, no suggestion that his complex synthesizing—simplifying tables should be seen as 'MacKechnie's Grid' or some such. Not even a reference to other works that he has produced. His aim was nobler (but far less likely to ring the right bells in terms of the modern measures of academic prowess, citation indexes and the like): to think in order to help others in the community who are busy doing other things. MacKechnie's work is more than self-effacing; his humility and community-mindedness means that the self does not even come into it. It is, if you like, 'pre-Thatcherite'.

Which leads to a sixth aspect that characterises MacKechnie's work: it is critical, but with a small 'c'. In contrast to many of a new

stream of academics who like to travel under the banner of ‘Critical Management Studies’ and see themselves as other than conventional management scholars, MacKechnie saw *all* academic management thinking as necessarily critical. Long thought should be about a critique that either confirms and consolidates, or finds fault and improves upon, the way things are. He loved ideas too much not to be critical of sloppy or underdone thinking, but he loved practice, or work, too much not to seek to replace what he called into question with better ways of doing things. Unlike many more abstract or specialised thinkers he was also mindful of the political forces that played upon and within organisations. Consequently, he seemed aware of the need to cajole rather than reprimand. Given that it is better to bring people with you, there is little value to be gained by starting the process by shooting them down. The difference with his critical thinking is that it sought to critique in order to construct. MacKechnie saw little value in being critical or deconstructing in and of itself.

A love of connecting good theory to practice; integrating or cutting across artificial academic and functional distinctions; a wise simplicity; a dry but human wit; a humility that put a broader management community, local managers and students before the academic self; and being critical in order to be constructive: this was MacKechnie’s racket as a management scholar.

This racket, which is now MacKechnie’s legacy, is honoured by the remaining chapters in the book, drawn from a range of authors who worked and studied with MacKechnie.

Louis Brennan’s examination of the deconstruction of conventional supply chains (in favour of outsourcing and supply partnering), and more recent evidence that suggests the reconstruction of supply chains, is clearly influenced by MacKechnie’s long-thinking and interconnected view of strategy, structure and culture.

Sean Brophy’s essay explores further the notion that good theory can be a great help to good managers, by examining how PCP (Personal Construct Psychology), with its focus on both the uniqueness of the way different people see the world *and* the possibility for sociality and indeed communality, may be effectively implemented.

Gemma Donnelly-Cox’s long thinking finds fault with two popular theoretical approaches: transaction cost economics and population.

As an advance on these, she advocates a clearer investigation into open systems theories. One clear MacKechnieism here is the desire to simplify, categorise and table the different approaches so that their relative merits can be more easily understood, and so that the most appropriate approach, given the contingent nature of a situation, may be selected and applied.

The 'racket' of Irish publishing is the subject of Tony Farmar's contribution. Books provide unique vessels for capturing long thought. But is there a future for the book? And, more particularly, a future for the Irish book? Farmar argues forcefully that there is and outlines the reasons why (with a particular emphasis on culture), before identifying a strategy and structure for how.

Mary Keating's article critiques, and places in context, particular perceptions of leadership in Ireland, finding, among many other points of interest, that this country is particular in still lauding romantic historical figures and 'men of destiny' rather than 'men of achievement'.

William Kingston's lucid essay is a great piece on how government intervention in markets kills off local innovation and entrepreneurialism. In particular, it traces the last one hundred years of Irish economic history to show how successive misjudgements and compromises, historical quirks and ministerial perks have created a belief in the State's 'superior wisdom' that has held back markets, innovation and organic growth in Ireland.

The state sector is investigated further in Frank Litton's chapter. Litton argues that public sector modernisation is generally carried out without taking account of the broader context (particularly deficient in an age where the twentieth century's nation state is being surpassed by the market state of the twenty-first century) and looks at how the widening gap between old civil service thinking and the emerging reality might be bridged.

Andrew McLaughlin's piece explores the connections between MacKechnie and a scholar whom he greatly admired: Henry Mintzberg. Not only is this a clever reflection on MacKechnie, but also an informative synthesis of Mintzberg's thinking, and thus a useful guide to some of the most inventive thinking in management over the past two decades. It also re-emphasises the often-forgotten

importance in our profession of integration and sees Ireland as uniquely placed to deliver on Mintzberg and MacKechnie's views on executive education – if the right choices are made.

'A Present Quarrel', by John Maguire, begins with recollections of MacKechnie as a truly open-minded man who 'delighted in the pure play and creative crash of ideas'. This was borne out in the programmes that MacKechnie helped create at Trinity and to which Maguire contributed. Maguire uses the occasion to then re-present an article on mining rights in order to highlight important questions that have been, somewhat prematurely in his view, sidelined in recent political debates. Its view from the left nicely counterbalances some of the early chapters from the right and illustrates the broad church that MacKechnie inspired.

J.A. Murray's contribution springs directly from discussions between the author and MacKechnie. In addition to linking many of the themes in the book, and showing how the community of scholars in and around Trinity drew inspiration from and were drawn together by MacKechnie's enthusiasm for ideas, this chapter presents a set of new, quite simple but very clever typologies for thinking though different contingent organisational forms by crossing the traditional governance modes – markets and hierarchies – with different categorisations of the newer network organisational forms.

Finally, Mary Lee Rhodes' chapter examines what we (scholars and practitioners) might learn by thinking of organisations as 'complex adaptive systems', with a particular emphasis on public sector management using Ireland's 'housing system' as an interesting illustrative case.

These contributing chapters speak volumes of the impact that Geoffrey MacKechnie had on many of today's leading Irish management thinkers. The result is a diverse collection of essays that will be of interest and of use to anybody involved in management scholarship or concerned with managing better today.

But this book could do something more. It illustrates how reflecting on MacKechnie's 'racket' could stimulate a broader discussion about what might constitute a particularly Irish approach to management scholarship for the future. Determining what the culture of this approach might be, how it should be structured and what

strategy would best support its advancement would truly involve some collective long thinking from Ireland's management community: scholars, managers and government. Such a debate may not result in neat answers, but to paraphrase the last sentences of John Murray's chapter, one thing is for certain, we would be wiser as a result of any debate that involved Geoffrey MacKechnie.