Human Resource Management in Europe

Evidence of Convergence?

Edited by
Chris Brewster, Wolfgang Mayrhofer
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Human Resource Management in Europe: Evidence of Convergence?

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Preface

The increasing number of cross-border alliances and mergers both within Europe and between Europe and other parts of the world have made it imperative for students of management to have a thorough understanding of the European context for human resource management (HRM). This is partly reflected in the increasing attention being paid by MBA programmes in Europe to cross-border management issues. Likewise, e.g. the Community of European Management Schools' (CEMs) exchange programme and joint masters' programmes are further testimony to the growing emphasis leading European business schools are placing on broadening the outlook of their students. The aim is to develop graduates who are "fluent" in the many various environments, approaches and practices that exist across Europe for managing human resources.

Our understanding of these approaches and practices is constrained by the limitations of the available knowledge. The chief of these, and the most common, relates to the lack of access to strictly comparable data encompassing a broad range of countries. However good the conceptual discussion of the issues involved in European HRM and however comprehensive the country descriptions, there is rarely any basis for making genuine cross-country comparisons. A related limitation is that, because of this, changes to HRM in Europe are often imputed to be taking place purely on the basis of anecdotal evidence. A final flaw is that many texts lack the necessary native expertise for each of the European countries they are dealing with. Ethnocentricity is the invariable result.

The text offered here aims to redress these shortcomings. First, it employs comprehensive comparable representative data collected longitudinally during the last decade (the "Cranet" surveys: see Appendix 1 for details). It is thus able to address the typical organisation rather than just the contentiously named "leading-edge" companies or through stories based on small numbers of examples. It also draws directly on the expertise of leading HRM scholars within each of the countries covered by the text. Each chapter is written by leading scholars of HRM in those countries. In addition, our text presents entirely fresh analyses of HRM in Europe, based on new and hitherto unpublished data. Such an analysis is critically important for students and researchers – and, we would argue, also for practitioners – throughout Europe and wherever else in the world people want to understand European HRM.

The approach is to explore the issues involved; to create comparisons between, mainly, pairs of countries using the same sets of tables from the same data; and to draw conclusions.

Content

The book is, consequently, divided into three parts. In Part 1 we introduce the concepts and theoretical issues associated with the convergence and divergence thesis in HRM. Are there trends in HRM which indicate that countries are moving close together in the way they manage their people? Assuming that there might be such a movement, is it towards a US model or can we see the development of a separate European model? Or is it the case that each country remains distinct in their HRM? These issues and their disparate underlying logics will be explored: they include HRM policies and practices in recruitment, the use of performance appraisals, the use of reward systems, flexibility in working patterns, training and development, employee involvement and industrial relations and the adaptations made by multinational companies in relation to different national environments. We go beyond simplistic analyses to argue that convergence may take place nationally, within regional blocs or across Europe as a whole.

In Part 2, trends in relation to these issues will be discussed on the basis of in-depth comparisons between individual countries. These chapters are authored by experts from the relevant countries: they provide an insider's view. Each comparison is prefaced by brief country descriptions outlining their respective institutional features, in order to set the discussion of HRM in those countries into context. We have encouraged our country experts in writing the chapters to develop any areas that they felt appropriate and to write in their own style. We hope this comes through in the text. However, the chapters are also written to a consistent format, drawing on the same comparative data source, and using the same major set of charts and tables, in the same order. Some authors have added in other comparative countries or included other data, but each chapter has these same major sets of data. Readers will thus be able to use the book to draw their own conclusions across topic areas (e.g. comparisons of recruitment methods in all countries): a useful teaching and learning device. Results are presented in a readily accessible manner – in the form of bar charts or tables. An additional feature is that each chapter ends with relevant practical example of "HRM in Action" (a case study, an interview or a press cutting, as the authors felt appropriate) and some learning questions aimed to enhance the value of the chapter in teaching and learning.

Part 3 starts the process of summarising the main findings and draws conclusions on the issue of convergence and divergence firstly on a regional basis and at the European level.

To address these issues this book uses a unique and powerful data source. Over more than a decade the Cranet-E survey has been collecting comparative data from many different countries. The data has been collected at roughly three yearly intervals, on organisational level policies and practices. Currently, that data set includes over 20,000 organisational responses: the 1999/2000 round of the survey, added almost 7000 further responses, making this the largest longitudinal and comparative survey of HRM in the world. Full details are provided in Appendix 1.

Using the book

Our previous work based on this data (see Appendix 2) has yielded many attempts to understand the comparative nature of HRM – an approach that we have been flattered to see inspire authors in other parts of the world too (Zanko, M. (2002) *Handbook of HRM Policies and Practices in Asia-Pacific Economies*. Cheltenham: Edward Elgar; Zanko, M. and Ngui, M., eds. (2003) *Handbook of Human Resource Management Policies\ and Practices in Asia-Pacific Economies*, Vol. 2. Cheltenham: Edward Elgar). Most of these have been explicitly and deliberately research texts. Although this book also presents, for the first time, unique information, this text has been written so that it can be used on relevant courses. We are sure that researchers and practitioners reading the text will find much of benefit here, but our focus has been on the needs of students and teachers on such programmes.

The introductory chapter (Chapter 1) introduces students to the notions of the convergence and divergence of HRM in Europe and the final chapter (Chapter 13) attempts to draw together the evidence in the chapters to come to some conclusions about this debate. These chapters can be used to explore these issues in a variety of ways, either in combination with the later chapters or as stand-alones (some of the potential learning questions are given at the end of each chapter).

The central comparative chapters are also capable of different uses. Students might be asked, or might ask themselves, whether the explanations for similarities and differences between the countries in each chapter are convincing, or whether there are others. They might want to explore how different combinations of practices fit or are in tension with the context. They might want to consider the "cultural" and "institutional" explanations for the similarities and differences in HRM.

The most obvious use of the book, however, is to take issues and explore them across the countries. Thus, students could ask themselves what can be learnt from comparing through the chapters the data on, for example, training and development. Because each chapter uses the same set of data, this not only provides a consistent framework, but allows such comparisons to be made easily. Students could ask themselves, or be asked, whether the context is more or less important than the Europe-wide pressures; and whether, how and why they would agree or disagree with the conclusions drawn in Chapter 13.

As editors, we are convinced that the material presented here lends itself to a dynamic and positive learning experience. We have used it that way in our own teaching. We are convinced that seeing the ways that policies and practices in HRM manifest themselves in their different national contexts is both a fascinating and an important opportunity. We hope that students and teachers will find the text to be as rich, as valuable and as meaningful as we have.

Chris Brewster
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Part 1

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Human Resource Management: A Universal Concept?*

Paul Gooderham, Michael Morley, Chris Brewster and Wolfgang Mayrhofer

LEARNING OBJECTIVES

By the end of this chapter readers should be able to:

- Outline the origins of human resource management (HRM) in the US and some of the implications of that origin.
- Explain the concepts of universal and contextual HRM.
- Distinguish between hard and soft variants of HRM.
- Outline the differences between the convergence and divergence theories of HRM and the different models that have been mooted.
- Understand aspects of the European context for HRM.
- Understand the structure of the remainder of the book and how the book can be most effectively used.

INTRODUCTION

How are, and how should, people be managed? This is one of the most fundamental questions in the field of business management. After all, effective people management is an important, if not the most important, determinant of organisational success and it has been argued that it is one of the factors which distinguish the high-performing organisation. However, there is much complexity facing those responsible for people management. This complexity transcends both the strategic and the operational and includes key questions such as: What vision do we have for people management in the organisation? At what level should the specialist human resource (HR) function operate? How does HR contribute to organisational performance? How do we recruit, select, develop and reward for best fit? These issues and all their consequences for the organisation are the substance of "human resource management" (HRM) which may be interpreted in specific or general terms, referring to the professional specialist role performed by the HR manager or more generally to any individual who has responsibility for people management issues. Whatever the scope of our focus, management theorists have long argued that if one could develop people management systems that could be proved to be effective, they could be applied universally. In other words there is a belief that there is "a right way" of managing people that can be implemented by management consultants throughout the world.

* Many of the arguments presented here are derived from two key sources, namely: Gooderham, P. and Brewster, C. (2003) Convergence, stasis or divergence? Personnel management in Europe. *BETA Scandinavian Journal of Business Research*, 17(1): 6–18; Gooderham, P. and Nordhaug, O. (2003) Chapter 5: Transfer of US HRM to Europe. In: *International Management: Cross Boundary Challenges*. Oxford: Blackwell.

This chapter traces briefly the origins of HRM and explores some of the basic questions about the universality of HRM. It also examines the context for HRM in Europe as a prelude to exploring the rest of the book.

HRM: THE US ORIGINS OF THE FIELD

Scientific management

In the early part of the 1900s, Taylor came to the conclusion that American industry was woefully inefficient because of the absence of any systematic approach to management. He observed the lack of a clear structure of command, resulting in confusion in the assignment of tasks combined with a general lack of skills in the workforce. Based on his work at the Bethlehem Steel Company (1900–1911), Taylor encouraged employers to adopt a more systematic approach to job design, employment and payment systems (Taylor, 1947). His experience at Bethlehem led him to develop four main principles of management which became the cornerstones of his subsequent work, namely: the development of a true science of work, the scientific selection and development of workers, the co-operation of management and workers in studying the science of work, and the division of work between management and the workforce. Described as "scientific management", it was designed to enhance the efficient use of manpower. The task of management was to divide the work process into discrete tasks and, on the basis of time and motion studies, to analyse each task in terms of its skill and time requirements. The individuals being managed were to be assigned tasks and given the training required for the effective and efficient performance of those tasks and provided with a physical environment designed to maximise performance. Teamwork, or any form of co-worker consultation, was regarded by Taylor as unnecessary and even undesirable. Problems encountered by employees in the course of performing their tasks were to be immediately reported to supervisors who functioned as "troubleshooters". The supervisors were also responsible for measuring individual task performance. Task performance over and above a prescribed level would trigger individual bonus payments.

It is difficult to gauge precisely the impact of scientific management but it would appear that derivatives of it continued to exert a powerful influence on American managers well into the 1980s – until the rise of HRM, in fact. From a HR perspective, the spread of scientific management placed greater weight on the careful selection and systematic training of employees. Associated with this trend was increased attention to job design, working conditions and payment systems. However, beyond the promotion of efficiency, scientific management has also been seen as the source of many of the problems associated with industrial work, such as high levels of labour turnover and absenteeism, and low levels of employee motivation. Indeed, the emergence and growth of alternative schools of thought can be traced to criticisms of or reactions to scientific management and to suggestions that improvements in organisational effectiveness could be achieved through greater attention to worker needs and, particularly, by providing workers with more challenging jobs and an improved work environment.

For our purposes here, HRM can trace its genesis to three major reactions to scientific management. The first of these surfaced as early as the late 1920s, forming the basis of what is popularly referred to as the human relations or behavioural perspective. The second was human capital theory and the third reaction centred on a consultancy text *In Search of Excellence*. Let us briefly examine each in turn.

The human relations perspective

In contrast to scientific management, the human relations movement focused on the human side of management and sought to provide insights into how social and psychological factors could be important in understanding and influencing workplace performance. Elton Mayo, a Harvard professor and a keen disciple of scientific management, along with his colleague, Fritz Roethlisberger, was called upon by the giant utility company General Electric (GE) to investigate the causes of chronic low productivity at its Hawthorne works. Commonly known as the Hawthorne Studies, and chronicled by Roethlisberger and Dickson (1939) in *Management and the Worker*, these investigations were to prove hugely significant in the evolution of management thought (Tiernan et al., 2001). Mayo assumed that the root problem lay in the physical context and that it needed fine-tuning. He divided the workers into two groups, an experimental and a control group. After explaining his general intentions to the experimental group in an amiable and respectful manner, he began systematically to improve their lighting, noting its effect on productivity. The resultant productivity improvement, combined with the corresponding lack of change in the control group, appeared to confirm the validity of scientific management. However, Mayo's decision to provide further verification by, after informing the experimental group, *decreasing* the strength of the lighting caused him to question the scientific management paradigm. This was because instead of the productivity of the experimental group declining, as had been confidently expected, it continued to rise.

Mayo concluded that what was happening was more complex than had been understood hitherto. Two effects in particular seemed to him significant. First, the fact that they were the subject of attention was a new experience for most of these workers. Previously, they had more or less been treated as living machines. Employees enjoyed the attention that was paid to them and worked more effectively as a result. Second, despite the intentions of the management at GE, employees had formed informal groups that exerted a powerful independent influence on individuals' performance. Mayo surmised that individuals have needs over and above the purely material, i.e. they have social needs, or a need to belong. Not only had scientific management failed to take these needs into account, it had attempted to suppress them. Moreover, it had also failed to recognise that groups that are consulted and informed can generate a commitment that can be harnessed to the aims of the firm.

