MANAGEMENT THEORY AND PRACTICE: SYNERGY IN ORGANISATIONS
Management Theory and Practice:
Synergy in Organisations
MANAGEMENT THEORY AND PRACTICE: SYNERGY IN ORGANISATIONS

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FOREWORD

The present proceedings have been gathered in the framework of the international scientific conference *Management Theory and Practice: Synergy in Organisations*, organised by the Chair of Management of the University of Tartu. The proceedings consist of 22 research articles. The articles explore actual issues of management theory and practice focusing on their interrelations and attempting to find out common area. The aim of the proceedings is to bring forward theoretical and practical views and ideas, which implementation can improve work of organisations.

The questions that are tried to find answers are the following: Why theory is not enough applied in practice? What are the actual theoretical orientations that need more attention? Why practitioners do not feel enough support from theorists?

The articles examine organisational and individual values in globally new environmental conditions. Keywords of discussion are: learning organisation, innovation, virtual work, connecting work and leisure, service, motivation and performance. Many authors emphasise the importance of individual approach in management what is often hard to follow in practice. For overcoming the problems newer and well-known theoretical concepts of management and leadership are brought forward. In several articles emotional intelligence as an aspect of individual oriented approach in management is also covered. However, the central issue of all articles is the type of management that would meet the needs of practice.
The proceedings of the conference represent the articles from six countries: Estonia, Finland, Italy, Japan, Latvia and Russia. Main topics covered in the articles are: from management theory to practice, contribution of management practice to theory, developing organisations and improving their performance, the social context of organisations, innovation and synergy in organisations, research on managers and their behaviour, new technologies and management practices. The conference sessions were formed according to the above named topics.

All articles were pre-reviewed by two anonymous reviewers whereas at least one being not from the author’s home country. The articles were improved as a result of cooperation and mutual feedback between the authors and the reviewers. The proceedings of the conference present the articles in their authors’ names alphabetical order and are published in the form presented by the author. The format of the texts has been unified.

We acknowledge the support of the Estonian Science Foundation by their grant (No 7018), Hansabank, Estiko and the Faculty of Economics and Business Administration of the University of Tartu. Special thanks to Kadri Adrat, Kalle Ahi, Sigrit Altmäe, Krista Jaakson, Kadri Karma, Triin Kask, Veigo Kell, Kurmet Kivipöld, Andres Kuusik, Oliver Lukason, Maarika Muuga, Anne Reino, Liis Roosaar, Marge Seppo and Rebekka Vedina for their help in the preparatory stage of the proceedings and for their contribution in the reviewing process. We are also grateful for the Tartu University Press for fruitful cooperation.

We hope that our collaboration will meet the set goal and the readers will gain new ideas about how to manage organizations more effectively and create synergy between theory and practice.

On behalf of the editorial board
Kulno Türk
INTRODUCTION: ARE MANAGEMENT THEORY AND PRACTICE A BINARY PAIR?

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Introduction

People like to set things in contrast. It implies that one pole is often seen positive and the other negative by its nature. It can be explained with the affective component of attitude, which put us to categorize objects and subjects pleasant or unpleasant according to the previous associations (Triandis, 1971).

This phenomenon is also represented on the culture level. For example, French philosopher, Jacques Derrida argues that “binary pairs” are not equal; a culture tends to favor one side of each “binary pair” and judge it in a more positive or privileged light (Derrida, 1980). One half of a binary pair is somehow “culturally marked” as positive, and so is more valued within a group, society or culture, whereas its binary opposite is “marked” as negative. He has focused on “man/woman” binary pair in his works.

In similar vain, management practice and theory are contradistinquished in various respects in everyday organizational life and in university classrooms. Sewell (2004) exemplifies it: “I work in a management school where you often imagine hearing students (and, even more disappointingly, some colleagues) grumbling
Introduction: Are management theory and ... sotto voce, “That’s all very well in theory, but what about the practice?”

It seems that comparison of theory and practice provides a fascinating way to analyze and discuss many aspects related to the study of management. This introduction is aimed to explore the relationships between management practice and theory. In the following review, the focus will be on the general aspects of management practice and theory, especially on the consequences for synergy in these fields. This is very important that management practice and theory have the ground for the fruitful cooperation.

**Background of management practice and theory**

Management practice has a long history that has started thousands of years ago. Human activities needed coordination and administration and thus management became on the scene. There are evidence that Sumerian civilization (5000 B.C.) introduced written records already because of formation of governments and commerce (Massie, 1987). Nowadays we say: recorded data are essential to life of organization. This vivid example illustrates how the former ideas have been transferred to today’s management. During several millennia people experienced different situational demands and it has triggered various ideas about the management practices. For example, Egyptians brought up idea about planning, organizing and controlling, Babylonians produced ideas of standards and responsibility, Greeks introduced specialization, Romans centralized organization, while western nations raised idea about corporations (Massie, 1987). The latter we can consider as the separation of owners and managers and the step towards professional managers.

We cannot imagine our today’s life without professional managers because both large complicated systems as well as small and quite simple organizations require managers in this turbulent
environment. Thus, management practice born with the need for coordination has the similar function in our days and many other functions were added along this time. When industry had grown up, the role of management became important for economic life in parallel.

By 1880 the American Society of Mechanical Engineers had established professional society where members (usually leaders of large corporations) presented their papers and in 1886 F. Taylor presented his ideas about scientific management (Rose, 1975). It was the starting point of management theory, regardless of criticism towards Taylor’s method and ideas. Management practice and theory began their way hand-to-hand and Taylor’s ideas about high-speed cutting tools were important element of Scientific Management.

Another classical model based on practical experience (after 30 years an eminently successful career as a practitioner) was proposed by H. Fayol in 1916 (Fells, 2000). So, industrial engineering promoted the management studies and established link between management theory and practice. In this context theory is defined as a set of systematically interrelated concepts, definitions, hypothesis that are advanced to explain and predict phenomena (Shermerhorn, Hunt & Osborn, 2000). Management approaches from past to present varies from Classical, Behavioral, Qualitative to Modern Management Approaches (Shermerhorn, 2005). All these ideas and approaches have derived from the practical problems and tested in the practice. This goes to show that theory was born from the practice and throughout the history management practice has always been two steps ahead of theory. Indeed, there have been many shifts in the management thought and both theory and practice are influenced by the new ideas.
The roots of confronting management theory and practice

Management theory and practice have the common object, while this is presented in different ways. Pagel and Westerfelhaus (2005) argue that popular management theories and the books that promote practical management views have become prominent and influential fixtures of the contemporary American business landscape. They complain the lack of terms in the popular and academic press to represent the difference between the management theory and “eclectic models”, “fads”, “guru theory”, “management fashions” etc. The clarification of abovementioned issues may open some reasons of confrontation management theory and practice because sometimes popular theories are seen as the representatives of very practical approaches to management.

There are several reasons why the popular management approaches have deserved special attention from practitioners. According to Grint (1997) reasons of managers’ preference of those theories could be classified into five broad categories:

- rational (to help be effective and stay ahead of the competition);
- charismatic (to imitate the wisdom of a charismatic guru);
- distance peace (to go away form their underlings);
- structure creation (to alter economic structures prompt managerial desire to change through the use of new innovations);
- Institutional pressure (to respond to the tendencies in the organizational environment where others have implemented some popular management theory: so-called bandwagon effect).

These reasons reveal that popular management theories help managers’ to reduce uncertainty and offer managers the feeling of belongingness to the certain social group by creating shared knowledge, which evolves commonly understood vocabulary and style.
Jackson, the author of book *Management gurus and management fashions* describes his experience: “In contrast to the stuffy, formulaic introductory management texts that I was reading for my introductory management classes, these writers (Drucker, Peters, Blanchard) made me feel emotionally good about what I was doing, firing me up with enthusiasm to “get out there and do something””. (Jackson, 2001) This quote adds one aspect to the reasons of advantages of popular management theories; namely, emotional excitement which plays important role in everyday managerial practices. Usually managers have to find their motivation themselves and emotional enthusiasm benefits to this process, indeed.

Management theory should follow the academic style and management practice likes business style. Academic style is related to the academic rigor which is a set of standards that must be considered in theoretical approach to the management problems. The academic and business styles differ from each other in various respects. Table 1 presents the study code for the comparison of management books from the academic and business perspective by Pagel and Westerfelhaus (2005).

**Table 1. The Code of Reading Preference’s Binary Pairings**

<table>
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<th>Academic Style</th>
<th>Business Style</th>
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<tr>
<td>Long</td>
<td>Short</td>
</tr>
<tr>
<td>Excessive wordiness</td>
<td>Concise word usage</td>
</tr>
<tr>
<td>Indirect presentation of main points</td>
<td>Direct presentation of main points</td>
</tr>
<tr>
<td>Abstract concepts</td>
<td>Concrete examples</td>
</tr>
<tr>
<td>Complex language</td>
<td>Simple language</td>
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Source: Pagel & Westerfelhaus, 2005.

Table 1 shows the binary pairs of the study that was aimed to analyze managerial reading preferences. Clearly, this contrary dictionary style of presentation is one of the important reasons
behind the opposition of management theory and practical approaches. Huxham and Beech (2003) express it as follows: “Theory and practice, while linked (in theory), are commonly treated dualistically. Both tend to be self-referential with writing about theory targeted at academics and conducted in a way which maintains the subject–object split, and writing for practitioners tending to avoid deep theory in an effort to emphasize practicality.”

This perspective confirms also the idea that confrontation is the attitude rather than fundamental issue of opposite phenomena. In other words, the styles in academic and business life are different; and long, abstract and complicated approach may create barriers between audiences. According to an extreme viewpoint, a theorist tries to find universal relationships, while for a practitioner the most important matter is the (best) performance result. All in all, abovementioned aspects show that there are some social and emotional reasons for the opposition of management practice and theory.

Scope for the conjunction of the management theory and practice

Organizations can run into problems when they depend too much on the practitioners or academics (presenting theory) who believe that the way in which they are acting is beyond reproach. This is obviously a disadvantage, a complication for communication when we need to achieve knowledge exchange between academics and practitioners. Two kinds of knowledge – explicit and tacit – are differentiated within the sociological perspective of knowledge management. Due to its nature, tacit knowledge cannot be shared as easily and as consciously as explicit knowledge, which is often presented in traditional organizational studies.

There are some possibilities to improve the knowledge sharing and thus generate synergy and here three issues – common values,
attitudes, and new research methods – will be discussed in the following paragraphs.

First, the cooperation in order to conciliate management theory and practice the academics and practitioners have to find common values. Vadi (2005) has expressed it: Values reveal the partners’ differences and similarities, which in turn will create an acceptable balance. Therefore one can say that the process of finding common values is time-and-energy-consuming; moreover, sometimes the process itself is considered more important than the final result. In view of the latter understanding, theorists and practitioners should participate in discussions that would enable them to point out issues that both parties consider important, i.e., common values.” Thus, the closer integration would base on values.

One specific approach may benefit for working with values. Values are often surrounded with tensions and thus, the theory of tensions, which explicates a way of framing management theory in terms of tensions between apparently contradictory pieces of good practice advice. There are means of deconstructing practice in a reflective way, help to avoid the total closure of meaning, because it does not presume a ‘right way’ in which benefits outweigh costs (Fluxham & Beech, 2003). This technique enables to negotiate aims and deal with tensions between partners.

Second, there are different attitudes towards outcome management research held by academics and practitioners. Scientists and practitioners present different roles (Roth, Sandberg & Svensson, 2004). Theorists need practitioners’ experience and practitioners need theorists’ opinions about how to develop management. Attitudes play important role nowadays in various respects and the attitude change theory is a minor branch of advertising, politics, selling, learning and other areas of practical life where persuasion is essential for getting results. If academics would understand better the practitioners’ expectations, the cooperation is rather fluent. Sewell (2004) argues that the best way to persuade practitioners of the merit of academics’ thinking is
through the pedagogy. It seems to certain extent the manipulative view, while the idea of flexibility sounds promising.

Third, the introduction of new and innovative research methods benefits to the better integration of theory and practice. There are some perspectives, including collaborative research, story telling, self confrontation, development of reflexivity etc. that pay heed to practitioners’ expectations while meeting academic requirements. The latter means that there is a need to think about the role of the researcher in constructing (or reconstructing) the subject of their research. The idea of reflexivity reinforces the fact that there is an important distinction to be drawn between social subjects produced in their social setting and research subjects produced by researchers in their research community. (Hardy, Phillips & Clegg, 2001)

Researchers create the world of subjects and objects. The grounded theory is one of the areas which are related to the reflexive approach. Grounded theory connotes theory developed from data rather that with the testing and verification of existing theories (Martin and Turner, 1986). Indeed, this approach has the advantages (for example, on the pilot stage of research) as well as vulnerable sides (for example, subjectivity).

Collaborative management research is viewed as an emergent and systematic inquiry process, embedded in a true partnership between researchers and members of a living system for the purpose of generating actionable scientific knowledge (Adler et al., 2004). Collaborative research looks for true partnership between researchers and members of the business society. It is important to mention that the partnership has found that they need each other and are willing to learn from each other.

Story telling is a highly dynamic interaction phenomenon involving dialogical reciprocity between the teller and the listener (Hermans, 2002). The individual engages in a process of meaning construction with the resultant product the organization of self-
narrative events (Hermans et al., 1990). The Self Confrontation Method requires that a person perform a thorough self-investigation consisting of: the construction of a set of valuations; rating each of the valuations using a list of affective terms; and discussing the results with the interviewer (Hermans, 2002). The valuations are elicited by a series of open-ended questions that are intended to bring out units of meaning for the past, present and future that are important in the eyes of the person. After the interviewer performs qualitative and quantitative analysis of the responses, a meeting is convened to discuss the results.

Title of the paper poses a question which has to be answered. We have learned that management theory and practice are two sides of the same coin. Thus, these have differences but we have to keep from contrasting management theory and practice. We have tried to present here both practical and theoretical approaches to the management in this book.

References


Introduction: Are management theory and ... 


Introduction

This study concentrates on the social and discursive construction of values in organizations. As found by the business owners and managers, values and value processes are needed in every organization nowadays. The world is changing and companies have to have something to “keep it together”. Organizational values, which are approved and used by every employee in a company, could be the crucial thread. This is why big projects and sums of money are invested to the so-called value processing projects, with the aim to root certain values in the company culture. However, the challenge of the value processing is the feasibility.

Value management is a common term in today’s organizations. But can values be managed? What is the management’s role in value processing and which kind of leadership it needs? Because big sums of money are invested in the project, it is also important to ask the final results and productiveness. These are questions seldom asked, maybe because of the difficulties in measuring and
Value change projects as sites for ... the intuitively good impact thought they have. Value management is fact making sense in the organization, making sense of the changes and giving meaning to the reality people face. Managers have a special role in this process (Smircich & Morgan, 1994; Weick, 1984; Helms & Mills, 2003).

In this research there are three case companies (forest industry, bank and market) and their value processes: how people experience companies values, how values have been disseminated etc. It is studied how values are processed in different companies and especially how individuals in different hierarchical levels experience value processing. Each company has its own way of performing the process. One of the most interesting issues is personnel’s experiences and opinions about the value process. Interviewees from different hierarchical levels and also among managers make the study intriguing.

Managers have a central role in shaping the organizational culture. Every manager who has subordinates is important in value rooting process. The challenge any leader of an organization is facing is to acknowledge the fact that moral values are integral intangible assets that influence the organization’s core activities. Moral values are present when setting goals, developing strategies and in everyday decision-making. Even if values can be studied as a separate part of organizational culture and climate, we can see that the whole organizational reality is a site of processes where values have a role. The organization gets its identity though values that people share even if sometimes contradictionally, it tells who we actually are in the organization and what do we aim for. In this paper we study value processing projects as something that give meaning and vision for the whole organization and its members and which need different kind of managing than do other projects. It is like leading the organization through a jungle of values, giving it spirit and moral involvement. In this process flow of work is more important than motivation, and emotional leadership behaviour more important than project management. The results
of the process should be understood widely and use individual experiences as a site of understanding the productiveness it has.

Leading organizational cultures with values

Organizational culture and company values are constantly affecting each other, they can’t be separated into two different things. In this study the value management and organizational culture are treated together. This decision is made since the empirical findings in this study support it. In interviews the management and organizational culture constantly emerged together; they are interconnected when value processing is concerned.

The values held by the members of an organization determine the organizational culture, which according to Simmerly (1978) is the most powerful internal force affecting any organization. Due to Simmerly “organizational culture defines expectations about behaviour, how work is done, how decisions are made, how social interactions are structured and how people communicate”. Before any organization begins to plan strategically for change within the organization, the organizational values held by its members must be identified, clarified and validated (Seevers, 2000).

In this study, the individual’s experiences of the values in his or her organization play an important role. The interviews focus on what the individuals have to say: how they experience values and how they talk about them. In language, meanings are formed in relation to and as a distinction from each other. Individuals give meanings to the issues they talk about. (Jokinen et al., 1993) According to Keso (1999), an individual’s system of meanings refers to itself when the individual observes his or her environment. An individual is in constant interaction with his or her environment and modifies his or her system of meanings. When individuals give meanings to concepts, they interpret the endless flow of reality into phenomena understandable to them and produce different versions of reality. In this study, personnel from
different organizational hierarchy levels is interviewed; from upper management to the opposite end of the ladder. This is done to achieve as extensive a solution to the research problems as possible. The role of managers in the implementation of a value process is vital, but when the success of a value process is evaluated, the "truth" more often comes from the mouth of so-called ordinary employees.

The leadership and organizational discourse of the 1990s strenuously emphasized the importance of organizational reform and innovations: it has been said that investments, no matter how great they are, in e.g. new technology or education, do not boost productivity or competitiveness unless attention is also paid to the development of organizational practices. (Koski et al., 1997)

It is common rhetoric amongst several serious academics that hierarchy in organizations a factor inhibiting creative, flexible, effective etc. performance. Tall hierarchies are supposed to foster tight supervision with narrow spans of command and also alleged to clog and contaminate the communication channels. (Chakraborty, 1991)

To be most effective, the value process should be implemented in an organizational climate that supports ethical behaviour. Top managers value ethics in extremely important in realization of a value processes: effective managers articulate a vision that includes ethical principles, communicate the vision in a compelling way and demonstrate consistent commitment to the vision over time. The reputation for strong ethical cultures in companies can be traced directly to inspirational leaders who consistently, by their words and deeds, signalled the importance of a commitment to high moral standards. (Buller et al., 2000)
Managerial roles in value processing

Nowadays organizations have to continually battle with continuous change and new environments. There are continual challenges to the organizations established goals, structures and ways of working. Transformal leaders “transform” fundamentally the parameters of the status quo through providing a vision for the future and then investing time and effort in having others share that vision. Through sharing the vision, they clarify the present, explain how the past has influenced and promote a view of the future. They deeply penetrate the soul and psyche of others and thereby rise in others level of awareness that rejuvenates people to strive for ever greater ends. (Hatch, 1997)

Most modern day organisations would be of a divergent nature. The matching leadership style is transformational. A transformational leader is one who engages in emotions. They identify the importance of motivation, achievement and praise. This type of leadership is highly dependant an employee empowerment, as it encapsulates the ideal of trust rather than control. Through this type of leadership, others are empowered, but leadership is still essential for success. Transformational leadership opposes the status quo and aim to change their followers’ behaviour and beliefs to unite them behind a new vision for the future of the organisation.

Leaders identify appropriate and inappropriate conduct, and they convey their expectations to employees through codes of ethics and values. The ethical conduct is influenced by our environment. In work settings, managers, and the entire cultural context are an important source of this influence and guidance. People are interconnected in the workplace. This means work is an important source of meaning in their lives. Business is no longer just about products and bottom-line profits. Words “products” and “profits” join with words like “meaning” and “values”.
Company A

Company A: “It depends very much about the local top management, about the organizational culture and about the willingness to receive these kind of things.” (Manager, head office)

Effective managers in all walks of life have to become skilled in the art of “reading” the situations they are attempting to manage or organize. (Morgan, 1997)

Company A: “I believe in leadership, in real leadership with big L. Through this leadership the values can be processed, not by orders. By being a manager, by being an example.” (Manager, local level)

Company A: “Well... communication is difficult because... Usually the subordinates think that the superior knows much more than he really does. And in a big corporation like this it isn’t necessarily like that. It can be that even the superiors don’t know about things... The information just doesn’t move on...” (Manager, head office)

Managers are the examples. Value management means that the superiors find the ways and means, which follow or pay attention to as many person’s values as possible.

Company A: “This whole process culminates to the superiors. People feel that they can’t be initiative, if their superior doesn’t support that kind of behaviour. Superior is the bottleneck in many things. If she/he doesn’t give the space to act, the space really doesn’t exist.”” (Manager, head office)

Company A: “Managers are the examples with their own behaviour” (Employee, local level)

Rational activity is not necessarily the basis of the success of an organization, or even the most essential factor. Organizational success is also to a great extent a matter of the heart and a question of faith. This is why leaders must also have an under-
standing of values and beliefs, the organization's deep structure which can be sensed through its activity, but can not be observed in e.g. its bookkeeping or balance sheet.

Manager, local level: “Managers have big role in this... How they behave, what they emphasize... They can’t just go and give an order that people in the factory should behave like this and like this... It all starts from the top, by being an example. You can’t say like ‘don’t do what I do, do what I tell you to do’. There are some conflicts in this; the feedback has been like that...”

Manager, head office: “If it is known that for example one superior has big turnover of workers, he should be moved to another job or something... Of course these are difficult things, there is a matter of individual’s career and life...”

Manager, head office: “People want to do the right things, something good. And it motivates people. When people are motivated, satisfied and happy etc., it makes more good to everyone.”

Manager, local level: “Here are different organizational cultures, it’s very difficult... But it is the management’s job to create the way to make things work.”

According Bennis and Nanus (1985) all organizations depend on the existence of shared meanings and interpretations of reality which facilitate coordinated action. “We can assume an organization possess a healthy structure when it has a clear sense of what it is and what it is to do”.

Manager, local level: “If every manager/superior act openly, it creates trust. If we are open, it makes more trust. If the managers are not committed to these values, it is very difficult to process them downwards to the organization.”

Manager, local level: “Of course the management should act due these values... If the management doesn’t, it’s like... Like the values didn’t even exist.”
Value change projects as sites for ...

Organization has to have a goal and boundaries within to achieve its goal. Organizations need certain principles in every action. The management has a special responsibility in solving the goals and principles. Solving doesn’t mean dictating but learning together: discussions, negotiations and agreements. Agreements of the values which direct all the actions. With value management the future will be provided.

Manager, local level: “In my opinion it is a management question. That’s why the values are brought here. If people behave due the company values, it of course makes the management easier. I think this is purely a management question. Like an automatic management... as a beautiful basic idea.”

Organization’s ethical values evolve through negotiation, compromise and bargaining between organizational members. Ethical rules can also evolve from conflict and competition. (The Economist, 1993) Top management’s individual values effect greatly to the organizational value processing, because they are the key people in all actions concerning organization.

Employee, local level: “I think it depends a lot from the superior; what kind of example he is to his employees, how he behaves.”

Employee, local level: “It is the management with its own example what creates certain ways to behave.”

Top manager, head office: “We are starting to consider this (values) more and more, e.g. when nominating people, it means that persons’ behaviour, not just their competencies and productivity. It really (values) effects in nominations. I have e.g. fired one top manager because he didn’t act due our values; he wasn’t suitable to our company.”

Employee, head office: “I know that in this company the very top management has made big decisions based on values.”

Values in organization culture are important shapers of members’ behaviour and responses to situations, and they increase the reli-
ability of members’ behaviour (Weick, 1984). In this context, reliability does not necessarily mean consistently obedient or passive behaviour; it may also mean consistently innovative or creative behaviour (Chatman & Barsade, 1995).

Employee, head office: “This way we can success. If we let the people here flourish and work independently, use their own brains, at the end of all it shows in the last line that we are also successful.”

Company B

There are countless questions and theories related to leaders and leadership. It is easy to list leadership characteristics, but no one can say what a perfect leader is like: such a leader hardly exists – no more than a perfect person. Personality is currently the trait that has an increasing importance in leadership. It has become the most important tool, resource and object of development. The personal, professional and cultural roles are united, which removes the historical division into general and professional education. (Lehtisalo, 1999)

Top manager, local level: “Someone has to have the “puzzle” in his mind. And in my opinion it has to be the management.” “The management and superiors have to be the first example.”

Managers are the primary designers in personnel’s welfare and value processes.

Employee, head office: “In our bank managers has been briefed so that they have facility for helping and supporting the personnel, and give chances to education. Both in and outside the workplace.”

Top management’s individual values effect greatly to the organizational value processing, because they are the key people in all strategic actions concerning organization.
Value change projects as sites for ...

Manager, local level: “Well. I have thanked the God for that my personal values and this job’s values are quite close to each other. It makes it a kind of completeness... I have been here for 15 years and I’ve never had to act someone else, that’s what is important.”

If a company can develop a set of commonly held values among its personnel, it is creating a specific corporate culture which might differentiate it from its competitors, thus giving it competitive advantage.

Manager, head office: “We are aware that in this competition we can’t manage without competent and committed personnel. We do appreciate that, we have a rewarding system that reflects that it isn’t just a fad here nowadays.”

Manager, head office: “As a manager I sometimes feel that... since these personnel issues are more like “soft” things, it may feel like just a nonsense when speaking about personnel welfare and competence etc... But to the people who have really realized the connection between welfare and profit, it isn’t nonsense.”

Manager, local level: “Our general manager is the best example in value processing.”

Manager, local level: “We do appreciate people who want to develop themselves here. Someone might feel that she/he isn’t appreciated even she/he has worked here for 20 years... And haven’t been in any training course offered by the employer…”

Employee, head office: “An example person... Well, the whole bank management should be the example... But I wouldn’t give a huge cheer that the top management stands greatly behind these values... There is room for improvement in their work... Still there are no big exaggerations…”

Employee, local level: “Through the personnel the values are reflected to the customers.”

Employee, local level: “The general manager is our example.”
Many cultural values derive from the personality and beliefs of the founder and the top management and are in a sense out of the control of organization (Jones, 2001). This is correct when dealing with companies with strong binds to founders and managers. Their values and image are compared and affect to the organization. This is correct with Microsoft and Bill Gates: Gates is a workaholic who works 18 hours a day. His terminal values for Microsoft are excellence, innovation and high quality, and the instrumental values are hard work, creativity and high standards. Gates expects his employees to have the same commitment what he has towards Microsoft. Cultural values are out of the organization’s control because they are based on Bill Gates. (Jones, 2001)

Employee, local level: “Almost every meeting is started (by the general manager) by putting the value slide on. It reflects strongly the ambition to the value behaviour.”

Employee, local level: “The general manager’s role is huge in this (value process). He has been a great example and has drawn the value conversation very strongly here. Sometimes it feels even like too much, like “hey we already know this.” As a person he really operates due the values, as an example.”

Employee, local level: “All the decisions made as a superior are based on values; all actions are based on values.”

Employee, local level: “It is the basis for a professional company like this (the personnel as the most important resource). The personnel is important intellectual capital, it’s the basis.”

Manager, local level: “Our bank group has common value basis, so we haven’t (at the local level) defined them, but they haven’t been dictated to us. We are committed to them, and we have processed them in our bank: what these values means as deeds, in our bank, in my job etc.”
Company C

“Leadership is a mystery. Is leadership an innate inclination or the product of education? Which criteria lead to selecting the best possible leaders? Is leadership a skill or a question of pure luck?” (Kasanen, 2001) Leadership as such is already very complicated and challenging area. When organizational values are added to this, the aggregate becomes even more versatile. Managers have to be committed to the values before they can disseminate them further to their employees.

Employee, local level: “I think they (top management) are committed to the values. My nearest supervisor and the managers who I meet are supporting the values... Of course it depends about the person...”

It is obvious that values can’t successfully be disseminated without management’s commitment. Values’ mission is to keep the organization together, to create goals, to motivate employees, create permanence, conformity and sense of community. The real value discussion and the greater level of commitment start from functioning values. Values are real values only when they are can be inspected in companies’ performance. Value discussions and declarations are useless if nothing is done in real actions. (Kotilehto, 2001)

Company C: “Values are very important part of management behaviour... How the leaders and the managers experience values... Being an example is very important in management; values are reflected straight through the manager’s behaviour.” (Top manager, local level).

Everyone who trains new employees creates new values, regardless of their organizational status. Those who create values not only add momentum to the corporate strategy and symbolism but also help newcomers understand how company-wide values affect employee performance. Values efficiently internalized by person-
nel are the source from which leadership springs. (Peters and Austin, 1989)

Company C: “We superiors have disseminated values to our employees here... The top management, about five persons, has been as an example, especially the managing director.” (Employee, local level)

Top manager, local level: “Being an example, I think that has a huge role, kind of an ethical question. How the manager act, how a superior acts, how he makes decisions, how he deals with conflicts etc. When talking about manager’s or superior’s work, it is all the time about the own benefit, company benefit and personnel’ benefit.”

Managers are the primary designers of the total organizational form employed – the combination of strategy, structure and internal mechanisms that provide the overall operating logic and resource allocation and governance mechanisms of the organizations. (Kramer & Tyler, 1995) Values are one of the most crucial determinants in defining organizational strategy.

Top manager, local level: “Top management has to take the responsibility for the personnel and personnel welfare. Tools for management are related to this, and values are related to the tools.”

Top manager, local level: “We were almost bankrupt. We had the options to merger or to start success. We had to make a complete change in leadership culture.”

Top manager, local level: “We have this practice... Whenever major changes occur, like changes in strategy or values, I go to the personnel. I talk the issues to them, to the whole personnel in several meetings... It’s all about the management behaviour.”

Top manager, local level: “If the management spoils things, if the superior spoils the things, by their own example... Values are tools for management, for managerial behaviour.”
Manager, head office: “These basic responsibilities are very essential; that you have the responsibility for your own group and their competence and knowledge. That they know how to behave.”

Managers have responsibility for their employees and their actions. They have to keep control in different situations, motivate people and be an example. Control in organization is exercised through individual, interpersonal influence, in which those in roles of authority motivate and direct others to act as they would like. (Pfeffer, 1997)

Manager, head office: “The importance of the superiors should be very essential; if that group doesn’t act due the values, it’s no use to hope that the organization could work due the values.”

When cultural values are developed, top management must constantly make choices about the right or appropriate thing to do. To make these decisions, managers rely on ethical instrumental values embodied in the organization culture (Jones, 1991). Ethical values and rules are an inseparable part of organization’s culture because they help shape the values that members use to manage situations and make decisions. (Jones, 2001) In organizations there must be a high degree of overlap and consistency between individual and corporate values (Salopek, 2001).

Manager, head office: “The top management has a very central role, they can spoil these kind of things quickly.”

Values are heavily integrated into many other facets of people’s personality and behaviour (Griseri, 1998). They are personal and intricate. Every individual has his own opinion what value really is.

Employee, local level: “Each individual interprets values differently… it is the main thread in responsible management, but each employee should be able to speak with their superior, that what the responsible management means, so. It comes through the conversation, that it isn’t confined to certain one thing.”
Employee, local level: “If the top management follows the values, it disseminates to the culture, to the local level, to the units, the message goes correctly through the organization.”

The role of the top management in processing values is very much emphasized in company C too. The general manager is seen as a personification of organizational values.

Employee, local level: “I say that he (general manager) is a person, who demands much from his employees and these values are followed literally, but he is also a person, who rewards employees always when things go right.”

Cultural values are important facilitators of mutual adjustment in organizations. Cultural values can smooth interactions among organizations’ members. People who share organizations’ values may identify strongly with the organization (Jones, 2001). This includes commitment and proud of being part of the organization. Organizational and personal values don’t have to be necessarily similar, but in balance with each other, when they support and complete each other.

Employee, local level: “There are in every company people who direct the actions for example by their own value basis. It is the superior’s job to find these persons, to find the leaders from the others.”

Articulated values of an organization can provide a framework for the collective leadership of an organization to encourage common norms of behaviour which will support the achievement of the organization’s goals and mission.

Employee, local level: “The superiors have been educated to the wisdom that they lead by values, and then the personnel experiences it in their own work. In my opinion it works like this. Like you don’t say to a child that “now you are raised by value basis”, you just tell to the child what is right and what is wrong.”
Employee, local level: “The unit superiors are nearest to the field (the customers), the feedback reflects through them.”

Employee, local level: “It can be said that in this value issue it is true that if the top management is like traditional, authorial “patron leader”, the value basis comes naturally into action: they direct the company by their own value basis, differently than today’s professional leaders. If you think about old time’s patron leader, the factory leader mentality; they had a strong value basis. People might say that it was an authorial ordering mentality, but I would say that the patrons were not so much authoritative, but more like charismatic leaders, who had earned the position of a patron. Nowadays when companies grow and expanse the “old patron” can’t anymore keep the whole orchestra in order.”

This comment above is very interesting value-wise. The historical aspect about value management emphasizes. Earlier, when companies were smaller and there was one, great leader, the values personified to him very strongly. Nowadays, when companies grow and merger, the value management gets much more complicated organizations.

**Conclusions:**

**Managerial roles in leading value processes**

The management’s role in value processing is crucial: they have to show the way, be an example and act due their words. The transformal, “feeling”-leadership is needed when values are processed. Values are very actually quite intimate to people: something under the surface. When organizational values are processed, it has to be done with strong management and respect towards personnel.

To conclude empirical findings in this study, it can be listed as:

1) the managers role in shaping the value-based organizational culture is extremely big;
2) the managers are important examples to their employees: "don’t do what I do, but do what I say" doesn’t work anymore, because;
3) managers have to act due values before demanding it from others;
4) give support to employees, support value-based behaviour;
5) the transformal, "emotionally effective" leadership could be the crucial thing.

The language of organizational change and value processing carry the label of tools by managers. The real outcomes of value processes are also auto communicational and social, that means, they bring inside coherence within the groups, bring meaning and orientation and serve as sites where visionarity and feelings based orientation toward the future is manifested. The ways how this kind of process and its outcomes can be operationalized and explored is a challenge. Old measurement tools are not enough to bring the worth of the process visible. Also the management vocabulary is not used to contain elements of this kind of new change, even if their meaning can be recognized intuitively and informally. However, feedback from the processes is of importance and the difficulties in measuring should not be a reason to give up from it. Narrativeness, discursive practices and social capital concepts like networks, trust and intellectual capital would be worth studying as alternative tools in trying to figure out, what are the real outcomes of the value change processes.

References


Value change projects as sites for ...


Aaltio, I., Mattila, M.


Sissejuhatus


Teema on aktuaalne nii Eesti kui ka kogu maailma kontekstis, kuna globaliseerumise ja tööjõu vaba liikumise tingimustes on jätkusuutliku konkurentsieelise saavutamine kriitilise tähtsusega
küsimus. Teisalt on inimressursi arendamine Eesti riikliku arengukava üks prioriteete.

Samaaegselt öppiva organisatsiooni teooriatega on tulnud kasutusele ka organisatsioonilise öppimise käsitlused. Kui organisatsiooniline öppimine keskendub öppimise protsessile, siis öppiva organisatsiooni käsitluse keskpunktis on enamasti normatiivne mudel, mille kaudu määratletakse protsessid.


**Teoreetilised lähtekohad**

ise otsuseid langetades saavad inimesed tõeliselt vabaks ja arenevad ning läbi muudatuste areneb ka keskkond”.


Autorid järeldavad, et õppimisvõime suurendamise ja organisatsiooni jätkusuutlikkuse seisukohalt on oluline mõista süsteemide ja inimete vastastikust koostoomet püstitatud eesmärkide kontekstis (vt joonis 1).

Joonis 1. Õppiva organisatsiooni põhialused (Scholtes, 2001 põhjal autorite koostatud).

Parima lähenemisviisi otsingud õppiva organisatsiooni kujundamisel on seotud erinevate eesmärkidega. Üheks eesmärgiks on kujundada töökohal inspireeriv ja elukestvat õppimist tagav filosoofia, mis innustaks töötajaid maksimaalselt kasutama oma res-
Ahonen, M., Kaseorg, M.


On keeruline leida ühte ja kõigile sobivat arengu mudelit, samuti ka ühest definitsooni (vt lisa 1). Seepärast nõustuvad autorid mõttega, mille kohaselt idee ühest ja ainuõigest organisatsioonist on kergesti ümberlükatav, vajame organisatsiooni, mis sobib antud ülesanna tulemusena on kõrged, kuna töötajad teadvustavad edu saavutamisel seotust tervikuga (Allen, 1996; Watkins & Marsick, 1996).

Õppiva organisatsiooni kontseptsiooni rakendamine

Uurimuse korraldus ja meetod

Õppiva organisatsiooni mõistmise alase küsitluse läbiviimiseks koondasid autorid mudelisse sellealases teoreetilises kirjanduses enam kajastamist leidnud kuus tunnust (vt joonis 2). Tunnustele
lisati autorite selgitusena antud tunnust iseloomustavate märksõnade loetelu ja lühiselgitus. Iga tunnuse kohta koostati kuus väidet (vt lisa 2), mis anti ülevaatamiseks ja korrigeerimiseks juhtimise teoreetikutele ning praktikutele. Väidete bloki järel oli ka kaheksa sotsiaal-demograafilist küsimust.


Joonis 2. Õppiva organisatsiooni mudel (autorite koostatud)


Samuti küsitlesid autorid 17.11.–17.12.2006 TÜ majandusteaduskonna Avatud Ülikooli majandusteaduse bakalaureuseõppes ja
Ahonen, M., Kaseorg, M.

ärijuhtimise intensiivkursusel osalejaid. 70 küsimustikku jagati auditooriumile ja paluti koheselt täita ning selle tulemusena laekus 60 ankeeti. Kokku saadi 138 korrektelt täidetud ankeeti.

Kogutud andmete töötlmiseks kasutasid autorid programme MS Excel 2003. Valimi lühiiseloomustusena võib märkida, et 138 vastanust 73,9% olid naised ja enim vastanuid (22,5%) olid 36.–40. aastased. Enamuse ettevõtte asukoht on Lõuna-Eestis (53,6%), suurusest enim vastanuid oli väikeettevõtetest (33,3%, 10–49 töötajat). Ametikoja järgi oli kõige enam vastanuid keskastme juhtide seas (37,7%), hariduse kategoorias kõrgharidusega (52,9%) ja tegevusvaldkondadest kõige esindatum ala oli teenindus (20,3%).

