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Strategic human resources and governance in banking

Edward Bace

ABSTRACT

The importance of human and corporate governance, crucial to all serious undertakings, is particularly critical in the fields of finance and business. Banks and other financial institutions play a key role in a nation's economy, and also have global implications for growth and prosperity. The abuses of the financial system, vividly illustrated in the 2008 crisis, reinforce the need for improved conduct and corporate governance among financial institutions, in which the Human Resources (HR) function, by virtue of its expertise, should play an enhanced and influential part. This summary paper argues for a strengthening of the HR position, emphasising greater independence and more elevated reporting lines. It is the HR experts who should know better than most management in a bank how human foibles contribute to abuse of the system and how to mitigate them. In this way banks can more quickly win back the public trust they have lost in large measure.

KEY WORDS

human resources, corporate governance, banking

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1 INTRODUCTION

Financial experts, both academics and practitioners, should recognize that finance is not a science (despite attempts to base financial market behavior on mathematical models). While theoretical frameworks can provide a useful basis for explanation of financial market phenomena, this is just a starting point. The financial crisis of 2008 illustrated starkly what an ineffective job these models did in attempting to predict market behaviour under extremely stressed scenarios. Even in more normal situations, the human element plays a dominant role in market and investment performance, as well as in organisational behaviour (Statman, 2010).

The burgeoning field of behavioral finance borrows from human psychology (the domain of HR) in helping to explain financial market behavior and conduct. As human beings, we are not always rational, but are subject to a number of unconscious behavioral foibles that fly in the face of logic. Sophisticated market practitioners increasingly observe this, and use it to their advantage, not always in the most ethical way. The increasingly complex world of finance (and business) naturally lends itself to exploitation, deliberate or otherwise, of less sophisticated participants (Davis et al., 2016).

This emphasizes the importance of consistently and transparently applying principles of proper human and corporate governance, whether in dealing with clients, employees, shareholders, or other stakeholders. Most effectively run firms today have adopted sound principles of corporate governance, which must start by example from the top, and permeate the entire organization. These principles should be reinforced by a published code of conduct, clearly laying out the mission, vision and expected behavior of participants in the firm, along with sanctions to be expected in the event of violation. While these precepts should be understood by all staff, the HR function should regularly be playing an active role in promoting proper behaviors. Simply having a code and published principles is not enough. They must be consistently observed and applied in practice (Enron, for instance, had a code of conduct running to 64 pages; Spector, 2003).

CONTACT INFORMATION:

Edward Bace / Middlesex University / United Kingdom / e.bace@mdx.ac.uk

Aside from HR, other practitioners, and those of us teaching finance and business in the classroom, ought at every opportunity to emphasize the duty of those seeking to make a career in the industry to act fairly, openly, honestly and transparently with stakeholders. Financial activities, like many others, inevitably give rise to ethical dilemmas, and an essential part of a pedagogical and mentoring approach is to try to impart ways to manage such dilemmas in order to achieve the best and fairest outcome for all concerned. This can be done by utilizing case studies and real life experiences that the proponent or colleagues have been involved in (Bace, 2014). A financial or business education or experience that does not incorporate this all important aspect of professionalism into its training is ultimately lacking, and perpetuates the unethical behaviour that we read about all too often, not only in business, but in any profession you can imagine. It is not sufficient simply to impart the theories, knowledge and technical skills to make someone successful in a career, but the overwhelming importance of integrity is what makes a true professional, on individual, organizational and societal levels.

2 THE HUMAN RESOURCES FUNCTION

Given their expertise, the HR function of a financial institution, like any enterprise, profit-oriented or non profit, must be charged particularly with reinforcing these concepts, alongside other employees. Their role is not simply to act as a tool of management, hiring and firing based on management dictates, but on the contrary and above all helping to instil principles of excellent customer service, professionalism and integrity, in a proactive fashion, and by setting the example themselves. Like any other employee, HR experts should also be forthcoming to management in observations about the corporate culture and behavior, which may require correction, both on upper levels and lower levels of seniority. One can argue that HR is uniquely positioned to carry out this role, given their theoretically wider view of the organisation as a whole, and their understanding of human psychology (Wood, 2009). Admittedly, such proactivity requires courage and resilience, but if HR professionals do not include this in their work activities, they are ultimately shirking their responsibilities. It should be an objective of HR not to shut down legitimate whistle blowers, as management may often wish them to do (as in the recent case of Barclays; Binham, 2018), but in fact to encourage this feedback loop, and to participate in it themselves.

This may give a new definition to the HR function, who are so often seen just as gatekeepers and instruments of management. If senior management is not setting an appropriate tone, is it right simply for HR to follow along with it? Nor should corrective actions be implemented only because the regulators (and customers) demand it, but because it is the right way to carry on business, to encourage an open, customer focused enterprise. The process must be seen not as one of simply compliance and financial performance. This is the best way for banks and other companies to prosper, since if their employees and customers are satisfied, this will engender customer and employee loyalty and company success.