It is reasonable to say, however, that America's managers largely ignored Mayo's conclusions. They continued to be wedded to the tenets of scientific management. In later years the human relations perspective enjoyed a revival, not least in works by Maslow (1943) and McGregor (1960). Maslow emphasised needs over and above the purely materialistic, arguing that work must be designed in such a way that it provides opportunities for interest and personal growth. This was seen to be important on the basis of the existence of a series of needs ranging from instinctive needs for sustenance and security to higher-order needs such as self-esteem needs and the need for self-actualisation. Lower-order or fundamental needs, according to this theory, must be satisfied before higher-order needs can be activated and dealt with.

McGregor (1960) in his seminal contribution *The Human Side of Enterprise* focused on managerial assumptions about workers and the implications for managerial behaviour. He attacked the underlying assumptions of many American managers, which he referred to as "Theory X". Core assumptions were, according to McGregor, that employees would never seek, let alone exercise, responsibility and were to be treated accordingly. McGregor argued that such assumptions were self-defeating and should be replaced by an assumption (Theory Y) that employees, given the right conditions, were more than willing to play a responsible role. However, although the ideas of this new wave of human relations theorists enjoyed some measure of academic influence, their impact on the hearts and minds of American managers was limited.

Human capital theory

During the 1970s economists began to turn their attention to the significance of HRs for productivity. Economic theory had traditionally regarded labour as a cost rather than an asset. Human capital theory challenged this view by pointing to the rapid post-war recovery of countries like Japan and Germany. Despite having had much of their physical capital stock destroyed during World War II, these countries recovered much more quickly than had been predicted by economists. Schultz (1971) argued that this could only be ascribed to the quality of these countries' human capital. Moreover, it became apparent in international comparisons that these two countries were, when one controlled for the effects of traditional assets such as technology and hours worked, out-performing their competitors. It was argued that such differences stemmed first and foremost from the quality of the human capital at these countries' disposal. Human capital economists dubbed the source of these differences "the black box" of economics because of the difficulties involved in assigning values to human capital. Indeed, even today these difficulties have not been overcome although efforts are still being made to do so, not least by leading consultancy firms in conjunction with valuing the assets of enterprises (Johanson and Larsen, 2000). In particular there is some conceptual confusion as to what constitutes human capital. The term "human capital" can be construed as an umbrella term encompassing competencies, values, attitudes, capabilities, information, knowledge and organisational processes that can be utilised to generate wealth. However, as Garrick and

Clegg (2000) suggest, human capital capacities are only of value when integrated with financial objectives.

Given the imprecision of the concept of human capital it has, so far, shared the same fate as that of the human relations movement, namely to be consigned to an academic existence whose impact on managerial thinking was marginal.

In search of excellence

It was not until the early 1980s that the scientific management approach to management was seriously questioned by US management practitioners. In the light of chronic economic difficulties in the US, especially in comparison with the success of Japan, they experienced a severe crisis of confidence. Some 10 years after the human capital critique, it became received wisdom that Japanese firms were not only out-competing their American counterparts in terms of price but, more importantly, they were also surpassing them in terms of quality. This crisis of confidence finally opened the door to alternative approaches to management, many of which drew heavily on the ideas contained in the human relations perspective and human capital theory. One of the most influential responses to this threat came from two McKinsey consultants, Peters and Waterman, who attempted to discover the sources of excellence in those American firms that remained globally competitive. In their examination of these highly successful organisations, they unearthed eight cultural values (see box) that were viewed as significant.

Their findings suggested that in order to achieve quality, the structures of scientific management were considerably less important than the presence of shared values and a shared vision among employees at all levels. It was these properties that created the foundation for a culture of employee commitment to the overarching aims of their firms which Peters and Waterman concluded was essential if quality demands were to be met consistently. Tiernan et al. (2002), among others, suggest that the limitations of the approach here are associated with it being an unscientific approach, that organisational cultures are not easily unearthed in this manner, and that several of the organisations identified and investigated in the research have subsequently performed poorly.

Human resource management

The issues crystallised around questions about how managers could establish links between the strategic aims of the organisation and the kinds of employees they had and the attitudes and activities of those employees. The outcome of this dialogue was to propel personnel administration away from its position on the outer fringes of management. Traditionally it had been "partly a file clerk's job, partly a housekeeping job, partly a social worker's job and partly fire-fighting to head off union trouble …" (Drucker, 1989: p. 269).

CHARACTERISTICS OF THE EXCELLENT ORGANISATION

1. Bias for action: managers are expected to make decisions even if all the facts are not available.
2. Stay close to the customer: customers should be valued over everything else.
3. Encourage autonomy and entrepreneurship: the organisation is broken into small, more manageable parts and these are encouraged to be independent, creative and risk-taking.
4. Encourage productivity through people: people are the organisation's most important asset and the organisation must let them flourish.
5. Hands-on management: managers stay in touch with business activities by wandering around the organisation and not managing from behind closed doors.
6. Stick to the knitting: reluctance to engage in business activities outside of the organisation's core expertise.
7. Simple form, lean staff: few administrative and hierarchical layers and small corporate staff.
8. Simultaneously loosely and tightly organised: tightly organised in that all organisational members understand and believe in the organisation's values. At the same time, loosely organised in that the organisation has fewer administrative overheads, fewer staff members and fewer rules and procedures.

Now it was to begin to occupy a very much more central position: personnel administration was reinvented as HRM, a move which in academic circles has been characterised by many ideological debates, while in practice it has been seen as giving ongoing recognition and newfound expression to the complexity of the task that faces those who have responsibility for "people matters" (Monks, 1996).

The theoretical approaches to HRM that emerged as a consequence of the search to provide answers as to how to achieve the strategic deployment of a highly committed and capable workforce have been divided by Storey (1992) into "hard" and "soft". This is, conceptually, a useful categorisation, even if, in practice, the two approaches are not necessarily discrete. That is, firms are rarely wedded exclusively to one or the other and often use both, sometimes simultaneously. With that caveat in mind, let us briefly review these two approaches.

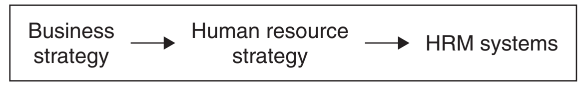

Figure 1.1 Fombrun et al.'s strategic approach to HRM

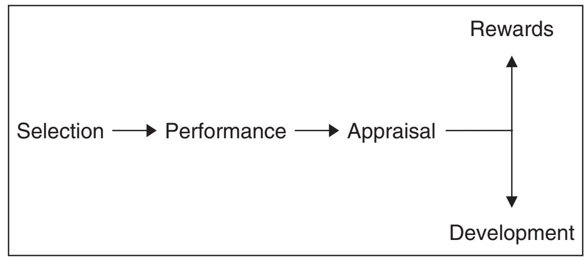

Figure 1.2 The Michigan model of HRM (Reproduced from *Strategic Human Resource Management* by Fombrun, C.J., Tichy, N. and Devanna, M.A. Copyright © 1984. Reprinted with permission of John Wiley and Sons, Inc.)

"Hard" HRM

In 1984, Fombrun et al. launched a model, the "Michigan" model of HRM, which emphasised that organisational effectiveness depends on achieving a tight fit between HR strategy and the business strategy of the firm. In short, this school was advocating increased strategic consideration of HRM on the basis that only when this has been achieved can appropriate HRM systems be developed. Gunnigle et al. (2002) suggest that because its focus is overtly managerial, encouraging employers to employ the HR policies that will yield the best returns in terms of organisational performance, it has tended to become associated with the concept of "hard" HRM. Figure 1.1 summarises the thinking behind the model.

Their core recommendation is that the business strategy should be employed to define and determine the types of employee performance required. Once performance has been specified, four systems that ensure its realisation must be put in place (see Figure 1.2).

The first of these is a system for personnel selection, i.e. a system that ensures the deployment of individuals with the appropriate aptitudes, knowledge and experience. Second, there should be an appraisal system that enables the firm on a regular basis to assess whether performance is satisfactory. Third, there should be a system of rewards that distinguishes between different levels of performance. Finally, they recommended that a development system should be available in those instances where the appraisal system indicates performance shortcomings. Although there are no surveys that have established how widespread the use of this system is as a whole in the US, we do know that the use of rewards differentiation is widespread with as many as 60% of US firms currently using cash-based recognition systems.[1]

On the surface the Michigan model bears a strong resemblance to scientific management. Its HRM systems, selection, performance criteria, appraisal, rewards and development systems, were all to the forefront in Taylor's thinking. Thus, Sparrow and Hiltrop (1994) have characterised the rationale of the Michigan model as managing people like any other resource: "they are to be obtained cheaply, used sparingly and developed and exploited as fully as possible". However, beyond the strategic element, the important difference lies in the much greater devolvement of responsibility and initiative to the individual employee. Rather than the detailed and precise rules of scientific management, the HRM systems of the Michigan model aim at creating a dominant, strategically based value system within which the employee performs.

[1] *Source*: Survey of 700 American companies in 1997 published in *The Economist*, A Survey of Pay, Supplement, p. 12, 8 May 1999.

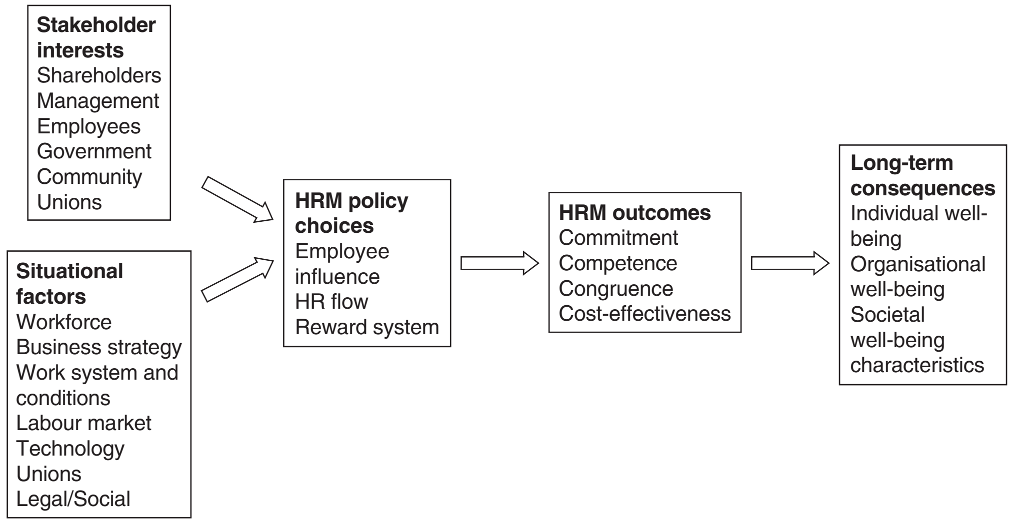

Figure 1.3 The Harvard model of HRM. *Source*: Beer et al., 1984

"Soft" HRM

The "Harvard" model developed by Beer et al. (1984) presents a map of the determinants and consequences of HRM policy choices and argues that systems designed to encourage and develop commitment are crucial to successful HRM (Figure 1.3).

They describe HRM as "involving all management decisions and actions that affect the nature of the relationship between the organisation and its employees – its human resources". Beer regards employee commitment as vitally important regardless of the type of strategy being pursued. This is because employees are not just another resource, they are a critical resource, the one that can create value from the other resources, so that personnel activities must be guided by a management philosophy which seeks to involve them. Furthermore, they are a resource with views and expertise of their own. For Beer et al. the business strategy should never be considered in isolation but always in relation to the employees.

As a consequence, Beer recommends reward systems that aim at tapping into employees' intrinsic motivation coupled to a system of employee relations which delegates authority and responsibility. Typically, to achieve this, considerable effort is expended on creating and recreating mission statements that communicate the business strategy to employees. For example in 1999 Steven A. Ballmer, after 9 months as president of Microsoft, concluded that because of the impact of the Internet Microsoft needed to reinvent itself. One tool he and Bill Gates employed to generate a change of direction was a new mission statement. Out went "a PC on every desk and in every home" and in came the new rallying cry "giving people the power to do anything they want, anywhere they want, and on any device". For Ballmer the point of this so-called Vision Version 2 was that Microsoft needed "to give people a beacon that they could follow when they were having a tough time with prioritisation, leadership, where to go, what hills to take".[2]

Coupled to mission statements are employee communication policies and systems for conducting employee briefings at all levels.

Another typical "soft" HRM initiative has been aimed at creating environments conducive to teamwork. Weinstein and Kochan (1995) point to a transition towards the adoption of a variety of total quality management (TQM) practices including employee problem-solving groups, work teams and job rotation. Indeed, by the early 1990s 64% of US manufacturing firms reported that at least half of their core employees were covered by one or more of these workplace innovations, although relatively few were covered by all of them (Osterman, 1994).

[2] *Source*: *Business Week*, Making Microsoft, p. 48, 17 May 1999.

Note, though, that none of these collaborative techniques were rooted in governance systems that involved any increasing role for the employees' trade unions. On the contrary, as HRM established itself in the US, unions became even more marginalised in an institutional environment characterised by increasing management and shareholder power.