Tulemused

Küsitlusankeedis toodud 38 väite põhjal koostasid autorid Pearsoni korrelatsiooni. Kuna tugeva korrelatsioonilise seosega väiteid oli palju, siis selekteerisid autorid välja korrelatsioonid alates $r = 0,40$ ($p < 0,01$) (Borowditch & Buono, 1997).

Vaadeldes mudelis esitatud tunnuste gruppide omavahelisi seoseid, siis enim tugevaid korrelatsioone (14) ilmnes gruppide info liikumine ja õpisuutlikkuse kujundamine vahel. Järgnesid grupid visioon ja strateegia ning õpisuutlikkuse kujundamine ja info liikumine ning visioon ja strateegia (mõlemail võrdselt 11 seost), mistõttu artiklis pööratakse põhitähelepanu just nende gruppide seostele ettevõtte suuruse ja vastaja ametiga.

Tugevaim korrelatiivne seos (0,47) oli gruppide info liikumine ja õpisuutlikkuse kujundamine väidetel: “minu organisatsioonis vahetavad tööalaselt seotud inimesed tõhusalt informatsiooni” ja “saan oma töö kohta asjakohast tagasisidet”. Kõigepealt peatume väitel “minu organisatsioonis vahetavad tööalaselt seotud inimesed tõhusalt informatsiooni”, millele oli kogu vastajate hulgast positiivseid (“täielikult nõus” ja “pigem nõus”) 74,6% ja negatiivseid (“pigem mitte nõus” ja “ei ole üldse nõus”) vastuseid 8%,
ülejäänud vastasid “raske öelda”. Kui vaadata sellele väitele antud positiivsete ja negatiivsete vastuste suhet ettevõtete suuruse järgi, siis ilmnes, et see kattus mikro- ja väikeettevõtetes ning samuti keskmistes ja suurtes ettevõtetes. Väitele “saan oma töö kohta asjakohast tagasisidet” vastas positiivsetel 69,6% ja negatiivsetel 11,6%, ülejäänud vastasid “raske öelda”. Ametialaselt andsid keskastme juhid sellele väitele enim “raske öelda” vastuseid.

Gruppides info liikumine ja õpisuutlikkuse kujundamine oli tugevaim seos (0,59) väidetel: “minu organisatsioonis rakendatakse võimalusel töötajate parendusettepanekuid” (positiivseid vastuseid 76,1%) ja “minu organisatsioonis julgustatakse töötajaid tegema parendusettepanekuid” (positiivseid vastuseid 76,8%). Neile väidetele andsid keskastme juhid ja spetsialistid võrdse arvu positiivseid vastuseid, kuid negatiivsete vastuste osakaal on keskastme juhtide hulgas tunduvalt suurem.

Gruppides info liikumine ning visioon ja strateegia kujundamine ilmnes kõige tuvevam korrelatsioon (0,47) väidetel “minu organisatsioonis toimuvad regulaarsed tegevuskavade ülevaatused ja hindamised” (positiivseid 73,2%) ja “minu organisatsioonis kasutatakse olulise teabe edastamisel erinevaid infokanaleid” (positiivseid 87,7%) vahel. Neile väidetele antud vastuste hulgas oli enim negatiivseid ja “raske öelda” vastuseid mikro- ja väikeettevõtete hulgas.

Vaadeldes küsitluse kõigile väidetele antud positiivsete vastusevariantide koguarv selgub, et kõige enam oli neid antud väitele “tunnustan töökaaslaste saavutusi” (135 vastust).

**Diskussioon**

Saadud tulemusi üldistades, võib öelda järgmist. Kõigile küsitluses toodud väidetele antud vastuste hulgas oli ülekaal positiivsete vastuste suuruse seas, mis näitab, et enamuse vastajate töökeskkonnas esines õppiva organisatsiooni tunnuseid.
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**Kokkuvõte**

Õppiva organisatsiooni käsitluste puhul on oluline teadvustada ideaal, mille poole liigutakse. Kuigi puudub üheselt mõistetav määratlus ja nii nagu iga inimene, on ka organisatsioonid ainulaadsete, on siiski riida tunnuseid, mille poole õppiv organisatsioon peab püüdlema. Tuginedes artiklis esitatud teoreetilistele käsitlusele on autorite arvates nendeks tunnusteks visioon ja strateegia kujundamine, info liikumine, õpisuutlikkuse kujundamine, meeskonnatöö, inimesed ja muudatused.

Autorite poolt mainitud tunnuste põhjal koostatud mudel on üks diagnostiline vahend õppiva organisatsiooni tegelikkuses reali-
seerumise mõõtmiseks. Olulisemaks selle mudeli juures on nime-
tatud tunnuste omavaheline tasakaalu ja vastastikuse mõju arves-
tamine. Läbiviidud uurimuse tulemused peegeldavad vastanute
arusaamu sellest, kuivõrd nende organisatsioonis on rakendunud
mudelis esinevad õppiva organisatsiooni tunnused. Antud valimi
puhul võib kokkuvõttvalt öelda, et mudeli kõik tunnused said ca
70% ulatuses positiivseid vastuseid. Seega tõdevad autorid, et
enamus küsitletustest usub, et nende organisatsioon püüdleb
õppiva organisatsiooni tunnuste tegelikuses realiseerumise poole
ja seega on juhid teadvustanud õppiva organisatsiooni kaudu
konkurentsieelise saavutamise võimaluse. Autorid on seisukohal,
et ettevõtetel tuleks jätkata õppiva organisatsiooni põhimõtetest
tulenevat juhtimist, mis kaasab töötajaid olulistesse otsustus-
protsessidesse, hindab oma info liikumise kvaliteeti ja kujundab
õpisuutlikku keskkonda. Enam tähelepanu tuleb ka pöörata kesk-
astme juhtidele antava tagasiside kvaliteedile.

Läbiviidud küsitlus on mastaape uuringu esimene etapp, mis
tähendab seda, et autorid suurendavad pidevalt valimit ja koguvad
võrreldavaid tulemusi, mille alusel saab tuua välja erinevusi läht-
tuvalt tegutsemisvaldkonnast, ettevõtte suurusest, töötajate hari-
dustasemest ja vanusest. Samuti on autoritel plaanis kajastada
koostatud mudeli põhjal õppiva organisatsiooni arusaamu pere-
ettevõtetes, tuues esile ka nende edulugusid.

Kasutatud kirjandus

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Lisa 1. Õppiva organisatsiooni määratlused

<table>
<thead>
<tr>
<th>Autor</th>
<th>Õppiva organisatsiooni määratlus</th>
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<tbody>
<tr>
<td>Senge (1990)</td>
<td>Õppiv organisatsioon on organisatsioon, kus inimesed pidevalt suurendavad oma võimet luua tõeliselt soovitud tulemusi, toetatakse uusi mõtteviise, avatus ühistele püüdlustele ning kus õpitakse koos õppimist.</td>
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<td>Handy (1992)</td>
<td>Selles ebakindlas maailmas, kus teame, et miski pole kindel, vajame organisatsioone, mis end pidevalt uuendavad, taasavastavad ja jõustavad. Need on õppivad organisatsioonid ja neil on see harjumus.</td>
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Allikas: autorite koostatud.
Lisa 2. Artiklis käsitletud õppiva organisatsiooni mudeli tunnused ja väited

I. Visioon ja strateegia kujundamine
1. Tean, milline minu organisatsioon tahab tulevikus olla.
2. Minu organisatsioonis toimuvad regulaarsed tegevuskavade ülevaatused ja hindamised.
3. Minu organisatsioonis rakendatakse võimalusel töötajate parendusteettepanekuid.
4. Minu organisatsioonis kohandatakse tegevuskavad väliskeskkonnas toimuvate muutustega.
5. Olen kaasatud oma organisatsiooni otsustamisprotsessidesse.
6. Mul on ülevaade oma organisatsiooni sihtidest.

II. Info liikumine
1. Mul on piisavalt teavet, et täita oma tööülesandeid.
2. Minu organisatsioonis viiaakse läbi tagasiside küsitlusi.
   a) klientide,
   b) koostööpartnerite,
   c) töötajate hulgas.
3. Minu organisatsioonis vahetavad tööalaselt seotud inimesed tõhusalt informatsiooni.
5. Minu organisatsiooni liikmed jagavad oma kogemusi ja teadmisi
   a) organisatsiooni sees,
   b) väljaspool oma organisatsiooni.
6. Saan vajadusel hõlpsasti teavitada organisatsiooni võtmefiguure
   a) positiivsetest sündmustest oma töövaldkonnas,
   b) negatiivsetest sündmustest oma töövaldkonnas.

III. Õpisuutlikkuse kujundamine
1. Koolituste läbiviimisel arvestatakse töötajate arengu vajadustega.
2. Minu organisatsioonis julgustatakse töötajaid tegema parendusteettepanekuid.
3. Minu mõningatesse eksimustesse suhtuvad võtmefiguurid mõistvalt.
4. Mul on võimalus valida oma pädevuse piires uusi tööülesandeid.
5. Minu organisatsiooni motivatsioonisuusteem soodustab minu enesearendamist.
IV. Meeskonnatöö
1. Minu kaastöötajad huvituvad üksteise mõtetest ja ideedest.
2. Minu kaastöötajad akteerivad eriarvamusi.
3. Minu kaastöötajate vahel on usalduslikud suhled.
4. Oleme oma koostööreeglid selgelt määratlenud.
5. Probleemide lahendamisel uurime koos nende tekkepõhjusi.

V. Inimesed
1. Arendan oma isikut teadlikult ja sihikindlalt.
2. Suhtun oma ebaõnnestumistesse kui võimalusse vigadest õppida.
3. Tunnustan töökaaslaste saavutusi.
4. Olen teadlik omavahelisest seotusest edu saavutamisel.
5. Mul on aega oma elu eesmärkide üle järelemõtlemiseks.
6. Tööalastes suhetes on tähelepanu keskmes üksteise maksimaalne nn "ekspluateerimine".

VI. Muudatused
1. Minu organisatsioon on konkurentsivõimeline.
2. Minu organisatsioonis suhtutakse muudatustesse kui arenguvõimalustesse.
3. Minu organisatsioonis ollakse valmis muutma arengut takistavaid reegleid.
4. Saan aru muudatuste läbiviimise eesmärgidest.
5. Minu organisatsioonis viiakse läbi muutusi ainult äärmisel vajadusel.
6. Minu organisatsioonis püütakse keskkonnas toimuvaid muutusi ette aimata.
Summary

Learning organization – theory and reality

Maret Ahonen
Merike Kaseorg

Fast changes in environment and expectations on high quality have created among managers the need to look for the new ways of survival. In this context the concept of the learning organization has emerged and it has become prominent in management thinking today. Creating a learning organization is one way of achieving competitive advantage and coping with change.

The objective of the article is to explore some definitions and theoretical standpoints of the learning organization. As there is a lack of research in Estonia about learning organization understandings the authors developed on the basis of the reviewed literature the measurement model with six features (vision and strategy development, information flow, promoting learning opportunities, teamwork, people and changes) that are characterizing a learning organization.

A 38 statement questionnaire was composed and a survey was carried out in 2006. The results of the survey reflect respondents understandings on the extent to what the learning organization features given in the constructed model are represented in their organization. The authors conclude from the current study that majority of the respondents believe they are working in the organization that move toward becoming a learning organization. However more attention should be paid the quality of feedback given to the middle managers.
PERFORMANCE PERSPECTIVE ON THE RELATIONSHIPS BETWEEN SCHOOL ADMINISTRATIONS’ ATTITUDES AND NATIONAL EXAMINATION RESULTS

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Abstract. School administrations have to deal with various areas in their everyday job and it is often difficult to decide which issues are important for good performance. The attitude is a term that explains the disposition aspect in the selection process and thus a school administration’s attitudes may provide us with better understanding of a school’s performance. The aim of the article is to explore how a school administration’s attitudes towards school performance criteria are related to pupils’ national examination results. Six years’ (2000–2005) data of national examination results were related to school administrations’ attitudes. The empirical study was conducted in 2005–2006 among the administrations of Estonian secondary schools (n = 57). The questionnaire consists of 24 different aspects of potential school performance criteria. Cluster analysis enabled us to divide these criteria into five groups: 1) school management issues, 2) school environment, 3) school personnel and parents’ contribution, 4) pupils’ non-academic skills and success in further stages of life and 5) pupils’ academic performance. The study shows that the attitude being facilitator differentiates schools’ performance significantly. Namely, good results on national examina-
tion were shown by the schools where administration thinks that they have to create good communication between management, teachers, pupils, and parents as well as accept their responsibility for the school environment issues like secure learning environment, the school’s spirit and traditions. When a school administration considers the pupils’ academic success as the main criteria of performance, the national examination results were relatively lower.

Introduction

The national examinations are conducted in Estonian schools about ten years now. The results of schools are available to the public and sometimes these give matter to discussion whether the schools that have higher results in national examinations are more successful than others. There is no consensus about this matter but as there is little or no evidence and statistics about other fields of schools’ success some pupils and teachers tend to prefer to choose schools that have higher examination results. These schools are also very beneficial for pupils who want to study at the university because national examination results are in great matter by application to universities in Estonia.

As the school administration has a lot of work it may seem to be reasonable to concentrate on the pupils’ good national examination results and therefore other areas of school management may become less attention. Therefore, it is important to find out what performance criteria the school administration considers to be important and how these criteria are related to the actual results on national examinations.

Thus, the aim of the article is to explore how a school administration’s attitudes towards school performance criteria are related to pupils’ national examination results. The results of the study provide school administrations with the information about which areas of school management need special attention and thereby it may lead higher performance level in Estonian schools.
In the following review, we will focus on the general aspects of measurement the schools’ performance. In the empirical part we tried to develop an instrument that would enable measuring the school performance criteria in a reliable way and explore relationships between school administration attitudes and national examination results. The third section discusses the results of the study and proposes some ideas for the school management.

**Measurement of school performance**

There are numerous criteria for measuring the performance of secondary schools. When we look at the school performance criteria brought out by different studies, we can divide them roughly into three groups (see also Appendix 1):

1. Pupils’ success (incl. academic performance and non-academic skills);
2. The contribution, satisfaction and cooperation of the stakeholders of the school;
3. The importance of school environment.

It is rarely that approaches bring forth or focus just one type of criteria for measuring performance. Usually several aspects are considered to be important (e.g., Mulford *et al.*, 2004; Anderson *et al.*, 2004; Griffith, 2004; Visscher & Coe, 2003; Bosker & Scheerens, 2000), which often include criteria concerning the pupils’ academic performance (examinations results, etc.) and then other criteria. Griffith (2003) argues that different performance criteria receive different attention in schools. Some schools lay emphasis mainly on their pupils’ academic performance, while some other schools consider it important to maintain the satisfaction of the school personnel, good interpersonal relations, and good cooperation with parents and society in general. Griffith (2003) proposes that all the criteria should be equally considered; and if a school has paid little attention to some area, this should be changed in order to make the school’s work more efficient.
In the empirical part of this article the mean results of the national examinations are used as the performance criteria for schools because in most previous studies this has been the central criteria for measuring the performance of schools. This is also a rather objective and easily available method for comparing schools with one another. The public interest and ongoing discussions around the national examinations results of schools are the reason why this method is applied herein as well.

Sample

In order to find connections between school administration attitudes and school state examination results, a sample was compiled from secondary schools of Estonia, assuring that schools with various sizes and locations were presented in the sample. In purpose of more homogeneous sample the elite schools and schools in Tallinn were not included.

The empirical study was conducted in 2005–2006 among the administrations of Estonian secondary schools. In the study participated 57 secondary schools from all 15 Estonian counties. The response rate was 48% which is quite high due to authors’ contacts in schools from successful previous study in 2003.

72% of participated schools are in rural municipality or small town schools and 28% city or county town schools. There were 75% of small schools (less than 800 pupils) and 25% of large schools (over 800 pupils) in the sample.

The margin 800 was chosen firstly, because the average number of pupils in a school is around 800 in our sample and secondly, because in previous studies this rate has been used for distin-
Performance perspective on the relationships between smaller and larger schools (e.g., Borland et al., 2003; Bradley et al., 1998; Eberts et al., 1990).  

The sample represents 38% of the Estonian school population if consider that in 2005/2006 there were 299 secondary schools in Estonia; 150 of them were municipal- or state-owned schools with the daytime study where the language of instruction was Estonian and which do not imply children with special needs. (Undrits, 2006).

**Method**

There are numerous criteria for measuring performance of secondary schools. Three stages were covered in order to define the principles of measuring performance of Estonian secondary schools. Firstly, it was investigated which aspects have been brought out in corresponding research publications, then, which criteria have been used to evaluate schools according to the instructions published in Self-evaluation of Schools (in Estonian Kooli enesehindamine, Putk, 1996) and External Evaluation of Schools (in Estonian Kooli välis hindamine, Kond, 1997) by the Estonian Ministry of Education. Finally, the doctoral students, the associate professor of Faculty of Economics and business Administration at Tartu University, a principal of a school; and two officials from the Estonian Ministry of Education and Research were asked to evaluate the initial concept of the principles for measuring school performance. In authors’ view consideration of opinions of various specialists adds reliability to the questionnaire.

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1 In 2005/2006 there were 91739 pupils in secondary schools that were municipal- or state-owned schools with the daytime study where the language of instruction was Estonian and which do not imply children with special needs. (Undrits, 2006) The average of pupils in a school is therefore 611 (91739 divided with 150).

2 Now Estonian Ministry of Education and Research.

3 Acknowledgements to Made Torokoff, Elina Tolmats, Anne Reino, Kulno Türk, Enn Liba, Leelo Muru and Hille Vooremäe who have
After these steps the final version of measurement tool was composed. The questionnaire consists of 24 potential performance areas. The respondents were asked to indicate their attitude towards the items on a 10-point scale ranging from “completely disagree” (1 point) to “completely agree” (10 points).

In order to measure secondary school performance, the results of the national examinations of secondary schools within six years (2000–2005) were used. The results are presented on the homepage of the National Examinations and Qualification Centre (NEQC) (Homepage of …). The exam results in mathematics, English, composition and history were considered as the basis of comparison. There are two reasons for the selection of abovementioned subjects. Firstly, because they are those that students most frequently choose to take the national examinations in (Ibid.), and secondly, because the results in these subjects are often considered as a criteria when selecting students for university admission in Estonia.

For statistical processing of data we used cluster analysis and correlation analysis in the statistical data processing package SPSS 10.0. The acceptable significance level chosen was 0.05.

Results

For grouping the 24 performance criteria of schools cluster analysis was used. Euclidean distance and Ward’s method were thereby applied. As a result five groups were performed:

1) **school management issues** (well-coordinated communication between the management, teachers, pupils and parents, successful management, competence of teachers);

contributed to commenting and discussing the initial version of the performance measuring criteria of schools.
Performance perspective on the relationships between ...  

2) **school environment** (spirit and traditions of the school, secure learning environment, good reputation in the local community, pupil friendliness);  

3) **school personnel and parents’ contribution** (training opportunities for teachers, participation of school personnel in decision-making, teachers’ activeness, training opportunities for teachers, extracurricular activities (activity clubs, etc.), participation of parents in the school life);  

4) **pupils’ non-academic skills and success in further stages of life and** (pupils’ success in further stages of life, pupils’ success in further stages of study (e.g., in an secondary school, institution of higher education), pupils’ overall maturity (e.g., interpersonal and public speaking skills, cooperation, tolerance, etc), good knowledge’s of pupils’);  

5) **pupils’ academic performance** (pupils’ results on national examinations, pupils’ results in final examinations, pupil’s grades for in-school examinations, few dropouts, few school year retakers, number of excellent graduates, pupils’ results in various contests)  

The highest average estimations were given for criteria in groups one (9.2) and four (9.0) (see Table 1). Approximately 90% of participants estimated pupils’ non-academic skills and success in further stages in life and school management issues with value 8 or 9 or 10. Thereby the maximum value 10 was given in approximately in 40–50% of cases.  

The next important areas for school performance in opinion of school administration are school environment (average estimation 8.6) and school management is school personnel and parents’ contribution (average estimation here is 8.3). The less valued performance criteria for schools in this study is pupils’ academic performance. The average estimation was 8.0. The maximal estimation was given only in 14.3% of cases.
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For finding the relationship between school administration attitudes and pupils' national examination results the correlation analysis was used (see Table 2).

**Table 1.** Means, Standard Deviations and percentages of performance criteria groups

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Mean</th>
<th>Std. dev</th>
<th>Percent on max estimations</th>
<th>Percent of estimations' 9 or 10</th>
<th>Percent of estimations' 8 until 10</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. management</td>
<td>9.2</td>
<td>1.0</td>
<td>51.2</td>
<td>67.5</td>
<td>90.8</td>
</tr>
<tr>
<td>2. environment</td>
<td>8.6</td>
<td>1.2</td>
<td>38.0</td>
<td>50.0</td>
<td>81.2</td>
</tr>
<tr>
<td>3. personnel and parents' contribution</td>
<td>8.3</td>
<td>0.9</td>
<td>19.2</td>
<td>30.0</td>
<td>74.2</td>
</tr>
<tr>
<td>4. non-academic skills and success in life</td>
<td>9.0</td>
<td>1.0</td>
<td>42.0</td>
<td>55.0</td>
<td>87.9</td>
</tr>
<tr>
<td>5. academic performance</td>
<td>8.0</td>
<td>0.9</td>
<td>14.3</td>
<td>17.5</td>
<td>66.1</td>
</tr>
</tbody>
</table>

Note: 10 point scale.

**Table 2.** Correlations between performance criteria and national examination results

<table>
<thead>
<tr>
<th>Criteria</th>
<th>National examination results</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. management</td>
<td>0.27*</td>
</tr>
<tr>
<td>2. environment</td>
<td>0.22*</td>
</tr>
<tr>
<td>3. personnel and parents' contribution</td>
<td>0.05</td>
</tr>
<tr>
<td>4. non-academic skills and success in life</td>
<td>0.03</td>
</tr>
<tr>
<td>5. academic performance</td>
<td>−0.30*</td>
</tr>
</tbody>
</table>

* p < 0.05.
The results show that there is a positive relationship between national examination results and valuing school management issues ($r = 0.27$) and school environment ($r = 0.22$). The negative relationship was between national examination results and valuing pupils’ academic performance ($r = -0.30$). Relationships between other performance criteria groups and national examination results were not statistically significant.

In schools where respondents gave estimations above 9 to the management and environment issues in the questionnaire and at the same time gave estimations under 9 to the academic performance questions the national examination results were in average 55.35. On the contrary case the examination results were 50.89. These results show that valuing school management and environment could give an advantage in national examination results.

**Discussion**

The study results show that some of school administration attitudes towards performance criteria have impact on pupils’ national examination results. The pupils’ examination results are higher in the schools where administration admits that their management skills and appropriate school environment are important for the good performance; and vice versa. This finding is in accordance with some previous researches. First example, Halawah (2005) indicates that “a key element of an effective school is an effective principal and although school success is influenced by many people, school principals remain one of the most important factors in this success”. He also discusses that principal leadership skills have impact on student learning and improvement and also on creating safe and secure learning environment. In addition, Halawah (2005) describes that effective communication is one critical characteristics of effective and successful school principal and student achievement is likely to be greatest where teachers and administrations work together. He
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argues also that principal’s role is enhancement of teachers’ content and pedagogic knowledge too.

Second, the importance of successful leadership by pupils’ academic achievement is also put forward for instance in studies of Eley (2006); Erb (2006); Ross and Lowther (2003) and Haynes, Emmons and Ben-Avie (1997). Thereby good cooperation, communication and interpersonal relations are pointed out. It is important that principal shows consideration for the students, parents, and school employees and cares about their needs, recognizes their problems, empowers and rewards teachers and other employees. Also professional development of personnel is relevant.

By school environment as mentioned before safety and security are important. Additionally, previous research shows that for good academic performance of pupils’ healthy, comfortable, supporting, nurturing and positive learning environment, and pupil friendliness is significant and also traditions and ceremonies for example in order to celebrate success. Some of studies bring forward also importance of school-community relations and involvement of stakeholders.

Our study reveals the negative relationship between national examination results and the school administration’s attitude. It means that in the schools where administration thinks that school performance is primary expressed by the pupils’ results in various examinations and contests, the small number of year retakers and dropouts, the national examination results are actually lower and vice versa. In authors’ view this means that when schools administration underestimates their role in school success and hopes that pupils and teachers undertake most responsibilities the examination results are not so good compared to the case when principals sense their role in school success. Erb (2006) compares schools with sports teams. Trainer can recruit top players but the team never wins. The problem here is that trainer is not capable to make players work as a team. The analogous situation exists in
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schools. Erb (2006) says: “Successful schools are much more than the result of hiring highly qualified teachers and letting them function in isolation in their separate classrooms”. In authors’ view also pupils need to feel themselves as a part of school community that supports and helps them.

Thereby, we refer on the seminal approach by D. McGregor. His X and Y theory assumes that Y type of manager’s role is to build up the environment and proper conditions for the employees and help them to release their capacity towards common goals. Theory Y manager has an attitude that, given the right conditions, most people will want to do well at work and that there is a pool of unused creativity in the workplace.

There is no question that the job of school administration is difficult, wide-ranging and extremely responsible. Results of this study indicate that principals need to recognize their substantial role by school performance and create an attitude that management issues and school environment may be a key to more successful school. Focusing only on pupils’ academic performance could give in authors’ opinion an opposite effect.

Study results showed that many of Estonian school administrations have an attitude that management issues and school environment are important by school performance. The pupils’ academic performance was at least valued. This is a proof of Estonian school administration competence in matters performance.

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## Appendix 1. Criteria’s for measuring performance

### Pupils’ success
- pupils’ overall development (e.g., interpersonal and public speaking skills, cooperation, tolerance, etc); pupils’ success in further stages of study (e.g., in an secondary school, institution of higher education);
- pupils’ results in final examinations; pupil’s marks for in-school examinations; pupils’ results on national examinations; few dropouts, few school year retakers; good knowledge’s of pupils’; pupils’ success in further stages of life; number of excellent graduates; pupils’ results in various contests

### The contribution, satisfaction and cooperation of school stakeholders
- well-coordinated communication between the management, teachers, pupils and parents; participation of school personnel in decision-making; participation of parents in school life; successful management; training opportunities for teachers; extracurricular activities (activity clubs, etc.); training opportunities for teachers; teachers’ activity (participation in various projects etc.); competence of teachers

### School environment
- spirit and traditions of the school; secure learning environment; good reputation in the city, rural municipality etc; pupil friendliness

Sources: Halawah, 2005, Anderson et al., 2004; Griffith, 2004; Mulford et al., 2004; Smith & Laimer, 2004; Driscoll et al., 2003; Griffith, 2003; Visscher & Coe, 2003; Goldstein, 2001; Baumert & Koller, 2000; Bosker & Scheerens, 2000; Louden & Wildy, 1999; Bradley & Taylor, 1998; Haynes et al., 1997.
Introduction

Theory and practical implication of social capital acquired wide recognition among scholars of different disciplines – sociology, political sciences and economy. Although there are many studies about diverse aspects of social capital, there is no shared agreement on the meaning of this concept. Social capital is still in the “emerging excitement” phase typical for an umbrella concept having clashing connotations for various people (Hirsh & Levin, 1999). In sociology the term “social capital” arose in community studies, emphasizing an importance of networks providing trust and mutual cooperation in such communities (Jacobs, 1965). Later the concept has been exploited to explain a wide range of social and economical phenomena. For instance, different valuable studies have been conducted indicating an influence of social capital on the development of human capital (Coleman, 1988), on the economic performance of firms (Tsai & Ghoshal, 1998), geographic regions (Putnam, 1993), and nations (Fukuyama, 1995).
It is not a coincidence that social capital became so important and broadly studied concept recently. With the beginning of post-industrial era numerous changes arose in society making old paradigms exploited in social sciences not valid. According to several scholars (for example, see Amin, 1994; Jessop, 1995; Maskell, 2000) so called “post-Fordistic” transformations emerging in economy in the end of twentieth century influence creation of the new information society enhancing new production forms that are based on the ability of actors to adapt oneself to rapidly changeable environment and create and use broad networks of social relations. These shifts result in impotence of the classical resources such as physical, financial and human capital to ensure competitiveness of an enterprise:

“In a knowledge-based economy the perhaps most significant rent originates from the way in which the easy exchange of knowledge, only partly understood, between and among a constantly changing configuration of enterprises within the community dramatically enhances their innovative capabilities. Reducing your development to commercialization time is often worth virtually whatever you have to pay and social capital contributes by cutting the expenses and reducing the time needed to benefit form knowledge residing elsewhere. As innovative capabilities become increasingly important so does social capital.” (Maskell, 2000)

Thus social capital emerges as a new source of organizational advantage able to encourage actors for cooperative and reciprocal activities beneficial both on individual and organizational level.

In this article we will explore the theory of social capital depicting it as an important asset for creation of organizational advantage by activating resources otherwise not available or available for actors only on greater costs. We will start by defining social capital and its forms from organizational perspective, then proceed by discussing opportunities and threats residing in different dimen-
Social capital as an important factor for ...

...sions of this concept and continue with presenting theoretical prerequisites for creation of social capital within organizations.

**Conceptualizing social capital and its forms**

Social capital is a complex phenomenon consisting of various components and there is no consensus among scholars about its nature, sources and effects. For example, Durlauf and Fafchamps (2004) point out that it is impossible to give a precise definition of social capital as both the term “capital” is used in several meanings such as finances, plants and infrastructure and also with the concept of “human capital” different authors describe education, skills, knowledge and even health. In general it is conceivable to divide all definitions of social capital into three broad groups: 1) those that consider it as a public good arguing that social capital is a resource available to all members of the group facilitating collective wellbeing and promoting economic growth (e.g., Bourdieu, 1986; Coleman, 1990; Putnam, 1993); 2) those perceiving social capital as private good, defining it as individual investment in social relations lightening transactions and capable to improve conditions and life quality of actors, but not necessarily having positive influence on achievement of collective goals. Although society as a whole may benefit from such a private good, the main notion here is that actors use their social capital mainly for their own advantage (e.g., Baker, 1990; Burt, 1997; Lin *et al.*, 1981); 3) the last group of definitions combines these approaches suggesting that social capital comprises characteristics of both public and private good and even if this division is possible, it is usually context dependent. (e.g., Nahapiet & Ghoshal, 1998; Kostova & Roth, 2003) Integrating these perspectives, authors have defined social capital as determined investments in social relations that give actors an opportunity to use and activate resources otherwise not available or available at a greater time and/or material cost and may positively or negatively affect the wellbeing of society.
In a literature on social capital deep discussion about network density and configuration can be found. There are two forms of social networks: bonding and bridging. Bonding social capital appears between members of a certain social structure and is based on the shared norms, assumptions and mutual trust. It is rooted in and developed within established homogeneous social system and is not shared between outsiders. The view that the most significant benefits are derived from this form of social capital either explicitly or implicitly is stated by several prominent scholars in the field (e.g., Bourdieu, 1985; Coleman, 1988; Putnam, 1993). However, more recent analysis of social capital’s theoretical aspects have indicated that extensive forms of bonding social capital may lead to over embeddeness of actors into certain relationship resulting in opposing to innovative ideas and hampering effectiveness of a group work (Adler & Kwon, 2002; Oh et al., 2005). On the other hand, bridging social capital is based on relations between distant acquaintances connecting people from different social groups facilitating flows of information and influence (Granovetter, 1973). Moreover, according to Burt (1992) the main sources of social capital are network ties between actors from different otherwise disconnected groups: sparse network with few redundant ties provides greater social capital benefits. Developing the concept of social capital even further Oh, Labianca and Chung (2005) are distinguishing two major dimensions within this form: internal versus external and vertical versus horizontal boundaries.

Nevertheless, authors believe that both of these forms of social capital can be beneficial in different situations. Stating that the main benefits of social capital arise mainly from tight linkages between actors within a closed social structure means to disclaim significance of sparse network ties (contacts between distant acquaintances acting in various fields of interest) that are often very useful in acquiring of comprehensive information and spreading spheres of influence. In line with Lin (1999) dense networks inherent to bonding social capital comparing with sparse
social ties are more advantageous for preservation of existing resources. On the contrary, bridging social capital is more appropriate for search and acquisition of the new resources.

**Dimensions of social capital: considering benefits and threats**

To acquire a deeper understanding of both positive and negative aspects of social capital within organizations, it is useful to analyze its different dimensions. It has been accepted among the leading scholars in the field that social capital has two (some distinguish three) main dimensions or clusters: structural, relational and, in addition, cognitive (Coleman, 1988; Putnam, 1993; Nahapiet & Ghoshal, 1998; Tsai & Ghoshal, 1998; Kostova & Roth, 2003; Inkpen & Tsang, 2005).

Structural social capital refers to the pattern of connections between people: here the main facets are network ties and configuration (Granovetter, 1982). This dimension is conventionally used referring to the general model of connections between actors, meaning who is reached and how they are achieved (Burt, 1992). The most important benefit associated with this dimension is information. A classical example provided by Coleman (1998) is about a scientist who does not have time to read a huge amount of articles in related fields, but, nevertheless, is informed about the latest research trends by the means of everyday interactions with colleagues providing him with the relevant information. There is a broad scope of analysis indicating that network ties help their members to acquire information. Empirical evidence of priorities emerging from sparse networks with structural holes exists confirming above mentioned statement that bridging social capital is valuable for obtaining information. For example, Flap (1991) and Lin (1999) conducted researches proving significant assistance that bridging social connections contribute in searching for a job; Burt (1992) revealed usage of sparse ties in possessing of information benefits; analysis by Tsai and Ghoshal (1998) showed...
importance of this form of social capital in exchange and combination of resources within organization leading to innovative activities and thus creating organizational advantage. However, this privilege associated with information gained through network ties between the actors contains some risk factors as well. Namely, maintaining relationships requires considerable investments of time, but these investments may not be worthwhile in some situations. Form this point of view bridging social capital is more efficient than bonding because weak ties give access to broader scope of information and, at the same time, are cheaper to maintain (Granovetter, 1985; Hansen, 1998; Adler & Kwon, 2002).

Relational dimension of social capital focuses on personal attitudes people have toward each other affecting their interpersonal relations, such as friendship, respect, trust, norms and sanctions, obligations and expectation. Through these personal relationships people fulfil their social motives such as sociability, approval and prestige (Nahapiet & Ghoshal, 1998). There are several important benefits described in a literature regarding this dimension. For example, in Putnam’s (1993) model of social capital interpersonal trust (direct involvement in exchange relationships) transforms into accumulated trust in impersonal institutional arrangements. Furthermore, in organizations where relationships among members are high in trust more social exchange and combination of various resources are taking place enhancing creation of intellectual capital. Relational dimension of social capital is especially important for knowledge creation in ambiguous and uncertain situations as well as for transfer of tacit knowledge (Nahapiet and Ghoshal, 1998). Moreover, some important advantages associated with this dimension are influence, control and power. Here again, Coleman gives a hypothetic example of “Senate Club” where some senators are more influential because of being embedded in a system of relationships other colleagues do not have access to (1988). Nevertheless, some other scholars are pointing out that sometimes power benefits of social capital trade off against its information benefit (Adler & Kwon, 2002). For instance, Ahuja
Social capital as an important factor for ...

(2002) argues that an actor gaining information benefits from many various contacts who themselves have many ties with lot of other connections will have less influence upon these contacts.

The last form of social capital is cognitive dimension which refers to shared vision, representations, interpretations and systems of meaning among parties (Nahapiet & Ghoshal, 1998). This dimension is interrelated with relational dimension of social capital because shared vision and systems of meanings are promoting trust, respect and friendship and vise versa. The main benefit associated with this dimension is solidarity. According to Adler and Kwon (2002) shared vision and systems of meanings “encourage compliance with local rules and customs and reduce the need for formal controls”. At the societal level solidarity include civic engagement (Putnam, 1993) and at the organizational level – corporate citizenship behaviour (Adler & Kwon, 2002). Solidarity as well as above mentioned trust and shared norms is crucial motivator for engagement in cooperative actions. Thus relational and cognitive dimensions of social capital are becoming factors of a highest importance in a new economy where organizational advantage is based on a capability to create knowledge. Furthermore, as organizational knowledge is not equal to simple aggregation of individual skills and intellectual capabilities, but is created on a collective level (Nelson & Winter, 1982; Brown & Durguid, 1991; Weick & Roberts, 1993) social interactions residing in all dimensions of social capital gear formation of synergy leading to creation of organizational knowledge. However, benefit of solidarity associated with cognitive dimension is a sword of two sides: strong unanimity within a group may result in rejection of outside ideas leading to parochialism and inertia (Gargiulo & Bernassi, 1999).

As a concluding remark here it should be noted that the most important task for organizations in order to balance benefits and threats of social capital and use it as a resource for synergy creation on a way for organizational advantage is to find a fit
between the network features of social capital and certain organizational tasks. Similar viewpoint was stated by Inkpen and Tsang (2005) revealing that different network types investigated in their study about social capital as a factor facilitating knowledge transfer within certain networks (intracorporate network, strategic alliance and industrial district) all have distinct features within these social capital dimensions indicated above.

Preconditions for creation of social capital within organizations: implications for managerial action

Considering implications for organizational practice in terms of social capital creation it is useful to take a look on sources of this phenomenon. One stream of scholars believes social capital to appear from regular social interactions between actors (e.g., Burt, 1997; Granovetter, 1973). Thus, for building social capital in society or organization it should be enough to provide an opportunity for people to interact on a daily basis. However, other theorists argue that social capital is formed only in communities with shared norms, assumptions and common goals (Putnam, 1993). This presupposition enhances importance of inclusive corporate culture in organizations in order to create social capital. Combining those viewpoints authors have build suggestions for managerial action on a conceptual model of social capital elaborated by Adler and Kwon (2002). This model implies that for generating social capital within any community actors need to possess opportunity for regular social interactions, motivation to be involved in mutually beneficial exchanges and ability to provide resources or competences needed by other actors. This theory was further developed by Kostova and Roth (2003) in their study on social capital and its formation in multinational corporations.

Opportunity for creation of social capital derives from establishment of network structure enabling social interactions among members of organization. Here again it should be considered thoroughly whether tight or loose ties are more appropriate for
fulfilment of certain managerial assignments. However, activities toward shaping sound network system have to encourage efficient and work-goal oriented communication instead of meaningless socialization that may even impede fulfilment of organizational tasks.

In addition, actors have to be motivated to involve in cooperative activities. Such motivation derives from mutual trust among members of a group as well as from confidence in leaders and acceptance of organizational goals (Putnam, 1993; Leana & Van Buren, 1999). In this matter there still is huge confusion and controversies among authors’ works on social capital as there is no consensus whether trust is a source (Putnam, 1993), an outcome (Lin, 1999) or a social capital itself (Fukuyama, 1997). In this article authors believe in two-folded nature of trust: it is both a fundamental motivational factor for creation of social capital and a dimension of social capital itself. Thus managerial actions should be inclined to activate organizational mechanisms for constructing corporate culture enhancing formation of common goals and mutual trust. However, both opportunity for creation of social capital in organizations and motivation of actors to engage in mutually beneficial collaboration is questioned in modern business environment. Case study of financial services and television industries in United Kingdom have shown that practices of short-term contracts, extensive competition and multiskilling of workforce typical for new-aged industries have negative consequences for development of social capital within organizations (Tempest et al., 2004).

And lastly, member of organization should be gifted with “ability – the competencies and resources at the nodes of the network” (Adler & Kwon, 2002) to be capable, firstly, to involve in social relationships, and, secondly, to provide useful assets for other members of collective. If opportunity and motivation are shaped at organizational level, then ability is more about individual characteristics of an actor: both personal and professional. However,
authors of this paper suggest that ability in form of social skills and expert knowledge to define and enact organizational goals can be trained. While there usually is a broad scope of different courses and training programs available for employees and designed for development of their professional qualifications, far less attention is paid to improvement of social competences crucial for construction of organizational social capital. Such trainings aimed at expansion of social ability should become an inevitable part of organizational routine.

Conclusions

In this article authors have discussed components and sources of social capital from organizational perspective arguing that this relatively recently developed concept is of a great importance for performance improvement in firms and creation of organizational advantage. Although it is hard to give a precise definition of social capital as it is a vague and intangible concept it may be helpful to be perceived as determined investments in social relations that give actors an opportunity to use and activate resources otherwise not available or available at a greater time and/or material cost and may positively or negatively affect the wellbeing of society. It is possible to distinguish bonding and bridging forms of social capital differing in their nature and outcomes for society or actors possessing them. Vast body of research conducted on theory and conceptualization of social capital indicates structural, cognitive and relation dimensions of this phenomenon. Creation of social capital within organizations depends on opportunity for regular social interactions among members, motivation of the actors to involve in cooperative activities and ability to both involve in social relationships and provide useful assets for other members of collective. Opportunity and motivation are questioned by new structure of work bonds between employees and employers when competitive performance, individualism and sort-term orientation are the values prevailing in society. Special attention
Social capital as an important factor for...

to social capital is to be paid in knowledge intensive firms as this asset facilitates expansion of intellectual capital and innovations. It has been proposed that construction of organizational social capital is a manageable process that should be led by meaningful and longsighted actions. This study point to the necessity of further investigation of the managerial capacity in development of organizational social capital, as well as of the main destructive factors impeding its creation. As this is purely theoretical study it is evident that more empirical based research should be done in this field in order to approve or modify theoretical model of social capital creation process within organizations.

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Social capital as an important factor for...


Introduction

This paper highlights the connection between work and private life. Work is mainly done in a work place during the working hours. The rest of the time is here called leisure time. The reconciliation of work and leisure has been examined a lot. This combination has been seen quite polarized between the concepts work and family (see eg. Uhmavaara et al., 2005; Rantanen & Kinnunen, 2005; Salmi & Lammi-Taskula, 2004; Kivimäki & Otonkorpi-Lehtoranta, 2003; Kauppinen & Toivanen, 2002). In this research paper the target is in the combination between work and overall leisure in managers’ lives. The examined middle-management managers work in two most important Finnish business sectors, ICT sector and paper sector.

Purpose of the research

The purpose of this paper is to understand the relation between work and leisure time. What importance leisure has to managers’ work and lives?
Connecting work and leisure in managers’ lives

Research design

The research group included 15 managers from three information and communication technology (ICT) companies and 15 managers also from three paper companies. Research was qualitative by nature. These 30 managers were interviewed by focused interviews in 2002. There was no need for generalizing but understanding the connection and importance of balance between work and leisure in managers’ lives.

Work

Hurry, mental stress, difficulties in sleeping, exhaustion, less of energy and tension are part of today’s working life. Unpredictable changes stress employee. Also positive aspects can be noticed: employees are highly educated and possibilities for further education have increased. As well employee’s possibilities for influence and interaction in work have grown. Mental violence in working places has decreased. (Kinnunen et al., 2005)

Concept of career connects to the relationship between individual and work (Hearn, 1977). Career is a chain where managers’ assignments follow each other. All kinds of movement in this career progression is included. Career can be continuous or broken. Career can progress upward, downward or horizontally. (Varila & Kallio, 1992) Continuous changes in work environment contribute also to leisure time activity.

Leisure

Leisure is understood here as all time and activities that are excluded from work. Leisure is spent with family, friends and hobbies.
Manager

ICT managers were 27–49 years old, paper managers 30–46 years. Both sectors were masculine environments, therefore majority of the interviewed managers were male. In the paper sector there were only two women and in the ICT sector three. The ICT managers’ titles were: Technology Manager, Project Manager, Team Manager Leader, Department Manager, Program Manager, Development Manager and Testing Engineer. The titles of the paper managers were: Production Manager, Line Manager/Engineer, Project Manager, Maintenance Manager, Sales Manager, Mill Manager, Unit Manager and Development Manager.

The managers were highly educated, 11 of ICT managers had an academic degree. One had an engineering degree. Three managers with undergraduate degrees studied at a university of technology. The technical knowledge of ICT managers was connected to software development, planning, programming, testing and general management. All paper managers were technically educated, 11 managers had university degree, 3 had an engineering degree and one was a technician.

Managers’ diverse roles

The world of the manager is complicated and confusing. He/she works among diverse challenges. Manager plans, organizes, motivates, directs and controls. Manager adds foresight, order, purpose, integration of effort and effectiveness to the contributions of others. (Strong, 1965) The multiple roles of a manager are described by Kivimäki-Kuitunen (2000) as follows. First, assuring the commitment and motivation of personnel to agree upon goals is one of the most important challenges for a supervisory manager and a premise for success. Additionally he/she recruits, familiarizes, agrees on goals, makes networks, acquires, discards and decodes information, communicates, follows, encourages, demands, takes care of the atmosphere of the organization and
Connecting work and leisure in managers' lives

listens to problems. In addition to all this he/she is also a salesman. Also Mintzberg (1980) has defined ten different roles in manager’s work. Additionally to work roles managers have different roles at home and in leisure time activities.

**Working environments:**
**ICT and paper business sectors**

**ICT sector**

The information and communication cluster, based on competences and technical development, has become the second most important basic cluster together with the forest cluster. It has been able to offer new job opportunities (ETLA, 2002). The ICT sector is a sector of young men; in over half of the Finnish ICT companies the majority of employees are males under 35. Only in one out of four Finnish companies generally is the personnel as young as this (Kandolin & Huuhtanen, 2002; see also Heilmann, 2004). In the ICT companies the basic technical competence in the area of programming is important. Work and studies overlap in the beginning of ICT career. ICT career usually begin when person’s studies are not yet finished and person starts as a summer trainee or thesis worker. In this research the ICT managers worked in software development projects.

**Paper sector**

The paper companies in this research produce pulp, paper and paperboard. Personnel of paper companies are experienced and aging. The average age of the personnel is high and many will retire in the near future.

Finnish forest companies have experienced a radical transformation during the last two decades. Companies have been purchased, there have been mergers, operations have become more international and companies have renounced some business areas
Heilmann, P.


Results

Work and leisure in ICT and paper sectors

Managers in both sectors were knowledge workers. These technically educated managers in both paper and ICT industry were often responsible for production, research and development. Part of their job was to look after budgets and personnel, take care of customer relations and develop the organization to better serve the core business. Leisure time activities often connected to work some way, e.g. by reading professional literature.

ICT managers spent their leisure time with hobbies and with their family. The most important recreation methods were outdoor activities and sport. ICT managers emphasized also the importance of the balance between interesting work and family. Also their achievements at work gave them great joy.

*Family, balance in life, physical wellbeing, enough sleep.*

(ICT manager)

Outdoor activities like jogging, hunting and spending time in summer cottage were important ways of recreation among paper managers. After that came family and the normal activities at home. Paper managers mentioned also the challenges at work as an important part in their life.

*Family, outdoor activities, spending time at the summer cottage. Normal life at home, possibility to bake and cook.*

(Paper manager)
Connecting work and leisure in managers’ lives

Family behind the career of a manager

Most managers underlined the importance of family in their lives. Family was seen as a counterpart to work and as a natural part of life. ICT managers mentioned the encouragement that they had achieved from their childhood homes and now from their own families. When a manager had a family he/she had not so much time for trivialities, he/she should concentrate both to work and to family and balance these in life. Family also usually prevented a manager for becoming workaholic. Most ICT managers stated the ranking as follows: first came family and after that work.

*I receive encouragement from my family.* (ICT manager)

*I would have become a workaholic without my family.* (ICT manager)

Paper managers mentioned the importance of the support of grandparents in arranging their family life. The encouragement from managers’ own parents was highly appreciated. Decisions concerning new job opportunities and working possibilities abroad were first discussed with family members. International assignment decisions were seldom made only by manager him/herself. The balance in life was important also to paper managers. This balance between work and family improved the wellbeing of manager and affected as well to work efficiency.

*The grandparents help us if we have to travel. The support from my parents has been enormous.* (Paper manager)

*You can’t decide e.g. about new assignment abroad all by yourself, you must first discuss about it at home.* (Paper manager)

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Emphasis between work and family

Among ICT managers the relation between work and family seemed to be quite balanced. Work was usually done at workplace during working hours (37 hours per week) and then came leisure time activities like family and hobbies. If a manager had not a family he/she usually spent more time at work. Especially in ICT sector was discovered a togetherness feeling among colleagues: ICT managers spent also a lot of leisure time together. Paper managers worked more extra hours than ICT managers, their weekly working hours (40 hours) exceeded in general.

*I think that work and family are in balance. I don’t work in the evenings.* (ICT manager)

*Loosing my family would be worse than loosing the job.* (ICT manager)

*Work comes first, unfortunately, too often.* (Paper manager)

*70% work, 30% family.* (Paper manager)

Conclusions

Managers in this research seemed to be hardworking. They yearned for challenges at work. Family seems to calm down the pace of manager. Family brings regularity and orderliness to life. It is not so easy, or even necessary, to participate in every event available if one has a family. Family is an important basis in life for ICT and paper managers. It seems to be that if family matters are in a fit state a manager also can concentrate on his/her work. Important decisions connecting to work are first discussed at home.

To ICT managers the colleagues were important also in leisure time, the togetherness feeling continued outside the working hours. That was not noticed in paper sector. Paper sector manag-
ers spent most their leisure time with family or in outdoor activities. But colleagues were not necessarily part of their leisure.

References


Heilmann, P.


Abstract. Based on the findings of the previous third sector research in Estonia about the weak embedding of this sector in the society, which manifests itself in its weak relations to the state and business sector, the central question for the study concern the causes for this relative weakness. I attempt to trace these causes back to the political, historical, cultural and economic environment (embeddedness) of the third sector. The environment is not observed as static. The influence of time, path dependent developments, and the mechanisms of interplay of these paths – pointing to a certain dynamic – are essential in explaining the present weakness of the third sector. As the study has shown, its relations to the state sector and business sector are rather weak. This is mainly caused by the (neo)liberal politics Estonian governments have followed during the time since regaining independence; the experience of Estonian people of the Soviet past, but also by certain cultural characteristics (e.g. individualism).

Introduction

Since the collapse of Communist regime the topic of Eastern European third sector has caught the attention of the social scientists all over the world. The main question these studies deal with, from differing perspectives, is: What is the role and position of this sector in post-communist society? Is it a constitutive part of
the civil society or rather a surrogate of the state institutions? (Anheier et al., 2000; Anheier & Seibel, 2000; Lehmbruch, 1994)

Speaking about Estonia, since concentrating itself in the transformation period on formal parameters, its economic achievements have been among the best in the Eastern Europe. But after the economy was consolidated the societal problems came visible. The existence of certain political institutions alone could not guarantee a well-functioning democracy. (Putnam, 1993) The third sector as an institutionalized form of civil society currently forms the weakest link in the Estonian democracy. Only a minority of third sector organizations work together with the business sector. Though the dialog between the state and the third sector is year for year brisker, today these contacts are still episodic. (Lagerspetz & Trummal, 2003)

This article conceptualizes the characteristics of non-profit sector as dependent on its embeddedness within broader social, political, and economic processes, where political preferences, but also the historical, cultural, and legal developments of a country, play a dominant role. This concept of “embeddedness” was used by Seibel (1990) in the analysis of government-third sector relationship in France and Germany.

The question I pose in my research is: why is the importance of the non-profit sector in Estonia, when compared to business and state sectors, insignificant in shaping the society?

Regarding the scope of this study, it could only be an explorative in assessing the mechanisms that shaped the path of development of the certain third sector. In the post-communist perspective the study contributes to the understanding of different micro-level (in a single country) dynamics leading to different outcomes.
Theoretical frame of the study

The analytical framework of this study combines two theoretical lines: the Social Origins Theory and the Path Dependency Approach.

Social origins theory – a step ahead in non-profit research

The contribution of Social Origins Theory builds on the critics of the at this time already existent third sector theories. It argues that the size and structure of the non-profit sector is a reflection of its "embeddedness" in a complex set of relationships, classes, and regime type. Which position exactly the third sector takes as a service provider depends on a country’s historical patterns of development and institutional path dependencies. (Salamon & Anheier, 1998; Salamon et al., 2000) The authors could identify four types of “non-profit regimes”, each characterized not only by a particular role of the state, but also by a particular position of the third sector, and each reflecting a particular constellation of social forces.

According to the study of Appleton (2003), in contrast to most other Eastern European countries Estonia falls in a clear statist category of “non-profit regime”. In this regime, the state retains the guiding hand in a wide exercises power on its own behalf or on behalf of business and economic elites. In doing so, the state enjoys a fair degree of autonomy, sustained by long traditions of deference and a compared to other types much more pliant religious order. Both government social welfare protection and non-profit activity remain highly constrained.

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1 Government failure/market failure theory of the emergence of NGOs; Supply-Side Theory; Trust Theory; Welfare State Theory; Interdependence Theory.
Path dependency – a suitable instrument for highlighting the dynamics of development

The authors of Social Origins Theory determine the type of a non-profit regime on the basis of two variables: government social welfare spending and non-profit scale. The measure that these two variables provide is calculated for a given point in time, disregarding the process leading to this state of affairs. In order to be able to assess this process, the constituting element of the Social Origins Theory – its effort to underlie the path-dependency of third sector development – is studied more closely in this paper to show up the dynamics of the development path leading to a certain “outcome”.

For this I clarified three different types of temporal path dependence modelling myself on Ekiert and Hanson (2003):

1) “classical” concept of path dependency by Pierson (2000), where certain adopted rules or institutional patterns will become more efficient over time and will be reproduced through self-energizing dynamics or inertia (“increasing returns”) as proposed in the economic approach to path dependency.

2) the persistent influence of historical and cultural legacies inherited from the more distant past that shape the choices of political and social actors. (Putnam, 1993; Huntington, 1996)

3) the contingent events that set in motion „reactive sequences“. (Mahoney, 2000) As Mahoney (2000) explains it, “[I]n a reactive sequence, each event in the sequence is both a

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2 Although both 1) and 2) are pointing to the history’s importance, Putnam and Huntington did not stress the determinism. They rather showed the importance of culture over time, while path dependent processes according to Pierson bear much more the “locking-in-effect” in it. From the point of view of institutional theory the first is a subject for historical institutionalism and the second follows the logic of sociological institutionalism.
reaction to antecedent events and a cause of subsequent events.”

These three are rather ideal types of modelling path dependency. In reality we can observe continuity and change at the same time.

Studying a concrete case, it is also essential to define the starting moment of a path. The time period covered in this study starts with the early 2000s. The path of “neoliberal self-reinforcement”, will be highlighted with the help of classical “increasing returns”-concept. The path in this case starts in the early 1990s, when Estonia became independent. By the more distant past I understand in this study the Soviet era, which started in 1940 and lasted until the end of the 1980s. Based on the concept of reactive processes, the present of independent Estonia is in part a reaction to the Soviet past of the latter.

Since applying these three models of path dependency will bring to light the mechanisms of institutional layering and functional conversion the aforementioned “temporal standpoint” of the researcher is important to understand the dynamics of how these processes evolve together. Institutional layering points to the mechanisms where the interaction of different institutions creates and alters the overall course of development.

The applied model of explanation and research design

The general hypothesis of the study proposes that the statist-characteristics of the non-profit sector in Estonia can be explained through its “embeddedness” in its broader social, political, cultural, and economic context.

The characteristics of the non-profit sector in Estonia are thereby the variables of interest (dependent variable) and the political, historical, cultural, and social-economic context constitute the independent variables.
The research design of the study is based on qualitative, case-oriented method, and treats the non-profit sector in Estonia as the case to be investigated. The study uses an *intrinsic case study* design. “Undertaken, that one wants better understanding of this particular case.” (Stake, 1998) “A case study is an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly driven.” (Yin, 2003)

By the operationalization of this hypothesis different types of data collection were used. Generally, I used open-ended, in-depth interviews carried out in Estonia in February and March 2004, documentary analysis, and the analysis of secondary literature.

The ten interviews conducted with experts of the field – representatives of state, economic and non-profit sector – are the first source of evidence for the study.

In addition, I used documentary analysis, specifically coalition agreements from 1991 until 2004; press coverage in one of the two biggest Estonian dailies from early 1990s until 2004, and secondary literature relevant in this field.

**Linking theoretical considerations to empirical evidence**

For lack of the space I am not able to demonstrate the entire qualitative analysis (the empirical evidence) I carried out for the study. So I go over and link the gathered data to the theory I used.

In the following, I will highlight the influence of the independent (context) variables on the development of the Estonian third sector and their interplay (Figure 1) from a theoretical point of view.
The social origins of the Estonian non-profit sector

**Figure 1.** Path dependent processes in Estonia and their interaction in creating a context for third sector development

**Self-reinforcing processes (increasing returns)**

The new government of independent Estonia along with it a new style of governance was established in 1991. At this point of time the main task the governments of this young democracy were confronted with was the reestablishment of independence with all aspects it embraces. Among other things economic and social reforms had to be carried out. This, according to the political elites of that time could best be achieved through a politics of radical economic liberalization. These politics signalized to people that everyone is the master of his destiny himself and the state more or less withdrew from the direct guidance and support of societal life.

Since government’s attitude towards the third sector largely depends on its attitude towards social matters, the relationship between the non-profit sector and government could not develop
very well during this time. As a representative of the third sector observed:

Mart Laar (the Estonian Prime Minister 1992–1994; [Authors’s comment]), for him, the third sector implicated the society of folk singing and folk dancing. (Interview/representative of the third sector, 2602)

Pridham (2000) explains the occurrence of such conflict along the following lines: “[I]n the case of economic transformation there is a stark reality here as it is invariably the social costs that are short-term and the economic benefits long-term. This places heavy demands on political leadership, who are more aware of the latter, while the public are particularly affected by the former.”

From that moment of transition this (neo)liberal politics and certain pattern of interests that accompanied it started to reproduce itself creating the so called “increasing returns.” Accordingly, the government’s disinterest in creating a viable civil society and third sector show evidence of self-energizing dynamics and inertia. In view of neoliberals and Estonian liberal politicians, the civic activity was nothing a government could and should initiate. A civil society develops on its own, if the necessary economic stability is created.

And well, as a liberal I distrust a state which brainwashes people and tries to force a mentality on them. And it was the biggest problem while preparing Civil Society Development Concept. The activists of civil society are trying to subordinate people to the state; they are almost trying to make the state be more dictatorial. (Interview/right-wing politician, 1902 [2])

For the prospects of democracy this is a critical question to what extent the collapse of communist controlled mass organizations has been replaced by a strong, purposeful, and politically relevant self-organization of diverse interests in society. (Rueschemeyer et al., 1998) In the absence of civil society, as was the case in former
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Soviet states, the state often needs to step in to organize individuals who are incapable of organizing themselves.

According to Saar Poll public opinion research institute (Saar, 2001), 28% of respondents in 1990 did not belong to any public organization or practice public activities. Ten years later, in 1999 the number of passive people not belonging to any public organization had risen to 69%.

Historical and cultural legacies of the more distant past

The third factor that counteracted the smooth development of the third sector in the newly independent Estonia was its historical experience. Historical patterns and memory create powerful “confining conditions” that constrain political choice and behaviour during the transition. (Pridham, 2000)

The Soviet occupation created a path that continues to impede a quick development of the non-profit sector today. This first of all could be seen in some attitudes, observed in ways of acting, or told by expectations that had permeated the people during the Soviet time neither of which facilitated the rise of civic activity.

Solidarity is not “in” in Estonia and it is an internal problem of our society. The richer the less solidarity is valued. At the University of Tartu we carried out a survey which showed that generally the division would be as follows: 21% of respondents would like to have more solidarity, 30% would rather like it. So, 50% altogether, let’s say. But 21% clearly want it. 10% of the respondents totally agreed with the statement “Naturally people are mutually supportive and cooperative”. In that sense Estonian society is individualistic. Solidarity as such is not valued in this culture. (Interview/academic expert, 2202)
Besides this, another type of continuity that started in the Soviet past could be observed: the relatively strong position of the government also persisted in the post-communist Estonia. Estonia’s rather centralized governmental system is undoubtedly one “remnant” of country’s Soviet history.

Closely tied to the historical and political aspects are the cultural characteristics of Estonia and their impact on the civic culture. The concept of path dependency pointing to “persistent influence of historical and cultural legacies inherited from more distant past” could explain how culture matters over time. As studies show, Estonians seem to be an individualistic nation having no strong drive to collective action.

_Probably we can say about the Estonians, whose historical villages were also villages where houses were far apart, that their kind of solidarity demands a certain situation: War of Independence, The Baltic Chain, song festivals; but it is like a problem built /around a project. It is not in the blood._ (Interview/businessman, 2002[2])

Moreover, trust among the people – closely tied to the cultural aspects and one of the preconditions for attitudes and behavioural norms conducive to democracy to emerge (Almond & Verba, 1963; Ingelhart, 1995) – is rather low in Estonia. (Saar, 2001)

**Reactive sequences**

Besides the continuities that exerted their impact on the development of the third sector in Estonia, some historical developments can only be explained as reactions to previous events, some of them pushing in the opposite direction. In the case of Estonian non-profit sector an “opposing” impact of the Soviet past on the behaviour of Estonians in general and foremost on state actions could be observed: the stringent denial of all that could have something to do with our past, with our Communist episode. This attempt to eradicate the behaviours and types of actions that could
The social origins of the Estonian non-profit sector remind of Estonia’s Soviet past lead to the reactive path dependent processes.

At the time “socialist” was a swear word. In that sense a socialist was like a communist. This is a kind of political rhetoric when under the sign of freedom some clever people are pushed aside as it happens in politics. (Interview/centrist politician, 2502[2])

The very neoliberal politics and a rather marginal opposition from the side of population at the beginning of the 1990s had an aspect of reaction to the Soviet past. Because the system introduced by communists was modelled against liberal ideology, not astonishingly, after the collapse of communism liberal ideas formed the paradigm of transformation. (Skapska, 1997) Regarding the disposition of population, this “reaction” – all policies, habits and attitudes which oppose the ones known from the Soviet time are preferable – was a source of hope for becoming as soon as possible recognized as a member of free, developed “western” nations. This turn to a free developed nation – and here the phenomenon of layering becomes evident – was an important facilitating factor for radical economic and social reforms and for the beginning of the path of “neoliberal reproducement”.

Review

To summarize, although Estonian independence was cut off for almost 50 years, and therefore the example of Germany and France cannot be applied one to one, the conclusion made by Seibel about them is still relevant for Estonia: “[...] neither government nor third sector agencies can escape from what is imposed on them in terms of institutional setting and national styles of politics and policy, these having evolved in national history with endorsement by appropriate patterns of ideological justification”. (Seibel, 1990) Institutions limit the third sector’s
scope of action, preclude some of its directions, and favour perception and selection of some strategies over others.

As my qualitative study has shown, the third sector in Estonia is relatively weak and its incorporation in the societal life, in terms of my dependent variables, is rather insufficient. Its relations to the state sector and business sector are rather weak. This is caused by the (neo)liberal politics Estonian governments have followed since Estonia’s regaining of independence; the historical experience Estonian people had in the Soviet time, but also by certain cultural characteristics (e.g. individualism). These factors bring their influence to bear on the characteristics of the Estonian non-profit sector primarily in their interplay.

The analysis has shown that the state exercises power on behalf of economic and business elites, almost disregarding the civic sector in policy-making.

Looking at this interplay of the studied variables and their influence on the third sector, one can clearly observe tendencies and developments which refer to “path dependent” characteristics of these processes. This path dependency manifests itself in simultaneous continuity and change, building a process called institutional layering.

Even though on the basis of this analysis I am not able to measure the impact of each single variable exactly, the tendencies show that the biggest impediment to the development of the third sector in the independent Estonia has been an indifferent government’s attitude towards the sector. However, this interweaves with the historical and cultural impacts.

Surely, there can be other possible explanatory variables that would be worth continuous studying. In the context of this paper the importance of each single variable could be studied more systematically in the future.
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References


Sissejuhatus

Teema aktuaalsust saab hinnata nii positiivsest kui ka negatiivsest küljest. Nimelt on mitmetes Euroopa väikeriikides perefirmade osa väga oluline. Samas pole Eestis piisavalt teoreetilises ega rakenduslikus plaanis käsitletud perefirmade probleemide ja käsitletud perefirmade probleemikat.

Perefirmade teoreetilises käsitluses on olulisel kohal perefirmade mõiste defineerimine, põhitunnuste esitamine, väikeettevõtlusega seotuse selgitamine, põimuvate elutsüklike avamine, perefirmade eeliste, puuduste ja võimalike konfliktide välja toomine.

Samas on pereettevõtlusel igas riigis oma spetsiifika sõltuvalt tema suurusest, arengutaseemest ja -potentsiaallist. Erinevad on perefirmade loomise ajendid, pereliikmete osalus, samutatud eesmärgid ning arengut soodustavad ja takistavad tegurid.

Arvestades Eesti väiksust, väikeettevõttete ja füüsilisest isikust ettevõttjate suurt osa ettevõtluses, on oluline välja selgitada ka perefirmadega seonduvad juhtimisprobleemid ja hinnata võima-
likke arengusuundumusi. Selleks viidi autorite poolt 2006. a sügisel läbi pilootuuring perefirmade oleviku ja tuleviku kohta.

**Perefirmade teoreetiline käsitlus**

Perefirmad on Euroopa majanduse alustalad ja majanduse areng sõltub suuresti nende tulemuslikkusest tulevikus. 20,5 miljonist Euroopa ettevõttest on 17 mln omanike poolt juhitavat ja/või perefirmat tootmise, kaubanduse ja teeninduse valdkonnas (Riehle, 2003). Euroopa Liidus moodustavad perefirmad kõigist ettevõtetest 85%, USA-s 90%, Soomes 70%, Suurbritannias 75% ning 90% Iirimaa ettevõtlussektorist moodustavad pere omaduses olevad ettevõtted ja need annavad tööd umbes 50%-le tööhõivelisest elanikest. (Cullen & Elmore, 2005)

Samal ajal on perefirmasid suhteliselt vähe defineeritud. Siinkohal on autorite poolt tehtud järgmine valik. Üldistatult on perefirma
- firma, kus kontrolli omav omandiõigus kuulub üksikisikule või uhele perekonnalle (Barnes & Hershon, 1976);
- omaniku poolt juhitav firma, kus noorem pere liige omandab vanemalt kontrolli firma üle (Churchill & Hatten, 1987);
- sotsiaalne süsteem, millel on spetsiifiline eesmärk – pereliikmete vajaduste eest hoolitsemine (Meredith, 1996). Viimaseid hoiab koos hulk kompleksseid, aastate välitel kujunenud sidussüsteeme, mille tulemusel tekib vastutus ja lojaalsus perele;
- omandiõigusel põhinev partnerlus või korporatsioon, kus enamus omandiõigusest kuulub perele ja mis annab tööd pereliikmetele ja/või kus pere on esindatud juhuates (Birdthistle, 2003);
- firma, mis on selgelt määratlenud pereliikme osaku suuruse ja kus eelnevate põlvkondade esindajatel on juhtivad positsioonid (Zahra et al., 2004).

Nimetatud definitsioonides on esile kõik olulised perefirmade tõnnusjooned. Le Breton-Miller, Miller ja Steier (2004) märgivad,
et juhtimine antakse edasi ühelt pereliikmelt teisele või kompetentse pereliikme puudumisel leitakse lühiajaliselt ajutine juht.

Kõige tähtsaimad neist väljendavad perefirma põhitunnused (Mugler, 1993): 1) kapital muretsetakse ühe perekonna poolt; 2) üks või mitu perekonna liiget avaldavad otsustavat mõju juhtimisele või kannavad ise ettevõtja funktsiooni; 3) kapitali­omanik tahab firmat perekonnale säilitada.


Perefirma ja väikeettevõtte seotus ilmneb ka elutsüklike käsitleuses. Mõlemal lõikuvad perekonna- ja ettevõttesseadurid. Perefirmad saab mõned järgmistel elutsüklike pingeid: 1) omaniku personalne tegutsemisvõime, 2) pere toetus; 3) konkurentide tegevus, 4) teh­noloogiline potentsiaal, 5) konjunktuur. Nende elutsüklike kõrg- ja madalseisud, arengusuunad ja -kiirus on erinevad.


Üks olulisemaid vastuväiteid perefirmaele on töö ja pere vahe­lise pinge juhtimine (Miller et al., 2000). On uuritud eri mehe­nisse, mida perefirmade omanikud kasutavad juhtimises ja vas­tastikuses mõjutamises, tuues teised pereliikmed firmasse (Dyck et al., 2002), tippjuhtimise arendamises (Kets de Vries, 1996).
Autorite arvates on perefirmade jaoks olulised eelkõige nüüdis-aegse majanduskeskkonnaga ning perefirma juhtimisega seotud probleemid. Perefirmad panustavad majanduse kasvu ja õitsengusse, kuna loovad väärtust innovaatiliste toodete, protsesside ja teenuste kaudu.

Taguiri ja Davis (1992) kohaselt põhjustavad firma juhtimise ja perekonna vahelised suhted kompleksseid juhtimisprobleeme. Pere tasandil juhtimine ei tähenda eraldumist, vaid omandisuhte ja kontrolli ühendamist.


Perekonna eesmärke arvestades (Chrisman et al., 2003) on perefirmadele äriline pikaelalisus ja pereliikmete heaolu primaaress, võrreldes firma kasvu ja jõukuse suurendamisega. Samas on perefirma säilitamine ja konkurentsivõimelise seisukohalt vaja teatud kasvu ületamaks ressursside piiratud seisumisest ja mastaabivõimelise ebaseaduslikus piiratud seismisest tulenevat ebasoodsat positsiooni (Timmons, 1999). Ka võib kasv olla tarvilik kohandumaks uute pereliikmete vajadustega (Gersick et al., 1997).
Perefirmade juhtimise ja arengu probleemid Eestis

Tulevaste põlvkondade nimel tegutsemist iseloomustab pühendumus, firma jääkusuutlikkuse ja finantspositsiooni tujevdamine (Miller & Le Breton-Miller, 2006).

Kuiigi perefirmasid tekib juurde väga kiiresti, iseloomustab nende gruppi negatiivne “ellujäämise” määr. Uurijad rõhutavad, et ainult 1/3 perefirmadest jõuab faasi, kus firma asutajad (esimene generaatsioon) annavad firma üle teise generaatsiooni omanikelejuhtidele. Ja ainult 1/3 neist, kellel see üleandmine õnnestub, suudavad anda firma edasi kolmanda (ja edasistele) generaatsioonidele. (Poutziouris, 2000)


Perefirmade alase uurimuse korraldus ja tulemused

Antud artiklis lähtuvad autorid järgnevast perefirma definitsioonist: perefirma on firma, kus enamik firma kontrollpakist kuulub ühele perele ja firma tegevusse on samaaegselt aktiivselt kaasatud kaks või enam pereliiget.

Perefirmade oleviku ja tuleviku alane pilootuuring sisaldas 24 küsimust, millest 22 puudutas otseselt perefirmasid ning kaks nende tegevusvaldkonda ja eksisteerimise aega. Autorid viisid pilootuuringu läbi TÜ majandusteaduskonna Avatud Ülikooli

Tegevusaladest olid enim esindatud teenindus ja kaubandus (võrdselt 30%), järgnes ehitus (13,3%). Perefirma ajalise eksisteerimise kategoorias oli enim vastanuid tegutsenud 6–9 (43%), järgnesid 10 ja rohkem (25%) ning 2–5 (23%) aastat. Üle poole perefirmadest olid registreeritud kui osaühingud (60,4%), järgnesid füüsilisest isikust ettevõtjad (20,8%) ja aktsiaseltsid (18,9%). Praktiliselt kõik (51) vastanud perefirmad põhinesid Eesti kapitalil. Järgneval joonisel on näha perefirma loomise ajendid.

![Joonis 1. Perefirma loomise ajendid (autorite koostatud piloot-uuringu andmete põhjal).](image-url)
Perefirmade juhtimise ja arengu probleemid Eestis

Nagu toodud jooniselt näha, märkis suurem osa vastanutest perefirma loomise ajendina äritegevust ja 69,8% vastas, et perefirma pole tekkinud mõne endise ettevõtte baasil (varalises või personali mõttes). Vastanutest 66%-l olid võimusuhed selgeks räägitud, 19%-l ebamäärased ning vastutus oli fikseeritud üldjoontes 53%-l ja selgelt 43%-l vastanud perefirmadest.

45,3% vastanutest märkis, et kui võimusuhed olid selgeks räägitud, siis konflikte perekondliku ja ärilise huvi vahel esines harva või ei esinenud üldse (13,2%). Tunduvalt vähem märgeti konfliktite esinemist tihti ja sageli selgeks räägitud võimusuhete korral. Kui võimusuhed olid ebamäärased, siis esines konflikti perekondliku ja ärilise huvi vahel sageli või harva (vördsetelt 9,4%).

Küsitlusest selgus, et kui vastutus oli fikseeritud enamuses perefirmades üldjoontes, siis esines konflikti perekondliku ja ärilise huvi vahel harva 34% või sageli 15,1%. Kui vastutus oli fikseeritud selgelt, siis esines konflikti harva 26,4%, ei esinenud üldse 13,2% või sageli 3,8%. Järelikult on suudetud meeles pidada hoiatust, et perefirma konflikt paneb proovile nii isiklikud kui ka ärilised suhted (Klanberg, 2006). Suurem osa vastanutest (62,3%) märkis, et konflikt esines harva, järgnesid sageli (20,7%) ja ei esine (15,1%). Joonisel 2 on toodud perefirma eksisteerimise aja ning perekondlike ja äriliste huvide konfliktide esinemise sageduse vahelised seosed.

Perekondliku huvi eesmärkidena märjiti toita (42%), anda võimalus (29%), hoolida (10%), tõsta enesehinnangut (9%). Andmetest nähtub, et kui äriliseks eesmärgiks oli toota kasumit, siis individuaalseks huviks oli põhiliselt omamine (39,6%) või hobi (30,2%), sama nähtab ka oskuste arendamise korral (vastavalt 11,3 ja 3,8%).
Joonis 2. Perefirma eksisteerimise aja ning perekondlike ja äriliste huvide konfliktide esinemise sagedus (autorite koostatud pilootuuringu andmete põhjal).

Küsimusele “Kas firma areneldes jät kata ainult pereringis või pal­gata tegevjuht” märkis enamus vastanutest, et jätatakse pere­ringis (81,1%), 15% soovisid palgata tegevjuhi ja ülejäänud vasta­sid muu (nt tulevik näitab, palgata lihtöölisi). See näitab, et ühelt poolt on firma juhid reeglina seotud ettevõtetega ka omandisuhete kaudu ja teiselt poolt pole veel kogetud, et tegevjuht toob uut hingamist perefirmasse (Remmelg, 2005b). Pilootuuringust selgus, et pereringis sooviti jät kata enamasti seetõttu, et olid olulised pere materiaalne heaolu (50,9%) ja üksteise kiire mõistmine (28,3%) olenemata eksisteerimise ajast. Tegevjuhi palkamisel oli perefirmal eeliseks pere ühisväärtuste arendamise vajadus (7,5%). Perefirma ohuallikatena mainiti enim suutmatust eraldada töö­ ja eraelu nii pereringis jatkamise korral (58,5%) kui ka tegevjuhi palkamisel (13,2%). See kinnitab levinud legendi paikapidavust ka Eestis (Remmelg, 2005a). Sama ohuallikas leidis enam mainimist (70%) ka olenemata perefirma eksisteerimise ajast.

Enamus vastanutest märkis, et perefirma visioon (54,7%) ja inves­teerimisstrateegia (52,8%) olid selged, vaid vastavalt 3,8% ja
Perefirmade juhtimise ja arengu probleemid Eestis

5,7% märkisid, et ebaselged. Sama tendentsi võib märkata, kui perekondliku huvi eesmärgiks oli toita, hoolida või anda võimalus.

Põhiliste perefirma loomist ja tegutsemist soodustavate teguritena leidsid mainimist: uued võimalused seoses Euroopa Liiduga, koos töötamine, ühised huvid, tööandjate vähesus maapiirkondades, raha jääb perre, saab usaldada tööjõudu, väike majandusruum, osaühingu loomine ja füüsilisest isikust ettevõtjana alustamine suhteliselt lihtne, tegevusvaldkonna lai valik, omamise tunne.