One refinement to the concept of matching the business strategy to HR systems in the Michigan model is found in the work of Schuler and Jackson (1987). Borrowing from the work of Porter, they argued that business strategy could usefully be subdivided into three generic strategies – quality enhancement, innovation and cost leadership. (Again, it is not clear that this conceptual distinction can be found in a pure form in practice.) Once it has been established which of these is to be pursued, the structuring of each of the four HRM systems can easily be specified. Thus, e.g. pursuing a strategy based on innovation as opposed to one based on cost leadership will mean using group criteria rather than individual criteria in order to encourage the exchange of ideas. Likewise, one would seek to develop a rewards system that offers internal equity rather than market-based pay in order to minimise internal competition and to maximise a sense of group membership. Although in recent years the strategic emphasis in HRM has been evident in academic writing, as Luomo (2000: p. 769) notes while it is often said that a company's HRM practices should be aligned with the strategy of the company, and while nobody denies the importance of such a connection, the deeper nature of this relationship receives amazingly scant attention. The concept of strategic HRM refers to the development of a strategic corporate approach to workforce management whereby HRM considerations become integral to strategic decision-making as organisations seek to establish a corporate HR philosophy and strategy which complements their business strategy (Mayrhofer et al., 2000). Referred to as "matching" by Boxall (1992), and often alluding to the messages advanced in the resource-based view of the firm (Barney, 1991), and human capital accumulation theory (Garavan et al., 2001), the alignment of business strategy, organisational configuration and HR policies and practices in order to achieve valuable, more rare, less imitable sources of competitive advantage becomes the core objective. Though complex, it is, as Monks (2001) notes, a literature that is now becoming more established.

It also seems likely that this strategic focus will continue since HRM considerations have been a neglected area within strategic management thinking generally (Mayrhofer et al., 2000). Part of this prediction is based on the premise that this aspect of the HRM field is, at present, marked with a serious hiatus. For example, Beattie and McDougall (1998: p. 220) note that much of the literature in the field is "either normative (written mainly by those in consultancy roles) or conceptual (written by academics)" and in their view there have been relatively few attempts to integrate the conceptual with the normative in the generalist HRM literature. Similarly, Ferris et al. (1999: p. 408) point to the gap between the science and the practice of HRM in this area. They refer to Buckley et al. (1998) who characterise the hiatus as "a disconnect".

Thus, despite an extensive and growing body of literature addressing the concepts of strategy and a strategic approach to the HRM, there remains limited consensus as to the substance, nature and implications of these concepts. Indeed, Mayrhofer et al. (2000: p. 18) note that "some of this literature [strategy in HRM] is flawed by rather simplistic notions of strategy", while more of it points to the complex, multidimensional nature of the concept of strategy. Here they quote Mintzberg (1987) who notes that strategy has been used in at least five different ways, namely as a plan, a ploy, a pattern, a position and a perspective. It would seem that diversity of meaning continues to be the order of the day with Chadwick and Cappelli (1999) recently arguing that scholars have varying goals with respect to their particular research in the strategic HRM area with the result that there is considerable variation in the use of the term "strategic". Consequently, many methodological problems arise when seeking to unearth the linkages between business strategy and HRM because of these differences in meaning associated with the concept of "Business Strategy", not to mention "HRM strategy", the nature of HRM itself and the highly problematic notion of "integration" and "measurement" (Buller and Napier, 1993; Tyson et al., 1994).

HRM IN THE EUROPEAN CONTEXT

Is the US-derived vision of HRM outlined above a universal one, one that will apply anywhere in the world, or is it a US-bounded one? This is an important question in the context of organisations being socially embedded

HRM IN AMERICAN COMPANIES

The various HRM practices American firms actually deploy can seldom be exclusively subsumed under the label of either "hard" or "soft". Variable pay is as widespread as employee communication. This deployment of a mix of hard and soft techniques is particularly apparent in, e.g. General Electric. GE went from being an old-line American industrial giant in the early 1980s to representing what Tichy, a management professor at the University of Michigan, regards as "a new, contemporary paradigm for the corporation".[3] Here is a "Business Week" special report[4] on the leadership style of its chairman, Jack Welch:

Rarely do surprises occur. Welch sets precise performance targets and monitors them throughout the year. And every one of Welch's direct reports – from his three vice-chairmen to each of the operating heads of GE's 12 businesses – also receives a handwritten, two-page evaluation of his performance at the end of every year …

As if in lockstep, each business chieftain then emulates the behaviour of his boss, and their reports in turn do the same … As Thomas E. Dunham, who runs services in GE Medical Systems, puts it, "Welch preaches it from the top, and people see it at the bottom." The result: Welch's leadership style is continually reinforced up and down the organisation.

Above all, however, Welch skillfully uses rewards to drive behaviour. Those rewards are not inconsequential … Welch demands that the rewards a leader disburses to people be highly differentiated … especially because GE is in so many different businesses. "I can't stand non-differential stuff", he says. "We live in differentiation …"

In practice differentiation at GE means that each of its 85,000 professionals and managers is graded in an annual process that divides them into five groups: the top 10%, the next 15%, the middle 50%, the next 15% and the bottom 10%. The top tier will get options, nobody in the fourth tier does, and most of the fifth tier will probably be culled. Each unit must segment its managers in this way each year, so that it cannot get away with claiming that they are all in the first tier.[5]

On the other hand we also learn that the HRM philosophy at GE encompasses considerably more than a set of hard HRM practices.

Welch's profound grasp on GE stems from knowing the company and those who work it like no other … More than half (of his time) is devoted to "people" issues. But most important, he has created something unique at a big company: informality …

If the hierarchy that Welch inherited, with its nine layers of management, hasn't been completely nuked, it has been severely damaged. Everyone, from secretaries to chauffeurs to factory workers, calls him Jack …

Making the company "informal" means violating the chain of command, communicating across layers, paying people as if they worked not for a big company but for a demanding entrepreneur where nearly everyone knows the boss …

"We're pebbles in an ocean, but he knows about us", says Brian Nailor, a forty-something marketing manager of industrial products …

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[3] *Source*: Business Week, Special Report, Jack A Close-up Look at How America's #1 Manager Runs GE, p. 43, 8 June 1999.

[4] Business Week, Special Report, Jack A Close-up Look at How America's #1 Manager Runs GE, pp. 40–51, 8 June 1999.

[5] *Source*: The Economist (1999).

in their external environment and affected by external forces that require them to adapt their structures and behaviours to deal with these forces (Berger and Luckmann, 1967). For many years, institutional theory has directed the attention of students of management to the influences of social processes, beyond the organisation's boundaries. Summarising the institutional perspective, Hoffman (1999: p. 351) states that "a firm's action is seen not as a choice among an unlimited array of possibilities determined by purely internal arrangements, but rather as a choice among a narrowly defined set of legitimate options. …" Obtaining legitimacy is not simply a matter of complying with legislation, it also involves abiding by the unwritten, tacit codes peculiar to the firm's setting. Thus, firms are located in settings not only of legislation but also of cultural and social norms to which they have to react. In short, culture provides meaning and purpose, rules (including legislation) and norms (ethical standards). Each nation or region constitutes a unique or idiosyncratic institutional setting that skews corporate behaviour in particular ways. From an institutional perspective, given that HRM is a product of the North American institutional setting, determining whether it is readily transferable to the European setting remains a conceptual and empirical challenge.

There are a number of critical differences between the North American institutional context and the European. Of course, such a comparison involves substantial generalisation. We must remain aware of the substantial differences within North America, even within individual states in the US; and the differences between the European countries are, after all, the basis of this book. Brewster (1995) has used the analogy of a telescope: with each turn of the screw things that seemed similar are brought into sharper focus so that we can distinguish between, say, the forest and the fields, then with another turn between one tree and another, and then between one leaf and another. Each view is accurate, each blurs some objects and clarifies others and each helps us to see some similarities and some differences. In the rest of the book we examine differences between countries in Europe: here we concentrate on the substantial differences between the North American and European personnel management regimes, because the US approach has been so dominant in our understanding of HRM. However, we shall not argue that the one regime is innately superior to the other. To underscore our viewpoint we, in the penultimate section of this chapter, explore the issue of HRM and economic success. Finally, we argue for the need to adopt a multi-level approach to HRM which takes into account the institutional context.

Core assumptions

Brewster (1994) has pointed out that a core assumption of North American HRM is that the employing organisation has a considerable degree of latitude in regard to the management of personnel, including inter alia: freedom to operate contingent pay policies; an absence of, or at least a minimal influence from, trade unions; and an assumption that the organisation has sole responsibility for training and development.

In other words, central to the notion of North American HRM is an assumption of considerable organisational independence. This assumption is reasonable, given the weakness of the trade union movement in the US (where membership is currently probably less than one-tenth of the working population, and its activities are predominantly site based), coupled with the comparatively low levels of state subsidy, support and control. It also fits comfortably with the notion that the state should interfere in business as little as possible and that it is the right of every individual to do the best for themselves that they can without external interference (Guest, 1990). The question is: How valid are such assumptions in the context of Europe? Addressing this question is important, given the rather different employment relations context in Europe.

While Europe has witnessed similar challenges to its employment relations including intensified international competition, changes to the structure of product and service markets, and new approaches to the management of manufacturing technologies, the response to these pressures is not the same in every country. Lansbury has argued that even though "all European countries are experiencing intensified pressures to adapt their traditional industrial relations (IRs) practices in response to increased global competition and changing technologies. … Most European countries are uncertain about the precise nature of the IRs system they should be seeking to establish and which will be appropriate in decades to come" (Lansbury, 1995: pp. 47–48). Locke et al. (1995: p. 158) suggest that the different responses can be accounted for by the fact that "employment relations are shaped in systematic and predictable ways by institutions which filter these external pressures and the strategies of the key actors. Patterns of adjustment in countries that have a history of strong centralised IRs institutions tend to follow an incremental, negotiated pattern and aim to achieve results that balance the interests of different social groups and economic interests". In other countries, they argue that the "adjustment has tended to be unilateral with unions and their traditional institutional supports and political allies put on the defensive."

Closely related to the assumption of a firm's autonomy is a second core assumption, that the close involvement of HRM with business strategy represents a radically new departure for the management of personnel. What theorists of North American HRM overlook is that the connectedness of HRM and corporate strategy does not have to be a product of "bottom line" calculations. It might equally be a consequence of laws, regulations or custom, in which case it may be an established feature of other contexts, such as the European one.

We note below some of the challenges to these core assumptions in the European context.

A culture of individualism

At the most general level, while the empirical data on national cultural differences is limited (Hofstede, 1980, 1991; Laurent, 1983; Tayeb, 1988; Adler, 1991; Trompenaars, 1993), it does point to the unusual nature of the US. The US, one of the leading researchers in this field writes, "is quite untypical of the world as a whole" (Trompenaars, 1985). US culture is significantly more individualistic and achievement-oriented than most other countries (Hofstede, 1980). Indeed, it has been argued (Guest, 1990) that the North American assumption of business freedom and autonomy is peculiarly American and is related to the American view of their country as a land of opportunity which rewards success. It is an American's birthright, if not duty, to stand on his or her own two feet and to start-up some kind of enterprise.

Certainly when we examine the proportion of adults who are active in business start-ups there is a significant gulf dividing the US from Europe. Table 1.1 indicates that, while 8% of American adults were involved in business start-ups in the winter of 1999, the average figure for European countries, despite generally higher levels of unemployment, was much lower.

Table 1.1 Percentage of adults involved in business start-ups (Winter 1999)

Country	Adults (%)
Finland	2
France	2
Denmark	2
Germany	2
UK	3
Italy	4
Canada	6
US	8

Source: Financial Times, 1999.

In Germany and France, e.g. the average was about 2%, while for the UK and Italy it was only slightly higher.

This culture of individualism, or entrepreneurialism, extends to the legal situation when individuals have not been successful. In the US they are free to start-up another business to replace their failed business with far fewer constraints than is the case in Europe. It is clearly discernible, also, in the thinking that underpins North American notions of reward systems, with their emphasis on individual performance-based rewards. That is, just as a free market differentiates between successful and unsuccessful individual enterprises, so should firms have the freedom to reward those employees who have made critical contributions to their success. Given the relative lack of a culture of entrepreneurialism in Europe, we should not assume, without evidence, any ready acceptance of individual performance-related rewards.

Legislation: the firm and the individual employee

One German authority, Pieper, pointed out that "the major difference between HRM in the US and in Western Europe is the degree to which (HRM) is influenced and determined by state regulations. Companies have a narrower scope of choice in regard to personnel management than in the US" (Pieper, 1990: p. 82). We can distinguish three aspects to this concept of management scope: the degree of employment protection, the legislative requirements on pay and hours of work, and legislation on forms of employment contract.

In regard to the first of these, Blanchard (1999) has attempted to quantify differences in employment protection, within both Europe and the US. He argues that employment protection has three main dimensions: the length of the notice period to be given to workers, the amount of severance pay to be paid according to the nature of the separation and the nature and complexity of the legal process involved in laying off workers. Blanchard finds that the US is significantly different from Europe in general and Italy, Spain and Portugal in particular. There is less protection in the US.