Põhiliste perefirma loomist ja tegutsemist takistavate teguritena leidsid mainimist: suur konkurents välisfirmade poolt, tööjõu voolavus, pereliikmete individuaalsed soovid, huvide konflikt, ebaselged juhtmisülesanded, vähesed teadmised firma loomisest ja selle juhtimisest, maksusüsteem.

Kokkuvõte ja järeldused

Erialakirjanduses võib täheldada teoreetilist konsensust selles, et pere võimed, kavatsused ja äritegevust mõjutav käitumine on see, mis eristab perefirmat mitte-perefirmast. Pere mõju äritegevusele avaldub selles, kuidas käsitletakse juhtimise järjepidevust, innovatsiooni, kultuuri jne.

Autorite poolt läbi viidud pilootuuring võimaldas üldistada perefirmade loomise ja tekkimise motivatsiooni ning mehhanisme, pereliikmete rollijaotust, perefirmade arengualternatiive, eeliseid, ohuallikaid ja mõjutegureid.

Pilootuuringu põhjal saab teha järgmised esialgsete järeldused:

- Perefirmad tegelevad eri tegevusaladel ja ettevõtlusvormina on enim märgitud osaühingut.
- Enamus perefirmadest põhineb Eesti kapitalil, nende loomise põhiliseks ajendiks oli äritegevus (45,3%).
- Suurem osa perefirmasid on tegutsenud 6–9 aastat.
Kaseorg, M., Siimon, A.

- Enamusel perefirmadest on visioon ja investeerimisstrateegia selged.
- Võimusuhted perefirmades on selgeks räägitud, vastutus on fikseeritud üldjoontes ja enamus perefirmasid soovib jättata pereringis.
- Perekondliku tegevuse eesmärgiks on enamusel toita, ärilise huvi eesmärk on teenida kasumit ja individuaalse huvi eesmärk on omamine.
- Konfliktide nii perekondliku ja ärilise huvi kui ka isikliku ja ärilise huvi vahel esineb harva.

Ilma piisavate oskusteta on ohustatud perefirmade võime jäada konkurentsivõimetiseks. Perefirmadel on vaja oma eripära tunnustades teha õigeid valikuid.

Silmas pidades perefirmade olulisust, on firmade edu kaare eesmäeeks eelduseks Eestis nende organisatsioonilis-öiguslik määratlemine. Oluline on samuti sellealase infobaasi loomine, kodumaise kogemuse üldistamine ja eesrindliku kogemuse levitamine. Läbiviidud pilootuuring kinnitas süvauuringu vajadust. Samas on autorite arvates oluline üldistada Eesti kogemust ajakirjanduses avaldatud materjalide põhjal, kontrollimaks esialgsete järeljutuste paikapidavust. Edaspidist täiustamist vajab ka uuringu metoodika.

Kasutatud kirjandus


Perefirmade juhtimise ja arengu probleemid Eestis


Summary

Family business management: Developments and problems in Estonia

Merike Kaseorg
Aino Siimon

The actuality of a family business concept can be assessed from both: negative and positive perspective. For example the role of family businesses is important in many European countries, however in Estonia the issues of family businesses have not much studied neither theoretically nor empirically.

In theoretical framework it is essential to define the concept and main features of a family business. It is also important to clarify its connectedness with small-sized companies and entrepreneurship, study its life cycles and bring forth advantages and possible sources of conflicts. At the same time every country has its particular specifics to be considered.

The authors conducted a survey in 2006 with an objective to explore the specifics of family businesses in Estonia: their current situation and future developments. In the view of family businesses importance in economy the prerequisite assumption for their successful developments is for the first place their organizational-juridical definition. The same important is the creation of database, generalization of Estonian experience and distribution of success stories. The survey carried out by the authors enables to draw generalizations about motivation and mechanisms that lead to starting a family business, family members’ roles, developmental alternatives, advantages and threats. The need for further studies was also pointed out.
STRUCTURAL CAPITAL AS A STRATEGIC COMPONENT OF INTELLECTUAL CAPITAL OF THE ORGANIZATION: POSSIBILITIES TO MEASURE THE STRUCTURAL CAPITAL OF ORGANIZATION

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Introduction

During the past twenty years the role of intellectual capital for securing the future performances of organizations has considerably increased. This is due to fundamental changes in society and the business world where knowledge has emerged as the key resource of success. Therefore, from long-term strategic aspect, the most important is how knowledge has embedded into organizational assets – structural capital of organizations. Structural capital defined by Roos et al. (1998) as organizational assets of intellectual capital that remains in the organization when employees are going home for the night.

The aim of this paper is to select the suitable strategic indicators for the estimation the structural capital of organization and its components such as relationship and organizational capital.
In this paper the structural capital has been measured according to the intellectual capital model suggested by Roos et al. (1998). Chosen measures were divided into three separate groups – structural capital, relationship capital, and organizational capital. For the estimation of structural capital VAIC method, introduced by Pulic (2000), has been used. This method follows the Scandia Navigator frame and uses the aggregated stocks of intellectual capital. For the estimation the relationship capital of organization, performance indicators of organization (ROIC, ROA, and ΔTR) correlated to the market orientation of organization have been used. For the estimation of organizational capital LQ (Institutional Leadership) measurement frame worked out by author from previous stage of investigation has been used.

The survey was carried out in one organization of banking sector. The first and second groups of indicators have been calculated by analysis of annual reports from 2001 up to 2005. For the third group of indicators the questionnaire worked out during designs of the LQ measurement frame has been used. This questionnaire was carried out in the organization, where 183 members participated.

The theoretical background to measure the structural capital of organization

Intellectual capital as a concept arises at the middle of 1990s and it comes a set of techniques that enables managers to manage better. According to this concept intellectual capital comprises relationships with customers and partners, innovation efforts, organization infrastructure and the knowledge and skills of organizational members.

The earliest models of intellectual capital described by Bontis (1996), Saint-Onge (1996), Sveiby (1997), and Edvinsson (1997) assume a three-way distinction between external structure (relational capital), internal structure (structural capital), and employees (human capital). This three-way distinction puts human com-
petence, external structure and internal structure at the same level. Later, more detailed model of intellectual capital suggested by Roos et al. (1998), and Bontis et al. (1999) assumes a two-way distinction between human capital, and structural capital. Suggested model considers two separate levels, introducing human capital as an aggregation of the three competence variables, and structural capital as an aggregation of the three structural variables.

Moreover, Roos et al. (1998) mentioned distinguishes of the theoretical root of intellectual capital into two different streams: the strategic stream and the measurement stream. The first of them concerns in managing and other one in measuring of knowledge and other intangibles in organizations. These are two sides of the same coin – if the measurement necessity arises from the management side, then the management possibilities arise from the measurement side.

From these two, the measurement stream focuses on the need to develop new information system, which allows calculating and visualizing the value of intangible capital. For visualizing financial indicators could be used as well as non-financial indicators such as operational efficiency, etc. (Sveiby, 2002), IC-indices and IC-index (Roos et al., 1998). Bontis et al. (1999), and Vera and Crossan (2000) described this as an approach, which typically looks at knowledge as static assets in an organization. At the same time the strategic stream focuses on the creation and use of knowledge for success of organizations or value creation. Roos et al. (1998) have explained this by the flows of intellectual capital, which includes lows between stocks of intellectual capital and inside of them. Through this idea they expand the model of intellectual capital by dynamic dimension. Anyway, it does not provide exact metrics to monitoring the process of knowledge transfer and creation. Other scholars tried to fulfil this gap later. To use accounting based figures, Pulic (2000) developed measurement and monitoring method called VAIC (Value Added Intellectual Coefficient), which considers efficiency of stocks
Structural capital as a strategic component …

(resources) to visualize the value creation. VAIC method follows the Scandia Navigator frame, includes only aggregated level of stocks (human capital, structural capital, and capital employed) from Roos et al. (1998) model of intellectual capital. The other possibility to monitor flows of stocks has been introduced in the study of Bontis et al. (2002), where the relationship between business performance (value creation) and flows of stocks has been examined. Considering the dynamics of flows of stocks across levels in an organization, they brought concept of organizational learning into their study. It is understandable, because the concept of organizational learning is more concerned about the dynamic aspects of knowledge and knowing. The same understanding has been shared by Seemann et al. (2002). Considering the strategic point of view, Seeman et al. (2002) complement the concept of intellectual capital with the concept of organizational learning. However, all these three well-known concepts (Intellectual Capital, Knowledge Management, and Organizational Learning) are overlapping and depending on each other as Vera and Grossan (2000) have shown earlier.

As we see, during the last decade the movements in the development of the concept of intellectual capital have rapidly increased. Anyway, the usage of dynamic model of intellectual capital is complicated and metric development for the management purposes is still at early stages. As well, few studies have devoted to variables of aggregates of intellectual capital. One of these, Bontis et al. (2002) study bases on information interpretation by feedback learning and feed-forward learning through three different organizational levels (individual, group, and organizational) into the business performance. Information interpretation itself is one important dynamic variable of organizational capital, belongs into aggregated stock so named as a structural capital. In the same opinion is Edvinsson (2002), who has stressed on the central role of organizational capital in the value creation process. According to Edvinsson (2002) this role bases on the multiple (increasing returns to scale) character of organizational capital as to the most
essential variable inside the aggregated stock of structural capital. Despite of this, other variables of organizational capital as architecture of internal network of organization, external focus, and task context, with their relationship to business performance indicators have not been studied sufficiently yet. Therefore the current paper tried to measure the organizational capital by the measurement frame of the institutional leadership developed by Kivipöld and Vadi (2006). This measurement frame of the institutional leadership has two dynamic dimensions (organizational dynamics directed to goals and organizational dynamics of adaptation), which includes all together four variables – alignment and cohesion, control-feedback system, and architecture of internal network divided into extent of centralization and communication system.

For indicators of business performance have been chosen the change in the total receipts (ΔTR), return on invested capital (ROIC) and return on assets (ROA). These three measures describe the business performance of organization as a whole and relationship capital inside the aggregated stock of structural capital as well (see Figure 1). Greenley (1995) has shown that organizations with higher market orientation performed better ΔTR, and ROIC, and Narver and Slater (1990) have find that market orientation and ROA are strongly related. Market orientation itself concerns about relationship between the organization and customers to determine the most important part of external network of organization – a customer part of relationship capital inside the aggregated stock of structural capital. Also, Pulic’s (2000) VAIC method for measuring the value creation of intellectual capital and its aggregated stocks as capital employed, human capital, and structural capital, have been used (Figures 1 and 2).

**Methodology**

The structural capital has been measured according to the measurement frame of the structural capital (Figure 1).
Business performance indicators as VAIC, ΔTR, ROA, and ROIC have been calculated by using annual reports from period 2001 up to 2005. For calculation of structural capital as an aggregated stock of intellectual capital, VAIC method has been used. It allows visualizing the value creation of structural capital by STVA – Value Added Structural Capital Coefficient.

Organizational capital as a most important variable of structural capital has been measured separately by the questionnaire of measurement frame of the institutional leadership. Used questionnaire includes 68 items (questions) divided into four independent construct variables (all together 62 items) and on dependent construct variable (6 items). The results of questionnaire were analyzed by statistical tests: Cronbach’s alpha, and Partial Least Squares (PLS). Cronbach’s alpha test was used for estimation of
composite reliability inside of construct variables. PLS test was used for three different purposes: a) for examining individual items reliability; b) for examining reliability of independent construct variables by internal consistency (InC); and c) for examining discriminant validity of independent construct variables to dependent construct variable by average variance extracted (AVE).

**Results**

The survey was carried out in one of the biggest banks in Estonia. For the calculation of business performance indicators, value added intellectual capital coefficient and value added aggregated stocks of intellectual capital accounting based figures from annual reports from 2001 up to 2005 have been used. Organizational capital was examined by the questionnaire of institutional leadership and 183 employees by random selection out of 1269 employees were asked to answer to this questionnaire in November of 2006. From delivered questionnaires 112 questionnaires (observations) were fulfilled and received back, from where 111 observations were applied for final analyses.

Results received by three different groups of metrics, have links between each other. Common and not common parts of these links are shown in the Figure 2.
Structural capital as a strategic component ...

Figure 2. Links between different measures of the structural capital of organization.

Business performance indicators correlated to relationship (external) capital

As we see from the Table 1, all three indicators of business performance have different trends. Indicators, base on the profit value (ROA and ROIC) have been influenced by the change in an accounting standard in the organization. Since 2004, the organization has implemented IFRS (International Financial Reporting Standards) standards. According to IFRS calculations the profit value has been decreased and it explains the bias of ROA between periods of 2003 and 2004. ROIC indicator compared to ROA is more complicated and includes invested capital expenses as well. At the same time the ΔTR values have not been influenced by the change in the accounting standard.
Table 1. Dynamics of ΔTR, ROA, and ROIC

<table>
<thead>
<tr>
<th>Year</th>
<th>ΔTR (mill. EEK)</th>
<th>ROA (%)</th>
<th>ROIC (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>140</td>
<td>0.97</td>
<td>4.55</td>
</tr>
<tr>
<td>2002</td>
<td>82.8</td>
<td>1.94</td>
<td>4.51</td>
</tr>
<tr>
<td>2003</td>
<td>-45.6</td>
<td>2.34</td>
<td>4.17</td>
</tr>
<tr>
<td>2004</td>
<td>140</td>
<td>1.51</td>
<td>3.18</td>
</tr>
<tr>
<td>2005</td>
<td>266.8</td>
<td>1.47</td>
<td>3.12</td>
</tr>
</tbody>
</table>

Note: ΔTR – change in the total receipts; ROA – return on assets; ROIC – return on invested capital.

To consider all of these, author’s opinion is that the best business performance indicators to monitor relationship capital are ROA (bases on business profit value) and ΔTR (bases on the changes of sales).

**Indicators of intellectual capital and its aggregated stocks**

For the calculation of intellectual capital indicators VAIC method (Pulic, 2000) has been used. These indicators could be understood as business performance indicators, which are the bases on capabilities of aggregated stocks of intellectual capital to create the business performance (profit – value added). Indicators itself have been calculated as the value added coefficients of aggregated stocks (STVA, VAHU and VACA). The total value added intellectual capital coefficient (VAIC) gains by summarizing all these indicators together (VAIC=VACA+VAHU+STVA).

In the Table 2, values of the VAIC coefficient have been influenced by the change in an accounting system in 2004. This might be explained by the bias of VAIC coefficient between periods of 2003 and 2004. At the same time the weights of coefficient values of aggregated stocks have not influenced by the change in an accounting system. This allows visualizing the flows between the aggregated stocks of intellectual capital.
Structural capital as a strategic component ...

Table 2. VAIC value and STVA, VAHU, and VACA % of VAIC

<table>
<thead>
<tr>
<th>Year</th>
<th>VAIC</th>
<th>STVA %</th>
<th>VAHU %</th>
<th>VACA %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>0.23</td>
<td>15.4</td>
<td>53.5</td>
<td>31.1</td>
</tr>
<tr>
<td>2002</td>
<td>1.54</td>
<td>14.7</td>
<td>89.1</td>
<td>1.7</td>
</tr>
<tr>
<td>2003</td>
<td>2.24</td>
<td>19.6</td>
<td>79.5</td>
<td>0.96</td>
</tr>
<tr>
<td>2004</td>
<td>1.65</td>
<td>16.3</td>
<td>82.9</td>
<td>0.79</td>
</tr>
<tr>
<td>2005</td>
<td>1.76</td>
<td>17.4</td>
<td>81.9</td>
<td>0.77</td>
</tr>
</tbody>
</table>

Note: VAIC – Value Added Intellectual Capital Coefficient; STVA – Value Added Structural Capital Coefficient; VAHU – Value Added Human Capital Coefficient; VACA – Value Added Capital Coefficient.

Estimation of organizational capital

Organizational capital has been measured by the questionnaire of institutional leadership, which is using the seven-point scale (strongly disagree to strongly agree). According to the measurement frame of institutional leadership the organizational capital distinguishes into three main variables such as: alignment and cohesion, architecture of internal network, and control-feedback system.

Table 3. Results of the estimation by the LQ questionnaire

<table>
<thead>
<tr>
<th>Variable</th>
<th>St. Mean</th>
<th>Std. Dev.</th>
<th>Crb.α</th>
<th>InC</th>
<th>AVE</th>
</tr>
</thead>
<tbody>
<tr>
<td>A&amp;C</td>
<td>4.55</td>
<td>1.51</td>
<td>0.86</td>
<td>0.89</td>
<td>0.55</td>
</tr>
<tr>
<td>AIN</td>
<td>4.33</td>
<td>1.58</td>
<td>0.75</td>
<td>0.84</td>
<td>0.51</td>
</tr>
<tr>
<td>CFS</td>
<td>4.65</td>
<td>1.53</td>
<td>0.82</td>
<td>0.87</td>
<td>0.53</td>
</tr>
</tbody>
</table>

Note: A&C – alignment and cohesion; AIN – architecture of internal network; CFS – control-feedback system; Crb.α – Cronbach’s alpha (min. 0.7); InC – internal consistency (min. 0.7); AVE – average variance extracted (min. 0.5).

As being seen from the Table 3, the dominant value of variables has a control-feedback system and lagging value of variables has architecture of internal network. In spite of this, differences be-
 tween the variables are small. These differences between the variables are mapping the balances of organizational system. Anyway, the smallest value of the variable of architecture of internal network pointed at the necessity to increase the amount and volume of the network channels. It provides better information transfer, interpretation and processing inside the organization.

Discussion

This study provides three groups of metrics for the measuring the structural capital of organization. Each of these metrics has its advantages and disadvantages, which are the points of further discussion.

ΔTR is a universal indicator; it indicates both – the business performance and market orientation of organization at the same time. However, this indicator has been influenced by effects of industry evolution (stage of industry life cycle) and business cycle of macro environment. The next indicator, ROA concerns both – the business performance (profit creation) and the market orientation. From strategic point of view it is important, because ROA allows the comparison estimation across industries and inside the industry. In spite of this, for the estimation of intellectual capital ROA is too universal, only concerning in accounting based total assets.

Other group of indicators such as: VAIC, STVA, VAHU, and VACA, are free of these limitations. These coefficients contain the information on how efficiently value added has been created by every aggregated stock (structural capital, human capital and capital employed) of intellectual capital. Also, weights of coefficient values are visualizing the flows between the aggregated stocks of intellectual capital. Moreover, the sum coefficient of aggregated stocks (VAIC) correlates to the intellectual capital indicator MVA (market value added) (Pulic, 2000). This gives the
Structural capital as a strategic component ...

possibility to estimate the intellectual capital of organizations, which have not entered into the stock market.

The measurement frame of institutional leadership (LQ) is different from indicators of previous groups. This LQ metric only concerns in the organizational capital, which according to Edvinsson (2002) is carrying the central role in the value creation process. Compared to other analyzed indicators, the metric of institutional leadership is able to visualize the strategic assets embedded in the structure of organization. Therefore this LQ metric could be useful to the organization’s managers to warrant the organizational performance. However, the development of this metric is at early stage. Further investigations in this field should bring out the links and relationships between LQ metric variables and business performance.

References


Introduction

One of the main management’s objectives is to make employees work effectively within the company’s system of values. It is not enough to explain this system of values to employees – actually the same values (but formulated in different words) are shared by most companies; people simply see no difference between values of different companies so they often perceive these systems of values as bla-bla-bla. It is not enough either to say to employees that they will earn more money if they work harder: people generally understand this model (“more work, more money”) from the very beginning. So managers have to motivate the staff in order to reach the goal stated above.

But motivating people means that we have to understand our employees’ motivation profiles, which, in its turn, is impossible without understanding of their psychological profiles. In other words, managers must know their employees’ personality structures.

We are used to believe that a person has only one personality (Hjelle & Ziegler, 1992). All exceptions from the equation
1 person = 1 personality are seen as psychiatric deviations. However is this popular belief true? Or better: has it always been true and is it still being true now, when digital technologies are changing our world? The reply is “no” and I will try to demonstrate it below.

It is very important to highlight that the model I develop in the present article is purely theoretical and requires empirical verification. However, this model is based on facts and I strongly believe that it will be useful for managers, business psychologists and sociologists.

Theoretical background

Let us start from the childhood. Children always dream of becoming a king, a princess, a gangster or a pop star. They do not want to wait until they actually become kings and princesses – they simply create imaginary worlds of their own where they are kings or corsairs. An excellent example of such an imaginary world is given in “Peter Pan”. In addition, in these worlds children have friends – mostly virtual fiends whose roles are performed by these children (or should I say “by world creators”?) themselves. The same is true for enemies – they are mostly virtual too.

Children always create their Neverlands and nobody accuses them of schizophrenia and escapism – it is normal for children to play after all. But what changes when we grow up? We still have dreams and we realize that most of these dreams will never come true. The only solution to satisfy our need is to design our own world where these dreams did come true – a kind of Neverland for adults.

Traditionally all information about this imaginary world was stored in its creator’s brain (or in his/her diary). The person who created such world had to keep track of all events and all characters from this universe. (S)he also had to create these characters on a basis of his/her personality (a typical set of characters...
Digital millennium personality structure and ...

includes an idealized incarnation of the world’s author, some good characters and some evil ones). So it leads us to conclusion that the real personality of a person (= the personality present in everyday life) is just a part of his/her complete personality, other parts of this complete personality being used to create such virtual characters (these characters reflect the aspects of the complete personality that cannot be used in the real life). But these worlds were very primitive and poorly organized as it was very difficult for a person to follow them up in real time. A solution was proposed by role playing games (RPG), but they were a mere formalization of our dreams with hard-to-follow scorecards and without any visual representation of the worlds they were dedicated to. They also required the third person – a game master, who destroyed the privacy of this world. So use of RPG was very limited.

The situation changed dramatically thanks to Internet (Zhichkina, 2001) and online role playing games (ORPG). ORPG offered to people a unique opportunity to create a dream character in a dream world: a character with all values our real personality has (or we hope it has) but without our personal shortcomings. This ideal world is interactive and exists in real time, we share it with a lot of other players and – which is very important – this world has a visual incarnation on our computer screen. We may even register several characters – for each side of our personality. As the game goes on, we dive deeper in these imaginary worlds and these characters become somewhat real for us.

The next stage is represented by all kinds of Web forums and blogs (Kotliarov, 2006). As registration is very easy and does not require official identification, any person can register an unlimited number of user accounts of such forums – such virtual accounts are called “sock-puppets”. These sock-puppets reflect different aspects of personality of their creator and are used in different circumstances (especially in cases when a person wants to express his/her opinion or make some actions but does not wish to dis-
close his/her real name). Imaginary characters came in our real world – or better, in the virtual part of our everyday world (while ORPG characters exist in imaginary worlds – this is the difference). Interestingly enough, even if we register an account under our real name, we may create a kind of sock-puppet, as our behaviour in virtual space will be somewhat different from our behaviour in the real world.

So a human being’s complete personality can give life to several occasional personalities: the real one, which is used in everyday life (which only reflects those aspects of the complete personality that are useful in the real life) and some virtual personalities (that are inspired by the complete personality and reflect those aspects that are hidden in the real life). This is true for the whole historical period of human civilization, but only the appearance of digital support for virtual personalities made this phenomenon clear. And it has nothing to do with schizophrenia – psychiatric problems begin when a person stops seeing difference between his/her real personality and virtual ones, but such cases are relatively rare.

Results

All these observations can be generalized by the following personality formula (which can be named the Digital Milennium personality formula):

\[ CP = RP + nVP_a + mVP_b \]  

\( CP \) – complete personality;  
\( RP \) – real personality;  
\( VP_a \) – virtual personality the person identifies himself/herself with;  
\( VP_b \) – virtual personality the person does not identify himself/herself with;  
\( n \) and \( m \) – numbers.
It is very important to distinguish $VP_a$ from $VP_b$ as they are used for different purposes. $VP_a$ is necessary when a person wants to highlight his/her good qualities and normally is an idealized equivalent of the person in question (thus it reflects those aspects of the person's personality that (s)he likes — these features may be imaginary, the person wants to have them and thinks (s)he does, but it is not true). $VP_b$ is used when the person wants to undertake some actions (s)he considers as not desirable but that (s)he cannot help undertaking (so it reflects the complete personality's aspects that do exist but that person does not like).

It is obvious that our preferences are changing as time goes by, so $n = n(t)$, $m = m(t)$, $t$ — time. In addition to this, we may suppose — in order to generalize the formula (1) — that number of real personalities is not necessarily equal to 1 — it may be above or below 1 for persons with different kinds of mental diseases. So the final formula would be as follows:

$$CP = a(t)RP + n(t)VP_a + m(t)VP_b$$

$\text{a} - \text{a number.}$

One may ask what this odd psychological formula has to do with management.

The reply is quite simply: as I said above, one of the most important management tasks is to organize employees so that their productivity be maximal, that is, to find best ways to use employees' potential and to find good motivation tools. According to the formula (2), an employee's potential for a company is the potential of his/her real personality (indeed, the employer is not very interested in virtual personalities). But more virtual personalities a person has, less real efforts (s)he will dedicate to his/her job — as the formula (2) indicates, the complete personality can be considered as a constant resource (Zhichkina, 2001), so if the number of virtual personalities increases, the potential of the real personality
decreases. So the manager may wish to prevent the emergence of virtual personalities – in order to prevent waste of time.

There may be three solutions to this problem:
• The manager hires persons with a very simple personality profile so no virtual personalities will ever appear (unfortunately, this solution is impossible for positions where intellect and creativity are essential);
• The manager finds a good way to organize the work so that employees could satisfy most of their needs doing their job. There is no need in any virtual personalities. This solution is better than the previous one, but it is unfortunately somewhat utopian, especially in case of big international companies with employees from different social, cultural and age groups;
• The manager accepts the emergence of virtual personalities but implements a motivation system that links results in the real world with bonuses in virtual worlds – worlds where employees’ virtual personalities exist.

Conclusions
The third solution seems to be a paradox – but it is not actually. Employees will always try to escape to virtual worlds and it is impossible to stop this process (of course, we can block Internet access from office computers – but it will simply disappoint the employees and lower their motivation). If this process cannot be stopped, it must be used for corporate benefits. I can imagine two ways for this:
• The company motivates its employees by purchasing bonuses in the virtual worlds and distributing them among employees. Obviously, the company should first find out which virtual worlds (ORPG, blogs, social networks etc) its employees prefer. It may be convenient for small companies;
• Most virtual worlds are built up according to the same rules (of course, these rules are different for different types of virtual worlds – ORPG, blogs, social networks etc). It means
that a big company may design its own virtual worlds for its employees. Success in these worlds may be linked with professional results of an employee.

I am confident that there may also be other solutions but one thing, in my opinion, remains uncontestable: thanks to Internet people can create and cultivate virtual personalities in addition to the real one and these virtual personalities have to be taken into account by managers.

References


PROCESSING ORGANIZATIONAL VALUES IN THREE FINNISH COMPANIES

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Introduction

Ethical perspectives in organizations are at the moment “in fashion”. The economic situations and strong transitions in labour market have made ethics a crucial topic in conversations. Mahoney (1997) argues: “Business ethics is ultimately the ethics of power, of how to handle the power of business and how that power is acquired, increased and exercised. The need for ethics in business has never been greater, precisely because the power of business has never been so manifold and so extensive as it is today.”

Values and value processes are said to be needed in every organization. World is changing and companies have to have something to “keep it together” in today’s turbulences. Values are often referred as organizational change agents, which are processed to improve the organizational performance. The biggest and most crucial challenge is the feasibility of the value process. The main point in this research is to study how case-companies process their values and especially how the personnel perceive it.

In this research I study three different organizations (forest industry, bank and market) and their value processes. Data is gathered
by interviewing personnel in the head office and at the local level in all three companies with multiple managerial hierarchical levels. In all three companies values are “made” in the head office and then disseminated locally. Each company has their own way of performing the process; these are studied further in this paper.

Business ethics is currently very prominent business topic, and the debates and dilemmas surrounding it have tended to attract an enormous amount of attention from various quarters. Consumers and pressure groups appear to be increasingly demanding that firms should seek out more ethical and ecologically sounder ways of doing business. Media also constantly seems to keep the spotlight on corporate abuses and malpractises. Even the companies themselves appear to be increasingly recognizing that being ethical (or at the very least being seen to be ethical) may actually be good for business. (Crane & Matten, 2004)

Majority of companies still deals with HRM amateurishly. Usually the nature of human resource management is defined by how individual professional fields consider competitive edge to be created: management considers personnel to truly play a key role only in the service sector and some high-level expert organizations, whereas in other fields it still, at best, consists merely of the management of employment relationships instead of fostering, developing and productively utilizing the capacity tied to human resources. (Lähteenmäki et al., 1996)

Before the “raise of values” in organization studies, it could be said that on the whole, the ethical issues have been of marginal significance to the unfolding debates around HRM. (Winstanley & Woodall, 2000) Despite the active investigation of business ethics at an academic level since the 1960s, there remains a gap between the work of academics and the application of business ethics in the workplace. There is still a gulf between academia and practice. But is should be emphasized, that academics can help practitioners with ethics by assisting in the clarification of the moral perspective in practices. (Spence, 2000)
Case study approach and research strategy

The research approach is qualitative, and the empirical studies concern three case companies, which have published their official values several years ago. Qualitative research doesn't search simple and unambiguous answers like quantitative research does. Instead it tries to find new ways of thinking and to problematize self-evident truths. (Alasuutari, 1993) In qualitative research the aim is to find new ways of explanation to different phenomena. The most important thing in researching is to explain one's theory. The interpretation has to be well-grounded but not necessarily final; there will always be someone who finds weaknesses from the study. Research and science are like games, which include uncertainty and skepticism. (Ehrnrooth, 1990)

This research follows the methodology of the case study approach to tackle the research question. The data is gathered by interviewing people from multiple managerial hierarchical levels in top management and at local level in the case companies. In some of the cases values are “made” at head office level and disseminated locally in the organisation, in other cases the values are present without implementation. Different ways of processing the values were found in the different case companies. One of the most interesting issues is the employee’s experiences and opinions about the value process. Interviewees from different hierarchical levels make the study both interesting and intriguing.

“As individuals come into contact with organizations, they come into contact with dress norms, stories people tell about what goes on, the organization’s formal rules and procedures, its informal codes of behaviour, rituals, tasks, pay systems, jargon, and jokes only understood by insiders, and so on. These elements are some of the manifestations of organizational culture. When cultural members interpret the meanings of these manifestations, their perceptions, memories, beliefs, experiences, and values will vary, so interpretations will differ – even of the same phenomenon. The
patterns of configurations of these interpretations, and the ways they are enacted, constitute culture." (Martin, 1992)

Values are developed over time and may be strongly linked to societal factors like peer group or strongly held beliefs emanating from membership of organizations or deriving from particular creeds. Organizations have become more and more interested in both the individual and collectively held values which permeate the organization. The organization may seek to portray a strong ethical stance in its operations, reflecting commonly held ethical values inside the organization. (Brooks, 1999)

Organizations, like individuals, have moral and ethical responsibility in their actions: values transform their identities. As often found in earlier research, social engineering projects have their limitations and often the tool-like attitude in value processing does not end to satisfactory aimed results. In this research the individual implications about the value process are emphasized; how do people perceive values and value processing in their organizations?

**Individual in value processing:**
**Respect, trust and communication**

Due Mahoney (1997) there certainly seems to be an impressive moral authority, that human beings ought to be treated, and ought to treat each other, only in ways which will respect their inherent value and dignity. People want to be respected, valuable as individuals (Ahonen, 2001).

**Company A: let people flourish**

Manager, head office: “People want to make right things, to do something good. And it motivates people. And when people are motivated and happy, it creates more and more good things to share.”
This manager trusts to peoples' goodness in the work place too. When people are treated fairly and well, they get more motivated. In a long run this creates better results and also better profit:

Employee, head office: “If we give the people chance to flourish and work independently, to use their own brains, in the end it shows on the last line (a good return).”

Employee, head office: “There is so much information available nowadays; no one can rule it, like there was the great wise man somewhere... The information must be shared and you have to trust that the people know how to use it.”

The trust is interlinked with values. Nowadays the amount of knowledge is huge and constantly increasing. Nobody can handle all the information, not the managers or the employees. That's why trust is needed, and values as a basis for actions makes it easier to implement.

Employee, head office: “In the background is the basic assumption that you trust that the person does his/her best... the trust to people...”

Employee, local level: “I think that it all culminates to trust.”

The respect towards individuals in needed in organizations. It is also important to remember that individual as such is already valuable, despite his/her task or position in the hierarchy. And even more important is to realize: that the respect should go ahead through the organization: from top to the workers AND from the worker level to upper levels.

Manager, local level: “Somebody buys a factory, another buys a pen, but they both a respected in the community, as persons.”
Company B: treat the others like you wish to be treated

Manager, local level: “In my opinion, it’s all about the human. How a person thinks about other people.”

The higher the level of trust that management can generate, the greater the level of empowerment achieved. The interpersonal trust and optimism makes the employees feel more committed and motivated towards the organization.

Manager, local level: “To get the new roles and cooperation works, the key concept is trust. The construction of trust so that the information conveys better... And it comes to values again...”

Employee, local level: “We work really hard here, but on the other hand we have very good tools to manage, we have very good health system by our employer.”

As in all today’s organizations, the efficiency demands are big in the bank company too. Still, the employees feel they’ve been given good tools manage the challenges. Hard work is needed, but seen possible to deal with.

Employee, local level: “Sometimes it feels like... When talking to employees who are held at stated intervals... they are not respected as they should. They give the same effort in their work as regular employees.”

The respect towards part-time employees is seen as a problem. If they are respected as well as the regular employees, why don’t they get permanent post? Naturally this is again a matter of financing. Probably no company can afford to establish permanent posts to all its employees, especially in the service sector.

Respect means that you can work together in a same workplace, although you are not necessarily your co-workers best friend outside the workplace.

Employee, local level: “Respect for other people... Respect means that you have to get along with everyone here.”
**Company C: treat the people well**

Employee, local level: “I have always been thinking that the treatment of the employees is the main thing, which creates the spirit and joy in work, and makes the profit.”

This comment above sums the basic idea of respect towards other people. If people are treated well, they get more motivated and want to benefit their company’s performance.

Top manager, local level: “For example, if a person’s opinion is not respected, it (values) comes straight away out... That “what about our company values, the respect for the individual”? I think it is awfully good situation. It makes pressure for the managers and superiors, they have to start reacting.”

The matter that values are often referred to in the company is seen as a positive thing. It makes pressures to the managers and superior to really consider values in their everyday work.

Manager, head office: “Every shopkeeper keeps their backyards clean, the values are very simple issues: e.g. responsibility as a value.”

Manager, head office: “People speak willingly about real things, important things. If the work community handles them (the values) right, it arouses new ideas that these things are the ones we should discuss about and they are connected to our everyday work, joy in our work and interpersonal relationships in our workplace.”

The joy of work is emphasized. The organization is seen as a place to success though wellbeing personnel:

Employee, local level: “Everything is affected by human, everything is affected by personnel. The management culture and philosophy... if it is made wrong, it destroys the image. The only way to success is to take care of our personnel. Every company
can get the physical milieus, but the game is played through competitive personnel.”

Employee, local level: “Every and each great business strategy can be spoiled with disrespect to the personnel. If you don’t give the earned respect for the personnel, they will act against values in a service situation. You can’t build the success only by the service personnel, but you can destroy the success through them (by disrespect). The service personnel can always manipulate the situation.”

This comment above reflects the power of service personnel in value processing. If they don’t feel respected by the management, they can easily act against values in customer service. This makes both employees and customers dissatisfied to the organization.

Employee, local level: “We are personification of our market, a living advertisement. It is extremely important to invest the personnel welfare.”

It is obvious that if people do not receive the rewards they feel entitled; they are often motivated to do something about it. Some might become angry and work less hard, others might work even harder in hope of eventually obtaining what they want. (Cropanzano & Folger, 1991) Due the empirical data it seems that neglecting rewarding from good work makes always people dissatisfied and less motivated (in all three companies). Of course in a work of finite resources people sometimes takes second place (to e.g. profit), but companies should still strive for the best allocations possible. (Ibid.)

Results of the study

Due the empirical data it can be said that value dissemination is always long and demanding process. Especially managers are primary designers is the process. Due the empirical data it seem obvious that the top management (in the head office) seem to have clear and sincere vision about HOW the values can
strengthen and support organizational culture and make results better. Values are a basis for well-organized performance (Kotilehto, 2001). The problem is the process itself: how to disseminate visions down to all hierarchical levels of organization.

**Company A (forest)** disseminated values straight from the head office to the local level. There are problems in value dissemination at the local level. The local mill has become dependent to the head office through several mergers: while analyzing interview data it is apparent that people on local level experience that organizational culture has changed radically. The value process has been taken as an order, which leads to resistance. Still, managers at the local level have crucial roles in value dissemination and they are acting as examples. Due the data both the head office and local mill have people who experience value process good, but part of them think it’s just a fad. It is important to emphasize that these different opinions often culminates to the relationships between employees and their managers.

**Company B (bank)** processed values from the head office to the local level by discussing with personnel about them. The local management concentrated hard to the dissemination, which seems to keep the resistance towards values quite low among the personnel. Again it can be said that manager’s role is crucial. Still, some employees feel that values are too much customer-oriented and there should be also “inner” values for the personnel.

**Company C (market)** created locally own values with its personnel. Values from the head office lie there behind. Participating to company’s operations, including value process, seems to be very important. Many interviewees emphasize the importance of taking staff into consideration when strategic decisions are made. Manager’s example is again very important factor.

In short it could be said that people want to matter. People feel connected to the company when they can participate and influence to the company’s strategies. Naturally objections towards
renewals and values exist, but resistance seems to be much weaker when people can influence to their own work. This “circle” of respect, trust, motivation and participation makes people feel good in their organizations, and only by the wellbeing of personnel the profit (in the long run) is possible.

References


USE OF VIRTUAL TEAMWORK IN ESTONIA:  
THE EXAMPLE OF ESTONIAN SERVICE SECTOR

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Abstract. Use of virtual teamwork is still relatively new field for academic research, but more and more extensively used concept among practitioners. The article presents results of an empirical study. The aim of the article is to give overview of the preliminary results of the research on use of ICT and virtual teamwork in work processes based on 52 Estonian service sector companies.

Introduction

Virtual teams and management processes in them have been researched mainly theoretically. Most of these papers concentrate on presenting the definition and/or on outlining the advantages/disadvantages of virtual teams. As most of the contemporary work teams use at least some extent virtual teamwork, it can be said that there are not left many organisations that use only pure ordinary teamwork. As there is still very little empirical research done on the field of virtual teamwork and challenges related to it, the main contribution of the study would be testing of the virtual teamwork issue on empirical data, answering 2 main questions:

• Do what extent is virtual teamwork known and used in Estonian service sector companies?
Use of virtual teamwork in Estonia...

- What are the major advantages and disadvantages related to use of different means of information- and communication technologies (ICT) and virtual teamwork in daily work practices in Estonian service sector companies?

The aim of the article is to give overview of the preliminary results of the research on use of ICT and virtual teamwork in work processes based on 52 Estonian service sector companies.

**Background and definitions**

The organizations have started to use teamwork for solving the problems and tasks mainly during the past 15 to 20 years. A *team* is a group of individuals who work interdependently for solving the problems and accomplishing tasks. Relatively recent developments in the field of ICT have enabled the organizations to start using also the so called virtual teams. Virtual teams have been defined as: "...groups of workers with unique skills, who often reside in different geographical places and who have to use for co-operation means of ICT in order to span the boundaries of time and space". (Kirkman & Mathiew, 2004)

The subject of virtual teams requires further research mainly due to the fact that management of ordinary- and virtual teams are substantially different. The change is required in: understanding of the group processes, manager-subordinate communication, communication among the group members (colleagues), delegation, empowerment, achieving of synergy, main functions of management etc. Turning ordinary teamwork fully (or at least partially) into virtual teamwork introduces a whole new range of problems for managers.

The number of published articles and books on the subject of virtual teams (and ICT mediated communication) has grown substantially during the past five years. Most of these publications deal with the issue of the definition of the virtual team (Bell & Kozlowski, 2002; Alexander, 1997; Cleaver, 2000; Cohen, 1997;
Finholt, 1997; Fitzpatrick, 2000) and/or are written on outlining the similarities and differences between ordinary and virtual teams (Bell & Kozlowski, 2002; Stevenson, 2004; Lipnack & Stamps, 2000). Second major group of works concentrates on discussion of the strengths and weaknesses of virtual teamwork in some specific area, e.g. education: challenges related to and reasons to use e-learning (Homan & McPherson, 2005; Comm & Mathaisel, 2003; Evans & Ping Fan, 2002). Regarding the term “virtual team” can be found many alternative options that are used to describe the same phenomena: off-site teams (Stevenson, 2004), off-site employees (Fisher & Fisher, 2001), remote teams, distance work etc. At the same time it is apparent from the context or definition, that these terms are synonyms and all mean virtual teamwork, but not in all cases pure virtual teamwork.

Below are outlined just a few definitions used to define the virtual team:

“*A virtual team is a group of people who work interdependently with a shared purpose across space, time, and organization boundaries using technology.*” (Lipnack & Stamps, 2000)

“*Group of geographically and/or organizationally dispersed coworkers that are assembled using a combination of telecommunications and information technologies to accomplish an organizational task.*” (Townsend, 1998)

“*Virtual team is a collection of task-driven members behaving as a temporary group, whose members are separated by geographic or temporal space.*” (Delisle & Thomas, 2001)

“Groups of people who work closely together even though they are geographically separated and may reside in different time zones in various parts of the world.” And also “cross-functional work-groups brought
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"together to tackle a project for a finite period of time through a combination of technologies." (Henry & Harzler 1998)

In this article the definition of virtual team by Henry and Hartzler (1998) is used. As it appears there are a few reoccurring words, phrases (underlined in the definitions), that are similar in meaning and are thus the core of the virtual team phenomena.

Development of Estonian service sector has been affected by several changes in its economic environment – some of the changes are of general nature (present in all Europe), but some are specific for transition countries. The two general changes affecting all European service sector companies are: firstly – development of ICT has changed the way services are offered and their characteristics. And secondly – socio-economic changes have lead to increased demand for personal services, because government has decreased supply of many services, there are now two people earning income (instead of one person) in many households and the number of elderly people in population has grown. In addition to these changes Estonian service sector’s rapid growth stems from the fact that this sector was underdeveloped during soviet time and also a rather quick collapse of agricultural- and industrial sector during the political reforms period. Due to these reasons there was a big amount of workforce available for starting the business in the service sector. Firstly there was growth in the service sector due to increase in commercial, tourism and finance services. During the more recent years the development of the sector is more affected by growth in business services and ICT related services sub-sectors (Lumiste & Lumiste, 2003).

Based on preliminary results the Estonian economic growth in the 4th quarter of 2006 was 11.2%. The growth was mainly due to increase in manufacturing and commerce, but also transportation, communication and financial services (Majandus kasvas ..., 2007). As use of ICT has influenced many companies in service sector, there is obvious need to further research how use of virtual teams
could be better implemented and what are the challenges related to that, in order to maintain the development of the sector. Virtual work is more likely to be used in service sector companies, where mostly the intellectual and knowledge intensive type of work is done, as it is much more difficult to use virtual teams in manufacturing – people need to be present for accomplishing the work assignment all the time and usually at the same location. Use of virtual work enables companies to be more effective, cut time related and general costs, to recruit internationally, retain talents etc. – all this is needed in all the 21st century companies which want maintain growth in the changing environment.

Results and discussion

Sample and data collecting

The questionnaire based research was conducted from February to June 2006. The questionnaire was developed by author as part of a virtual teams’ typology model development process. The reason for using questionnaire type of research was, because there is usually indicated in literature, that use of virtual teams is increasing, but there is no empirical survey to back this allegation up. Thus, this type of survey enables to reach too many people and makes it possible to test this argument based on a bigger sample (compared to interviewing or case study approach) and to make more meaningful conclusions. The sample was random – the questionnaire was distributed to as many service sector companies (including public sector) as possible. In all the cases firstly the companies were contacted to get the acceptance of the management and then the questionnaires were distributed to personnel. The questionnaires were distributed and collected by the help of students studying Strategic Management at University of Tartu, Pärnu College, as a part of their course project. The questionnaires were returned directly to the students participating in the research in a few weeks or in some cases right after receiving and
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filling in. No e-mailing or postal services were used for distribut-
ing or returning the questionnaires in order to maximize the-
number of returned questionnaires. The direct contacting and per-
sonal approach worked well as one of the aims was to gather min-
20 questionnaires per company and it was achieved. For analyzing-
the data statistical program SPSS was used.

The questionnaires were collected from 226 different service-
sector companies and the total number of returned questionnaires-
is 2207. The current article presents preliminary results of the-
study: the results presented here are based on questionnaires-
received from 52 organizations, filled in by 517 people. As it-
appears from average years of work and age the sample is cur-
rently made up of quite young and inexperienced people, almost-
half of them having university degree and most of them are-
female.

General results

Proportionally a lot of the respondents were on managerial posi-
tions (19% of respondents), which is unexpected as the average-
age (34.5) of the sample is quite young. On the other hand Esto-
nian companies are relatively small and young educated people-
get relatively easily promoted.

The most usual way of work in Estonian service sector companies-
is still the option of going to work 5 times a week in total for 40-
hours (see Figure 1). This applies even though the next most-
common option of response is 4 ("it depends on the week";-
9.7%), as this applies to all different types of work that is done-
based on work schedule (e.g. sales person in a gas station works 3-
times a week 10 or even 12 hours shifts). Option to work 7 days a-
week was mostly chosen by managers, who most likely feel the-
highest responsibility for getting the work done. The smallest-
percentage of respondents either work all the time at home (0.8%)-
or go to work infrequently (1.7%) based on need (e.g. meeting,
client visit). The virtual teams are still relatively little used con-
cept in Estonian organisations, but the use of this practice will most likely increase.

![Frequency of going to workplace for work (%)](image)

Explanation: 1 = 7 days a week; 2 = 4 to 5 days a week; 3 = 2 to 3 times a week; 4 = depends on the week; 5 = infrequently, when needed, usually work at home; 6 = never go to the workplace.

**Figure 1.** Frequency of going to workplace for work (%).

Most commonly people are never allowed to choose the work location by themselves. On the other hand – based on the type of work assignment people are allowed or even expected to change the location of work (e.g. work mission to other country). Responses revealed that although in most cases people work at the official work place all the time or mostly, 61 respondents stated that sometimes they also work at home or other locations and 60 respondents said that due to work assignments say travel a lot. Thus in general 11.7% work at least sometimes at home and the same percentage of people travel extensively due to work. The
reasons why people choose to work in locations other than the official every day work place are:
- Work overload, did not manage during official work hours (29 responses);
- Convenience of not leaving home, preparation for work (24 responses);
- Possibility to concentrate on work in a peaceful setting (15 responses);
- Cost saving (e.g. transportation cost) (2 responses).

The preparation for work advantage was stressed by teaching/training field of people; managerial and administrative position people stressed more the option of possibility to concentrate in a peaceful setting. There were no differences in responses between men and women and among different types of occupations as the most common reason why people choose to work sometimes at home is the work overload.

The general work satisfaction level of people is quite high (mean 4.67; on 6 point scale). They were also asked how they rate the satisfaction with opportunity to choose the work time and location. The respective satisfaction levels of 4.40 and 4.53 reveal that people are mostly satisfied.

The satisfaction level of usable means of ICT in work purposes is even higher than the satisfaction with possibility to choose the work place and time. Thus in general people are usually relatively well equipped with different means of ICT, but there are also problems:
- Technical problems (sending and receiving of message) (147 responses);
- (N)etiquette (32 responses).
- Misinterpreting of the message (20 responses);
- Knowledge about software/hardware (16 responses);
- Lack of means of ICT or inconveniently placed (14 responses).
As expected the highest level of satisfaction is guaranteed when people can meet eye-to-eye. The second and third preference was given to use of phone and e-mail, which are probably also the most commonly used tools for work after meeting eye-to-eye. Thus it seems that satisfaction is higher with the means of ICT that people are using more and these are actually richer means of communication as expected.

Results related to specifics of virtual teamwork

Respondents were asked if they have encountered the usual problems outlined in literature related to ICT usage. As can be seen from Figure 1 the most unpleasant is the fact that the second person cannot be heard, closely followed by the facts that usage of ICT makes communication less emotional, more time consuming and usually lacks visual contact. Less unpleasant, but still not favourable aspects are slow feedback and feeling of isolation when used for a longer time. The last of the aspects has relatively high mean, but it can be also an indicator that highly virtual teams are yet not very much used in organisations and thus people meet a lot eye-to-eye and thus can not without having proper experience to value this aspect correctly.

Respondents were asked to write what are the biggest advantages of using ICT in their work. There appeared to be answers in 4 categories. Most commonly was praised the speed and opportunity to react quickly in time of crises, but also this category includes responses like “I do not need to leave my desk/home for getting things done – it would take time, but now I can do it at once!”. The second most valued aspect is location related. Responses reflected the possibility to approach people and find information without leaving the place of work or gave them possibility to work at home. Also were mentioned the possibility to save and analyze information and multitasking/sharing information instantly with many people.
Figure 1. Respondents’ attitudes towards different problems encountered while working with different means of ICT.

The third most popular type of answers was finances related – time and money not spent on transportation etc. And in a few instances also the natural environment protection was mentioned. Thus, time (time of work) appears to be a little bit more valued aspect then space (place of work).
Conclusions

The virtual team term is being used very frequently, but its definition varies relatively lot. The most common assumption appears to be that virtual teamwork requires use of ICT and that there is a big distance between the virtual team members. It is concluded in the article that the use of ICT for communication is the most important characteristic for describing a virtual team.

It appears that still relatively little organisations and individuals use virtual teamwork in Estonian service sector companies, but the advantages of that type of teamwork are acknowledged. Although, the disadvantages related to virtual teamwork described in theoretical literature are also present in everyday work practices of practitioners, the use of virtual teamwork will most probably increase in some coming years, but based on current results the virtual work is still used relatively little. The proposed growth trend is supported by the fact that more and more of different means of ICT are developed and used in work processes, but also the managers will recognise the benefits of virtual work and the knowledge of the virtual work organising will increase its popularity among employees. More meaningful conclusions can be drawn after analysing the full sample, but currently it can be concluded that:

- people use different means of ICT for working, but prefer richer means of communication;
- general satisfaction with work and opportunity to choose work location and time is relatively high;
- time saved by usage of ICT appears to be a bit more important than the convenience of not leaving the work place;
- the most problematic in usage of ICT are technical problems and low level of netiquette.

In the future research on the same topic it would be interesting and insightful to see the comparison of use of virtual teamwork in service and production sector companies.
References


THE POSITIVE EFFECTS OF “AGE CONSCIOUSNESS” ON THE ENTREPRENEURIAL PROCESS IN JAPAN: THE IMPORTANCE OF SETTING DEADLINES WHEN STARTING UP A BUSINESS¹

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Introduction: Why do only 30% of would-be entrepreneurs successfully start a business?

Now that the worst of Japan’s economic recession seems to have passed, Japanese are asking themselves what needs to be done to return to high rates of economic growth. One way this may be achieved is by increasing the rate of successful business start-ups. In this preliminary research, we show the importance of entrepre-

¹ Acknowledgements: We would like to thank the two anonymous referees for their helpful comments, Tomomichi Yoshikawa and Koji Sasaya for their encouragement and support, and Philip Hawke for his editorial comments. We are also thankful to S.S.J. of the University of Tokyo for the data from the NLFC survey.
neurs setting deadlines in order to successfully start up a business, and to test the hypothesis that setting deadlines in relation to the age of the entrepreneur, what is referred to as “age consciousness,” has a positive effect on the entrepreneurial process.

The first important point to note is the contrast between the large number of people in Japan who would like to become entrepreneurs and the decreasing number of successful business start-ups. Figure 1 shows that although the number of would-be entrepreneurs – defined here as people who wish to launch a new business – has remained at more than 1 million over the last twenty years in Japan, the rate of start-up actualization has decreased almost constantly from 1968 to 1997. Only 30% of would-be entrepreneurs actually started a business in 1997. In other words, 70% of would-be entrepreneurs did not actualize their goals. What are the differences between those who do and those who do not actualize their goals? In this paper, we will attempt to discover the factors that lead would-be entrepreneurs to succeed, and then offer insights that can be used in entrepreneurship education and policy making.

Figure 1. Trends in the number of would-be entrepreneurs and in the start-up actualization rate in Japan (SME agency in Japan, 2002).
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**Background and research question**

To discover the factors that lead would-be entrepreneurs to succeed, we will first focus on the formation process of start-ups. The start-up formation process may be divided into several stages: 1) discovering business ideas or opportunities, 2) developing a business concept, 3) developing a business plan, 4) obtaining funding and technology, and 5) obtaining human resources and establishing an organization (Yamada, 1999).

As was mentioned above, only 30% of would-be entrepreneurs actualize the start-up formation process; 70% do not. Though researchers as Blanchflower *et al.* (2001) point out that funding is a major problem that would-be entrepreneurs face, precisely where this group encounters difficulties is a question that needs to be more carefully investigated. However, it is clear is that actual entrepreneurs pay careful attention to creating a business plan in order to convince their stakeholders, such as financial institutions, employees, etc., that they are capable of developing a successful enterprise. If entrepreneurs can develop appropriate business plans, stakeholders are more likely to agree to help start up the business. In short, a business plan acts as an agreement made with stakeholders in advance, and is a crucial stage in determining whether or not a business will be successful.

From this point of this view, a variety of research has emphasized the role of business planning in the process of starting up. Vanhoutte and Sels (2005) and Castrogiovanni (1996) studied the benefits of effective business planning. Such research indicates that when would-be entrepreneurs have completed their business plans, they then start their businesses. However, the question that remains is why only some of them seem to be able to complete appropriate business plans.

On this point, some research conducted in Japan, including that of the national government’s Small and Medium Enterprise Agency (2002), has emphasized the kinds of motivations that entrepre-
neurs have, examining why entrepreneurs want to start their own businesses. In our experience as trainers in entrepreneurial education seminars held by regional governments, we have observed that there is no significant difference in the kinds of motivation held by would-be and by actual entrepreneurs. Carter et al. (2003) have offered a similar view. Another factor must be distinguishing the two groups.

We believe that this other factor may be found in the works as Blanchflower et al. (2001), Wagner and Stenberg (2004) and Levesque and Minniti (2006). These researchers are interested in the age at which would-be entrepreneurs want to start their businesses, and have identified the age of a would-be entrepreneur as a personal triggering factor in the entrepreneurial process. However, since their research is based on an econometric model, they do not pay attention to the intentions of would-be entrepreneurs but to the relationship between aging and the probability of becoming actual entrepreneurs. In short, they do not ask what effects age itself has on the entrepreneurial process of individuals.

In this paper, we hypothesize that setting work deadlines motivates people to complete their current state in the business development process. In particular, we consider how age can be an appropriate consideration when setting deadlines in starting up a new business, thus helping to overcome difficulties encountered in entrepreneurial process. If entrepreneurs are not able to set appropriate deadlines when starting up a business, they continue with the process of preparation for an excessively long time and remain merely would-be entrepreneurs. In order to investigate the impact of age consciousness on actual and would-be entrepreneurs, we asked the following research question: Why do entrepreneurs choose the particular time they do to start their business? How our research answered this question is summarized below.
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Research design

Introduction

In this research, we attempt to initial survey for entrepreneurs in Yokohama city (the second largest city in Japan) to develop two hypotheses. To verify our hypotheses, in 2006 we surveyed entrepreneurs in Yokohama city. Figure 2 shows our research design.

![Research design diagram]

Hypotheses 1 & 2

Initial Survey (2004)  
Hypotheses 1 & 2  
Follow-up Survey (2006)  
Findings: Confirm of Hypotheses 1 & 2

Figure 2. Research design.

Initial survey

a) Design: In the first round, conducted in 2004, we asked 651 participants of entrepreneurial education seminars why and when they had started their businesses. We obtained 101 valid responses (a response rate of 15.5%). Sixty-four of these respondents were actual entrepreneurs. Based on this first survey, we developed two hypotheses. Hypothesis 1: Age consciousness has a positive effect on the entrepreneurial process. Hypothesis 2: Would-be entrepreneurs favour ages evenly divisible by five (e.g. 30, 35, 40) when deciding to start up a business.

b) Findings: The responses to the first question in our initial survey in 2004, "How did you decide on the timing for starting up your business?" are shown in Table 1. These results cover only the 64 actual entrepreneurs in our sample; the responses of would-be entrepreneurs are not included.
Table 1. Reasons for deciding on the timing of start-up (2004)

<table>
<thead>
<tr>
<th>Reasons</th>
<th>Response (N)</th>
<th>Response (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Had reached appropriate age</td>
<td>39</td>
<td>60.9</td>
</tr>
<tr>
<td>Solved technical issues</td>
<td>21</td>
<td>32.8</td>
</tr>
<tr>
<td>Received support from family and relative</td>
<td>13</td>
<td>20.3</td>
</tr>
<tr>
<td>Expect enough customer</td>
<td>11</td>
<td>17.2</td>
</tr>
<tr>
<td>Received advice from customers at previous workplace</td>
<td>6</td>
<td>9.4</td>
</tr>
<tr>
<td>Expect enough employees</td>
<td>5</td>
<td>7.8</td>
</tr>
<tr>
<td>Completed service or product</td>
<td>5</td>
<td>7.8</td>
</tr>
<tr>
<td>Saved planned level of funds</td>
<td>4</td>
<td>6.3</td>
</tr>
<tr>
<td>Failed to get job</td>
<td>2</td>
<td>3.1</td>
</tr>
<tr>
<td>Other</td>
<td>10</td>
<td>15.6</td>
</tr>
</tbody>
</table>

c) **Hypothesis 1:** In the first survey, more than 60% of the respondents of actual entrepreneurs indicated that they “had reached an appropriate age” for starting a business. This figure is about two times higher than the second choice, that they had “solved technical issues.” These results led us to conclude that age is a significant factor in entrepreneurship in Japan. That is to say, age consciousness has a positive effect on the entrepreneurial process.

d) **Hypothesis 2:** In the same survey, we also asked entrepreneurs who had indicated that they had reached an appropriate age to start their business the question, “When did you start up your business?” The results are shown in Figure 3.

Although we did not find a concentration at a particular age – the “age effect” described by Levesque and Minniti (2006) – in our sample, we did observe a striking tendency for entrepreneurs to start businesses at particular age intervals. As Figure 3 shows, respondents’ age at start up clustered around five-year intervals beginning at 30 and continuing to 60. This observation led us to formulate Hypothesis 2: Would-be entrepreneurs favour ages evenly divisible by five (e.g. 30, 35, 40) when deciding to start up a business.
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Figure 3. Start-up actualization by age (2004).

Figure 4. Start-up actualization by age (NLFC survey).

However, while Hypothesis 2 was confirmed by our survey data, it was not confirmed by another, larger study. Figure 4 shows the results from a survey of nascent entrepreneurs who borrowed from the National Life Finance Corporation (a government-owned financial institution for small business) in 2004. There were 2945 respondents, and the response rate is 29.7%. We are continuing to investigate why these sets of results are inconsistent.
Follow-up survey

a) Design: The second stage of our research was designed to test our two hypotheses. We asked the same questions, shown in Table 2, as in the initial survey in 2006. We surveyed nascent entrepreneurs who had applied for a special public loan for entrepreneurs from Yokohama City. We asked nascent entrepreneurs the actual age at which they had done so. We obtained 21 responses from actual entrepreneurs.

Findings

a) Confirmation of Hypothesis 1: Eleven respondents (over 50%) agreed that their age was indeed a factor in their decision to start their businesses at the particular time they did. This response was the most common of the reasons given for the timing of start-ups. From this, we conclude that these results confirm Hypothesis 1, that age consciousness has a positive effect on the entrepreneurial process.

b) Confirmation of Hypothesis 2: To test Hypothesis 2, that would-be entrepreneurs favoured ages evenly divisible by five (e.g. 30, 35, 40) when deciding to start up a business, we reanalyzed the data from the eleven respondents whose responses indicated that age consciousness has a positive effect on the entrepreneurial process. The results are shown in Table 2.

Four respondents did not specify their target age. However, except for Respondent 1, all of the respondents who did specify their target age set it as a number evenly divisible by five. So we can conclude that Hypothesis 2, that actual entrepreneurs set target ages evenly divisible by five when deciding to start up a business, is partly supported by our data.
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Table 2. The gap between target and actual age of start-up (2006)

<table>
<thead>
<tr>
<th>Respondent</th>
<th>Target Age</th>
<th>Actual Age</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td>B</td>
<td>30</td>
<td>32</td>
</tr>
<tr>
<td>C</td>
<td>35</td>
<td>33</td>
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<tr>
<td>D</td>
<td>30</td>
<td>35</td>
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<tr>
<td>E</td>
<td>36</td>
<td>36</td>
</tr>
<tr>
<td>F</td>
<td>38</td>
<td>38</td>
</tr>
<tr>
<td>G</td>
<td>35</td>
<td>39</td>
</tr>
<tr>
<td>H</td>
<td>40</td>
<td>44</td>
</tr>
<tr>
<td>I</td>
<td>52</td>
<td>52</td>
</tr>
<tr>
<td>J</td>
<td>57</td>
<td>57</td>
</tr>
<tr>
<td>K</td>
<td>60</td>
<td>63</td>
</tr>
</tbody>
</table>

Discussion

Why may one’s age be an appropriate consideration when setting deadlines to start up a new business? Though several other considerations were given by our respondents, age was the only fixed marker among them. The other considerations were “moving targets” – they do not have any particular deadlines. We believe that setting an age deadline motivates entrepreneurs to complete tasks in progress, something that Timmons and Spinelli (2007) point out is one of the benefits of planning. If entrepreneurs cannot set appropriate deadlines when starting up, they will continue making basic preparations for an excessively long time. This may cause them to lose the motivation to actually start.

We could also point out other age effects stemming from role models, emphasizing entrepreneurs who started up their business in their 20s as roll models in the ICT sector. This recent trend will effect the “age consciousness” of younger generations all over the world in the long run. Unfortunately, though the mass media has recently made many references to role models in entrepreneur-
Despite the empirical research on role models being scarce, especially outside organizations.

**Conclusion and implications of research**

In this paper, we have identified two relationships between age and entrepreneurship: 1) age consciousness has a positive effect on the entrepreneurial process, and 2) would-be entrepreneurs favor ages evenly divisible by five (e.g. 30, 35, 40) when deciding to start up a business. Emphasizing the positive effects of “age consciousness” in entrepreneurship education seminars held by regional governments may contribute to an increase in the rate of successful start-ups among new businesses.

Although we believe this research has yielded some interesting results, we recognize that some limitations still remain in the limited size of our samples and in the absence of a comparison between actual entrepreneurs and would-be entrepreneurs. We are planning to strengthen our findings with further research.

**References**


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RISKS AND POSSIBILITIES IN IMPLEMENTING MANAGEMENT THEORIES

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D.B.A.

Abstract. The aim of the article is to give conference participants the “key” for interpreting and analyzing my conference presentation “Juh-timisteooria rakendamise võimalused ja ohud” (Risks and Possibilities in Implementing Management Theories). The article reviews the fundamental management theories of previous centuries and of current times. A brief overview of risks and opportunities is given. The changes in management paradigms are described and a summary of these changes is given in Table 1. The conference presentation will demonstrate how the principles, summarized in the table, are applicable to an actual present-day organization. The current article combined with the conference presentation will form a composite picture of both theory and practice. It will include specific suggestions on how to use management theories and will highlight the inherent risks and possibilities in these theories.

Introduction

The goal of differing management theories is essentially the same: to balance people, profits and technology for maximum productivity. A multitude of management models has been introduced in recent decades. Their shelf life seems to be shorter and shorter. This process raises the question whether these models could be
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legitimate theories, or merely advanced finesses of already proven theories, or just fads, as Rigby says (Rigby, 2001). A set of theories produces an ideology – a way of thinking – a management paradigm.

The twenty-first century is a fascinating time. Beginning at the end of the twentieth century, a recognizable change in management paradigms began to materialize. (Draft, 2000) This change requires new and different methods for putting management theories into practice and should be considered when analyzing the options and risks in implementing new theories.

While undergoing a management paradigm shift, a nation’s cultural elements or a person’s individual characteristics will emerge as important factors. These can be encouraging factors for the new paradigm to prosper; they can also hinder progress.

The change of paradigm

At the beginning of the nineteenth century, management paradigms considered management as a set of rules to control employees. The effective practice of these theories was built upon subordination models. The key to success was hidden in the subordination levels, the channels of communication, and in the chain of command: Frederic W Taylor’s scientific management, Henry Fayol’s universalism, Max Weber’s bureaucracy, Elton Mayo’s human relations (Hawthorne experiments), Maslow’s hierarchy of needs (motivation), etc.

The new management paradigm sees an organization as a kind of person having values, beliefs, personality (even temper), customs and types of behaviour. In the new paradigm, the organization can’t be managed as it used to be – through mathematical formulas. The key to success lies in the ability to adapt to new situations by using psychology and the “human touch”. The more the organization values the individual’s need for self-assertion, the more successful it will be in achieving excellent results. Also, the
more flexible the organization is, the less it needs to fear an ever-changing environment: Milton Friedman (freedom), Peter F. Drucker ("planned abandonment"), Manfred Kets de Vries (interface between international management, psychoanalysis, psychotherapy, and dynamic psychiatry), Spencer Johnson (individual and organizational change), Charles Handy ("portfolio worker", "Shamrock Organization"), Mayer and Salovey (emotional intelligence concept), Robert S. Kaplan (balanced score card), Robert Galvin (six sigma) etc.

The new paradigm considers each member of the organization as a necessary "player on the team", contributing to the detection and solution of problems and encouraging organizational development (Senge, 1990). The employees are seen to be emotionally connected to the organization. Of course, there are always alternative theories, the main one in this context being the back to basics approach (Matthew, 2003).

Because the world has changed dramatically with the technical revolution, and the owner-employee relationship has changed to a team approach, the old management theories are unlikely to prove successful. Nevertheless, it is essential to understand them because they can be useful in some situations for modelling basic ideas and for diagnosing problems. However, when management decisions are being formulated and then implemented, the use of new theories is more likely to bring success, as recent success-stories have shown: for example, General Electric (Jack Welch) and six sigma theory.

**The execution of management theories**

Experience is the best teacher, but the consequences of many of the most important decisions are never directly experienced (Senge, 1990). Generally, we suppose that cause and effect will be relatively close to one another. However, when faced with a problem, it is the more easily seen solution that we focus on. We
Risks and possibilities in ...

tend to look for solutions that produce improvements in a relatively short time span, but when viewed in terms of management systems, short-term improvements often involve very significant long-term costs. For example, most will agree that cutting back on research and design brings very quick cost savings, but this can (and usually will) severely damage the long-term viability of an organization. Once movement begins, it is amplified, producing increased movement in the same direction. A small action snowballs, with more and more and still more of the same, resembling compound interest (Senge, 1990). The viewpoint of a management system is generally oriented towards the long-term.

Peter Senge advocates the use of “systems maps” – diagrams that show the key elements of systems and how they connect. However, people often have a problem seeing systems, and it takes work to acquire the basic building blocks of systems theory and to apply them to an organization. On the other hand, failure to understand system dynamics can lead managers into cycles of blame and self-defense. The enemy is always out there and problems are always caused by someone else (Bolam & Deal, 1997).

It is indeed essential in modern management to understand system theories in order to develop flow charts dealing with processes, information, competencies, etc. However, to make the systems viable, it is no longer acceptable for managers or owners to demand unquestioning obedience in the workplace. Employees are no longer “nameless cogwheels in a huge contraption” (Handy, 1994). They are recognized as human individuals, and members of the organization, and so this makes contemporary organizations more “human like”. This is the reason why management theories are concerned with concepts like emotional intelligence, learning organization, personal working schedules, flexible working hours, and home-office concepts, etc.

The way human nature affects management theories is most clearly visible in two areas: family companies and civil/state government. In the next part of this article, I will not digress to
aspects relating to family companies but instead will focus on the issues of civil government and state management.

The fundamentals of management are the same for any kind of organization, irrespective of its nature. It is a basic principle that problems will arise in managing issues and the results, if the institutions or their operating policies are seen to be too universal. The reason for this is because human nature causes individuals in an organization to work together because it is useful to each individual. As mentioned previously, this principle also seems to apply to the government of states.

Fukuyama (Fukuyama, 2005) has analyzed the success of different states and has found that governing (managing) different states with the same theoretical models actually produces different results. This is due to the fact that each state has different resources, a diverse historical and cultural background, and a unique culture with its own customs and value system.

For example, the “mandarin” system that exists in Japan and France is quite different from the approach taken in the United States and allows the Japanese and French bureaucracies to undertake activities that would be difficult to carry out in the United States. Blindness to these differences has led to important policy failures in the past (Fukuyama, 2005). On the other hand, the new Japanese constitution, written by General MacArthur’s staff after World War II, and the importing of many Western institutions to Japan were surprising successes (Dower, 1990)!

The fad in public sector theories, if I may say so, is the Danish model mentioned by Woolcock and Pritchett (Woolcock & Pritchett, 2002). Denmark has produced its current economic developments and its well-functioning state institutions against a unique background of its own history and culture. To what extent, then, is the Danish model transferable to other countries – for example Somalia, Iraq or Turkey!? It is possible to take advantage of the Danish model but only after determining the way in which
these countries differ from Denmark and how a Danish model could be best implemented, within the context of each country's own history, culture and current opportunities.

History has shown that using the methods that have proved successful in one state do not guarantee success in a different country, due to the different conditions and environment that exist in that country. For the same reasons, it often happens that employing the same methods in different companies does not give the same results. Our world has changed. Theories which once produced outstanding results won't give the same results in the new economic environment. There is a natural human tendency, in both corporations and governments, to cling to "yesterday's successes" (their own as well as others') rather than to acknowledge that they are no longer useful or effective in the current environment.

At the present time, there is no optimal organization model, which can be used universally for all kinds of different companies and for the public, private and third sectors as well. However, as we have seen in the above examples, for each company there is an optimal model, which takes into account the distinctive features of the organization. This makes the application of universal theories difficult in any field.

**Risks and opportunities**

In the implementation of management theories, the primary responsibility of managers is not so much to make decisions, but rather to create an atmosphere, throughout the organization, which is conducive to employee involvement and learning. The risk is chaos and economic collapse if employees don't understand the vision and long-term goals of the organization. If the vision and goals are widely understood and imprinted throughout the organization, then employees are empowered to identify and solve problems themselves. The manager's role is to define the company's
vision and goals, in such a way that they are understood by each level in the organization. In this new management paradigm, it is increasingly important that managers are highly competent in dealing with people. However, there is a risk of leading the company into stagnation and degradation if managers focus only on customers and employees. The new management paradigm presents an opportunity for organizations of any kind (company, non-profit, government, etc.) to develop and prosper through giving equal and balanced attention to results, organization and growth as well as human resources (Table 1). Proof of this is given by Jack Welch, Jorma Ollila and others.

Table 1. Implementing management theories in changing paradigm

<table>
<thead>
<tr>
<th></th>
<th>Old Paradigm</th>
<th>New Paradigm</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Forces on Organization</strong></td>
<td>Vertical Organization</td>
<td>Learning Organization</td>
</tr>
<tr>
<td>Markets</td>
<td>local, domestic</td>
<td>global</td>
</tr>
<tr>
<td>Workforce</td>
<td>homogenous</td>
<td>diverse</td>
</tr>
<tr>
<td>Technology</td>
<td>mechanical</td>
<td>electronical</td>
</tr>
<tr>
<td>Values</td>
<td>stability, efficiency</td>
<td>change, chaos</td>
</tr>
<tr>
<td><strong>Management Competencies</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Focus</td>
<td>profits</td>
<td>customers, employees</td>
</tr>
<tr>
<td>Leadership</td>
<td>autocratic</td>
<td>dispersed, empowering</td>
</tr>
<tr>
<td>Doing Work</td>
<td>by individuals</td>
<td>by teams</td>
</tr>
<tr>
<td>Relationships</td>
<td>conflict, competition</td>
<td>collaboration</td>
</tr>
<tr>
<td><strong>Management Ideology</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Management Tool</td>
<td>instructions</td>
<td>concepts</td>
</tr>
<tr>
<td>Cause of Action</td>
<td>directives</td>
<td>ideology</td>
</tr>
<tr>
<td>Values</td>
<td>production</td>
<td>market</td>
</tr>
<tr>
<td>Remuneration Basis</td>
<td>economic</td>
<td>participation</td>
</tr>
<tr>
<td>Competency</td>
<td>experts</td>
<td>everybody</td>
</tr>
<tr>
<td>Development Priority</td>
<td>products/services</td>
<td>human capital</td>
</tr>
</tbody>
</table>

Conclusions

The “holes” of theories have to be filled with right decisions (Pramann Salu, 2005). The best management specialists – practitioners – should be masters of “old” as well as “new” management theories. Efficient managers have the ability to orient themselves to different management theories and grasp the inherent opportunities. They look at fads as possibilities and assess them for reliability and for relevance to a particular organization, before implementing them. They will develop their own unique fads, and/or theories, appropriate for modern organizations. Such theories will consider the welfare of the members of a particular organization, the environment in which it operates, the outcome expected from that organization, and the personal, social and national values and expectations of its members.

References


Pramann Salu, M.


JUHTIDE MÕTTEMUDELITE ARENDAMINE
TASAKAALUS TULEMUSKAARDI
VÄLJATÖÖTAMISEL

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Tasakaalus tulemuskaardi väljatöötamine eeldab juhtidelt mõttemudelite arendamist

Mõttemudelite olemus


Mõttemudelite rakendused organisatsioonis

Seni ei ole mõttemudelite teooriat rakendatud tasakaalus tulemuskaardi väljatöötamisel, küll on aga seda edukalt tehtud stseneariumite koostamisel ja meeskonnaotsuste tegemisel. Kogemusest neis kahes valdkonnas järelduvad praktikised soovitused juhtidele tasakaalus tulemuskaardi edukamaks väljatöötamiseks.

Organisatsioonis valitsevad mõttemudelid on enamasti varjatud, mistõttu nende mõjust vanas kinniolemisele ei ola sageli teadlik
Juhtide mõttemudelite arendamine


Soovitused juhtidele möttemudelite muutmiseks tasakaalus tulemuskaardi rakendamisel

Mötte- mude- lita kognitiivpsühholoogia uurimustest ja organisatsioonide rakendustest võib teha kolm peamist järel- dust:
1) mitteteadvustatud mötte- muddle- lid takistavad juhtidel uute ideede rakendamist;
2) mitmete mötte- mude- late läbimängimine aitab juhtidel suurendada valmistust uute ideede rakendamiseks ning
3) otsustamise harjutamine simulatsioonides aitab teha realsetes olukordades õigeimaid otsuseid.

Neist kolmest järel- dustest tulenevad kolm soovitust juhtidele mötte- mude- lite arendamiseks tasakaalus tulemuskaardi väljatöötamisel.


Juhtide mõttemudelite arendamine ...


Nende kolme soovituse järgimine aitab juhtidel arendada oma mõttemudeleid nii, et need suunavad juhte tasakaalus tulemuskaarti tõhusalt välja töötama ja rakendama. Nende kolme soovituse järgimine tuleks kasuks ka iga teise uue juhtimismeetodi rakendamisel, kui see eeldab muutusi juhtide mõttemudelites.

Näide juhtide mõttemudelite muutmisest tasakaalus tulemuskaardi rakendamisel


Uuenduse protsessi alguses tutvusid juhid strateegilise planerimise kaasaegsete seisukohtadega. Esimese ülesandena tuli neil määrata ettevõtte põhiväärtused, misioon ja strateegilised valikud. Selle ülesande käigus teadvustasid juhid ja tippspetsialistid,
kuivõrd erinev on neil omavaheline arusaamine ettevõtte tegutsemise põhieesmärgist ning teedest selle saavutamisel. Missiooni, põhiväärtuste ja strateegiliste valikute läbiarutamine ning kokkuleppimine oli esimene samm, mis aitas juhtidel senise mõtteviisi strateegilisest planeerimisest lahti sulatada ja suurendas valmidust lähenema uuil viisil tulemuste planeerimisele. Planeerimise käigus teadvustasid juhid, kuidas seni on ettevõtte tulemusi planeeritud ning juhitud. Senist tulemuste planeerimist vörreldi väljatöötatud strateegiaga. Juhid teadvustasid lahknevust seni tähelepanu all olnud tulemuste ja strateegiliste valikute vahel.