In relation to the legislative requirements on pay and work there are also marked differences. For example, whereas in Europe legislative developments have ensured that average hours worked have fallen over the last two decades, in the US they have risen. Thus, in the US, almost 80% of male workers and 65% of working women now work more than 40 hours in a typical week.[6] By contrast, in France the working week is by law limited to 35 hours with overtime limited to 130 hours a year. This policy even extends to making unpaid overtime by senior employees a penal offence. Indeed, in June 1999 a director of a defence company, Thompson Radars and Countermeasures, was fined after the government's jobs inspectorate had monitored executives, researchers and engineers and uncovered substantial unrecorded overtime. In the US such a case would be inconceivable.

Finally, with respect to legislation on employment contracts, although this varies within Europe, it exists everywhere and is now the subject of European-level legislation. Legislation in Europe goes beyond anything found in the US, limiting the ways people can be recruited, the documentation necessary when they start work, how much they can be paid, how management must consult with them and a host of other matters.

The "Rhineland" model

The legislation that determines the firm–employee relationship is a product of wider, normative, concepts of what role the state should play in the economic arena. In his book *Capitalisme contre Capitalisme* Albert (1991), a former director of the French planning agency, distinguished on the one hand between an Anglo-Saxon capitalism (principally the US, but also the UK) and a continental, West European type of capitalism which he labelled the "Rhineland" model. The former is a "shareholder economy" under which private enterprise is concerned with maximising short-term profits for investors rather than any broader harmony of interests. In contrast

[6] *Source*: International Labour Organization.

Table 1.2 Public spending as a percentage of nominal GDP (1997)

Country	GDP (%)
Sweden	62
Finland	54
France	54
Italy	51
The Netherlands	49
EU total	48
Germany	48
Spain	42
UK	40
US	32

Source: OECD Economic Outlook, 1998.

"the Rhineland model may be seen as a regulated market economy with a comprehensive system of social security. Government, employers' organisations and labour unions consult each other about economic goals [in order to] try to achieve a harmony of interests" (Bolkestein, 1999). In short the Rhineland model is a "stakeholder economy" in which competition and confrontation are avoided in the belief that they undermine sustainable economic growth. Patrolling this economy is the state, which acts variously as referee, guarantor, employer and owner.

Table 1.2 provides one indication of the role of the state in the Rhineland model. Whereas public spending as a percentage of gross domestic product (GDP) averages nearly 50% in the EU, it is only 32% in the US. These differences in attitude towards public spending as between the US and European economies are replicated in respect of the labour market.

As well as being substantial employers in their own right, Rhineland states also subsidise jobs extensively. In France between 1973 and 1997 the number of French workers in subsidised jobs grew from 100,000 to 2.2 million according to the OECD, while the total in unsubsidised jobs shrank from 21.4 to 20.3 million. Nearly a quarter of the French labour force now relies on government handouts, whether in the form of unemployment benefit or subsidised jobs (Pedder, 1999: p. 11).

On becoming unemployed, Americans initially receive a benefit of about two-thirds of their income, not far below levels in Rhineland Europe. But those benefit levels drop sharply after 6–9 months. In many Rhineland countries, in contrast, benefits are either not time limited or actually increase the longer people are out of work. In Sweden and Finland the income replacement

Table 1.3 Union density and bargaining coverage (2001)

Country	Union density (%)	Bargaining coverage (%)
Denmark	88	83
Finland	79	90
Sweden	79	90
Belgium	69	90
Austria	40	98
Italy	35	90
Portugal	30	87
Germany	30	67
UK	29	36
The Netherlands	27	88
Japan	21	21
Spain	15	81
US	14	15
France	9	90–95

Source: EIRO.

rate of 89% rises to 99%. It has been argued that this virtual absence of a margin between benefits and wages for the low-skilled unemployed represents a serious disincentive to seeking new jobs in many European countries. A recent French study reported by Pedder (1999) showed that the unemployed in France take five times as long to find a new job as in America; yet those in work are five times less likely to lose their jobs.

Another core feature of European states is the legislative status and influence accorded to unions. Table 1.3 shows that most European countries are more heavily unionised, in terms of membership, than the US. However, in reality trade union influence cannot be accurately gauged by studying union density rates. A more important issue is trade union recognition, that is whether the employer deals with a trade union in a collective bargaining relationship which sets terms and conditions for all or most of the employees (Morley et al., 1996). It is in this respect that Rhineland states diverge to a considerable degree from the US. In most European countries, there is legislation requiring employers over a certain size to recognise unions for consultative purposes. Morley et al. note that "Europe has a tradition of collectivism and consensus building and trade unions have a social legitimacy in Europe on a much grander scale than in the US" (p. 646).

Closely related to the issue of trade union recognition is the European practice of employee involvement. Typically the law requires the establishment of workers' councils with which managements must consult. Legislation in countries such as the Netherlands, Denmark and, most famously, Germany requires organisations to have two-tier management boards, with employees having the right to be represented on the more senior Supervisory Board. These arrangements give considerable (legally backed) power to the employee representatives and, unlike consultation in the US, e.g. they tend to supplement rather than supplant the union position. In relatively highly unionised countries it is unsurprising that many of the representatives of the workforce are, in practice, trade union officials. In Germany, for instance, four-fifths of them are union representatives.

A central theme of HRM is the requirement to generate significant workforce commitment through developing channels of communication. However, in Rhineland countries it is noticeable that the provision of information to the workforce involves the use of the formal employee representation or trade union channels. And when upward communication is examined, the two most common means in Europe, by a considerable margin, are through immediate line management and through the trade union or works council channel (Mayrhofer et al., 1999; Morley et al., 2000).

Patterns of ownership

Patterns of ownership also vary from one side of the Atlantic to the other. Public ownership has decreased to some extent in many European countries in recent years; but it is still far more widespread in European countries than it is in the US. And private sector ownership may not mean the same thing. In many of the southern European countries particularly, ownership of even large companies remains in the hands of single families rather than of shareholders. On the other hand, in Germany, a tight network of a small number of substantial banks own a disproportionate number of companies. Their interlocking shareholdings and close involvement in the management of these corporations mean less pressure to produce short-term profits and a positive disincentive to drive competitors out of the market place (Randlesome, 1994).

The link between HRM and business strategy

One of the most widely discussed distinctions between HRM and old-fashioned personnel management is the closer linking of the former to business strategy. There are many who take the view that this desire to bring about the alignment of business strategy and people management policies and practices provided the springboard for both the transition from personnel management to HRM in the first instance, and the more recent evolution towards "strategic" HRM. Linking here refers to the degree to which HRM issues are considered as part of the formulation of business strategies. Though complex, it is, as Monks (2001) notes, a literature that is now well established. In particular, there is an ingrained assumption in the North American literature that HRM is the dependent variable and business strategy is the independent variable in this relationship and that there are advantages to be gained from the integration of HRM with business strategy. In this regard and drawing upon several contributions advancing difference concepts of fit in strategic HRM, Wright and Snell (1999: p. 210) note that essentially three generic conceptual variables in the form of HRM practices, employee skills and employee behaviours which should fit with the firm's strategy, are evident in the literature.

However, the degree to which this linking is or can be achieved in practice is debatable. Tyson (1999: p. 111) suggests that attempts to find fit between generic business strategies and HR strategies are based on "shaky foundations", while Luoma (2000: p. 770) notes that: "The concepts of strategy and HRM are both some-what ambiguous. What is the outcome when we put these two together? The result is a strict definition of strategic HRM or a more general idea of valuing people as key elements in a company's business – or something in between … It all depends on the way we view these terms."

Thus, the concept of strategy needs to be treated with caution. As the business environment becomes steadily more turbulent, it is increasingly problematic for firms to create clear, coherent strategic plans. Mintzberg (1978) even argues that strategy is not actually formulated – the process is much less explicit, conscious or planned. Likewise Hamel and Prahalad (1989) signalled the end of the planning ideal by coining the term "strategic intention": strategy is no longer to be a detailed plan so much as a sense of direction that stretches the organisation. Second, there is considerable evidence from the US that insofar as business strategy does exist there are few firms that have actually integrated HRM with business strategy (Kochan and Dyer, 1992). For some time now, knowledgeable commentators on strategy (Quinn, 1980; Joyce, 1986; Mintzberg, 1987, 1990; Gomez-Mejia, 1992) have seen it as incremental, developmental, messy and dynamic. Strategic management "inevitably involves some thinking ahead of time as well as some adaptation en route": effective strategies will encompass both (Mintzberg, 1994: p. 24).

Collins and Porras (1994) found that among their 18 high-performing "visionary" US companies there was no evidence of brilliant and complex strategic planning. Rather, their companies "make some of their best moves by experimentation, trial and error, opportunism and – quite literally – accident. What looks in retrospect like foresight and planning was often the result of 'Let's just try a lot of stuff and keep what works' (p. 9). Behn (1988) had already found similar results in the public sector. None of this would have come as a surprise to Lindblom (1959), whose prescient article pointed out much the same thing many years ago, but which fell into disuse over the years of dominance of the "command" model. Lengnick-Hall and Lengnick-Hall (1988) also challenged the assumption that strategic decisions were taken at a particular point in time such that the influence of HRM on that process could be measured.

The evidence from Europe is not only that the strategy process is more complicated than is often assumed in the textbooks, but that it may well work in different ways and through different systems involving different people. Thus, the strategic implications of a management decision in Germany or the Netherlands will be subject to the involvement or scrutiny of powerful Works Council representatives or the worker representatives on the Supervisory Board of the company. Indeed, in most of these companies the knowledge that their decisions are subject to scrutiny – and can be reversed or varied – at that level inclines managers to operate with these issues in mind. Inevitably, this means that the assumptions in the universalist paradigm that HRM strategies are "downstream" of corporate strategies cannot be made: the process is more interactive, with both sets of strategy potentially influencing each other simultaneously. And assumptions that strategies are the preserve of senior managers (or even just managers) cannot be sustained either.

Paradoxically, the evidence regarding the link between HR issues and business strategy in Europe is more persuasive, but shows that much of it is a product of legislation rather than corporate decision-making. For example in Germany the Codetermination Act of 1952, as amended in 1976, requires the executive boards of large companies to have a labour director with responsibility for staff and welfare matters. Likewise in the Scandinavian countries any changes to company strategy that have employee implications must be discussed with employee representatives. In Europe then it is generally common for personnel specialists to be involved at an early stage in the development of corporate strategy (Brewster et al., 2000; Mayrhofer et al., 2000).

All in all, despite advances, according to Ferris et al. (1999) the linking of HRM with business strategy remains "troublesome" (p. 392), principally because of the measures of strategy used in the studies to date. In their review they rightly note that: "Recent conceptual pieces have been critical of researchers in this area, suggesting that they have incorporated antiquated notions of firm strategy. Most studies have utilised such typologies as those of Porter (1980) or Miles and Snow (1978). These generic categorisations have little in common with the realities of the modern competitive environment with which organisations are confronted. First, categorisations are exclusive, assuming that organisations pursue a certain strategic goal while ignoring other strategic concerns. Second, they depict the competitive environment, and consequently organisational strategy, as being static instead of dynamic."

In the light of this, they suggest that future tests of the HRM–strategy relationship must view strategy along a continuum involving a broader range of strategic factors and must regard it as a dynamic, rather than a static phenomenon. Finally they suggest that the almost exclusive focus on deliberate intended strategy, to the detriment of the emergent or realised strategy, remains problematic. It, they suggest, represents a flawed view of reality in the omnipresent unstable, dynamic environments that we have all become accustomed to.

HRM and economic success

Because the American economy has, during the end of the last century and the beginning of this, gone from strength to strength, one seemingly credible conclusion would be to recommend to the world, and not least to Rhineland model countries, that they create the conditions for North American HRM. That is, they should adopt the American model of shareholder capitalism and flexible labour markets. For example, Friedman et al. (1998: p. 25) of Arthur Andersen state: "Managers must be free to manage. Our experience all over the world shows that the systems used for developing human capital can make a critical difference in the survival of and success of companies. Technology and markets are changing so fast that companies need to be in a state of change and readiness, and they need the freedom and flexibility to change in every area from recruitment to compliance. They must invest in their human capital – but the nature of their investment must be driven by market and company strategy, not government policy."