Kolmanda sammuna täpsustasid juhid ettevõttele tulemuste hindamise mõõdikuid ja planeerisid oma allüksustele tulemuskaardid ning tegevuskavad ettevõtte tulemuste saavutamiseks. Selle etapi raames teadvustasid juhid palju selgemalt, mida praktikas tuleb oma valdkonnas edaspidi teisiti teha, kuidas vastutusi delegerida ja alluvaid otsustamisse kaasata. Mitmed arutelud oma allüksuste sees aitasid juhtkonnaliikmetel palju paremini mõista tasakaalus tulemuskaardi rakendamisest saadavat kasutegurit ja samas ka raskusi, mis tulevikus ees seisavad. Ettevõtte tulemuskaardidest lähtuvate allüksuste tulemuskaartide ja tegevuskavade läbiarutamine ligi kolme kuu vältel toetas juhtide mõtteviisi müütmist, st valmisolekut ning oskusi tasakaalustatud tulemusi planeerida,
Juhtide mõttemudelite arendamine 

igapäevatöö keelde tõlkida ja saavutada. Seejuures oli eriti väärtslik juhtidel turvalises olukorras planeerimisel raskuste ja võimalike takistuste teadvustamine uue juhtimismeetodi kasutuselevõtmine. Järgmisel aastal, pärast aastapikkust tulemuskaardi rakendamist, viidi läbi tasakaalus tulemuskaartide rakendamise audit allüksuste tasandil. Selle käigus tunnustati juhtide edu­samme, juhiti tähelepanu vajakajäämistele ning esitati ettepanekud uue juhtimismeetodi senisest töhusamaks rakendamiseks allüksustes ja ettevõttes terrivähe. Kuna kõige suurem vajaka­jäämine oli tegevuskavade planeerimises ning täimises, kesken­duti eraldi vajadustele ja võimalustele tõhusastamisega oma tegevust selles valdkonnas. 


Kasutatud kirjandus


Introduction

People usually know only little what is going on in prisons and what is the work of prison guards look like. Work in prisons is emotionally loaded and it hardly raises positive feelings; prisons are emotional places and feelings of anxiety, fear, sadness, hopelessness, frustration, regret, anger, resentment and depression are commonplace (Crawley, 2004) which makes the work for prison staff emotionally demanding. Frightening, threatening and manipulating are a “normal” part of prison guards’ working day. Rushing (1966) summarizes briefly the core of guards’ work: “... the inmate-staff relationship is extremely conflictual: each party views the other with distrust and hate, the inmates want to escape but

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1 Authors of the article are expressing gratitude for the cooperation effort to Mari-Liis Liiv and Erik Hanni from Estonian Ministry of Justice.
the staff must keep them in, and the inmate social code strongly opposes cooperation with prison staff.”

Prison guards are also in the middle of contradictory expectations from the society - from one hand they must behave in accordance with strict normative rules and from the other - humane attitudes towards inmates are expected from them while performing their tasks (Maschorov, 2006). For coping successfully with their jobs, guards need to be emotionally competent. The aim of the present paper is to bring out which is the dominant pattern of prison guards’ competencies of emotional intelligence (further on EI) and discuss whether that kind of pattern supports working on emotionally demanding position. Authors of the article believe that though characteristics and competencies of individual are crucial, organizational level factors could not be overlooked because they have great importance while analyzing prison guards’ working activities. Therefore two concepts - EI and organizational culture (OC) are in the focus of present study. OC is the concept which enables to explain the context the prison guards work in.

Rather limited number of studies has been devoted to the behaviour of prison staff: managing and performing emotions on a day-to-day basis was studied by Crawley (2004); stress in prison staff investigated by Long, Shouksmith, Voges and Roache (1986); Poole and Regoli (1981) examined the impact of role conflict among guards. The importance of EI should not be underestimated in the profession of prison officers and guards, because as Crawley (2004) noted the emotional life of prisons is a topic of much discussion when things ‘go wrong’ in prisons. The present article addresses the EI topic in prisons directly contributing to the study of EI, because there are no many researches conducted in prison guards’ sample. But the study also contributes in human resource management of prisons, because the analysis of prison guards’ EI opens the topic of emotions at work and enables to
bring out the aspects which are important for planning HR activities.

As OC is considered to be an emotional phenomenon (e.g. Trice, Beyer, 1993; Griseri, 1998), it also highlights the importance of EI in the organization, because in the context of OC the attention may focus on broader patterns of feelings or on emotions in a more restricted sense (Alvesson, 2002). Emotions and their management and mobilization are actually pivotal to the way in which organizational order in prison is achieved and undone (Crawley, 2004). OC sets a frame that defines the ways of accepted behaviour in an organization giving guidance how, to what extent or whether at all displaying and regulating one’s emotions and feelings is accepted in the organization, but it could also provide members with support in coping with complicated and demanding situations in the workplace.

Present study is built up as a case study of two Estonian prisons and both quantitative (self-administrative questionnaires) and qualitative methods (interviews) are used in the research. While quantitative research will be used for “mapping the terrain”, the qualitative information will help to interpret the data.

**Theoretical background on emotional intelligence and organizational culture**

Caruso and Salovey (2004) argue that emotions are required to allow individuals to make good decisions, take optimal actions to solve conflicts and cope with change in the organization. The abilities and skills to handle emotions and use emotional knowledge wisely releases as an advantage in task implementation. By analyzing the theories and models of EI (mainly Weisinger, 1998; Dulewicz & Higgs, 1999; Mayer et al., 2000; Bar-On, 2000; Goleman et al., 2003), it is possible to locate two main orientations within EI: the intra- and interpersonal. EI could be defined as a set of intra- and interpersonal competences, the intrapersonal
Handling mix of emotions and culture: ... 

cOMPETENCES CONCENTRATING ON THOSE ABILITIES AND SKILLS THAT HELP A PERSON TO EXPLAIN, UNDERSTAND, USE AND HANDLE HIS/HER EMOTIONS, AND THE INTERPERSONAL COMPETENCES OF EI HELPING A PERSON TO RELATE TO OTHER PEOPLE IN AN EFFECTIVE MANNER AND REGARD EMOTIONALLY DEMANDING SITUATIONS CONSTRUCTIVELY. EI INFLUENCES PEOPLE'S REGULAR BEHAVIOUR; HOWEVER, IN THE PRESENT ARTICLE EI IS EXPLORED IN WORKPLACE SETTINGS IN ORDER TO EXPLAIN HUMAN BEHAVIOUR IN WORK SURROUNDINGS.


INTERPERSONAL COMPETENCIES OF EI CONSIST OF EMPATHY AND COMMUNICATION SKILLS. THE ABILITY TO EMPATHIZE WITH OTHERS IN THE WORKPLACE IS IMPORTANT WHEN THE PROBLEMS TO BE SOLVED REQUIRE ACCEPTANCE OF CONFLICTING OPINIONS; IT CONSTITUTES THE BASIS FOR MUTUAL TRUST AND ACCEPTANCE, WHICH IS CRUCIAL, FOR EXAMPLE, IN INITIATING RADICAL CHANGES IN AN ORGANIZATION (MATTHEWS ET AL., 2004). FURTHERMORE, WEISINGER (1998) AFFIRMS THAT THE IMPORTANCE
of communication skills to EI is crucial, and their value in the workplace is enormous: it is crucial workplace settings in order to create effective and friendly relationships between people.

Striving towards the effectiveness every organization has two challenges to face to – from one hand it has to adapt to the external environment, but from the other hand it has to solve the problem of internal integration. For that purpose pattern of basic assumptions and values (i.e. OC) is developed over the time in organization (Schein, 1997). It is believed that the influence of organizational values on daily practices is indirect. They enable members’ activity through self-control and social mechanisms and could become the criteria for making decisions and choices in everyday work (Vadi, 2000). Organizations differ in terms of OC, because different tasks they perform need different set of values and norms. Several authors (e.g. O’Reilly et al., 1991; Chatman & Jehn, 1994; Padaki, 2000) have accentuated importance of sector in OC formation process. Gordon (1991) explains that industry-based assumptions about the stakeholders’ interests give origins to the organizational values, which then redound in strategies, structures and processes that are developed in organization. Hence one could expect that prisons have common values, which make OC of prisons similar. One of the shared features is the high extent of regulations: prisons are organizations which are grounded in synchronized performance of hundreds of people (Maschorov, 2006) and strategic rules and processes oriented towards administratively incorporating inmates (Wright, 2005). Some authors have pointed out that prison cultures are cultures of fear (e.g. Wright, 2005) and struggle (e.g. Cressey, 1961; cf. Maschorov, 2006).

In current study OC is being treated by the means of organizational values through its types. Typologies are useful because they enable to make sense and provide some order out of the observed phenomena and help to define what may be the underlying structure of the phenomenon (Schein, 2004). The Competing Values Frame-
work launched by Quinn and Rohrbaugh (1983) was a base for creating the methodology used in the present study. The framework consists of two crucial dimensions that express tensions that exist for every organization: one dimension differentiates orientation towards flexibility and dynamism from an orientation towards stability, order and control and the second dimension captures orientation towards internal capability and integration versus orientation toward a focus on external opportunities and differentiation (Cameron et al., 2006). Four types of OC could be distinguished in the framework: Human Relations, Open System, Rational Goal and Internal Processes types of OC (Quinn & Rohrbaugh, 1983) and each of these OC types could be described through certain values. Human Relations type of OC is characterized by flexibility and internal focus; high cohesion, morale, trust, and belongingness serve as means to achieve human resource development (Quinn & Rohrbaugh, 1983; Kalliath et al., 1999). Open System type of OC values adaptability, change of capacity and orientation towards customers (Brown & Dodd, 1998) with main target of growth, resource acquisition and external support (Quinn & Rohrbaugh, 1983). Rational Goal type of OC favors planning and goal setting to achieve productivity and efficiency as ends while the Internal Processes type aim to achieve stability and control, consolidation and continuity (Lamond, 2003) what could be attained by formalized communication and centralized decision-making process (Howard, 1998). Pure types of OC could hardly be found in practice, but usually OC of certain organization is a pattern of features of those four types.

Methodology and sample description

In the present study, two instruments were applied in order to measure the EI of employees and the OC. The questionnaire, with its 46 statements, was compiled (Emotional Intelligence Test in Organization: EITO, developed by E. Tolmats) by focusing on four competencies of EI: identification of own emotion, manage-
ment of own emotions, empathy and emotional background of communication. Each subscale of EI is measured using 10 assertions in the questionnaire; the remaining 6 assertions consider how emotions influence working activities are not investigated in the current article. The respondents were asked to evaluate the assertions on a semantic differential scale in which ‘0’ indicates a low specific EI competency and ‘6’ a high specific EI competency.

In order to measure OC, the Organizational Values Questionnaire (OVQ, developed by A. Reino) consisting of 53 assertions was used. Four scales were designed to measure the four types of OC – Human Relations, Open System, Rational Goal and Internal Processes. Respondents were asked to evaluate each assertion in the OVQ by responding with ‘1’ if they absolutely disagreed and ‘10’ if they absolutely agreed with assertion.

An oblique rotation method of principal axis factoring for items with promax rotation was performed for the EITO and OVQ instruments. A total variance explained for the factor solution is sufficient for both solutions (42.50 for EITO and 42.40 for OVQ). As a result of the factor analysis, four subscales of EI were formed and four subscales representing OC types were constructed. The subscales of the EI and OC measures are sufficiently reliable.

The study took place in two out of seven Estonian prisons: the Tartu Prison and the Murru Prison. These are different types of prisons – the Tartu Prison is the most modern and the first chamber-system prison in Estonia (with 925 detained persons); the Murru Prison is still a camp-type prison (approx. 1600 prisoners). There are 361 job positions (incl. 269 positions belonging to prison officials) in the Tartu Prison and 365 employees (incl. 255

\[^3\] Sample size for EITO was 565 and for OVQ was 1730 respondents.
\[^3\] Cronbach Alphas for EITO scales are 0.76, 0.79, 0.78 and 0.69; for OVQ are 0.80, 0.82, 0.78 and 0.80.
prison officials) in the Murru Prison. (Ministry of Justice ..., 2007) Altogether 331 employees and among them 140\(^4\) prison guards (n = 42 from Tartu Prison and n = 98 from Murru Prison) participated in the survey during 2006. There were 107 men and 33 women in the guards' subsample with the average tenure almost 5 years. According to ethnicity, there were 96 Estonians and 44 Russian-speakers in the sample. The average age of participants was 42.9 years (SD = 10.15).

In order to find the differences between the scales, a t-test was applied. The differences between the groups of respondents are revealed using an ANOVA-analysis. The differences in the mean values are important at the significance level \(p \leq 0.05\). In-depth semi structured interviews with seven prison guards were implemented as well\(^5\). Among interviewees were four guards from Tartu Prison and three guards from Murru Prison (two female and five male guards were interviewed). The questions were focusing on the character of the work, motivation and relationships with prisoners. All interviews were audio-recorded and transcribed. The selection of cites were picked from the transcriptions in order to support and explain the results of statistical analysis.

### Analysis of results

For mapping the OC of prisons mean values for four OC scales were calculated for whole sample. The results are presented in Table 1. As the prison guards are in the focus of present study, estimations to OC given by guards were also calculated and comparison with other occupational groups was carried out using ANOVA method. Estimates of guards and other occupational groups differed significantly in two OC types – Human Relations and Open System types, whereby the prison guards gave lower

\(^4\) Cases with missing values were excluded from the further analysis.

\(^5\) Three interviews were conducted by the authors of the article and four interviews by Mari-Liis Liiv and Eerik Hanni.
estimates to both of OC types compared to other employees. There were no significant differences in mean scores given to the Results orientation and Internal processes type of OC.

Table 1. Organizational culture of prisons

<table>
<thead>
<tr>
<th></th>
<th>Organizational culture types (m, n)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Human Relations</td>
</tr>
<tr>
<td>Whole sample</td>
<td>5.24 (n = 275)</td>
</tr>
<tr>
<td>Prison guards</td>
<td>4.78 (n = 119)</td>
</tr>
<tr>
<td>Other occupations</td>
<td>5.60 (n = 156)</td>
</tr>
<tr>
<td>Results of ANOVA</td>
<td>F(1,273) = 22.87</td>
</tr>
<tr>
<td>analysis</td>
<td>p = 0.000</td>
</tr>
</tbody>
</table>

Notes: m - mean value; scale “1” the lowest estimate ... “10” the highest estimate, n - sample size; p - significance.

Analysis revealed that the Internal Processes type of OC is the most characteristic for prisons. Prison is the place where major of activities are based on rules and restrictions and where perpetual control is implemented. One of the guards affirmed that in his work he dislikes most that

"Cameras monitor us. ... every movement is visible... every movement what you probably are not allowed to do..." (Guard 2, 2006)

Analysis brought out that dominant feature of prison’s organizational culture is restriction and control.

"Everything must be punctual. It is like military discipline. It has to be considered that this is a place where the order is like that." (Guard 2, 2006)
Stability as a value is highly prized in these organizations. High scores given to the Internal processes model and moderate estimation to the Open system type of OC are in line with expectations. There is whole set of written rules and laws which regulate the work of prison guards and changes in rules are not welcome among the guards.

"Changes in rules evoke negative emotions... You are used to think according to old stereotype and you think mechanically in this way ... but actually you have already messed up something – that all brings negative emotions." (Guard 1, 2006)

Results orientation aspect of OC brings efficiency as a value in focus. Although in prison the goals are not always easily measurable, attaining the aims is still important and organic part of OC of prisons. Performance of the guards is expressed through achieving the order in the block (Guard 1, 2006) and it seems that the aim is to attain and maintain culture with features of Internal processes type of OC.

Low mean value given to the Human Relations type of OC was somewhat unexpected result. Human Relations type of OC express the care about the employees and it reflects companionship. Low score in Human Relations type in prison could be explained with shortage of resources, e.g. shortage of labour and overload of employees.

"If you have four or five duties same time, then people do not understand why you put them in waiting list." (Guard 6, 2006)

Although several interviewees declared that relationships in their department are good, the relations in prison as a whole were considered more problematic and even negative.
"We understand that there must be co-operation between the departments, but it just not the way it is here."  
(Guard 5, 2006)

ANOVA analysis revealed that mean estimations of OC given by the guards differ from other occupational groups in prison and thus one may argue the subculture of prison guards exist in those particular organizations. While OC displays the processes going on organizational level then EI is deeply individual characteristic. EI of prison guard was investigated in order to understand emotional setting of prisons’ OC. In a Table 2 it is possible to find the estimations for EI of prison guards.

The t-test reveals ($-3.63 < t < 10.81$, $p = 0.000$) that the estimations for almost all EI subscales have significant differences indicating that most developed is the competency of managing own emotions and less is developed the emotional background of communication. The subscales of identification of own emotions and empathy are not significantly different.

<table>
<thead>
<tr>
<th>EI subscales</th>
<th>n</th>
<th>m</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Identification of own emotions</td>
<td>122</td>
<td>4.12</td>
<td>1.07</td>
</tr>
<tr>
<td>Managing of own emotions</td>
<td>123</td>
<td>4.53</td>
<td>0.96</td>
</tr>
<tr>
<td>Empathy</td>
<td>126</td>
<td>3.96</td>
<td>1.09</td>
</tr>
<tr>
<td>Emotional background of communication</td>
<td>129</td>
<td>2.50</td>
<td>1.29</td>
</tr>
</tbody>
</table>

Note: SD – standard deviation; “0” was the lowest estimate ... “6” was the highest estimate.

Work in prison is psychologically and emotionally demanding. From one hand, there are lots of rules and everything seems to be settled in routines and regulations, but from the other hand, almost all guards interviewed described their job not as routinous, but rather as unpredictable. Also term monotonous and permanent tension was used to describe the work.
Handling mix of emotions and culture: ...

“Prison is like a kindergarten. Endless wishes of prisoners tire psychologically and you are not able to track all activities, there is a constant fear.” (Guard 3, 2006)

Other emotions which were brought up in interviews were for example anger (from the side of inmates), compassion (towards the inmates) and savageness (from the colleagues). Thus the guards have to cope with whole palette of negative emotions. One of the prison guards analyzes influence of the job on her personality:

“I have not noticed myself, but family tells me that I have changed, that I am more closed and that I have become worse, more distrustful perhaps and obliviously so that I do not realize that myself.” (Guard 4, 2006)

Poole and Regoli (1981) have pointed out that there is expectation that the guard performs the functions of the job alone – teamwork is not stressed. They argue that any tendency to depend on colleagues would give prison officials the impression that the guard is deficient in self-reliance and autonomy. Whereas in present study the guards described their work rather as teamwork and support from the colleagues is considered as very important. Importance of teamwork was accentuated in context of emergency situations because those are the cases where you have to know other people very well and you must be able to trust other people (Guard 2, 2006). At the same time describing the work in prison, all interviewees admitted that there is not enough team spirit in prisons, rather “everyone keeps mostly separate” (Guard 4, 2006). Same interviewee told that guards use an expression “striking knife to the back of others, there is no sense of belongingness” (Guard 4, 2006). Low scores given to Human Relations type of OC, to EI competency of emotional background of communication and information got from interviews reveal the gap between expectations of prison guards and reality. Lack of teamwork among the prison guards is not only the problem of those people. Actually there are conflicts between different organizational levels and between departments as well. Some of those conflicts
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and tensions are encoded to the organization because of different aims of departments. One of the interviewees explains it:

"Several subgroups have been formed. ... The prison is divided into three parts: administration, surveillance and social department. It disturbs that all these parts work completely separate. ... Nobody has actually idea what is going on in prison as whole, there is no contact to others." (Guard 3, 2006)

More attention to Human relations aspect of OC would certainly relieve the emotional burden of prison guards – feeling of belongingness, support from others and perception of unitary organization would support guards in their performance.

Effective communication, which requires emotional flexibility, active listening, self-expression and ability to deal with difficult situations directly, could also help to cope with the emotions. Capability to communicate considering emotional background is important in workplace settings in order to create open and friendly relationships between people and to fill the tasks in effective manner. There is the “chicken-or-egg issue” of whether the ability of communication considering the emotional background is low because the prison guards lack of skills and abilities; or the OC of prisons does not foster that kind of communication pattern. Evidently truth is somewhere in the middle. From one hand, shortage of labour has created the situation that almost everyone can get job as a prison guard without any special training. From the other hand, the prison culture does not favour weak personalities:

"... nobody wants to admit to others that I am vulnerable." (Guard 5, 2006)

Analysis of EI revealed that the estimations on the scale of managing own emotions were quite high. One of the guards said in interview how he taught his wife who came to work in prison:
Handling mix of emotions and culture: ...

"... omit all possible emotions – positive as well as negative ones." (Guard 5, 2006)

Ability to manage own emotions is essential competence for prison guards to cope with difficult situations, where inmates try to frighten, threaten and manipulate the guards. Competence of regulating own feelings and emotions is important one, but still there is need to unload the emotions for a while to prevent stress and burnout. One prison guard pointed out that one minus of guard work is stress:

"All employees do not tolerate attacks of inmates ... anger or disappointment of inmates are often released to guards, because they are most close to them" (Guard 6, 2006)

Regulation of own emotions is important to keep one’s balance, but it is also essential in context of task performance. If the guard is not able to control his or her emotions, conflicts are easy to originate with inmates. The scale of managing own emotions scored the highest and identification of emotions was less developed, but still the latter competency is important in order to detect invisible intentions and processes. For example one guard describes how to understand that inmate is planning to manipulate with guard:

"Sometimes the face expression is very smarmy, shy or forced smile comes to the face and you understand that some kind of intrigue is coming... " (Guard 6, 2006)

The ability to empathize with others in the workplace could be considered as critical competency for some positions, but probably the prison guard is one of the professional groups where excessively developed empathy will not support the task performance. In case of prison guards high level empathy could encourage for example illegal activities. As one of prison officials told – if someone of employees doubts in prisoner’s guilt, it should be the sign of jeopardy. In current study the guards scored average on the scale of empathy. There was not gushing expression of
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empathy towards inmates, but still for example one female guard admitted that she feels that some prisoners are punished unfairly (Guard 7, 2006). Definitely there is inverted side of empathy that should be considered in prison work.

Conclusions and recommendations

Poole and Regoli (1981) describe the position of guards as follows: “Guards feel threatened by the inmates, unsupported by the supervisors and isolated from fellow officers” and that brief statement describes generally the situation of Estonian prison guards as well. The EI of prison guards differs according to its competencies. Prison guards have over average skills and abilities to identify and manage their emotions. High scores of intrapersonal competencies of EI are beneficial in order to handle demanding situations which proceed from the tasks and cultural pattern in prisons. On empathy scale guards scored on average, but on the scale of emotional background of communication the estimates were below average. In fact, low estimates on empathy should not be necessarily viewed as a negative outcome. Probably the way the guards relate to colleagues is similar to the way they regard to prisoners and the empathy has no firm place in such circumstances. Low estimates to communication scale of EI are not supporting culture of prison, because as guards stated themselves there is too little cooperation among staff and this could hinder the efficiency and performance of the job.

Work in prison involves work-stress that could be reduced by developing EI competencies: for example knowing how to manage emotions and what is the inverted side of empathy could help to cope with stress. Further more, Long et al. (1986) have suggested that in order to reduce occupational stress for prison staff it is necessary to improve staff relations and promotion policies, to train officers to make them better able to cope with the behavioural settings in which they find themselves along. They also bring out need for more careful selection of future staff.
Handling mix of emotions and culture: ...

Latter is a problematic issue for Estonian prisons because there are not enough people who would like to work in prison. That problem could be relieved through the wage-policy and by improving the public image of prisons and even if those are the issues where prisons have no significant effect, still, there are several possibilities how to make prison more pleasant place to work in. For example, there is a system of mentors in developmental stage in Tartu Prison. Planned system would probably facilitate the prison guards' work. Mentor would be the person to whom to talk to about the problems and who would advice the guard. Formatting stable relays would be same purposive – working together with people you know would help to resolve critical situations in more effective manner. The guards participating in the study saw major problems of team-work on organizational level; therefore it is necessary to explain common goals of prisons to every employee and diminish conflicts between the departments. Obviously, that cannot be put into the practice without effective communication in organization.

Even if lots of guards study in Academia there are still a large number of guards who have no special training to cope with that demanding job, furthermore today there are no possibilities to get psychological advisory services for prison staff – the psychologist in prison works for inmates. However, there is a need for assistance to unload negative and disturbing emotions even though prison guards do not like to declare that they need that kind of service. Management of prisons should turn more attention to the emotional state of their employees, because positive feelings and good emotional background has an effect of the work quality.

References


Handling mix of emotions and culture: ...


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MANAGEMENT CONSULTANTS AS TECHNOLOGY BROKERS FOR RECOMBINANT INNOVATIONS: ESTONIAN PERSPECTIVE

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Introduction

The innovations are frequently not so much about finding commercial usage for the brand new invention as much about finding novel ways to use people, ideas and objects that exist in different context for some time (Hargadon, 2003). These innovations that recombine the elements of old solutions in novel ways are recombinant innovations. However, the capability to facilitate such transfer and transformation from one world of usage to the other requires actors who have versatile background and experience in several different business sectors.

Management consultants constitute a group of people who are contracted to advisory projects in several differentiated business sectors. Thus, as their portfolio develops over time, they are likely

1 Prepared with financial support received from Estonian Science Foundation (Grants No. 6493 and No. 5840) and from the Ministry of Education and Research (Target Financing T0107).
to become well-suited for the gatekeeper tasks of the technology broker.

The aim of this paper is to preliminarily conceptualise the potential role of management consultants as technology brokers in Estonian context. Thus, this is a short conceptual paper that outlines the importance of consultants as the source of innovation.

The paper starts with an overview of the concepts about recombinant innovations and technology brokering. Thereafter, author outlines the nature and characteristics of management consultants and offers a vision why these characteristics are well in line with the task of technology brokering. The paper ends with the conclusions, implications and suggestions for future research.

**The recombinant innovations and technology brokering**

Andrew Hargadon (2003) proposes his network theory of innovation. In his view technology is the arrangement of people, ideas and objects for the accomplishment of a particular goal. The people, ideas or objects can be new or existing. In traditional sense innovation often refers to generation of new ideas and objects along with the training of new people. Hargadon, however, argues that innovation is actually more about combining already existing people, objects and ideas in novel ways than about inventing new ideas and objects. This recombinant nature of innovation makes it as much social process as it is technological process, because successful innovations are accomplished by networks of people and not just by single individuals.

Thus, Hargadon (2003) refers to his networked transformation as “inventive recombination” or “recombinant innovation” to be differentiated from invention process which is focused on creating fundamentally new ideas or objects.
One important precondition for the recombinant innovation is the good understanding of existing technologies and the ability to deconstruct them into well-defined separate elements, which can be recombined in several ways. Therefore, people engaged in recombinant innovation will have experience in a broad range of business sectors, which gives them necessary knowledge portfolio for creating new combinations of existing ideas and objects.

Henry Ford is often said to be the creator of the mass production system in the USA. In reality Ford and his team of engineers were masters of recombinant innovation, because his production system incorporated expertise from many different long-established industries and integrating them in a new system (see Figure 1).

Due to its nature recombinant innovations need enabling by technology brokers who are individuals or organizations able to bridge separated and seemingly distant industries and combine existing people, ideas and objects in new and novel arrangements.

Successful technology brokering requires the ability to (Cleveland, 2005):

- retain good connections to multiple business sectors, industries or practice communities;
- acquire hands-on experience in those sectors and communities;
- deconstruct the knowledge of them; connect it to the knowledge from other sectors and communities; and from these elements, create novel combinations of people, ideas and objects.

Technology brokers need certain skills to continuously provide new combinations from existing networks of people, ideas and objects. These skills include 1) having an insatiable curiosity and desire for new knowledge; 2) skill for penetrating practice networks; 3) skill of creating novel combinations of people, ideas and objects that change organizations, markets and even indus-
tries; 4) skill for assisting the development of new networks and innovation support communities.

Figure 1. The elements of recombinant innovation implemented in Ford’s car factories (Cleveland, 2005).

The hands-on experience in the multiple fields of practice gives them the necessary depth of knowledge about innovations to be able to deconstruct them and understand their elements. However, brokers need to maintain a certain distance from the field, to be
able to see it in novel ways that reveal hidden opportunities. (Cleveland, 2005)

After developing the innovation, the company should pay attention to the community of people and ideas that bring an innovation from a development stage to full market acceptance. Otherwise innovation might fail to reach a sufficient scale to have any impact on existing business practices (Ibid.).

Sometimes it takes decades before the invented solution finds all necessary support for becoming truly successful in the marketplace. This support infrastructure consists of the networks of people working on similar problems, lead customers of the new product, supportive industrial clusters and specialized support services. (Cleveland, 2005)

The successful technology brokering relies upon two sets of skills. One is needed for generating the recombinant innovation from pre-existing resources and ideas and the other helps to create support network for taking that innovation fully into a marketplace and achieve the wanted scale. (Ibid.)

In the following section author looks at the one possible agent who could act as a technology broker – management consultant. First we explore the nature of management consulting and then provide a vision about its suitability for technology brokering.

**Management consultants as versatile brokers**

The term management consulting is the practice of helping companies to improve performance through analysis of existing business problems and development of future plans, but it also refers to the firms that specialize in this sort of consulting (Wikipedia, 2006). According to earlier definition by Greiner and Metzger (1983) ‘management consulting is an advisory service contracted for and provided to organizations by specially trained and qualified persons who assist, in an objective and independent manner, the client organization to identify management problems,
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analyze such problems, recommend solutions to these problems, and help, when requested, in implementation of solutions’. (Canback, 1998)

Management consulting can incorporate: 1) the identification and diffusion of best practices; 2) analytical techniques; 3) change management and coaching skills; 4) technology implementations; 5) strategy development or even 6) the simple advantage of an outsider’s perspective. Management consultants use several formalized frameworks or methodologies to identify problems or suggest more effective or efficient ways of performing business tasks. (Wikipedia, 2006)

Schein (1988) categorized management consultants according to their type of interaction with clients into three models: 1) purchase of expertise; 2) doctor-patient and 3) process consultation. The purchase of expertise model describes client relationship where consultant is expected to give advice based on his or her expertise without extensive interaction with a client. In the doctor-patient model, the consultant is indeed like a doctor who provides detailed analysis of client organization’s problems and assesses strategic and organizational obstacles. In the process consultation model the consultant is the initiator of changes, while the client contributes the knowledge and makes the final decisions of how to deal with the problems. In this case the consultant suggests the process and the client suggests the content.

Turner (1982) developed a hierarchy of tasks that describes the consultant-client relationships. Until the late 1970s, the consultant was indeed seen as just a supplier of expertise, but according to the new understanding client and consultant are mutually respecting partners who work closely together in order to improve client’s effectiveness. (Canback, 1998)

Turner provided eight task categories. The first five correspond to the traditional supplier position, the last three are newer partnership-based tasks (Canback, 1998):
1. providing information to a client;
2. solving a client’s problem;
3. making a diagnosis, which may necessitate redefinition of the problem;
4. making recommendations based on the diagnosis;
5. assisting with implementation of recommended actions;
6. building a consensus and commitment around corrective action;
7. facilitating client learning;
8. permanently improving organizational effectiveness.

These tasks indicate that management consultants are in modern times more involved in the improvement of client’s business processes than before. Yet, the historic role of expertise provision still retains its importance as well.

Technology brokering requires both these features. Long-term experience in several different company types and industries helps management consultants to build-up expertise which allows them to offer new product and process solutions that recombine existing resources in novel ways. Client’s trust and deep involvement in client’s organizational improvements provides management consultants with necessary access to client’s innovation initiatives.

Because external management consulting, as opposed to intracorporate management advisors, involves cooperation of formally independent parties, the mutual trust and common goals help to reduce the risks of sharing very sensitive information. These risks are considerable and should be governed also with contracts. Otherwise parties face the danger that initially successful partnership deteriorates due to opportunistic actions either by consultants or by client companies.

The role of consultants as sources of innovations has been outlined in several studies (Brusoni et al., 2005; Palmberg, 2004), but these studies also reveal that customers and suppliers play more important role. Alam (2003) argues also that industries make unfortunately little use of consulting firms.
The next sections outlines preliminary vision how management consultants could facilitate recombinant innovation in Estonia. Although Estonian market is relatively small there is still potential for these external source of innovation expertise.

**Innovations and management consulting in Estonia**

Management consulting tradition in Estonia gained momentum again after the return to market economy at the beginning of 1990s. Although, we must recognize the fact that not all management processes are market specific and thus some expertise from soviet era might have still been usable.

However, the process of economic transition created a situation were the need for management expertise grew rapidly, while the provision of these services was scarce. In time, two developments helped to remedy the situation. Firstly, local consulting companies gained more experience and enhanced their competences. Secondly, increasing market stability facilitated the entry of well-known global consulting groups. Domestic consultant might have better market-specific experience than these global counterparts, whereas representatives of big multinational companies have the advantage of benefiting from intra-corporate knowledge transfers and global experiences.

In terms of recombinant innovations and technology brokering the multinational consulting groups are likely to have better organizational capabilities for providing clients with state to the art knowledge package and also international market launch support. They can also compensate for initially lacking market-specific experience by attracting the experienced local experts to work for them.

Domestic management consultants might in certain cases prove to be more flexible and have better understanding of the specific requirements of small and medium size client companies.
One of the key issues in Estonian context is trust building between consultants and clients. Due to the negative past experiences concerning sensitive information local companies may be too cautious about entering extending partnerships, while smaller clients could also feel that their bargaining power towards consulting group remains weak.

Evidence from Estonian wood and forest sector suggests that in a period from 2002–2004 consulting firms, private labs and private R&D firms had moderate importance as innovation sources. The more immediate partnerships with suppliers, consumers and industry partners were more important sources. Yet, 6 companies from about 90 answered that consulting firms, private labs and private R&D firms have been highly important and 9 companies that they have been averagely important source for innovation (Innovation survey of Estonian companies, 2006). This indirect evidence suggest that management consultants are already used, but their importance as technology brokers has yet to be fully realized.

Conclusions
Recombinant innovations involve combining existing people, ideas and objects in novel and new ways. This process requires an understanding how to deconstruct existing technologies into their basic elements and ability to use these elements for the creation of novel solutions. These requirements are fulfilled by technology brokers, who have developed versatile hands-on experiences in various industries. Management consultants represent one group of institutions that due to their expertise portfolios and partnership building goals are very suitable for this brokering task. However, the successful brokering calls also for mutual trust between consultants and clients in order to overcome the risks of dealing with sensitive business information. In Estonian context these risks are also influenced by past experiences, while expertise portfolio
suitable for brokering tasks is likely to be held by foreign consulting groups represented here.

This research has some import limitations. First of all this is only a preliminary conceptualization, which requires additional empirical testing. The literature found is also somewhat problematic in terms of its scientific quality and needs further revision in the future.

In terms of management implications it seems that Estonian companies have not fully discovered the potential of domestic and international management consultants as the providers of novel innovation ideas. This suggests that consulting companies could be more active in marketing these partnership possibilities, but also the likelihood that with the successful economic development companies gain resources that allow using these services in a wider scale. The future research should investigate the consultant-client partnerships for recombinant innovations in practice, but also look into role of suppliers and customers as potential technology brokers.

References


Management consultants as technology brokers for ...


THE NETWORKED MANAGEMENT OF INNOVATIONS IN ESTONIAN WOOD AND FOREST SECTOR¹

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Introduction

The modern management culture elaborates the idea of process management beyond the boarders of a single organisation. In the era of network collaboration several business processes are coordinated within the value chains or even indirect networks. These networks constitute long-term cooperative arrangements between companies. The underlying force for sustainability of this cooperation is mutual economic benefit from coordinated actions.

In addition to the strategic management of procurement, production, marketing and distribution issues, the network contacts have an increasing role in the innovation process. Implementation of new ideas can considerably benefit from the knowledge inputs provided by network partners.

¹ Prepared with financial support received from Estonian Science Foundation (Grants No. 6493 and No. 5840) and from the Ministry of Education and Research (Target Financing T0107).
The networked management of innovations...

The aim of this paper is to identify the role of relational network in the facilitation of the innovations in Estonian wood and forest companies. Although, this sector is in essence more traditional than for example biotech sector, the value chain complexities and cooperative solutions are still likely to increase in importance.

The paper starts with a theoretical background concerning the role of networks as innovation sources. This section is followed by short comments about data and research methods. The empirical section to follow contains evidence based on several innovation surveys and describes the nature and structure of the networked management solutions used for new product or process development in Estonian wood and forest sector. The paper ends with conclusions, implications and suggestions for future research.

**Theoretical background**

Although, historically entrepreneurship has been seen as the main source for innovative solutions, modern cooperative networks offer also alternative paths for gaining access to the new technological knowledge. Collinson (2000), for example, explores the regional socio-economic infrastructure for supporting technological diffusion as an important source for innovations and even new start-ups. These, so called, knowledge networks have an important role in providing synergies that lead to the growth of entire industry rather than just to single company success. These knowledge networks are highly dependent on regional context, which could be seen as a source for particular knowledge (Collinson & Gregson, 2003). The regional knowledge networks tend to differ in terms of scale, scope and quality of ideas and relevant expertise-experience available, as well as in terms of numerous other factors (Ibid.). Thus, also innovations tend to be context specific. Although, in a global world it is highly likely that in certain cases inter-network competences a called for as well. This might somewhat decrease the expected differences, whereas supporting global diffusion of new technologies.
Study about the innovation pattern in Singapore has outlined insufficient knowledge networks and public innovation-supporting services as important deficiencies yet to be overcome (Kam et al., 2003). The study of De Propris (2002) indicated, in turn, that inter-firm cooperation could be more actively used as internal factor of innovation for product or process innovation, as well as for incremental or radical innovations.