Of course, even if the statement is accepted at face value there are problems at both ends of the equation: the meanings of HRM, as we have already seen, and of success in organisational terms are open to much debate. Nevertheless, the views expressed in this quotation are widespread. The viewpoint is commonly justified with reference to macro-economic data that are deemed to prove the desirable societal outcomes of granting firms autonomy. For example, Smith (1999) points to America's success in creating employment – more than 30 million net new jobs since the early 1970s and more than 12 million in the 1990s – in contrast to Europe's 4 million net new jobs since the 1970s and a net reduction in private-sector employment. Others have looked at the period from 1992 to 1998 and noted that, while America experienced an annual GDP growth of 3%, for Germany, the archetypal social-market economy, it was only 2%. This debate over the perceived "economic dominance" of the US and its consequences in terms of the appropriate managerial model to be pursued is therefore highly significant. As Gunnigle et al. (2002: p. 261) note: "At a public policy level, American economic success and the contrasting sluggish performance of many of the EU economies during the 1990s has sparked considerable debate on optimal approaches or "systems" of industrial relations and HRM. It is often argued that the EU's preferred "social market" approach, characterised by comparatively high levels of labour regulation and strong trade unions, has served to impede competitiveness and employment creation. In contrast, the American free market approach, which apparently affords organisations and managers greater autonomy, is often portrayed as a "better alternative" in this respect, most particularly in terms of its capacity for employment creation."

Table 1.4 Annual average economic performance for the period 1989–1998 (%)

	Germany*	Japan	US
GDP per head growth	2	2	2
Productivity growth	3	1	1
Unemployment rate	8	3	6

* West Germany before 1992.
Sources: Eurostat; IMF.

To older readers, however, this unequivocal approval of the American model in terms of both of its core assumptions – corporate autonomy and a strong strategy – HRM link – may seem ironic, for in the 1980s most experts believed that it was the American model that was fatally flawed. Not only was the Japanese model regularly touted as a superior model, so was the Rhineland model. From the perspective of the 1980s and early 1990s it was those nations which allow the least autonomy to their managements that appeared to be the most successful (Brewster, 1994). The argument was that this was because the American model was short-termist in its shareholder orientation and this in turn undermined employee commitment and employer commitment to training and development.

There are in fact a number of problems in determining which model is superior. The first of these is statistical and relates not only to the time frame one chooses for a comparison of economies but also to which countries one chooses as the basis for a comparison. "The Economist" (1999b) examined the three big economies, the US, Japan and the Rhineland model country, Germany, in terms of three measures: growth in output per head, productivity growth and the unemployment rate (Table 1.4). They argued that if the impact of the economic cycle is stripped out, by adopting a 10-year perspective, rather than a shorter perspective, the figures do little to support any notion of the superiority of the American model. Indeed "The Economist" (1999: p. 90) issued a note of warning by remarking that: "in their zeal to make a successful economy fit their favourite theory, economists of one persuasion or another are too quick to swallow myths about the nature of that economy".

Careful readers will realise that the bases for these figures are not directly comparable. For example, measures of unemployment vary. Thus, in Europe, where many women work, or wish to work, and in Japan, where older women are not expected to be, or be registered, in the workforce, different phenomena are being measured. Another sceptical view regarding the statistical basis for announcing the superiority of the American model has been propounded by Kay (1998), who points out that Denmark, and most other small west European states, are more than a match for the US in terms of economic performance regardless of time frame. This is despite their displaying most of the features of the supposedly defunct Rhineland model: i.e. interlocking networks of corporations, employers' and workers' organisations whose relationship is governed by both explicit and consensual regulation, and a high spending state. Kay notes wryly that if you go into a British business school library "you will look in vain for titles like *Great Entrepreneurs of Norway*, *The Coming Economic Powerhouse – Denmark, Iceland – Europe's Tiger Economy*. This is not because we have not bought the books. It is because no one has written them." In other words Kay is chiding critics of the Rhineland model for having been conveniently selective in their choice of countries.

A second problem is methodological. It is difficult, if not impossible, to find nations or companies which at some point in time were equal in all substantial areas but which then diverged in terms of HRM. In other words it is difficult to isolate the contribution a HRM system makes at either the corporate or the national level.

Third, within the same country there may be substantial differences in the use made of specific elements in any one HRM model, making it highly problematic to compare across nations. For example, Pfeffer and Veiga (1999) have found considerable variation in the use US firms make of many of those practices that are considered integral to the North American model, including selection, performance-contingent pay, training and development and information sharing. They conclude that: "… one-half of (US) organisations won't believe the connection between the way they manage their people and the profits they earn. One-half of those who do see the connection will do what many organisations have done – try to make a single change to solve their problems, not realising that the effective management of people requires a more comprehensive and systematic approach" (1999: p. 47).

Clearly the practice of HRM cannot be divorced from its institutional context. The North American model is a viable alternative or possibility for American firms because of the context within which they operate. Whether it can – or even should – be replicated in the European context is a matter of empirical evidence and opinion.

What is needed is a model of HRM that acknowledges the influence of such environmental factors as culture, legislation, the role of the state and trade union representation. At the same time the model should take into account the potential for firm-level activities. It is our contention that HRM theory needs to adopt a multi-level view of the actors in the system if it is to become a theory that can be applied internationally.

The model of HRM we propose shows, in a simplistic form, that the business strategy, HR strategy and HR practice are located in an environment of national culture, national legislation, state involvement and trade union representation (Brewster, 1995). It places HR strategies firmly within, though not entirely absorbed by, the business strategy. What is more, the dividing line between HR strategy and business strategy is blurred indicating that the potential for absorption of the former by the latter will vary according to the impact of institutional factors. In other words it is conceivable that in extreme contexts institutional factors will be a sufficient guide to understanding HR strategy and that business strategy may be more or less ignored. Equally, in contexts of extreme corporate autonomy the importance of environmental-level factors for HR strategy will be minimal in comparison with business strategy.

CONVERGENCE AND DIVERGENCE IN HRM

So far, we have located HRM within its early home in North America and compared the situation of HRM there to that found in Europe. But given that there are differences, another key question arises: are these differences increasing or decreasing? As business becomes more global, is HRM becoming more uniform? Or might different regions even be becoming more distinct?

We turn now to this question of convergence or divergence. If the policies of market de-regulation and state de-control are spreading from the US to Europe, are European firms moving towards a North American HRM approach to managing their personnel? Or is it the case that, because of the increasing economic and political integration of EU countries, a convergence towards a distinctly European practice is under way? There is, of course, a third possibility: that European firms are so locked into their respective national institutional settings that no common model is likely to emerge for the foreseeable future.

The studies presented in Part 2 of this book are uniquely equipped to explore these issues in that we have access to comparative data for most European countries collected at regular intervals. We are thus in a position to analyse developments in a range of precisely defined HRM practices across these countries and over a significant period of time.

To set Part 2 within a broad conceptual framework, we examine the convergence and divergence arguments in more detail. As part of this process we consider two distinct versions of the convergence thesis, the free market US model and the institutional European model. Although these two theses of convergence and divergence are very different from one another there is one underlying similarity: they all view firms' latitude in regard to selecting and developing personnel management strategies as being shaped, governed and given impetus by a mix of factors which may be defined as technological, economic or institutional.

The main arguments

The convergence vs. divergence debate has been a strand of the literature on management in general for decades and this has more recently been reflected in HRM theorising. Convergence theory suggests that antecedents specific to the organisation explain the existence of HR policies, while-country specific differences are less significant (Sparrow et al., 1994; Weber et al., 2000; Tregaskis et al., 2001). Thus, while differences in management systems have arisen as a result of the geographical isolation of businesses, the consequent development of differing beliefs and value orientations of national cultures are being superseded by the logic of technology and markets which requires the adoption of specific and, therefore, universally applicable policies, approaches and management techniques (Kidger, 1991). Arguably, Max Weber's theory of bureaucracy and rationalisation, first written in German (*Wirtschaft und Gesellschaft*, 1921) and subsequently translated into English, represents one of the earliest contributions to this thesis of long-term convergence. Regardless of whether the economic system is organised on a capitalistic or a socialistic basis, Weber argued that applying technical knowledge efficiently requires the adoption of the bureaucratic system with its universal characteristics. Early post-war thinking was also for the most part convergent. Galbraith contended that, given the decision to have modern industry, modern man's "area of decision is, in fact, exceedingly small" (1967: p. 336). Much of what happens is inevitable and the same so that "the imperatives of organisation, technology and planning operate similarly, and as we have seen, to a broadly similar result, on all societies" (1967: p. 336). Burnham (1941), Drucker (1950) and Harbison and Myers (1959) all contended that there was a trend toward a world-wide rise of the professional manager who would successfully impose professional, as opposed to patrimonial or political, management systems on their respective societies.

Closer to our sphere of interest, Kerr et al. (1960) believed not only that the convergence of systems of IR was inevitable, but that the convergence would be toward US practices. Kerr et al. argued that there was a logic to industrialism which would lead to greater convergence, with, in particular, technological and economic forces bringing about greater similarities in systems. They argued that management systems represented attempts to manage technology as efficiently as possible. As the United States of America was the technological leader, it followed that US management practices represented current best practice, which other nations would eventually seek to emulate as they sought to adopt US technology. Thus "patterns in other countries were viewed as derivative of, or deviations from, the US model" (Locke et al., 1995: p. xvi).

Characteristic of these various convergence perspectives is their functionalist mode of thought. The practice of management is explained exclusively by reference to its contribution to technical and economic efficiency. Thus, it is a dependent variable that evolves in response to technological and economic change, rather than with reference to the socio-political context, so that "much of what happens to management and labour is the same regardless of auspices" (Kerr, 1983).

More recently, the convergence thesis has received support from transaction cost economics, which also contends that at any one point of time there exists a best method of organising labour (Williamson, 1975, 1985). "Most transaction cost theorists argue that there is one best organisational form for firms that have similar or identical transaction costs" (Hollingsworth and Boyer, 1997: p. 34). Likewise, parts of the industrial organisation literature argue that firms tend to seek out and adopt the best solutions to organising labour in their product markets, long-term survival being dependent on their ability to implement them (Chandler, 1962, 1977; Chandler and Daems, 1980). Thus, there is a tendency for firms to converge towards similar organisational structures.

Of course, the "convergers" recognise that there are many variations in management approaches around the world. However, they argue that, in the long term, any variations in the adoption of management systems at the company level are ascribable to the industrial sector in which it operates, its strategy, its available resources and its degree of exposure to international competition. Moreover, they claim, these factors are of diminishing salience. Indeed, once they have been taken account of, a clear trend toward the adoption of common management systems should be apparent.

Proponents of the divergence thesis argue, in direct contrast, that personnel management systems, far from being economically or technologically derived, reflect national institutional contexts which do not respond readily to the imperatives of technology or the market. According to this institutionalist perspective, organisational choice is limited by institutional pressures, including the state, regulatory structures, interest groups, public opinion and norms (DiMaggio and Powell, 1983; Meyer and Scott, 1983; Oliver, 1991). Moreover, many of these pressures are so taken for granted "as to be invisible to the actors they influence" (Oliver, 1991: p. 148). One observable effect of differing institutional contexts is that "the same equipment is frequently operated quite differently in the same sectors in different countries, even when firms are competing in the same market" (Hollingsworth and Boyer, 1997: p. 20). As a consequence, Kerr (1983: p. 28), in a retrospective analysis of his work with Dunlop, Harbison and Myers (1960), concedes that they had been wrong to suggest that industrialism would "overwhelmingly impose its own cultural patterns on pre-existing cultures". Kerr now argues that "industrialism does conquer and it does impose, but less rapidly and less totally than we implied."

Divergence theorists, however, refuse to subscribe even to this thesis of partial and delayed convergence. They argue, on the contrary, that national, and in some cases regional, institutional contexts are slow to change, partly because they derive from deep-seated beliefs and value systems and partly because significant re-distributions of power are involved. More importantly, they argue that change is path-dependent. In other words, even when change does occur it can be understood only in relation to the specific social context in which it occurs (Maurice et al., 1986; Poole, 1986). Performance criteria or goals are thus, at any point in time, socially rather than economically or technologically selected so that they first and foremost reflect principles of local rationality. Convergence of management systems can therefore only take place if supranational institutions are able to impose their influence across national contexts. Increasingly, it is being argued that that is what is taking place in the EU (Brewster, 1994). That is, there is an argument for the existence of an institutionally driven convergence of HRM practices within Europe.

In summary, we may observe that in addition to the divergence thesis there are two distinct versions of the convergence thesis. On one hand there is the traditional version of the convergence thesis that contends that convergence of HRM practices is driven by market and technological forces and that changes in the US are a harbinger of trends elsewhere. On the other hand there is a newer, institutional, version that argues that institutionally driven convergence is taking place within the EU. There is a debate between these two viewpoints (Brewster, 1999). We now examine these two models in more detail, before presenting the divergence thesis as applied to the European context.

The market forces, or US convergence, model

Weinstein and Kochan (1995) divide US employment relations from the late 1930s to the present day into two phases: the New Deal industrial relations system which extended from the 1930s through the 1970s, and more recent developments, which we will refer to as US HRM.

As we have noted, in the 1970s American mass production grappled with the persistent effects of increased international competition and a more uncertain business environment. New flexible productive techniques emerged in the wake of advances in information technology, stimulating a shift in competitive strategy toward flexible specialisation aimed at producing differentiated, high-value-added products (Piore and Sabel, 1984). As a result a new management model, less compatible with unionisation than the old, began to emerge. This new (US HRM) model has a number of distinctive features aimed at removing the rigidities intrinsic in the mass production system so as to lay the ground for the use of flexible production techniques. One set of these features is designed to increase individual flexibility and employee self-regulation of quality control. New job designs allowed employees, in co-ordination with their supervisors, to formulate their own job descriptions. Furthermore, whereas wages in the traditional system had been attached to jobs rather than individuals, in the new model there was a move to relate wages to individual performance and competency in the form of individual incentives. Job security could only be extended to the core labour force, so that another feature of the new model of employee relations was the increase in contingent, or non-core employment, i.e. part-time, temporary, and contract work.

As Weinstein and Kochan (1995: 27) observe: “Government played an important role by weakening its enforcement of labour and employment laws and by allowing (some would say encouraging) a harder line by management in its resistance to unions.”

In short, the emergence of US HRM may be viewed as an attempt by US firms to cope with the disappearance of large and stable markets by moving beyond mass standardised production to flexible production by synthesising the elements required for co-operation and self-regulation. At the same time US HRM is attempting to counteract the inheritance of a lack of trust and co-operation between workers and managers, and the effects of short-term systems of cost–benefit calculation.

The institutional, or European convergence, model

Whereas the market forces model regards developments in the US as a precursor of universal developments, it has been contended that in Europe there are powerful non-market, institutional, factors. Not only do these make the central features of US HRM inappropriate to European organisations, they are arguably generating a specifically European model of convergence in HRM (Brewster, 1995). Let us briefly recall the nature of these factors.

We have pointed out that in Europe organisations are constrained at a national level by culture and legislation and at the organisational level by trade union involvement and consultative arrangements. It is clear that, in general, European countries are more heavily unionised than the US, and indeed most other countries. Trade union membership and influence varies considerably from country to country, of course, but is always significant. Indeed, in many European countries the law requires union recognition for collective bargaining. In most European countries many of the union functions in such areas as pay bargaining, e.g. are exercised at industrial or national level – outside the direct involvement of managers in individual organisations – as well as at establishment level (Hegewisch, 1991; Gunnigle et al., 1993; Traxler et al., 2001). Thus in Europe, as opposed to the US, companies are likely to be dealing with well-founded trade union structures.

It is worth noting that studies of HRM in the US have tended to take place in the non-unionised sector (Beaumont, 1991). In fact a constant assumption in research programmes in the US has been the link between HRM practices and non-unionism (see e.g. Kochan et al., 1984, 1986). "In the US a number of … academics have argued that HRM [the concept and the practice] is anti-union and anti-collective bargaining" (Beaumont 1991a, p. 300).

We have also indicated that state involvement in HRM in Europe is not restricted to the legislative role. Compared to the US the state in Europe has a greater involvement in underlying social security provision. Equally it plays a more interventionist role in the economy, provides far more personnel and industrial relations (IR) services and is a more substantial employer in its own right by virtue of a more extensive government-owned sector.

Finally, we would also point to developments at the level of the EU or the European Economic Area which affect all organisations in Europe. In a historically unique experiment, EU countries have agreed to subordinate national legislative decision-making to European-level legislation. These developments have indirect effects upon the way people are managed and direct effects through the EU's adoption of a distinct social sphere of activity. In particular it would appear that the European Community Social Charter and its associated Social Action Programme are having an increasing legislative influence on HRM (Brewster and Teague, 1989; Brewster et al., 1993).

In these circumstances it is unsurprising that some have argued that the time is now ripe for distinguishing specifically European approaches:

"European Management

- is emerging, and cannot be said to exist except in limited circumstances;
- is broadly linked to the idea of European integration, which is continuously expanding further into different countries;
- reflects key values such as pluralism, tolerance, etc., but is not consciously developed from these values;
- is associated with a balanced stakeholder philosophy and the concept of Social Partners."

(Thurley and Wirdenius, 1991: p. 128)

Divergence in Europe

Opposed to this institutionalist thesis of convergence in European HRM are a number of approaches that emphasise the existence of broad, relatively inert, distinctions between the various national contexts of personnel management in Europe that make convergence to a European model of HRM unlikely. Here, therefore, one can argue for the critical role played by the societal context in explaining differences in the extent to which MNCs can and will pursue distinctive HRM practices. Katz and Kahn (1978) and Cheng (1989, 1994) argue that certain aspects of organisational functioning are more subject to external influences than others and that cross-national analysis should take cognisance of the range of contextually based societal variables that can determine how organisations exist within their operating environments. Within the field of HRM it is generally accepted that there are a range of societal-based institutional factors that have a significant influence on the kinds of polices that organisations adopt and the practices and postures that they enact. Such institutional arrangements and traditions have their roots in national business systems and reflect the impact of factors such as the national IR system, the historical pattern of industrialisation, the political system and traditions, the framework of corporate governance, labour, product and capital markets, education and training systems and the legal framework (Sparrow and Hiltrop, 1994; Tregaskis, 1995; Ferner, 1997; Edwards, 1998; Gooderham et al., 1999).

Due et al. (1991) identify, on the one hand, countries such as the UK, Ireland, and the Nordic countries where the state has a limited role in IR. On the other hand there are the Roman-Germanic countries, such as France, Spain, Germany, Italy, Belgium, Greece and the Netherlands where the state plays a central role in IR. A particular feature of Roman-Germanic countries is their "comprehensive labour market legislation governing various areas, such as length of the working day [and] rest periods" (Due et al., 1991: p. 90). In other words, unlike either the Anglo-Irish or the Nordic systems, the scope for corporate decision-making in Roman-Germanic countries in regard to employment issues is relatively low. Such differences, according to Gunnigle et al. (2002) give rise to difference in business and management traditions, and lead to the development of distinctive management cultures and value systems.

Hollingsworth and Boyer (1997) focus on a different dimension, the presence or absence of communitarian infrastructures that manifest themselves in the form of strong social bonds, trust, reciprocity and co-operation among economic actors and which they regard as "essential for successful flexible systems of production" (1997: p. 27). They distinguish between social contexts characterised by self-interest and those in which "obligation and compliance with social rules are the guiding principles shaping human actions" (Hollingsworth and Boyer, 1997: p. 8).[7] It is their contention that because of the pervasive market mentality that limits trust and co-operation between workers and managers within firms, as well as between firms and their suppliers, the UK (and likewise the US) does not have the social environment necessary for a successful flexible social system of production. In contrast, German and Scandinavian firms are embedded in an environment in which the market mentality is less pronounced, with trusting relationships and communitarian obligations more prevalent, thereby making flexible production systems a viable alternative. Finally, Hollingsworth and Boyer distinguish France as an environment that, while not having a market mentality, is nevertheless deficient in communitarian infrastructures. Instead, the public authorities play a *dirigiste* role in the economy, enabling France to partially mimic flexible systems of production. "But for flexible forms of production to become widespread, firms must be embedded in a social environment very different from that which exists in most of France" (Hollingsworth and Boyer, 1997: p. 27). That is, an environment in which employer–employee conflict is endemic and there is an absence of "a spirit of generous co-operation" (Maurice et al., 1986: p. 86).

COMPETING PROPOSITIONS

We have described three broad theses in relation to Europe, the market-forces convergence model, the institutional convergence model and the divergence model. Three fundamentally different propositions may be derived, respectively, from these:

1. Market forces are generating a convergence in HRM practices among European firms towards a US model of HRM.
2. Pan-European institutional forces are generating a convergence in HRM practices among European firms towards a common European model that is distinctly different from that of the US model of HRM.
3. Deep-seated and fundamental differences between European countries mean either continuing divergence, or, no convergence in HRM practices among European firms.

The following chapters provide evidence that the thoughtful student can use to apply to these different propositions and offer a route map through which to explore these issues of convergence and divergence within Europe. To that end each chapter compares a pair, or in some cases a trio, of countries using data from a series of identical surveys carried out in those countries. The chapters have been written by HR academics from each of the respective countries. Following a brief outline of the countries' institutions and their labour markets, each chapter proceeds with a comparison of HRM in the countries involved. Here, the role and operation of the HRM department, HRM strategy formulation, employee relations and the role of the trade unions, employee resourcing, flexible working patterns, performance measurement and rewards, and training and development are all examined. In preparing their chapters the authors have, of course, applied their own local understanding and analytical skills to these issues and reflected the debates current in those countries. However, because they have all used 11 key tables from the same international survey of HRM practices, students will be able to take a topic such as training and development, for example, and "read it

[7] See also Maurice et al. (1986) and their analysis of work systems in France and Germany.

through" the different countries. In addition to the survey data each chapter contains case vignettes designed to illustrate selected aspects of HRM in action, as well as teaching questions.

TEACHING QUESTIONS

1. Do you believe that there is one best way to manage the HR?
2. Discuss the different schools of thought that have contributed to the development of HRM.
3. Distinguish between "hard" and "soft" HRM.
4. What do you see as the main difficulties involved in linking an organisation's HR strategy with its business strategy?
5. Outline what you consider to be the chief institutional differences between the US and Europe. What are the implications of this institutional context for the practice of HRM?
6. What are the core tenets of the Rhineland model?
7. Convergence and divergence theorists have differing views on how HRM is developing as a field. Discuss the core arguments on both sides.

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Part 2

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2

The UK and Ireland: Traditions and Transitions in HRM

Sarah Atterbury, Chris Brewster, Christine Communal, Christine Cross, Patrick Gunnigle and Michael Morley

INSTITUTIONAL BACKGROUND

UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND

Area	244,590 km^2
Population	59,231,900 inhabitants
Density	244 inhabitants per km^2
Capital and population	London (7,355,000)
Other major cities and population	Birmingham (961,041) Manchester (2,936,300) Leeds (680,722) Glasgow (662,853)
Official language	English
Others include	Welsh, Scottish Gaelic
Religions	72% Christain 3% Muslim 3% Others 22% No religion

The United Kingdom of Great Britain and Northern Ireland is situated off the coast of France between the North Atlantic Ocean and the North Sea. The coastline is 12,429 km long.

Topography and climate

The United Kingdom (UK) comprises Great Britain (England, Wales and Scotland) and Northern Ireland. Physically, the country is traditionally divided into a highland and a lowland zone. The highland zone covers the majority of Scotland with Ben Nevis as the highest summit (1342 m above sea level), northern England, Wales and the South West Peninsula of England. The lowland zone largely extends throughout the rest of England.

The relation to the sea and the topography broadly determines the climate in the UK, a traditional British topic of conversation. Rain usually arrives from a westerly direction. The highest peaks in the highland zone can receive significant amounts of rainfall whereas areas such as East Anglia and the Thames Estuary receive less.

Four nations

England is by far the most populated area with 49,181,300 inhabitants compared to Scotland (5,064,200 inhabitants), Wales (2,903,200 inhabitants) and Northern Ireland (1,689,300 inhabitants). Scotland and Northern Ireland put together have a population roughly equal to that of Greater London.

Diverse cultural identity

The UK is characterised by a mixed cultural identity, more recently enhanced by a number of ethnic minorities, in particular, Indians, Pakistanis, Bangladeshis, Chinese, Africans and Arabs.

Today's diversity reflects the influence of the British Empire in the nineteenth century. Since the end of World War II, the British Empire has been dismantled, giving way to the British Commonwealth, which is a loose association of countries. In 1973, the UK joined the European Union (EU). Britain today is a prosperous and modern European nation with significant international influence.

Current economic and political issues related to national identity for the UK include the question of whether to join the single European currency, the Euro, and constitutional reform covering the House of Lords and devolution of power to Scotland, Wales and Northern Ireland.

Figure 2.1 Tower of London, England

Principal characteristics

Figure 2.2 shows the relative position of the UK in relation to other European countries on a number of standardised items.

People

The UK is one of the four most populated countries in the EU. The total UK population has been continuously growing over the last decade. This is partly due to migration and partly due to natural population increase. People are also living longer, as illustrated in Table 2.1. Women in particular have a life expectancy which is higher than men (79.3 years for women and 74.4 years for men). These figures closely mirror the European average.

In the UK, the average number of people per household is 2.4. This figure has been shrinking over recent decades as traditional family patterns are breaking down. A significant and increasing number of individuals live on their own – 29% in 2000 against 22% in 1981 – and an increasing number of couples remain without children (increasing by 3% since 1981). Single parents and one person households jointly account for 38% of households.