Considerable support to innovations might be offered by cluster membership. Cluster definitions vary from spatial agglomeration of companies to the dense social networks of companies and other organizations. It is this latter, social networking viewpoint that implies cluster’s importance in establishing framework for innovation. Dijk and Sverrison (2003) offer a typology of industry clusters, whereas location clusters refer only to spatial closeness and industrial district to highest level of social networking. The type they call innovative cluster is advanced form just before the state of industrial district. Salman and Saives (2005) show how the central position of a company in these networks can improve the access to the knowledge from partners. Innovation opportunities depend on company’s capability to transform this knowledge into new business solutions.

Data and research methods

The following empirical section is based on secondary and primary survey data. The secondary survey data (Innovation survey of Estonian companies) was collected by Statistical Office of Estonia in May-July 2006. It had a final sample of about 2201 Estonian from various business sectors and due to the compulsive reporting clause rendered a high response rate of 79.4%. In this study only companies with NACE code 20 (manufacture of wood and wood products), 21 (manufacture of pulp, paper and paper products) or 36 (manufacture of furniture; manufacturing n.e.c.) were included into sample rendering 228 observations. It should
be mentioned that more detailed questions about innovation cooperation have around 90 usable responses.

The primary survey (The survey of Estonian wood and forest companies) data was collected in March-April 2005, when the questionnaire about intra-corporate relations, innovations, labour force and logistics in Estonian wood and forest sector was sent to about 700 companies. About 65 companies have responded. Unfortunately this dataset does not contain some larger saw-milling companies and other producers. For this the following analysis will predominantly rely on secondary data and the information based on this survey will be outlined accordingly. The comparison of these two surveys is not an objective because they both cover the same time period between 2002 and 2004. However, the survey of Estonian wood and forest companies from 2005 can offer on some issues even more detailed perspective than the larger innovation survey used as the main data source.

Due the low variance of certain key variables and the considerable number of missing observations in dataset, the research methods for data analysis remain limited to the calculation of respondent percentages or average scores. The data presented in the next section build on the number of respondent companies who indicated particular innovation patterns. The percentages are calculated from total number of companies responding to the particular question. However, even this more basic level of data analysis should help to describe the intensity of using network cooperation as innovation source in Estonian wood and forest sector.

Innovations and innovation networking in Estonian wood and forest sector in a period 2002–2004

According to the survey evidence from innovation survey (2006) 85 companies from 228 respondents or around 37.2% had introduced between years 2002 and 2004 new or improved products, around 15 companies or about 6.6% had introduced service inno-
71 companies or 31% renewed or improved the production method, 18 companies or about 7.9% procurement method, and 48 companies or 21% supporting activities. These are three types of process innovations. In 56 companies, product or service innovations were developed in-house. 23 companies developed new products or services in cooperation with other companies or institutions. 50 respondents used cooperation for process innovations and the same number of companies developed new or improved processes in-house. Owner concern of the company developed new product or service solutions only in six cases and process innovations on seven cases.

33 companies reported that they had innovation cooperation with other companies or organisations. From Table 1 we can see that domestic suppliers and suppliers from other European countries are most common cooperation partners followed by domestic and European clients and consumers. Domestic competitors or industry partners as well as private innovation facilitators (consultants, labs and R&D firms) have also their roles.

### Table 1. Usage of various cooperation partners (no. of companies)

<table>
<thead>
<tr>
<th>Cooperation partner:</th>
<th>Estonia</th>
<th>Other Europe</th>
<th>USA</th>
<th>Other Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other companies in concern</td>
<td>4</td>
<td>6</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Company’s suppliers</td>
<td>19</td>
<td>14</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Clients and consumers</td>
<td>12</td>
<td>14</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Competitors and other companies from industry</td>
<td>10</td>
<td>5</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Consulting firms, private labs and private R&amp;D firms</td>
<td>8</td>
<td>3</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Universities and other higher schools</td>
<td>5</td>
<td>1</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>National or public scientific institutions</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Among the innovations, made in wood and forest sector in a period 2002-2004, 79 companies describe their product or service innovations as new for the company, but not for the particular market. It should be mentioned that only about 90 companies from 228 responded to that question. However, 31 companies described their product or service introductions as novel for the entire market.

Suppliers were reported as most valuable cooperation partner in 12 cases and clients in 9 cases. 4 companies considered concern partners to be most valuable contributors. The same number of respondents reported consulting companies, private labs and R&D companies as most valuable innovation partners.

The highest ratio of 'new to the market' products from turnover in 2004 was reported by five respondents. In these cases 40% to 80% of turnover came from the sales of products that were innovative to the market. Six companies answered that entire turnover in 2004 came from selling products which were new to the company. Despite these signs of innovation the older unchanged goods and services were reported considerably more as the main source of companies' turnover.

In terms of organisational innovations 48 companies or 21% applied entirely new or considerably improved knowledge management system, 74 companies or about 32.5% reported important changes in intra-company operations, 48 companies or around 21% established new inter-company relationships or improved pre-existing contacts.

In marketing, 38 companies or close to 16.6% reported considerable changes in design or packaging during a period 2002-2004. New sales methods where established in 36 cases that makes 15.8% from all respondents.

The survey of Estonian wood and forest companies (2005) covered also the aspect of innovation planning. 20 companies or
31% had created at least general development plan, 14 companies (21.5%) had product development plan and 7 companies or around 11% used also technology development plans and/or personnel development plans.

The investigation on reported sources of innovation in innovation survey (2006) reveals that intra-company or intra-corporate sources of information are very important in initiating and implementing innovation projects. 42 respondents see these sources as highly important and 37 more respondents said that intra-corporate innovation sources have average importance. However, 33 companies reported that they had never used intra-company sources and about 11 respondents found them to have low importance. Thus, the evidence is somewhat controversial.

According to the primary evidence from survey of Estonian wood and forest companies (2005) company’s own subsidiaries have minor importance as innovation source, because only on two occasions respondents reported this source as rather important, while 14 companies had never transferred innovation knowledge from their own subsidiary. Owner’s companies other subsidiaries had somewhat higher role as innovation sources, because 5 companies or about 7.5% of respondents considered them to be important or rather important sources for this knowledge.

The larger innovation survey (2006) revealed that company’s procurement partners are also seen as important providers of the new ideas for innovations. 33 respondents see procurement partners as very important source and 53 as averagely important. Company’s clients and consumers were considered to be very important source of innovation by 30 companies. 42 more respondents found clients to have average importance in that process.

Conferences, fairs and exhibitions tend to be next important sources of innovation knowledge after the company’s procurement partners and clients. 22 companies reported conferences; fairs and exhibitions to be very important source and 46 compa-
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Companies view their role as averagely important in initiating innovations.

Competitors and companies from the same sector were considered as highly important innovation sources by 12 companies and as having average importance by 42 companies.

Universities and their subunits are not considered as major sources of innovation knowledge by Estonian wood and forest companies. Only six companies found these institutions highly or averagely important, among them only one company responded that its highly important source. Other scientific institutions were considered even less important.

Consultancy firms, private labs and research institutions, unlike universities, have found better position in partnership with wood and forest producers, 6 companies answered that they have been highly important and 9 companies that they have been averagely important source for innovation. 28 companies found scientific and professional journals to be highly or averagely important providers of innovation information.

Conclusions

Although, entrepreneurship could be viewed as one of the main sources for innovations, technological diffusion and knowledge transfers can be supported also by regional socio-economic infrastructure also called knowledge networks and cluster membership.

The survey evidence concerning innovations in Estonian wood and forest sector between 2002 and 2004, that intra-company sources, suppliers, clients and customers and competitors or industry partners are very important for implementing new solutions via knowledge transfers or development. Conferences, fairs and exhibitions, consulting companies, private labs and journals had also considerable significance. Intra-corporate partnerships with own subsidiaries or with subsidiaries of foreign owner were far
less popular. The same tendency concerns contacts with universities and other scientific institutions.

These results indicate that knowledge networks discussed in theory rely in Estonian wood and forest sector mostly on the partners in the same value chain, namely suppliers and customers. However, cluster cooperation with industry partners and even competitors is also significant innovation source. Wider knowledge network renders ideas for the products and processes through events, private support agents and publication. The role of public knowledge providers, like universities and research institutions is regrettably minor. Somewhat surprisingly, international intra-corporate knowledge networks are considered to be unimportant as well.

This research has considerable limitations. It is evident that problems with small sample size for survey of Estonian wood and forest sector carried out in 2005, high number of missing observations and low variance in key responses would not allow very advanced data analysis.

In terms of managerial implications, this contribution points at the need to find in Estonian wood and forest sector the intra-company solutions in terms of better management and operation systems that would facilitate intra- and extra-company learning and knowledge diffusion. These systems should facilitate even more extensive knowledge exchange and creation in cooperation with value creation partners on supply and demand sides, as well as widen the knowledge networks laterally in order to benefit also from public initiatives for innovation.

Although, both internal and external sources are used also now, there is a potential for considerable improvement in a more strategic use of network support. This reorganisation of management process is often necessary condition for becoming more entrepreneurial and innovative organisation that can find support from several external sources.
Currently several respondents seem to underestimate the potential of international and public sources for new and novel knowledge. In addition to managerial adjustments in companies, public policy should aim at raising the awareness of managers about these cooperation possibilities.

The future research of regional and domestic wood and forest sectors should aim for a closer integration of location aspect and company characteristics (entrepreneurial dispositions) with networking aspects. Intra-cluster innovations and competition of not only companies but also sub-hubs (for example countries involved in cross-border cluster) should be investigated as well.

References


Survey of Estonian wood and forest companies. (2005). University of Tartu, Department of International Business (primary data in MS Excel database).
Introduction

While modern organizations operate in diverse environment settings the variety of individual behaviour could be construed by investigation of different groups. One of the characteristics that reveal differences in people’s perceptions and reactions is ethnocultural background. While ethnicity refers to people’s sense of belonging to the self-reproductive group (Westin, 2002) in current article ethnical group of Russian-speakers as well as titular population of Estonians are considered as ethnical groups. Cultural or ethnical differences that exist cause people to see the same problem from different perspectives, be motivated by different forces, and arrive at different solutions in resolving the problem (Tully & Merchant, 1999). With respect to emotions, in cross-cultural studies the picture of universality of basic emotions emerges, but EI is considered to be both scant and contradictory in this topic (Matthews et al., 2004).

While EI research is developing area there is a necessity to explore how ethnical affiliation influences EI domains especially
in the workplace settings. This kind of research is topical because diversity has become an important subject in the field of management as organizations pay increased attention to socio-demographic shifts. Managing diversity is one function of management in order to benefit from differences that emerge in organization.

The main focus in the present article is to investigate differences between employees' estimations of EI in two ethnical groups. But it is obvious that even within these ethno-cultural groups there is variation in employees' behaviour with respect to socio-demographic and other characteristics (e.g. business sector). The aim of the present article is to find out the differences in EI of two ethnic groups of employees (Estonians and Russian-speakers) with respect to socio-demographic characteristics (gender, age, education, sector).

Theoretical background on Emotional Intelligence and its influencing factors

Emotions are important in workplace settings and they have an impact on individual behaviour. Emotions influence work-related cognitive and emotional processes, which in turn, affect social behaviour, task accomplishment, and performance (Matthews et al., 2004). Caruso and Salovey (2004) argue that emotions are required to allow individuals to make good decisions, take optimal actions to solve conflicts, cope with change, and success in the organization. Wise use of emotional knowledge at the workplace gives advantage for successful task performance. In general EI could be defined as a set of abilities, knowledge and skills that help person to explain, understand, use and handle own emotions and emotions of others, to relate to other people in an effective manner and regard emotionally demanding situations constructively. EI is influencing people's regular behaviour and consists of certain competencies.

EI competency of identification of emotions consists of emotional self-awareness and empathy. Emotional self-awareness is claimed
Emotional Intelligence: Differences in ethnical groups ...

to be helpful attribute for tuning on the job performance and those employees who are high in self-awareness are able to monitor themselves and watch themselves in action (Matthews et al., 2004). Emotional self-awareness is considered to be the building block for developing high EI in organizational settings (e.g. Goleman, 2001; Caruso & Salovey, 2004). Ability to empathize with others in the workplace is important when the problems to be solved require accepting the conflicting opinions; empathy constitutes basis for mutual trust and acceptance what is crucial for example in initializing radical changes in organization (Matthews et al., 2004). Goleman et al. (2003) claim, that empathic employee could tune on many emotional signals, listen carefully and understand different points of views.

EI competency of regulation of emotions consists of management of emotions and communication skills. Caruso and Salovey (2004) suggest that ability to manage emotions gives the opportunity to see things from a different perspective, to make more effective decisions, and to behave in a more adaptive manner. In the occupational environment, self-regulation involves depressing personal needs and feelings and control impulses in service of organizational needs (Matthews et al., 2004) and it is considered to be an important skill and ability in order to solve problems and conflicts (Weisinger, 1998). Effectively communicating with others means having emotional flexibility, dealing with difficult topics directly, listening actively, and sharing information (Matthews et al., 2004). The importance of communication skills to EI is crucial, and its value in the workplaces is innumerable.

Because research on EI could be considered as opening area, there are relatively few studies that explicitly investigate group differences. Still it is possible to present some ideas about group differences with respect to gender, age and position.

Gender has important effects on emotions and EI because different gender role norms are applied in the workplace (Caruso & Salovey, 2004). According to research findings conducted by Bar-
On (2000) women are more aware of emotions, demonstrate more empathy, relate better interpersonally, and act more socially responsible than men; on the other hand, men appear to have better self-regard, are more independent, cope better with stress, are more flexible, and are more optimistic than women.

Several researchers (e.g. Goleman, 2001; Dulewicz & Higgs, 1999) suggest that it is possible to develop EI during life span. According to research presented by Mayer, Caruso and Salovey (2000) it is suggested that EI develop with age. Bar-On (2000) found that the older groups scored significantly higher than the younger groups on most of the EQ-i (Emotional Quotient Inventory) scales; respondents in their late forties and early fifties received the higher mean scores. The question arises how organizational members representing separate age groups and different ethnical affiliation distinguish with respect to EI.

While studying EI in workplace settings it is not possible to overcome the potential differences between representatives of different business sectors who stand for certain occupations. It is agreed that EI has crucial importance in occupational settings (Matthews et al., 2004). It could be proposed that EI of employees from the different business sectors would be different.

One of the most disputable areas about EI is its relation to academic intelligence. Some studies show that high academic or general intelligence is not related to EI what show that EI is not predicted by high academic or general intelligence (e.g. Hedlund & Sternberg, 2000; Matthews et al., 2004). But still it is not clear enough what is the relationship between EI and academic achievements: it is also claimed that emotional competencies are of prime importance for academic success.

While activities of organizations are claimed to be influenced by international settings and national cultural context (e.g. Mead, 1994; Matsumoto, 1996; Hofstede, 2001) EI is considered to be both scant and contradictory in this topic (Matthews et al., 2004).
In Goleman’s (2001) conceptualization, there is clearly an implicit assumption that citizens of diverse cultural origins can possess EI in equal measure. Supporting this proposition, Bar-On (2000) claims that there are no significant differences in EI between various ethnic groups. Nevertheless, there is some evidence from empirical studies that show some differences in EI between groups of respondents with different ethnical or cultural background. For example Poon and Fatt (2002) investigated Singaporean undergraduates and foreign undergraduates with various nationalities. They found that in such sections of EI as identification and understanding emotions there were significant differences in mean scores between two groups of undergraduates (foreign students scoring higher). So, it is possible to have some assumptions that EI could be different in various ethnical groups.

Methodology and sample

The questionnaire, with its 46 statements, was compiled (Emotional Intelligence Test in Organization: EITO, developed by E. Tolmats) by focusing on two sets of competencies of EI: identification and regulation. Each subscale of EI is measured using 20 assertions in the questionnaire. The remaining 6 assertions consider how emotions influence working activities and are not investigated in the current article. The respondents were asked to evaluate the assertions on a semantic differential scale. EITO was originally composed as a questionnaire to help measure an individual’s EI competencies exclusively in the workplace.

The EITO were first developed in Estonian covering a multi-staged process with the involvement of experts. Later on, the questionnaires were translated into Russian and full and correct procedure of translation was implemented.

An oblique rotation method of principal axis factoring for 40 items with promax rotation was performed for the EITO instrument separately for Estonian and Russian-speaking samples. A
factor analysis was a suitable method for finding the most representative items for each subscale (Barlett’s test for sphericity was statistically significant at $p = 0.000$ and the Kaiser-Meyer-Olkin measure for sampling adequacy was 0.90). A total variance explained for the factor solution is sufficient (although rather low) for both factor solutions (32.65 for Estonian and 35.79 for Russian-speakers samples). The number of factors extracted was chosen according to a priori hypothesis: it is assumed that two subscales represent EI. The loading for items over 0.40 was selected in order to ensure sufficient value for representing each subscale. As a result of the factor analysis, two subscales of EI were formed. The subscales of the EI measures are sufficiently reliable within the framework of the present research.

Altogether 1152 employees (881 Estonians and 271 Russian-speakers) participated in the survey during the years 2005–2006. For detailed analysis the entire sample was divided into two samples according to ethnical affiliations. The descriptions of the samples are presented in the Appendix 1.

In order to find the differences between groups, one-way ANOVA was applied. The differences in the mean values are important at the significance level $p \leq 0.05$. The analysis of data was conducted by the means of data processing package SPSS.

**Results**

The mean values of the EI subscales of two ethnical groups were calculated and ANOVA-analysis implemented. The results are presented in Table 1. There is significant difference in EI subscales in two mentioned groups: Russian-speakers gave higher estimates on the competence of regulation of emotions than Estonians.

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1. Cronbach Alphas are 0.84 for scale of identification of emotions and 0.86 for scale of regulation of emotions for both samples.
2. Cases with missing values were excluded from further analysis.
Table 1. Mean values of EI subscales in two ethnical groups and results of the ANOVA-analysis

<table>
<thead>
<tr>
<th>EI subscales</th>
<th>Estonians</th>
<th>Russian-speakers</th>
<th>Results of ANOVA</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>M</td>
<td>SD</td>
<td>M</td>
</tr>
<tr>
<td>Identification of emotions</td>
<td>3.84</td>
<td>0.79</td>
<td>4.00</td>
</tr>
<tr>
<td>Regulation of emotions</td>
<td>4.70</td>
<td>0.74</td>
<td>4.72</td>
</tr>
</tbody>
</table>

Notes: EI estimations are given in a scale from 0 (the lowest rate) to 6 (the highest rate); M – mean values; SD – standard deviation; N/S – not significant differences.

In order to find out how socio-demographic characteristics influence the EI of respondents ANOVA-analysis was applied for two samples separately. The results are presented in Appendix 2 for Estonian employees and in Table 2 for Russian-speaking employees.

In Estonian sample rather many differences in estimations for EI subscales revealed with respect to socio-demographic characteristics. Females are more competent in identifying emotions than males. Employees involved in various business sectors gave statistically different estimations to the subscale of identification of emotions: for example employees involved in trading gave significantly higher estimates than respondents working in prison, service, production, finance and hospital; employees working in production have lower estimations than those who work in trading, service and education. Regarding the EI subscale of regulation of emotions the female gave higher estimations than men. Concerning the age, competence of regulation of emotions is improving as the age grows. Employees with higher education gave significantly lower estimates to this subscale than employees with other education. With respect to sector estimations to the subscale of regulation of emotions statistically significant differences appear: for example prison workers gave lower estimates
than respondents involved in trading, service and finance; respondents involved in service have higher estimations than those employees who are involved in prison, production, finance and hospital.

**Table 2.** Statistically significant differences in subscales of EI between various groups and results of the ANOVA-analysis: sample of Russian-speaking employees.

<table>
<thead>
<tr>
<th>EI</th>
<th>Characteristics</th>
<th>M</th>
<th>SD</th>
<th>Results of ANOVA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Identification of emotions</td>
<td>Gender</td>
<td>Male</td>
<td>3.81</td>
<td>0.85</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Female</td>
<td>4.21</td>
<td>0.86</td>
</tr>
<tr>
<td>Regulation of emotions</td>
<td>Gender</td>
<td>Male</td>
<td>4.61</td>
<td>0.77</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Female</td>
<td>5.01</td>
<td>0.74</td>
</tr>
<tr>
<td></td>
<td>Sector</td>
<td>Services</td>
<td>5.10</td>
<td>0.74</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Energetic</td>
<td>4.68</td>
<td>0.73</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Prison</td>
<td>4.76</td>
<td>0.83</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Production</td>
<td>4.64</td>
<td>0.83</td>
</tr>
</tbody>
</table>

Notes: EI estimations are given in a scale from 0 (the lowest rate) to 6 (the highest rate); M – mean values; SD – standard deviation.

In sample of Russian-speaking employees fewer differences in estimations for EI subscale revealed (see Table 2). Females are more competent in identification and regulation of emotions than males. Those respondents who are involved in service gave higher estimations on subscale of regulation of emotions than workers of prison and production.

Concerning ethnical affiliation there is a difference in two groups of employees in EI subscale of identification of emotions. There are differences in EI estimations of both samples of Estonian and Russian-speaking employees with respect to socio-demographic characteristics. Discussion of the results of the study is presented as follows.
Conclusions and discussion

According to research results there are differences between two ethnical groups of employees with respect to one EI subscale: Russian-speakers scored higher on subscale of regulation of emotions than Estonian employees. Regulation of emotions is related to such aspects as management of own emotions and communication skills that are basis for creation and sustaining effective interpersonal relationships. This result is supported by previous researches. For example Vadi, Allik and Realo (2002) found that the interpersonal relationships in organization were more highly regarded by Russian-speakers than by Estonians. It is possible to conclude that Russian-speakers are more concerned about relationship issues within organization than Estonian employees.

The results of the study revealed that there are several differences with respect to socio-demographic characteristics. Results of the analysis are summarized and presented in the Table 3.

Table 3. Comparison of socio-demographic group differences for EI subscales among Estonian and Russian-speaking employees.

<table>
<thead>
<tr>
<th>EI subscales</th>
<th>Estonian employees</th>
<th>Russian-speaking employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Identification of emotions</td>
<td>Gender (females scored higher than males)</td>
<td>Gender (females scored higher than males)</td>
</tr>
<tr>
<td></td>
<td>Sector (differences across sectors)</td>
<td></td>
</tr>
<tr>
<td>Regulation of emotions</td>
<td>Gender (female scored higher than males)</td>
<td>Gender (female scored higher than males)</td>
</tr>
<tr>
<td></td>
<td>Age (scores are growing as the age grows)</td>
<td>Sector (employees involved in services scored higher than those involved in energetic, prison and production)</td>
</tr>
<tr>
<td></td>
<td>Education (employees with higher education scored lower than others)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sector (differences across sectors)</td>
<td></td>
</tr>
</tbody>
</table>

Note: Based on the Appendix 2 and Table 2.
According to the analysis it is possible to present some general conclusions according to studied characteristics. The results do not give clear and explicit explanation to the group differences, rather show that the topic of group differences in EI needs to be investigated and explored further. Still the study contributes to the research by attempt to investigate how ethnicity could affect EI and it could be said that those competencies of interpersonal character tend to vary. Despite to the confusion in this area it is possible to conclude that socio-demographic characteristics could explain some differences in workplace behaviour of ethnocultural groups.

Gender. Female employees generally scored higher on EI subscales of identification and regulation of emotions in both ethncial groups. It is possible to conclude that gender has stronger effect on group differences than ethnicity.

Age. In Estonian sample younger employees scored lower than older ones in EI subscale of regulation of emotions. Generally the age effects suggest that emotional intelligence increases with age, at least until the fifth decade of life (Bar-On, 2000). In the sample of Russian-speaking employees such effect was not revealed. Differences in EI estimations according to age could affect the ethnicity-related differences.

Education. Present study suggests that higher education of respondents does not predict higher estimations on EI (subscale of regulation of emotions). While this result is followed only in Estonian sample and in Russian-speaking sample this kind of conclusion does not apply than it is possible to assume that ethnicity could be the source of variation.

Sector. In Estonian sample in both EI subscales there are differences according to the sector where respondent is involved. It is possible to assume that occupational affiliation is one aspect that differentiates EI and probably it does in some extend affect ethnicity-related differences. The results show that those employ-
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ees who are involved in service sector have higher estimates than for other respondents in both ethnical groups. So being involved in services has stringer affect on differences that ethnicity, but it could be not claimed with respect to other sectors.

There are several limitations of the study that open opportunities for further research. Firstly, Zeidner, Roberts and Matthews (2002) give a warning that self-perceptions of EI may be inaccurate, being vulnerable to the range of responses and social norms influencing self-report measure. It is necessary to develop research settings with control-group of respondents that are evaluated by colleagues in order to validate the instrument. Secondly, more balanced sample with respect to ethnical affiliation could give a better understanding EI differences and similarities at the workplace. Thirdly, it is possible to enlarge sample to another cultural spaces in order to investigate employees’ EI from other countries of residence.

Mayer, Caruso and Salovey (2000) claim that much more research will be needed to understand EI: investigators have just begun to examine cross-cultural issues, the development of EI, and the application of EI in workplace settings. Results of the present research show that in general EI do not vary dramatically across ethnical affiliation of respondents, but some variation take a place in different socio-demographic groups formed according to ethnicity.

References


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**Appendix 1. Description of the samples (frequency and percentage)**

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Estonians</th>
<th></th>
<th>Russian-speakers</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Freq.</td>
<td>%</td>
<td>Freq.</td>
<td>%</td>
</tr>
<tr>
<td><strong>Gender</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Males</td>
<td>235</td>
<td>27.2</td>
<td>135</td>
<td>51.7</td>
</tr>
<tr>
<td>Females</td>
<td>630</td>
<td>72.8</td>
<td>126</td>
<td>48.3</td>
</tr>
<tr>
<td><strong>Age groups</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Under 30</td>
<td>85</td>
<td>25.6</td>
<td>54</td>
<td>23.4</td>
</tr>
<tr>
<td>31–40</td>
<td>122</td>
<td>36.7</td>
<td>58</td>
<td>25.1</td>
</tr>
<tr>
<td>41–50</td>
<td>87</td>
<td>26.2</td>
<td>63</td>
<td>27.3</td>
</tr>
<tr>
<td>Over 51</td>
<td>38</td>
<td>11.4</td>
<td>56</td>
<td>24.2</td>
</tr>
<tr>
<td>Average age</td>
<td>41.23 (SD = 11.18)</td>
<td></td>
<td>41.01 (SD = 11.98)</td>
<td></td>
</tr>
<tr>
<td><strong>Education</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Higher education</td>
<td>274</td>
<td>32.0</td>
<td>82</td>
<td>31.4</td>
</tr>
<tr>
<td>Special education</td>
<td>309</td>
<td>36.1</td>
<td>112</td>
<td>42.9</td>
</tr>
<tr>
<td>Secondary education</td>
<td>252</td>
<td>29.4</td>
<td>64</td>
<td>24.5</td>
</tr>
<tr>
<td>Basic education</td>
<td>22</td>
<td>2.6</td>
<td>3</td>
<td>1.1</td>
</tr>
<tr>
<td><strong>Sector</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trading</td>
<td>148</td>
<td>16.8</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Energetic</td>
<td>15</td>
<td>1.7</td>
<td>77</td>
<td>28.5</td>
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<tr>
<td>Prison</td>
<td>237</td>
<td>26.9</td>
<td>94</td>
<td>34.8</td>
</tr>
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<td>Services</td>
<td>128</td>
<td>14.5</td>
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<td>23.7</td>
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<tr>
<td>Education</td>
<td>45</td>
<td>5.1</td>
<td>–</td>
<td>–</td>
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<tr>
<td>Production</td>
<td>45</td>
<td>5.1</td>
<td>35</td>
<td>13.0</td>
</tr>
<tr>
<td>Finance</td>
<td>66</td>
<td>7.5</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Hospital</td>
<td>197</td>
<td>22.4</td>
<td>–</td>
<td>–</td>
</tr>
</tbody>
</table>

Note: SD – standard deviation.
### Appendix 2. Statistically significant differences in subscales of EI between various groups and results of the ANOVA-analysis: sample of Estonian employees

<table>
<thead>
<tr>
<th>EI</th>
<th>Characteristics</th>
<th>M</th>
<th>SD</th>
<th>Results of ANOVA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Identification of emotions</td>
<td>Gender</td>
<td>Male</td>
<td>3.58</td>
<td>0.79</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Female</td>
<td>3.91</td>
<td>0.78</td>
</tr>
<tr>
<td></td>
<td>Sector</td>
<td>Trading</td>
<td>4.05</td>
<td>0.83</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Energetic</td>
<td>4.01</td>
<td>0.70</td>
</tr>
<tr>
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<td></td>
<td>Prison</td>
<td>3.72</td>
<td>0.81</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Services</td>
<td>3.85</td>
<td>0.84</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Education</td>
<td>4.08</td>
<td>0.69</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Production</td>
<td>3.55</td>
<td>0.60</td>
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<tr>
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<td>Finance</td>
<td>3.64</td>
<td>0.64</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Hospital</td>
<td>3.77</td>
<td>0.79</td>
</tr>
<tr>
<td></td>
<td>Gender</td>
<td>Male</td>
<td>4.51</td>
<td>0.72</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Female</td>
<td>4.99</td>
<td>0.72</td>
</tr>
<tr>
<td></td>
<td>Age</td>
<td>Under 30</td>
<td>4.57</td>
<td>0.74</td>
</tr>
<tr>
<td></td>
<td></td>
<td>31-40</td>
<td>4.74</td>
<td>0.77</td>
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<td></td>
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<td>41-50</td>
<td>4.90</td>
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<td>Over 51</td>
<td>5.10</td>
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<tr>
<td></td>
<td>Education</td>
<td>Higher</td>
<td>4.53</td>
<td>0.64</td>
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<td>Secondary</td>
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<td>Sector</td>
<td>Trading</td>
<td>4.94</td>
<td>0.75</td>
</tr>
<tr>
<td></td>
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<td>Energetic</td>
<td>4.57</td>
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<td>Prison</td>
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<tr>
<td></td>
<td></td>
<td>Finance</td>
<td>4.41</td>
<td>0.60</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Hospital</td>
<td>4.65</td>
<td>0.75</td>
</tr>
</tbody>
</table>

Notes: EI estimations are given in a scale from 0 (the lowest rate) to 6 (the highest rate); M = mean values; SD = standard deviation.
Introduction

The paper aims at studying the applicability of MBO and process management in the Central Administration of the University of Eastern Piedmont.

The MBO is a managerial approach to the organizations (public or private sectors, profit or non profit entities, manufacturing or

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1 Acknowledgments: the authors would like to thank Prof. Luigi Brusa for his helpful review, suggestions and comments.
2 This paragraph is by Francesca Culasso.
services producers, etc.), through which, in each part of an entity, decisions and operations are made to achieve some important results for the mission of the entity itself (Drucker, 1961; Brusa, 2000; 2004).

The process management, that considers an entity such as a system of different business processes, is a managerial way to solve the coordinating problems among different units of the same organization (Hammer & Champy, 2003; Bernardi & Biazzo, 1995; Lorino, 1995; Culasso, 1999; Brusa, 2000; 2004).

Business processes are constituted by various activities, that have a common objective to achieve, consuming a variety of different resources (economic and technical different resources).

An example of a business process of a company could be the "new product development process" (Culasso, 1999): this process is constituted by a lot of different activities, carried out by different departments of the company to achieve the same objective (to develop a new product and to sale it). Marketing, Development and finally Operations are involved to improve process performances.

As we can see, the process usually goes through the different business functions of an organization and achieves an output that can be exchanged with the market or inside the company.

For this reason, the internal organization structure of an entity – in particular the functional structure – could make it difficult to coordinate the different areas involved into the same process. The effects of a bad coordination would affect the customer satisfaction and the value creation (Mintzberg, 1978; Kaplan & Norton, 1996; 2001).

For instance, the Development Department could innovate the products, without taking into account the suggestions of the other areas involved into a process, causing a lack of product appeal.
Management by objectives and process management ...

The *process management* is the managerial approach to solve this problem; in other words, it could be possible to improve the performances of the business process and, with them, the customers satisfaction and the stakeholders value creation (Kaplan & Norton, 1996; 2001).

The organization is articulated in main different processes and the critical ones are investigated in their success factors (Kaplan & Norton, 1996; 2001). For each critical success factors are determined some key performance indicators. The different functional managers involved into the process have to achieve the targets level of each indicator and are valued on them.

They can achieve their objectives making a lot of decisions, such as reengineering the whole process (Hammer & Champy, 2003; Bernardi & Biazzo, 1995; Lorino, 1995).

The *MBO* and the *process management* should be applied also in the public administrations, even if the profit is not the main objective of the organization itself (Mazzara, 1995; Rebora, 1999; Ongaro, 2000; Caccia, 2005). In fact, the public administrations’ main objective is offering important public services with scarce resources.

A lot of problems in terms of customer satisfaction (in the public administrations the customers are the services users) could be solved if the processes performances (such as time, quality and flexibility with scarce resources) would be improved; the performances of the business processes can be improved if the top managers strictly want to optimize the communication and the coordination between different departments (that in an Italian public administration are normally high-hierarchically led).

In order to demonstrate how *MBO* and *Process management* are needed in the Public Administration (Anthony & Young, 1982), we would like to present the case of the University of Eastern Piedmont (North West of Italy). In this University, in fact, a “professor’s team” tried to improved the customers satisfaction
through: 1) focusing on the main critical processes; 2) determining their key success indicators; 3) rewriting them and 4) evaluating functional managers on them.

The Italian University are typically “professional structure” (the professors represent in fact the main “operational” part of the structure), with a heavy “technical and administrative” component, which is inspired to mechanical and hierarchical principles.

It is very difficult to build an MBO and a process management system, particularly if it is referred to the “technical and administrative Area”. In this area, in fact, activities are widely spread through different units and personnel are normally reluctant to changes (Mazzara, 1995; Rebora, 1999; Ongaro, 2000; Caccia, 2005).

Despite of all, the results obtained in our case confirm the need of managerial tools in order to achieve the organization’s objectives, also in the public entities, especially with reference to MBO and process management.

University of Eastern Piedmont

In order to understand the managerial situation of the University of Eastern Piedmont, it’s useful to consider, first of all, the origin and the structure of the University itself.

After some previous experiences, all through the eighties and nineties of the last century it was planned by local authorities to develop Alessandria, Novara and Vercelli, first as dependent faculties, then as autonomous, but networking centres. On 30th July 1998 the University of Eastern Piedmont was born and it was decided to dedicate the University to the famous scientist Amedeo Avogadro to give a unifying character to the University, which is spread over three different provinces (Novara, Alessandria, Vercelli).

3 This paragraph is by Paola Vola.
Today every faculty has definitive setting buildings: the Faculty of Economics and the Faculty of Medicine and Surgery are settled in the former barracks in Novara, the Faculty of Law, the Faculty of Political Science and Natural Science-Math have their headquarters in the Borsalino Palace in Alessandria, while the Faculty of Literature and Philosophy are settled in the former Pediatric Hospital in Vercelli.

Concerning the structure of the University, it is led by the Rector with the help of the Administrative Director and is made by two main units: the Faculties, responsible for the teaching aspects – managed by the Deans – and the Departments, responsible for the research aspects – managed by Directors. These units are supported by some Governance Committees: the Academic Senate, which is an elective body within you, can find Professors representatives, students' representatives, etc., and the Managerial Board, which deals with managerial matters.

The Administrative Director is the head of the Central Administration (further on called C.A.), from which some Divisions hierarchically depend. In the specific case of the University of Eastern Piedmont, as far as regard the year 2005, the main Divisions were the following: 1) Administrative Division – which contained the Administrative Director’s secretary; 2) Personnel Division – which was divided into Technical and Administrative Personnel Office, Teachers Office and Retirement Office; 3) Economical Resources and Control – within there were, i.e., Salary Office, Contracts Office, Balance Sheet and Management Control Office, Technical Supports, etc.; 4) Institutional Affaires – divided into Courses Coordination Office, Quality Office, PhD Office, etc.

If we compare data and statistics, the results show, in spite of its young age, a continuous growth of the University of Eastern Piedmont, both in the number of students and in the number of the technical and administrative staff year by year; the number of the graduated students today is higher than 10,000; in the year 2005
the professors were around 330 units and the administrative and technical personnel was around 300 units.

Naturally this fast increasing of the structure has made many problems to overcome and, in particular, the approaching risk was the dissatisfaction of the customer and the stakeholders too.

The main difficulties were connected to the activities made by the Central Administration and they were: 1) the duration of the administrative practices, i.e. the completion of the documents required by student for their graduation just few days before the graduation day; 2) the dissatisfaction of the administrative and technical personnel, which complained about the execution of a huge number of useless activities; 3) the continuous request of additional personnel.

This kind of problems must be solved considering that the resources available for the University are scarce and limited and so the only feasible answer is constituted by the process management; this is the project that the professors team planned within the C.A. of University of Eastern Piedmont with the aim of improve performances in the first step of their analysis.

The case study: Methodology of research

The first step, in order to determine and to analyze the University of Eastern Piedmont organizational problems, as we said before, was the identification of a temporary “professors’ team”. The aim of this team was to create a map of all the activities realized in the University by the personnel of the Central Administration.

In particular, in order to obtain this information, the team made 47 individual interviews, from July 2005 to February 2006, to various organizational unit bosses (Rector, Deans of Faculties, Heads of Departments, Chiefs of Accounting and Chiefs of organizational units of Central Administration).

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This paragraph is by Paolo Carenzo.
Moreover, in the same period, the team prepared a questionnaire in order to achieve information about the activities made by each organizational unit and about characteristics, criticisms and limits of the actual organizational structure. The questionnaire was sent by e-mail to the technical and administrative personnel employed in each Faculty and in each Department.

By analyzing the data achieved from individual interviews and from the questionnaire, the team discovered that the C.A. was a complex structure in which there were made different and extremely heterogeneous activities, and that offered a mix of different services, such as:

- services to “final” customers (such as information to students, international relations with other colleges, etc.);
- services to the other structures of the University, like Faculties and Departments (such as technical services, ICT, etc.);
- services to units/offices of the C.A. (such as purchasing, contracts, etc.);
- mixed services (such as personnel management, buildings and property management, etc.).

Moreover, by analyzing the activities of the C.A., the team discovered that:

- sometimes, the same activities were made in different organizational units (duplication of activities);
- some activities, that could be rationally realized in the same unit, were made in different units. For instance, the activities regarding personnel and its management are realized in different offices: Technical and Administrative staff Office, Teaching staff Office, Salary Office, Retirement Office, Contracts Office, etc.;
- a lot of units made heterogeneous activities. In other words, beside the obvious activities, some offices made other activities that lie outside their mission;
- there was a lack of strategic activities, managerial activities and coordination activities, such as managerial accounting...
process, strategic planning process, communication and marketing process, innovation process, etc.;

- there was an heterogeneous information system, that is different units had different information systems.

These negative elements were the main causes of inefficiencies (duplications of jobs, waste of sources and time), overloaded with work and, in particular, criticisms and complaints from internal personnel and from customers (students, local public administrations, local community).

In order to solve these problems and to eliminate the internal inefficiencies, the team tried to redesign the internal processes, previous disarticulated in so different activities made by different units. In particular, the following actions were realized:

- analysis of all the activities and classification of those into two different groups: 1) activities that create value for customers (internal or external); 2) and activities that do not create value;
- elimination (when it was possible) of activities that do not create value;
- redesign of the main processes. In particular, the processes were redesigned so that the activities that have a homogeneous and common goal to achieve were pooled together in the same process (Lorsch, 1970). Different organizational units could be involved in the same process. When it was possible, for the most important processes, were identified specific bosses (the so-called “process owners”), with a consultancy and process coordination scope;
- analysis and determination, for each process redesigned, of: 1) the targeted performances (in terms of cost, time, quality and flexibility) and 2) the key performance indicators (KPIs).

In order to consolidate the changes, a new autonomous organizational unit was established, called CeSPA – Service Centre for the Administrative Activities. CeSPA should manage specific pro-
Management by objectives and process management ...

jects, with own human and economic resources, for optimizing organizational integration. Moreover it should be an incubator, whose objectives should focus on the creation of lean, innovative and effective new processes and on the improvement of the existing ones. CeSPA is made by the best employees of the different departments and it’s structured by temporary teams.

From the “organizational” point of view, CeSPA represents a flexible and dynamic solution, that lets it possible to react quickly to internal and external suggestions. Moreover, CeSPA should apply a projects-based methodology, that represents a good way to solve problems applying an interdisciplinary approach.

Currently CeSPA is going to develop the following projects:
• reengineering of accounting internal rules and creation of an internal auditing system;
• reengineering of record of exam results process;
• analysis and development of IT supports.

Next step, to improve the process management, will be the implementation of the MBO system, in order to: 1) identify, for each organizational unit involved into the processes, the targeted levels of each KPIs; 2) evaluate the achieved results and the variances between targets and actual results; 3) analyse the causes and the responsibility of the variances; 4) suggest the right decisions to improve the results; 5) evaluate the different managers involved 6) determining the salary-premium for each manager.

Conclusions

The professors’ team project has achieved a good partial goal: 1) mapping business processes; 2) identification of the main critical factors for each process and their key performance indicators (KPI); 3) partial introduction of a behavioural approach based on responsibility.

5 This paragraph is by Andrea Turolla.
The project it’s going ahead. For the realization of a good process management and for the implementation of the MBO system, we need to consider several problems and critical items that, if not taken into account, could compromise the whole project.

As regards Eastern Piedmont University, the main problems are:

- an internal culture based on formalism. This attitude represents an obstacle to the implementation of a responsible-based system, in order to achieve significant results both in efficiency and effectiveness;

- a strong differentiation, in terms of hierarchical position, responsibility and culture, between teaching personnel and administrative and technical personnel. In this case it is hard to create an interdepartmental and interdisciplinary project team, that should be able to use own skills and know-how;

- incoherence between decisional autonomy level and responsibility level. In the past, there were cases in which organizational choices ascribed low decisional autonomy and high responsibility. This way caused a disinclination to responsibility system;

- high influence of law and enactments. There is a complex national law system that regulates several university ambits. In particular, the normative about human resources management and the normative about internal accounting result extremely binding. This situation makes the internal structure very inflexible, complex and rigid;

- syndicate relations. It’s necessary to say that, beside law criticisms, there is an internal situation in which personnel is against to the introduction of an evaluation system. In fact, local syndicate wants a system based on seniority instead of a system based on performance results.

Only if these problems are solved, the project of the introduction of MBO and process management in our University can be successful.
The same project’s methodology could be applied in an international setting to other institutions, which present the similar characteristics and problems.

In particular, we mean: 1) organizational complexity due to the huge number of variables involved; 2) bureaucratic culture oriented more to the respect of internal rules than to customer satisfaction; 3) the need to reach a balance between efficiency and effectiveness.

We are aware that our research presents a limitation: we analysed a single Italian University. In order to improve the relevance of the research, we are investigating the case of University of Turin and some other universities under the same methodological approach.

Our aim is to extend the analysis to other national and international institutions.

References


Turolla, A., Culasso, F., Vola, P., Carenzo, P.


Introduction

The main purpose of performance management and pay-for-performance are to create suitable conditions for management and to increase effectiveness of the company. In order to do that we need to evaluate employees as performance appraisal is a process aimed at determining the results of employee’s work. Performance appraisal is regarded as the main component of performance management, which is a much broader concept than performance appraisal.

The present article aims to analyze performance appraisal and compensation policy and system in the Faculty of Economics and Business Administration (FEBA) in the University of Tartu. The first section of the paper is an introduction of literature on performance appraisal and compensation in educational institutions. The paper starts with a literature overview on performance appraisal and compensation in educational institutions. The theoretical framework in opening section will rely on research articles from leading management journals.
Türk, K.

The second section of the article deals with the general features of performance appraisal and compensation system in FEBA. In this section mostly qualitative comparison is used, however, some quantitative measures will be provided as well. The paper uses several sources of both secondary data and primary data, and the empirical analysis is based on survey responses. The author of the article discusses what implications does this study have on the theory and on the appraisal management in the university.

Public universities are today in many study areas (economics and business administration, law, social sciences) as exposed to the market pressures as the private universities. They face a situation where the number of state-funded places is decreasing rapidly and the importance of tuition fees at the same time is increasing and thus it is crucial to make the management processes in the public universities more efficient. The performance appraisal and the compensation of educators have been major subjects in the public discussions about the future and quality of education system. The universities need to establish performance appraisal systems, in order to have clearly defined causality between compensation and performance of personnel. FEBA has longer experience in performance appraisal and pay-for-performance system, they have employed it for over ten years which has enabled to better the work results of the academic staff.

**Academic staff performance appraisal in the university**

The performance appraisal and performance management activities enable to determine whether the employees' performance is in accordance with established objectives and it is primarily based on the appraisal of employees' work results and activity (behaviour). In the modern management, performance appraisal is viewed in the broader context of performance management, whereas precision of measurement and accuracy of ratings is accompanied by social and motivational aspects of the appraisal
Performance management and pay-for-performance ... process (Fletcher, 2001; Boyd & Kyle, 2004). Alongside with task performance, which covers job-specific behaviours and employee’s core responsibilities, in the appraisal process more attention has been devoted to non-job-specific behaviours, like cooperation, dedication, enthusiasm, creativity etc.

Employees’ compensation is a process of rewarding employees with monetary and non-monetary benefits according to the value of their work, thus compensating them for their efforts. The job evaluation does not only depend on local labour market conditions, but also on international market (Bloom et al., 2003). Similar international influences have to be taken into account in universities because top lecturers and researchers are competitive in international labour market.

Compensation policies develop faster in private sector, as they use increasingly complicated remuneration schemes. Public sector, including education, was considered until 1980s a permanent employer, as it offered great opportunities, union benefits, and pay advantages. However, job security in public sector is in decline, and so are also significant pay advantages. We can say that at least in the UK, public-sector employment is no longer as appealing as it used to be compared to private-sector placement (Morgan & Allington, 2002). This has created a situation where also public sector has to differentiate its pay in order to retain its best employees. Due to state budget difficulties also the higher education system has needed pay-for-performance system, as more efficient motivation of lecturers and researchers is needed.

The higher education sector is by its very nature and management style a rather conservative one. This is mainly caused by traditions and academic freedom, and that is why payment-by-results system is still a rather new approach. Appraisal and management of performance has recently attracted much attention in European universities and colleges. With increase in the number of students, total costs have risen and, with limited state funding, there is strong competition for money among various social services.
Over the last decades, many researchers (e.g. Gatfield *et al.*, 1999; Sinclair, 2003) claim that the issue of quality has become a significant subject and will continue to be one of the predominant points of debate in higher education. Aim to quality is driven by consumer demands for increased standards and performance, and by the needs for organizational excellence.

Some authors (e.g. Stilwell, 2003; Scott, 1999) question the suitability of commercial criteria and economic incentives, which have been popular political choices, in the setting of higher education. They may lead to corporate managerial model that puts too much stress on economic rational, seeing competition and markets as most appropriate means for the achievement of high quality in teaching and research. In order to do that, universities should monitor more closely customers’, especially students, expectations. Thus, the awareness about these expectations is important even when customer aspect is only one of the several performance appraisal criteria.

There are numerous criteria for measuring the performance of the education process. These criteria have been brought out by different studies (McNay, 1997; Mergen *et al.*, 2000; ASHE-ERIC , 2001; Mulford *et al.*, 2004; Griffith, 2004), and we can divide them into two groups: teaching and research. There may be a focus on particular stages of the education process:

1) on input e.g. qualification of staff, nature of students and material resources;
2) on processes e.g. approaches to teaching, student involvement and feedback;
3) on output e.g. qualifications of students, employment rates, staff publications.

Quality of teaching depends on the qualifications and research potential of the academic staff. Research outputs, as well as successful teaching, are expected of everyone; additionally they help to keep one’s employment. This is also important for the future success of a university, as it helps to attract students of different
Performance management and pay-for-performance levels. Hence, following new performance targets have become important to the universities: the number of doctoral, graduate and MBA students; the number of research contracts; and of course the quality of research and publications. (Pratt & Margaritis, 1999)

Quantitative data such as exam pass rates, citation levels for research articles etc. may be also available. Statistical performance indicators should support judgement, not replace it. Quality of performance in teaching at the higher educational institutions would include measures such as alumni feedback. Teaching does not include only what is done, but how it is done. Quality of performance in teaching requires that the higher educational institutions prepare the students for their first position as well as provide the basis for performance in future positions. The challenge to universities is to produce graduates who meet the requirements of employers.

Performance appraisal and pay-for-performance of the academic staff in FEBA

Performance appraisal of the academic staff (lecturers and researchers) has become increasingly topical during recent years in Estonia. The results of performance appraisal are closely linked with pay-for-performance system, on the basis of which the final salary of an employee is calculated. The impact of performance appraisal results on salaries differs in universities (faculties). For example, performance appraisal results and salaries are very closely linked in the FEBA. The quality of staff performance is supported by stimulating remuneration as well as by feedback systems; student questionnaires are also used for that purpose every semester and for all courses.

FEBA has implemented a detailed appraisal system, which takes into account a varied mix of work components and where appraisal is directly linked to the pay-for-performance system. In Open University courses, the employee’s salary is dependent on
these evaluations; but the most important aspect of questionnaires is still the feedback to the lecturer about her/his own work. The FEBA’s remuneration system is based on the implementation of objectives established by institutes and its subdivisions.¹ The staff motivation system is aimed at improving the overall quality of tuition and research processes. In order to stimulate staff members by competitive comparison, the formalised performance result (teaching load, publications) are disclosed annually in particular report.

For example, teaching workload consists of lecturing, tutoring and theses defence workloads. In order to find out the lecturer’s workload in hours, the sum of course credits assigned to students during each course will be used. Tutoring workloads will be determined according to the standard hours assigned to different tutoring jobs. When determining the hourly rate for lectures, the specific post held by the employee is taken into consideration. In order to calculate qualification bonuses, the normative teaching (lectures and seminars) workload will be multiplied by the following coefficients: professor – 1.7; associate professor or senior researcher – 1.4; lecturer or researcher 1.15. The lecture hours achieved through the above calculations are afterwards modified again, this time taking into consideration the study level (e.g. Bachelor, Master’s, Doctorate) and also the teaching quality coefficients. In the Open University student evaluation results of lecturers are taken into consideration when calculating the hourly rates of lecturers; they can increase the rates by half.

This pay-by-performance system enables the determination of basic salaries and incentives to each employee separately, depending on her/his performance and such kind of wage policy is directed towards stimulating an increase in the work contribution of employees. As a result, considerable differentiation of salaries

¹ More detailed description of the payment system can be found from the homepage of the FEBA. Available at: http://www.mtk.ut.ee/teaduskonnast/dokumendid
Performance management and pay-for-performance has emerged: the salary of a lecturer at the FEBA may be higher than that of a professor, depending on the workload and productivity. Payment of incentive bonuses presupposes performance of higher capacity and quality from that demanded and/or and essential activity in organization, for example the accomplishment of managerial tasks, etc. The salaries and bonuses are appointed to academic staff once a year on the basis on the performance of the previous period and within the boundaries of the institutes’ and its subdivisions’ budget fund, and also in accordance with the remuneration regulations. Head of the institute may on the basis of development conversation correct the performance appraisal according to the qualitative appraisal of non-formalized aspects of performance.

The author carried out a questionnaire in the FEBA. The questionnaire rated seven aspects of the lecturer appraisal system through 60 sub questions. In order to study the level of contentment of lecturers and researches with their appraisal system in the FEBA, a separate survey was carried out in March 2004. 50 questionnaires were distributed, 25 of which were returned, thus completion percentage was 50. 6 of the respondents were professors, 9 associate professors, 2 were lecturers, 4 were assistants, 3 were researchers and one of the respondents did not classify his/her position.

The present paper discusses only the essence, the structure and the academic staff opinions about the pay-for-performance system. Regarding the question whether it is necessary to appraise the lecturers at all, 72% of the respondents of the FEBA answered positively.
Table 1. The importance of appraisal and its characteristics in the FEBA in the University of Tartu (percentages of rather yes and yes answers)

<table>
<thead>
<tr>
<th>Propositions</th>
<th>FEBA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Appraisal of lecturers and researchers is necessary</td>
<td>72</td>
</tr>
<tr>
<td>You are well informed about the appraisal system</td>
<td>72</td>
</tr>
<tr>
<td>Appraisal system is comprehensive and to the purpose</td>
<td>46</td>
</tr>
<tr>
<td>Appraisal process must end with an appraisal/development interview</td>
<td>64</td>
</tr>
<tr>
<td>Appraisal/development interview should be official and recorded</td>
<td>40</td>
</tr>
<tr>
<td>Direct supervisor should be in charge of showing and discussing the appraisal results with an employee</td>
<td>80</td>
</tr>
<tr>
<td>Performance appraisal should be directly linked to remuneration</td>
<td>68</td>
</tr>
<tr>
<td>It is necessary to develop and refine the existing appraisal system</td>
<td>84</td>
</tr>
</tbody>
</table>

Evaluation point scores: 1 – no; 2 – rather not; 3 – rather yes; 4 – yes.

28% of the lecturers at the FEBA feel that they are not sufficiently informed about the appraisal system, which can explain why some of the lecturers have negative feelings towards the pay-for-performance system. It is also worrying that as much as one forth of the respondents consider themselves to be insufficiently informed about the appraisal system. In author’s opinion the faculty should start paying much more attention to informing staff and trying to balance different interests. This aim could be achieved through engaging the core staff when working out the pay-by-performance system.

46% of the respondents were rather critical (answering “rather not”) when asked whether they thought the appraisal system was comprehensive and had a purpose. In order to decrease the level of dissatisfaction amongst employees it is necessary to find a better balance between various aims and interests. However,
regardless of the problems it is still clear that the system is necessary, as it has brought along considerable growth in work efficiency and work quality in the FEBA.

Majority of the respondents from FEBA consider the points system for publications too complicated. The points system has been simplified over the past few years. The present motivation scheme has brought about a steep rise in the number of published research publications. During the past ten years the number of publications per lecturer/researcher has increased four times, it was 9.2 research publications per employee in 2005. This is more than four times the University average.

To the question whether the results of student questionnaires should be taken into account when calculating the pay for lecturers, fifty percent of the respondents answered 'no' or 'rather not'. However, the lecturers pointed out that the appraisal criteria in the student questionnaires was relevant and believed that the questionnaires provided an objective and comparable evaluation of the work done by lecturers.

Another question asked was whether the appraisal process should conclude with a development interview. Two thirds of the respondents answered yes/rather yes to that question. The question about the form of the development interview received very different answers. Almost two thirds of the respondents preferred a non-official interview where the results are not recorded.

The last section of the questionnaire contained open-ended questions, which explored respondents' opinions about the overall satisfaction with the appraisal systems. The main pluses and minuses of the appraisal system indicated by the respondents in the FEBA are shown in Table 2.
Table 2. Pluses and minuses of the academic staff appraisal system used in the FEBA

<table>
<thead>
<tr>
<th>Pluses</th>
<th>Minuses</th>
</tr>
</thead>
<tbody>
<tr>
<td>• The pay-for-performance system motivates to move on; the more you do the more you get;</td>
<td>• The pay-for-performance system has brought excessive competition and conflicts;</td>
</tr>
<tr>
<td>• Employee can compare him/herself to other staff members; overview of the amount of work done during the year;</td>
<td>it has impaired the work climate and diminished cooperation between colleagues;</td>
</tr>
<tr>
<td>• The appraisal criteria in the student questionnaires is relevant and enables an objective and comparable evaluation of the work done by lecturers;</td>
<td>• It functioned well as long as there was enough money for salaries and the salaries increased yearly; now the negative aspects prevail;</td>
</tr>
<tr>
<td>• It has considerably increased the number of publications;</td>
<td>• Overly customer-focused; too much attention is paid to quantitative measurements; not enough attention is paid to personal reasons;</td>
</tr>
<tr>
<td>• It is reasonably open and improves the fairness of remuneration;</td>
<td>• Social Darwinism (only the strongest will survive); the need to prove oneself all the time can cause burnout;</td>
</tr>
<tr>
<td>• Guarantees development of the faculty and is a role model to other faculties;</td>
<td>• The criteria used to measure efficiency are limited and fail to consider staff's contribution to the development of the University.</td>
</tr>
<tr>
<td>• Less time is spent on administration and control.</td>
<td></td>
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</tbody>
</table>


Performance management and pay-for-performance are complicated and contradicting processes. They grant motivation and better work results amongst employees, but at the same time employees pay too much attention to their work quantity and thus cooperation and relationships between employees suffer. The above is also shown by the surveys that have been carried out by the author in Estonian universities (Türk & Roolaht, 2005).
Conclusions and recommendations

In higher education sector appraisal systems have been implemented on organization-wide level mostly since 1990s. There is also a discussion going on, how extensively should staff appraisal in universities be oriented to the student evaluations, and thus to customer-oriented performance quality measures. Faculty compensation systems should strive for procedural, distributive and social justice as well as facilitate not only individual efforts, but also cooperation and teamwork. This study focused on the performance appraisal and compensation system in the FEBA.

In the University of Tartu there exist several types of appraisal systems. On the positive side, these appraisal systems give feedback about the performance (including the opinions of students), support the individual development of academics, increase motivation, and help to achieve the quality goals of the university. On the negative side, existing systems do not facilitate teamwork, are too costly and complex to administer, provide possibly biased student feedback, might create tension between departments, and, if improper procedures are applied, even cause more HRM problems. Efforts have been made in order to take into consideration and balance the interests of the different chairs and lecturers and tie these with the overall aims and goals of the faculty.

The new measures have resulted in positive changes in the FEBA, there have been some negative aspects as well. Due to the increase in the number of different study programs and the number of students, the staff is working under greater strain. This is also indicated by the abovementioned figures about student-lecturer ratios and the number of credit points given by one lecturer. However, it must be added that the amount of research and published articles in the high level peer-reviewed journals is still rather low. The current situation cannot be maintained and justified, it is quite clear that the system needs to be improved in order to reduce the workload of the academic staff.
Job performance is a crucial criterion for compensation and grants work efficiency of the academic staff. In the exploitation of the performance appraisal system the following aspects should be considered:

- The appraisal system at the FEBA was introduced approximately ten years ago and during this time several changes in the weight of the indicators have taken place. This complicates the comparison of the yearly results and a deeper analysis of the effectiveness of different changes is problematic.

- The present appraisal systems as well as compensation systems are being refined and developed and thus might no longer represent the status quo of all the aspects of appraisal. Simplification of the appraisal system and a change towards graded salaries would make management more centralized and might give way to management errors.

- The quantity and quality of work has to be appraised mainly in three fields: teaching, research/publishing activities, and management tasks. Different compensation criteria of the academic staff and determined proportions of teaching and research in subunits and among lecturers should be followed. The foremost truthful indicators of the quality of teaching are the results of the Open University student questionnaires.

- Procedural, distributive and social justice should be always kept in mind when reviewing the compensation system at FEBA. Also, the system should try to encourage not only individual efforts, but also cooperation and teamwork between employees.

- It is important to avoid the excessive use of the quantitative work results indicators, as this has brought about the disproportionate growth of the workload. This extensive progress has negative sides as the burnout and rivalry between the employees can cause unsatisfactory interpersonal relationships and even generate more HRM problems.
The differentiation of salaries amongst the academic staff in the FEBA is significant. This is caused by big differences in work contribution and marked point discrepancies in research and teaching. The differences in compensation are objectively justified and thus should be maintained.

Performance appraisal and compensation system at the FEBA has considerably increased the work efficiency of the academic staff. Publishing activity of the academic staff has increased four times during the past ten years, also the quality of teaching and research work has increased considerably. The FEBA received the highest evaluation results in comparison to other Estonian higher education institutions in the field of economics and business administration. This shows clearly the importance and necessity of the performance management and the pay-for-performance system in the FEBA.

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Türk, K.


COPING WITH INCREASING LABOUR COSTS: WHAT COULD ESTONIAN MANAGERS LEARN FROM OTHERS

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Introduction

In the fourth quarter of 1991, Estonia’s average monthly salary was 1150 Rubles that is equal to 7.3 EUR. Five years later, it was 211.5 and in 2001, 375.6 EUR. In the second quarter of 2006, it was 609.0 EUR (Statistical Database, 2006). The salary is continuing to rise: in 2006–2008, the Bank of Estonia expects it to increase by approximately 15% each year (Quarterly Economic, 2006). Higher wages lead multinationals to relocate not just segments of their industries, but entire chains of suppliers of important inputs (Kakazu, 1999), so, significant changes may occur in Estonia in the near future. Consequently, the managers that have until now regarded low-cost production to be their firm’s main asset have to start thinking about changing their strategies if they plan to retain or increase their profits and even stay in business because low labour costs are perhaps the least

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Coping with increasing labour costs: sustainable competitive advantage (Pfeffer, 2001). This paper aims to give suggestions to Estonian managers how to cope with increasing labour costs. It is based on studies on reducing the share of labour costs and on the literature on the experience of the firms from other countries where average salaries have increased considerably in recent years. The paper also contains four cases on the Estonian enterprises that are already transforming themselves. It ends with managerial suggestions.

The transformation of other economies

Production sharing – manufacturing a certain product in more than one country – has played a key role in the growth of world trade in recent decades and led to the movement of firms and even some industries to other countries. Several factors have caused it: large cross-country cost differences, falling tariffs, transportation, data search and communication costs (Cañas & Coronado, 2002), technological innovations, long and strong growth in real GDP per capita in some countries, low unemployment (Heshmati, 2003) and reduction of barriers to foreign investors (Broadman, 2006). Some examples from other countries are provided below.

In the 1970s, the Irish economy was based on textiles, shipbuilding, agriculture and other traditional industries and labour costs were low. Its GDP per capita was 69% of the EU average and unemployment was 18%. Currently the country’s per capita GDP is considerably above the EU average and nearly 70% of its economy is based on services. New high tech sectors such as information technology have emerged while some previously important industries have declined. Ireland has become one of the world’s largest software exporters. The country has benefited from creating business incubators at university campuses, from aggressive foreign investment recruitment programs, high R&D spending and investments in high-quality education (Kaplan, 2005).
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In Mexico, increasing labour costs, fiscal uncertainty and fierce competition from other developing countries have also caused radical changes: several labour-intensive and low-technology plants have transformed to businesses active in research, product design and development. They are increasingly using new production techniques like lean manufacturing and cross-training to achieve higher productivity growth, while several low-cost producers have moved to Asia (Cañas & Coronado, 2002).

In the new EU member states like Hungary, considerable changes have also occurred: for instance, many outward-processing operations in the clothing and furniture sectors have shifted to economies with lower labour costs. This does not mean that such production will completely disappear: it may be replaced by operations with a higher value added. Moreover, due to their proximity to Western Europe, such countries can become rapid-response suppliers to retailers throughout Europe (Broadman, 2006).

Asian economies expanded somewhat similarly to the former Soviet economic system: domestic capital, cheap labour and raw materials were extensively and rather inefficiently used in state controlled industries. Later, these countries benefited from favourable credit, investment and tax policies, foreign capital inflows and technology transfers (Kakazu, 1999) and so they started to develop fast, while labour costs started to increase. For instance, Korea that in the 1950s was one of the poorest countries in the world has already experienced the overseas relocation of labour-intensive industries. In 1980s, the rapid growth of the Korean economy resulted in acute labour shortages in key sectors and thus, significant wage increases. So, several firms moved their labour-intensive branch plant operations to Southeast Asia, and later even to Eastern Europe, while the country itself started to concentrate on less labour-intensive areas: transport, telecommunications and computer industries. Moreover, it has started to import cheap labour from other Asian countries (Douglass, 2000).
Singapore has also specialized in capital-intensive and high value-added activities and re-located some of its labour-intensive manufacturing industries and activities to low-wage countries like Indonesia. This has allowed the latter to absorb its growing labour force. Indonesia has also attracted firms from other Asian countries with a larger GDP per capita like Malaysia and Thailand (Kakazu, 1999).

China’s advantage is still its cheap and abundant labour force: the textile industry alone involves 19 million low-income employees. So, the country offers good investment opportunities. At the same time, it has developed a solid technical and scientific base, which will help it to transform from a labour-intensive to a capital-intensive economy in the future (Zhengang, 2006). The country has started from attracting Asian investments and continued with US and European companies. Taking also into account the foreign firms’ technology, know-how, management skills and global connections but also the country’s efforts to train a growing number of engineers both at home and abroad, China is gradually building up a world-size manufacturing sector (Defraigne, 2006).

The ways for coping with increasing labour costs

The ratio of labour and total costs varies widely across industries and companies: for instance, in the USA, the cost of direct labour needed to manufacture a pair of jeans is just 15% of total costs (Pfeffer, 2001). Consequently, before starting to search for ways of reducing or freezing labour costs, it is necessary to calculate if it is really necessary. There are several methods for coping with increasing labour costs: staff redundancy, two-tier wage rates, contracting out labour, using part-time and temporary employees and franchising (Alamdari, 1998). Some firms also try to increase supervision and task specialization (Schuler & Jackson, 1989). It has to be understood that increases in labour productivity or reductions in the number of staff may not mean lower labour costs: for instance, some firms reduce the number of employees
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and at the same time increase wages in order to increase productivity (Alamdari, 1998). Moreover, increased control and staff redundancy may lead to decline in employee morale, underutilization of skills and diminished feelings of personal control and thus the goal of reducing labour costs may not be achieved (Schuler & Jackson, 1989).

If reducing labour costs is impossible, there are other ways for competing with low-cost producers: to be faster than these firms or to provide additional services, such as benchmarking and training, along with the best available product quality. It might be also possible to reduce shipping, receiving or inventory procedure costs (Tuttle, 2003), to involve foreign investors that could provide additional capital and contacts for exporting (Hannula & Tamm, 2002) or to increase productivity through profit sharing, increasing flexibility in work hours, facilitating innovation and letting employees to participate more in running their firm (Alamdari, 1998; Schuler & Jackson, 1989).

To achieve the best balance between expenses and output, the firm could also invest in technology allowing to simplify some processes and decrease the number of employees (for example, to use a conveyor to transport products instead of an operator driving an industrial vehicle), introduce a warehouse management system, modify the location of products and equipment (build tunnels and cross aisles or move certain processes to other locations to reduce travel time and minimize backtracking), train employees and motivate them more (Saenz, 2005) because people work better in an enjoyable, challenging and respectful environment that allows them to use all their skills (Pfeffer, 2001). Consequently, if a firm wishes to enhance its competitive position and transform its production to a more capital-intensive one, it should not only concentrate only on its product/market strategy, but also on creating superior "human capital" resources through investments in human resource planning, hiring and employee development (Koch & McGrath, 1996).
Increasingly, costly manufacturing moves to countries with cheap labour (Bassak, 2005). It allows production cost savings and enables a firm to concentrate on activities for which it has a comparative advantage (Heshmati, 2003). Still, outsourcing of highly technical or complex processes to countries with different languages, cultures and time zones may be very complicated. Fortunately, there is another option for cutting production costs: line transfer. It involves the transfer of a manufacturing line to a company that has the expertise to do it better, faster, and cheaper. Instead of shipping the work abroad, it goes to a firm in the same country. Such transfer may include technology, equipment or even employees and buildings and involve creating data exchange systems. It allows to reduce labour costs and inventory problems, free up floor space and to focus on a company’s core competencies (Bassak, 2005).

Coping with increasing labour costs: some examples from Estonia

Methodology

The case study approach is especially appropriate in new topic areas. It allows a researcher to transcend the investigated cases’ local boundaries, capture new layers of reality and develop novel theoretical and practical insights (Eisenhardt, 1989; Ghauri, 2004; Tsoukas, 1989). In the case study approach there is no ideal number of cases, but a study of between four and ten cases usually works well as with fewer than four cases, theory is difficult to generate, and with more than ten cases, the volume of data is difficult to cope with (Eisenhardt, 1989). Consequently, in this paper, the task was not to examine as many companies as possible, but to get a sufficient understanding of some Estonian companies’ methods for coping with increasing labour costs. The next section presents four short case stories. Each enterprise was chosen by replication logic rather than by sampling logic. In other
words, the sample was chosen because the data from the companies could be used for producing contrasting results rather than because the enterprises were representative of the total population (Yin, 1994). Every case was looked at as a separate entity, enabling unique patterns, which can be generalized across cases, to emerge (Eisenhardt, 1989). The selected companies were from different industries, they had different owners and their sizes were also dissimilar. The cases are based on some earlier interview material (in the case of Tarkon, an interview was made in 2002), but also on the other data sources including newspapers, the firms’ annual reports and homepages.

Case 1

Peter Hunt, a Swedish-Estonian businessman, started to co-operate with Wendre, one of the Baltic and Scandinavian countries’ largest pillow, mattress, bedspread and home textile producers in 1993. He began to deliver fabrics and synthetic fibers and market the company’s products. In 1995, his company Trading House Scandinavia AB (registered in Sweden), acquired 25% of Wendre. In 1999, his share had increased to 67 and in March 2002, to 100%. Due to belonging to the Swedish concern, the enterprise has achieved easier access to the Swedish and other foreign markets. In 2005, Wendre launched a new plant in Estonia and the other one in China. Moreover, in 2006, the firm bought another plant in Poland and also announced of its plans to expand to Southern Europe soon. The firm has recently found several new customers (especially for more expensive products) and so, its problem is rather a limited production capacity than limited demand or high labour costs. Wendre has also invested considerably into new production and logistics technologies and, as a result, the turnover per employee has increased more than salaries.
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Case 2

Tarkon (a system supplier active in telecommunication, automotive industry, energy, climate systems, industrial equipment and other areas) has experienced a large number of changes since its predecessor’s establishment in 1907. After Estonia regained independence, the Russian market disappeared and Tarkon had to reorientate completely. At first, it benefited from being a low-cost producer: the firm filled small, unsolicited export orders, making very simple mechanical items for the Scandinavian and Western European market. Co-operation with a Swedish company Hallberg Sekrom Fabriks AB (in 2005, it took a name HSF Group) began in 1993. In October 1996, it bought 60% of Tarkon’s shares (in 1999, the share of Swedish capital increased to 85%). The firm started to grow fast, as it received knowledge and some raw materials from the parent company. The latter also took over some of Tarkon’s marketing operations, so Sweden became its main export market, but in 2002, the foreign owner started transferring its marketing activities to Tarkon and in 2005, procurement and logistics activities followed. Due to improved financing, Tarkon became able to invest in machinery and renovate its production facilities. The company’s ability to develop its own products increased and it found new customers from other sectors where low cost was not the main argument. Moreover, in 2006, Tarkon opened a plant in China together with its foreign owner because several of Tarkon’s and HSF’s major customers had become active there and there were also many local customers. Tarkon has also co-operated with other companies: for instance, it has established its own technological park. Through the latter, it can offer complete solutions – from a drawing to a final product – to its customers. This reduces the pressure on prices. Tarkon has tried to involve the firms that have the technological processes it lacks itself or which are too weak. This reduces production costs and enhances the enterprise’s market potential and value-added. Moreover, by producing for different market sectors, the risks
accompanying close relationships can be reduced: if one industry falls, the other may rise.

Case 3

Estonian Match and Hansa Candle both belong to MCC Group owned by Harri Aaltonen from Finland and Tarvo Moss from Estonia. In 2005, Estonian Match stopped producing matches in Estonia and sold its production equipment due to increased production, raw material and labour costs in Estonia. It established a plant in Southern India and started to supply the Scandinavian and Western European markets from there. Although the labour productivity is lower in India and transportation takes time, the differences in production costs compensate this. Moreover, in India, the firm became able to employ 8000 people instead of 100 it had in Estonia and so it considerably increased its turnover. Through co-operation with a large Indian match producer Standard Match, Estonian Match also got access to the Indian market. In 2006, MCC Group’s other branch Hansa Candle decided to send some of its machinery to Russia and start candle production there. In Estonia, only the production of candles from cheaper raw materials remained.

Case 4

While a large number of Estonian construction workers have moved abroad to earn higher salaries, some Estonian firms are hiring employees from high-wage countries. For instance, Eesti-Soome Ehitus OÜ that is building the Tornimäe twin towers in central Tallinn has hired Finnish construction professionals to work at this construction site. According to the firm’s CEO Asko Poinio, the current situation on the Estonian construction market is ridiculous since good Estonian construction workers are working abroad, while the ones with almost no experience that have stayed are demanding twice as high salaries as Finnish profession-
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als. So, hiring Finns is both cheaper and safer for the firm because they can assure that high-quality work will be done on time.

**Conclusions and managerial implications**

The paper showed that several other countries have also experienced wage increases: this is definitely not only the problem of Estonia. Nevertheless, Estonian firms have to cope with it (see also Table 1): for instance, to move some of their production to lower-cost countries, increase their products' value-added, focus on other customer segments, modernize their technology, reduce delivery times, hire employees from abroad and co-operate more with local and foreign enterprises. Moving production abroad (although successfully used by the three case companies) is not always the perfect solution: for example, Baltika (a retailer and manufacturer of clothes) that orders some of its clothes from China, failed to meet the increased customer demand for Estonian uniform jumpers when Estonians won three gold medals in Turin Winter Olympics in 2006 because the Chinese producers were not able to increase production quickly enough and transportation would have also taken a long time. The other solutions are not universal, either; so, before making any changes, the firm’s situation should be analyzed thoroughly.

The experience of other countries has also shown that the government should also help the companies to cope with increasing labour costs: it should invest more in higher education and R&D, create business incubators (and pay especial attention to the fields like biotechnology and information technology, but also to the marketing of their inventions), attract foreign investors interested in more capital- and less labour-intensive areas, encourage local firms to invest more in R&D and education (for instance, offer tax reductions), and, finally, make it easier to import cheap labour from other countries in order to give some sectors additional time to transform themselves.
Table 1. The tasks for coping with increasing labour costs

<table>
<thead>
<tr>
<th>The tasks for firms and the number of case firms that did it</th>
<th>The tasks for governments</th>
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<tbody>
<tr>
<td>• Moving the manufacturing certain products to lower-cost countries or to the enterprises in the same country that have specialized in such production (3)</td>
<td>• Developing aggressive foreign investment recruitment programs (especially encouraging technology transfers and export-oriented investments with a higher value-added)</td>
</tr>
<tr>
<td>• Transforming the firm towards less labour-intensive and more value-added production and searching for customers interested in such products (2)</td>
<td>• Increasing R&amp;D spending</td>
</tr>
<tr>
<td>• Paying more attention to research, product design and development (2)</td>
<td>• Creating business incubators at university campuses</td>
</tr>
<tr>
<td>• Providing additional services like benchmarking and training and offering a complete solution (from drawing to the final product) to the customer (1)</td>
<td>• Increasing investments in high-quality education and attracting more students to engineering</td>
</tr>
<tr>
<td>• Using new production techniques (3)</td>
<td>• Developing favourable credit, investment and tax policies</td>
</tr>
<tr>
<td>• Becoming a rapid-response supplier (2)</td>
<td>• Simplifying the rules for importing labour from abroad</td>
</tr>
<tr>
<td>• Co-operating with other firms to develop new products and enter other markets (1)</td>
<td></td>
</tr>
<tr>
<td>• Increasing productivity through higher wages, employee training, profit sharing or higher flexibility in work hours (1)</td>
<td></td>
</tr>
<tr>
<td>• Hiring employees from abroad (1), using part-time and temporary employees (n.a.)</td>
<td></td>
</tr>
<tr>
<td>• Increasing supervision and task specialization (n.a.)</td>
<td></td>
</tr>
<tr>
<td>• Reducing shipping, receiving or inventory procedure costs (1)</td>
<td></td>
</tr>
<tr>
<td>• Creating an enjoyable, challenging and respectful working environment (n.a.)</td>
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So, business people should draw politicians’ attention to these issues (and change their financing of political parties accordingly) in order to achieve such political changes.
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References


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Management practice and theory are contradistinguished in various respects in everyday organizational life. According to an extreme viewpoint, a theorist tries to find universal relationships, while for a practitioner the most important matter is the best performance result. It seems that the comparison of theory and practice provides a fascinating way to analyze and discuss many aspects related to the study of management.

Organizations can run into problems when they depend too much on the practitioners or academics (presenting theory) who believe that the way, in which they are acting, is beyond reproach. In this book we are going to show that management theory and practice are two sides of the same coin. They are certainly distinct but we have to keep from contrasting management theory and practice and find the scope for the synergy of the management theory and practice.