Economy

As elsewhere in Europe, the UK economy is a mixture of public and private sector but here, more than elsewhere, Government policy has for two decades been directed at building an environment which encourages the private sector. The election victory of the Labour Party in May 1997, which replaced 18 years of Conservative

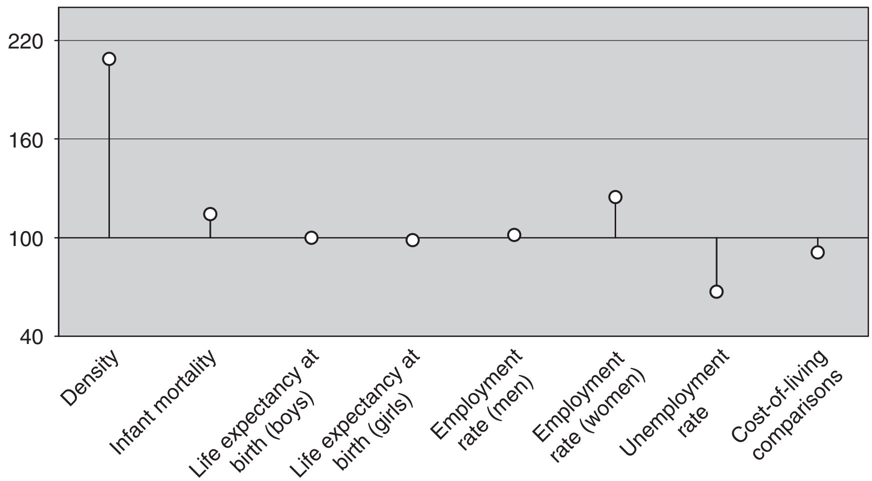
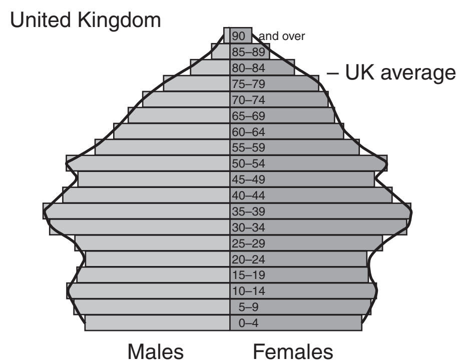


Figure 2.2 Principal characteristics in relation to EU-15 = 100

Table 2.1 Population by age and gender (% of total population)

Age (years)	UK 1986	UK 2000	EU-15 2000
<15	19	19	17
15–24	16	12	12
25–49	33	36	37
50–64	16	17	17
65–79	12	12	13
>80	4	4	4

All data from Eurostat.



Source: Office for National Statistics. Census 2001

Table 2.2 Gross domestic product (at market prices, in million ECU/EU)

	1991	1994	1997	2000
EU-15	5,779,473	6,334,523	7,287,921	8,524,371
UK	836,147	878,109	1,171,548	1,547,903
	(−1)	(5)	(3)	(3)

Percentage change on previous period – constant prices (in brackets). All data from Eurostat.

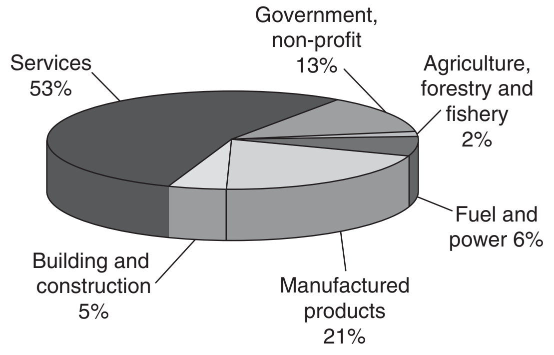


Figure 2.3 Economic structure (gross value rates as % of sectors, 1995, UK). All data from Eurostat

governments, has not changed this central tenet of free enterprise.

After 9 years of growth in the 1980s under the government of Margaret Thatcher, the UK went into a recession in the early 1990s but, as Table 2.2 illustrates, 1993–1994 saw a significant rise in real gross domestic product (GDP). Since then, economic growth has been gradual.

Historically, the manufacturing sector was the basis of economic strength, but this sector has declined steadily over the years. A significant share of GDP has been taken by services, particularly financial services (Figure 2.3).

Table 2.3 Cost-of-living comparisons in 2000 (Brussels = 100[1])

Food and non-alcoholic beverages 111	Clothing and footwear 83	Housing, water, electricity, gas and other fuels 312	Furnishing, household equipment and maintenance 125	Health 118
Transport 129	Recreation and culture 114	Education 114	Alcohol and tobacco 181	Communications 96
Hotels, cafes and restaurants 129	Miscellaneous 144		*Total* 160	*Total excluding rents* 119

All data from Eurostat.

Table 2.4 Working days lost in all industry due to labour disputes (per 1000 employees)

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
EU-15	:	:	226	170	153	99	118	73	114	:	:	:
UK	90	164	166	177	182	83	34	24	30	13	19	:

":" Data not available.

Table 2.5 Working days lost in manufacturing industry due to labour disputes (per 1000 employees)

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
EU-15	:	:	226	157	179	143	118	113	105	:	:	:
UK	185	125	280	138	178	43	19	25	12	13	18	:

All data from Eurostat. ":" Data not available.

Cost-of-living indices in the UK are around or above the average of the EU, except for housing, where the UK is particularly expensive (Table 2.3).

Legal, institutional and political environment

The UK is a parliamentary Monarchy. There is in Great Britain a strong sense of continuity between the past and the present. For instance, the constitution is unwritten and resides in judicial precedents. Thus, the constitution is based on traditions, which may be changed by Acts of Parliament, rather than a written constitution. The Parliament consists of the House of Commons and the House of Lords. The latter chamber mostly has a consultative role and its functioning is under review. Some powers have been devolved to a new independent Parliament for Scotland and a Welsh Assembly. Two parties have dominated the political scene since the 1920s, the Conservative and the Labour Party.

Much of the UK's employment legislation was consolidated in the 1990s by Acts of Parliament (the 1992 Trade Union and Labour Relations Act and the 1993 Trade Union Reform and Employment Rights).

As illustrated in Tables 2.4 and 2.5, in recent years, labour disputes have had a diminishing impact on the disruption of working days.

Labour market

Over 27 million people are in employment in the UK, the highest number of people in employment since data began to be collected in this form in 1959, with the vast

[1] Cost-of-living comparison is carried out by calculation of index numbers (Brussels = 100) based on (a) prices of a shopping basket of over 3000 goods and services, (b) expenditure patterns of international officials and (c) exchange rates. All information was correct on 1 July 1996. Figures come from work by Eurostat in the field of cost-of-living adjustments to salaries of EU officials. Staff regulations fix indices for Belgium and Luxembourg at 100. Hence indices are available for all EU capitals except Brussels and Luxembourg. Country codes refer to the capital city.

Table 2.6 Persons in employment (million)

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	2000
	24.4	24.8	25.7	26.6	26.8	26.2	25.8	25.5	25.7	25.9	26.2	27.7*
1985 = 100	100.4	102.2	105.7	109.4	110.3	107.9	106.1	104.9	105.7	106.8	107.8	

All data from Eurostat. * Data from Summerfield and Babbs (2003).

Table 2.7 Persons in employment in different sectors (thousand)

	1987	1989	1991	1993	1995	1997	2000
Industry	8.084	8.607	8.107	7.443	7.079	:	7.024
Agriculture	583	593	593	519	533	:	424
Services	16.010	17.190	17.264	17.361	18.203	:	20.190

All data from (Eurostat). ":" Data not available.

Table 2.8 Unemployment rate (%)

1987	1990	1993	1996	1999	2000
11	7	11	8	6	6

All data from Eurostat.

Table 2.9 Unemployment rates (%)

	UK	EU-15
Women unemployed	5	10
Men unemployed	6	7
Long-term unemployment (as % of all unemployed)	28	45

All data from Eurostat.

Table 2.10 Employment rate by gender (%, 2000)

	UK	EU-15
Women	65	55
Men	78	73

All data from Eurostat.

majority of jobs in the service sector (Tables 2.6 and 2.7). Compared to the rest of the EU, in 2001 the UK had one of the highest employment rates after Denmark, Sweden and the Netherlands.

Unemployment rates are relatively low. An interesting feature of the UK economy is that more women participate in the work force than on average in the EU, and that the unemployment rate for women is lower than that for men. EU averages present a reversed picture (Tables 2.8–2.10).

Hourly labour costs in the UK tend to be lower than European averages except for Ireland, Greece, Spain and Portugal (Tables 2.11 and 2.12).

The breakdown of labour costs in the UK is also favourable to business. Indeed, indirect labour costs are low in relation to those of other EU countries (Table 2.13). The proportion of the social security costs as a percentage of indirect costs is one of the lowest in the EU.

In addition to the above, the British have a tradition of working long hours with averages significantly higher than the EU norm (Table 2.14).

Education system

In the UK, education is compulsory from the age of 5–16. Education is free in state schools, although a number of private schools also exist. Pre-primary school (nursery education) is underdeveloped. Consequently, the private sector provision in the form of playgroups has grown – facilitating the greater participation of women in the workforce. Additionally, recent policy for funding 2.5 hours a day for pre-school children has reduced childcare costs.

The participation rate of 16 and 17 years old in full-time non-compulsory education is rising, but remains low compared to European standards. The levels of education of people aged 25–59 also remain lower in the UK than in the rest of EU. National Vocational Qualifications (NVQs) were introduced in the 1980s and offer a framework of competency-based qualifications. Current government policy is based on encouraging a voluntary approach to training in the workplace (Table 2.15).

Table 2.11 Average hourly labour costs[2] (manual and non-manual workers) in total industry

	1988	1989	1990	1991	1992	1993	1994	1995	1996
Ecu	10.97	11.61	12.2	13.57	13.11	12.8	13.75	13.43	13.93

All data from Eurostat.

Table 2.12 Monthly earnings: non-manual workers (Ecu)

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
In industry	1337	1533	1771	1849	2020	2148	2158	2158	2140	2104	2348
In retail trade	875	1001	1172	1211	1319	1416	1419	1402	1469	1390	1535

All data from Eurostat.

Table 2.13 Structure of labour costs (%) in total industry (1995)

Direct cost	Indirect cost	Social security as part of indirect cost
84	16	13

All data from Eurostat.

Table 2.14 Number of hours usually worked per week: full-time employees

	1988	1991	1994	1997	2000
EU-15	40.7	40.3	40.3	42.1	41.7
UK	43.7	43.4	44.7	44.9	44.2

All data from Eurostat.

Table 2.15 Percentage of population aged 25–64 completing at least upper secondary education, 2000

<Upper secondary education	Total (25–59)	25–29	30–34	35–39	40–44	45–49	50–54	55–59	60–64
EU-15 (women and men)	64	76	73	70	66	62	55	51	45
UK (women and men)	81	90	89	86	83	79	72	64	67
EU-15 (women)	61	77	73	70	64	58	50	45	37
UK (women)	77	90	88	85	79	74	65	56	56

All data from Eurostat.

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REPUBLIC OF IRELAND

Area	68,890 km^2
Population	3,626,087 inhabitants
Density	52 inhabitants per km^2
Capital and population	Dublin (953,000)
Other major cities and population	Cork (218,000) Limerick (79,000) Galway (57,000)
Official languages	Irish and English
Religions	92% Roman Catholic 3% Church of Ireland 5% Others

Topography and climate

The Republic of Ireland comprises approximately five-sixths of the island of Ireland. Northern Ireland, a constituent part of the UK of Great Britain and Northern Ireland, makes up the remaining north-eastern part of the island. It is situated on Europe's western seaboard, just west of Britain and separated from it by the Irish Sea.

The relief of the island comprises a generally mountainous coastal area and a flatter inland region. The western and southern coasts which face the Atlantic are mostly rural and indented. The highest mountain peak is Carrantouhill (1040 m) in the south west. Peat bogs account for almost 10% of the landmass. There are numerous small islands particularly on the Atlantic coast but only a minority remain populated all year round. The Shannon river at 354 km is the longest river on the islands of Ireland and Great Britain. It dominates much of the centre of the country and has a number of large lakes on its course.

Ireland's situation, in the western Atlantic and on the route of the Gulf Stream, is the dominant influence on its climate. It has a mild, temperate, moist climate. Rainfall, carried by the prevailing westerly winds is well distributed throughout the year. Given that no part of Ireland is more than 100 km from the sea, the climate is relatively uniform throughout the country. January

Figure 2.4

and February are normally the coldest months with temperatures in the range of 4–7°C. Snow falls on occasion during the winter months but is rarely prolonged or severe. July and August are normally the warmest months with average temperatures in the range of 14–16°C. Rainfall is lowest on the east coast and highest on the west coast.

A homogenous nation?

Despite its relatively recent arrival as an independent nation, Ireland has an ancient history and rich literary, oral, and artistic traditions. The island of Ireland was ruled by Britain for approximately 600 years, much of which was marked by various uprisings and struggles for independence. Ireland is thus a comparatively new nation state, achieving partial independence from Britain in 1921 and only becoming a Republic in 1949. It is also a small country comprising some 68,890 km^2 with a population of 3.7 million or 1% of the population of the EU. Ireland has been a member of the United Nations since 1955 and the EU since 1973.

Over 90% of the population are Roman Catholic. The other main religious group are Protestant, including Church of Ireland (Anglican), Presbyterian and Methodist denominations. Until recently, Catholicism has played a key influencing role in Irish society. This was particularly manifest in the Catholic church's role in education, its influence on political decision-making and in broader moral values. The country is predominantly English speaking although a substantial number of people can also speak Irish (Gaeilge), the country's native tongue. However, the use of Irish as an everyday language is confined to a small minority of the population, mostly in the west and south-west of the country.

The Republic of Ireland has traditionally been quite a homogenous nation. The population is predominantly of Celtic origin and, up to recently it did not have any significant cultural and/or religious minorities. However, the period since independence has seen dramatic changes in Irish society, most notably over the last decade which has been characterised by rapid economic growth, a reversal of population decline and considerable inward migration. Thus Ireland has seen the return to the country of many of its citizens who emigrated in earlier decades and, for the first time, experienced a growth in the number of foreign nationals seeking to live and work in Ireland. The rapid pace of economic development and increasing affluence in Irish society has sparked increasing debate on economic and social issues, such as environmental concerns, racism and increasing materialism in Irish society.

Principal characteristics

Figure 2.5 and Table 2.16[1] show the relative position of the Republic of Ireland in relation to other European countries on a number of standardised items.

People

Possibly the most remarkable feature of Ireland's social and economic history was the dramatic decline in the country's population from the mid-1800s, with a decrease from over 6 million in 1841 to some 3.5 million in 1991. The country's current population density of about 53 people per km^2 represents just over half of what it was in the early 1840s, when the whole island had an estimated population of over 8 million. The "great famine" of 1845–1848, stemming from disease among the staple potato crop, saw between 1 and 2 million die and another 2 million emigrate. This spate of emigration continued for over a century and apart from the post famine period was also particularly high in the 1950s, with over 2% of the total population leaving the country in some years. This situation has now significantly reversed and the country is experiencing significant levels of net immigration (Figure 2.6).

Looking at recent trends we find that Ireland's population remained effectively static through the 1980s but started to increase towards the end of the decade and over the 1990s. However, Ireland's population of approximately 3.7 million people remains the second lowest in the EU. Ireland also has a relatively young population but, as in other EU member states, the number of children is falling due to a somewhat declining birth rate. However, the birth rate remains above the EU average.

[1] All statistics from Annual *Eurostat* Yearbooks published by the Office for Official Publications of the European Communities, Luxemburg. Most data for this chapter from *Eurostat Yearbook 2002: The Statistical Guide to Europe Data 1990–2000, 1987–1997.* Brussels: Office for Official Publications of the European Communities. Other data from previous yearbooks.

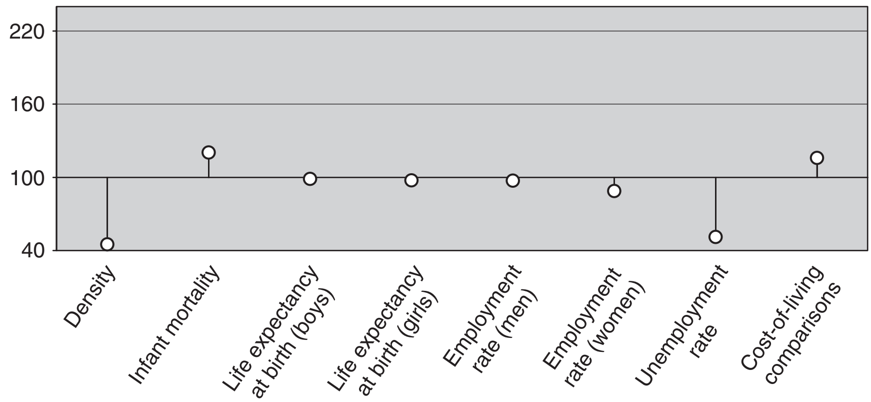


Figure 2.5 Principal characteristics in relation to EU-15 = 100

Table 2.16 Underlying table for "Principal characteristics in relation to EU-15"

	EU-15	IRL*	Relation (IRL/EU-15) × 100
Density (inhabitants per km^2) Year: 1997	117	53	45.3
Infant mortality (per thousand live birth) Year: 2000	4.9	5.9	120.4
Life expectancy at birth (boys; years) Year: 1999	74.9	73.9	98.7
Life expectancy at birth (girls; years) Year: 1999	81.2	79.1	97.4
Employment rate (men; %)	70	68	97
Employment rate (women; %) Year: 1997	50	45	89
Unemployment rate (%) Year: 2000	8	4	51
Cost-of-living comparisons (total value; B = 100**) Year: 2000	B = 100	116	116

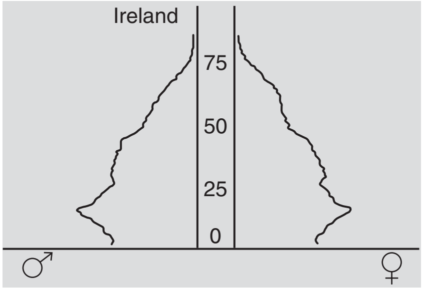
All data from Eurostat.
* IRL = Ireland.
** Based on cost-of-living in capital city of each country, with Brussels = 100.

Table 2.17 Population by age (% of total population)

Age (years)	Ireland		EU-15 2000
	1987	2000	
<15	29	22	17
15–24	17	17	12
25–49	31	35	37
50–64	12	14	17
65–79	9	9	13
>80	2	2.5	3.7

The Irish workforce will continue to expand in the medium term as those currently of school-going age enter the labour market. However, as in many other EU countries, there is evidence of some ageing of the population. Between 1981 and 1996, the Irish population aged nearly 3 years leading to an average age of 33.6 in 1996 compared with 30.8 in 1981 (CSO, 1998). This is unlikely to have any impact in the short term but, as the average age of the working-age population moves closer to the 50s, this will have significant implications for HR, particularly in terms of succession planning, training/retraining, rewards and so forth. Furthermore, as the population ages, and should the birth rate continue to fall, the dependency ratio will increase, as greater numbers depend on the shrinking economically active cohort. It appears however, that a significant ageing (or "greying") of Ireland's workforce will not occur for at least another 20 years (Table 2.17).

In the Republic of Ireland, the average number of people per household is 3.3. As in the UK this figure has been shrinking over recent decades: the equivalent figure in 1981 was 3.6. We can also cite similar reasons in explaining this trend: more people are now living on their own (20% in 1991 as opposed to 17% in 1981). However, the numbers living alone remains significantly smaller than in the UK. Ireland has also



All data from (1)

Population by gender 1901–1996

Total population (persons)

Year	Total	Males	Females
1901	3,221,823	1,610,085	1,611,738
1911	3,139,688	1,589,509	1,550,179
1926	2,971,992	1,506,889	1,465,103
1936	2,968,420	1,520,454	1,447,966
1946	2,955,107	1,494,877	1,460,230
1951	2,960,593	1,506,597	1,453,996
1961	2,818,341	1,416,549	1,401,792
1971	2,978,248	1,495,760	1,482,488
1981	3,443,405	1,729,354	1,714,051
1991	3,525,719	1,753,418	1,772,301
1996	3,626,087	1,800,232	1,825,855

Figure 2.6 Population by gender 1997 (% of total population). *Source*: Central Statistics Office

seen an increase in the number of couples without children (up from 130,000 in 1981 to 145,000 in 1991) and in the number of single parents. In 1981, Ireland had 77,000 single women with children but by 1991 this figure had increased by 22% to 94,000.

Economy

Ireland is a classic example of a small open economy which is heavily export dependent (exports account for over 60% of GNP). Ireland was among the first of a group of EU member states to join the Economic and Monetary Union (EMU) in January 1999. Ireland is also a late developing economy with most industrial activity occurring since the 1960s.

Although experiencing initial development immediately after the independence period and during the 1960s, the Irish economy has struggled for much of its existence. Indeed by the mid-1980s the country had become locked in deep recession and faced effective economic bankruptcy. However, since then, the country has undergone a remarkable economic transformation and over the past decade is one of the world's most successful and fastest growing economies. Expansive growth in the Irish economy over recent years continues apace. Real GDP growth rates since 1994 have averaged out at 9% a year (10% in 1998) or almost four times the EU average (Economist Intelligence Unit, 1999). Growth in the Irish economy has been fuelled by a very rapid growth in exports of goods and services. The numbers at work are growing by at least 4% a year (5.5% in 1998) and the standardised unemployment rate has fallen below the EU average (10%) and currently stands at less than 6% (and falling), which is the lowest it has been since 1979. Industrial production in Ireland has been impressively high when compared to other EU countries. The bulk of total manufacturing production, which increased by 17% between 1997 and 1998, can be attributed to the strong performance of a small number of high technology sectors dominated by foreign multinationals, particularly pharmaceuticals (production almost doubled between 1996 and 1997), electrical engineering, office equipment and the production of data processing machinery including computer components. Traditional indigenous sector growth is more modest, but still strong at approximately 4% in 1998.

Over the decade of the 1990s Irish Government Debt has fallen significantly: public debt as a share of GNP has fallen from 110% in 1988 to 66% in 1997 (Tansey, 1998).

In terms of international competitiveness, the World Competitiveness Yearbook 2002, ranks Ireland as the 10th most competitive world economy (down from 7th in 2001 and 5th in 2000). This fall is partially explained by Ireland's exposure to the technology sector and to international trade, which suffered severe setbacks over the recent past.

Despite strong growth in output and employment during the 1990s, inflation generally remained below the EU average. However, the recent past has seen a sharp and significant increase in Irish inflation and the prospect of high levels of wage increases, combined with spiralling property prices, may fuel inflationary pressures

Table 2.18 Gross domestic product (at market prices, in million Ecu/EU)

	1991	1994	1997	2000
EU-15	5,779,473	6,334,523	7,287,921	8,524,371
Ireland	38,648	46,148	70,608	103,470
UK	836,147	878,109	1,171,548	1,547,903

even more and thus represent a major threat to the Irish economy's recent success. We have also seen that unemployment has fallen significantly in recent years, with skill shortages in many sectors of the economy. Again the recent economic downturn has eased these shortages. However, in the longer term some commentators fear that decreased labour supply may arrest Ireland's economic growth and, particularly, its capacity to attract foreign direct investment (FDI) (see Tansey, 1998).

A key result of these developments is that Ireland can no longer be ranked as one of the poorest countries in the EU. As we can see from Table 2.19, Ireland has effectively caught up with many of its hitherto richer European counterparts. This table also demonstrates that the traditionally significant income gap between Ireland and the UK effectively disappeared.

Using 2000 figures, we find that the overall cost-of-living in Ireland is expensive (Table 2.20). This is particularly the case in relation to utilities and alcohol/tobacco.

Table 2.19 GDP per capita in selected countries 1961–1997*

Year	Ireland	Britain	Germany	Spain	USA
1961–1970	60.5	112.5	118.4	67	171
1971–1980	62	100.5	116	74	149
1981–1990	66	100	116	71	143
1991	76	97	105	79	137
1992	79.5	98	108	77	136
1993	83	99	108	78	141.5
1994	88	98	110	76	142
1995	95	98	109	76	140
1996e	101	99	109	77	141
1997p	104	100	109	77	140

(* GDP per capita with EU average = 100; e = estimated; p = projected).
Source: Tansey (1998) (based on Eurstat and Directorate General II, EU Commission data).

Legal, institutional and political environment

Political and judicial system

The Irish political system, a parliamentary democracy, is prescribed by the Constitution of 1937 (*Bunreacht Na hEireann*) which provides for a national parliament, defines the structure of the courts and details the fundamental rights of Irish citizens. The constitution can only be altered with the approval of the people through a referendum.

Ireland's bicameral Parliament (*Oireachtas*) consists of a directly elected President and two houses: *Dail Eireann* (lower house) and *Seanad Eireann* (upper house). The current President is Mary McAleese. The Presidency, a non-political position, is largely a figurehead position. Mary McAleese is Ireland's second female President, succeeding Mary Robinson who was elected to the post in 1991. Effective political power rests with *Dail Eireann* (lower house) and the office of *Taoiseach* (Prime Minister). Elections must be held at least once every 5 years and take place under a system of proportional representation.

Ireland's two major political parties, *Fianna Fail* and *Fine Gael*, are based on divisions between parties which supported and opposed the Anglo-Irish Treaty of 1921: *Fianna Fail* opposing the Treaty and *Fine Gael* a descendant of the party supporting the Treaty. By and large the major political parties in Ireland are quite centrist in orientation. Ireland has had a remarkably stable political system since the early turmoil of the 1920s. The centrist *Fianna Fail* party has been the dominant power in Irish political life. However, it last formed a single party Government in 1977 and since then the country has been governed by coalitions or minority governments led by either *Fianna Fail* or *Fine Gael*.

Table 2.20 Cost-of-living comparisons 2002: Dublin compared to EU (Brussels = 100)

Food and non-alcoholic beverages 105	Clothing and footwear 66	Housing, electricity, water, gas, fuels 162	Furnishing, household equipment and maintenance 112	Health 114
Transport 116	Recreation and culture 93	Education 75	Alcohol and tobacco 189	Communications 85
Hotels, cafes and restaurants 116	Miscellaneous 88		*Total* 116	*Total exc. rents* 103