3 CORPORATE GOVERNANCE

Good corporate governance, incorporating corporate social responsibility, requires that robust processes are in place to mitigate risks and encourage proper behaviors. Corporate governance is “the system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies. The shareholders’ role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place. The responsibilities of the board include setting the company’s strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting to shareholders on their stewardship. The board’s actions are subject to laws, regulations and the shareholders in general meetings” (FRC, 2016).

A proper corporate governance scheme demands an effective HR function, among a multitude of other functions, all working in pursuit of the firm’s performance as well as its responsibility to society and stakeholders. We observe a correlation between firms with poor corporate governance and underperformance of such companies (Bhagat & Bolton, 2007). Corporate governance among banks takes on even more importance given not only their systemic importance but also their multiple stakeholders, including shareholders, customers, depositors, regulators and governments.

In the wake of the 2008 financial crisis, regulators and supervisors in developed nations have increasingly called for improved standards of conduct among banks, particularly in the UK and continental Europe (FCA, 2013). The US has implemented legislation to try and address the issue, which unfortunately more recently shows highly disturbing signs of being rolled back (Warren, 2018). This reform extends beyond banks and financial institutions to internal audit and other industries and firms associated with their activities, such as accounting, tax, legal and audit firms. It remains to be seen in many cases whether the most influential part of the equation, the governments,

reinforce consistently the reform effort, through legislation or other means, or remain unduly swayed by the political dimension over principles of justice and fairness.

4 HUMAN RESOURCES AND THE ORGANIZATION

If we define strategic human resource management (SHRM) as “an approach to managing human resources that supports long-term business goals and outcomes with a strategic framework... focusing on longer-term people issues, matching resources to future needs, and macro-concerns about structure, quality, culture, values and commitment” (CIPD, 2017), then we must first understand the goals of the organization. A take no prisoners aggressive hedge fund, for instance, may be more likely to charge its HR unit strictly with hiring and firing, doling out bonuses or penalties, and other such mechanistic activities, if it has an HR department at all. On a more normal level, however, the strategic component in HR is determined both by the relation among HR practices and business strategy, and the impact of such practices on company performance (Delery & Shaw, 2001). Prior studies have identified a positive link between proper deployment of SHRM and firm performance (Simon, 2007). Firm performance is not to be measured simply in financial terms, but also importantly in other more intangible terms such as customer and employee satisfaction (Choudhry, 2012).

Where we observe, among publicly listed companies, including banks, underperformance relative to peers, this can often be put down to a misalignment of goals and objectives among employees. Every well governed organization should have an appropriate mission statement, articulating the values and aspirations of that organization, to which all stakeholders subscribe. From this mission statement flows a group of goals and objectives, well understood by all employees, in order to align their activities to meet those goals effectively. Strategies are then developed to work towards and achieve those goals (Deloitte, 2009). These strategies should also be well disseminated throughout the organization. Finally various legitimate tactics can be employed to further those strategies, which will often be undertaken on a more micro level, down to individual business units. The ultimate goals and mission, however, should not be lost sight of in this process.

Given that HR is typically charged with employees’ well being in an organization, they must play a key and proactive role in helping to disseminate understanding of the mission, values, goals and strategies of the firm, and taking corrective measures where necessary. In the past we have seen too many examples where HR was more concerned about compliance issues than building leadership capabilities and other human capital factors (Beatty et al., 2003). At a time when the vast majority of banks, especially in the US and UK, are still highly mistrusted by the general public, this brings the problem into a sharper focus (Edelman, 2018). HR can make a real contribution to turning around the huge tanker by re-orienting the perspective from a compliance exercise, based on senior management instruction, to an active role of cultivating future leaders and employees who are in touch with all the stakeholders. In this of course they require the support of senior management and the board.

Who are the ultimate clients of the HR Department? Is it senior management? Is it the employees? One can argue it is not only both of those (with an emphasis on the latter), but also a wider group of stakeholders, in whose interest all of the above organizational units should be acting, if true alignment exists. HR should be active in helping to break down silos within the organization (and not exist within its own silo), in making and implementing recommendations to improve transparency and accountability, and to act as effective intermediaries between business units and levels. It is to be argued that the HR Department in a bank bears the same fiduciary responsibility to shareholders as does senior management and other employees. If they are not acting in the best interests of shareholders (and ultimately customers), they are breaching that responsibility. Moreover, the most important asset arguably of a bank is its people, the careful nurturing of whom falls in large part to the HR function.

5 CONDUCT AND COMPLIANCE

While not claiming to be an HR expert by any means, it seems to me that a primary function of HR is to promote the highest levels of ethics and professionalism within the organization. The very term “human resources,” especially in an industry such as banking, implies maximizing the capabilities of employees in an ethical framework which forms the basis of proper human behavior. In many organizations, not just in banking, there all too often seems to prevail an atmosphere of distrust, even fear, between HR (as tools of management) and employees. If bank employees do not trust their own HR Departments, how can banks expect to win back the trust of the public? In such an atmosphere it is easy to form the impression that HR is reflecting the “tone from the top,” promulgating an atmosphere of fear and distrust, where the opposite should be the case. Who would like to be a genuine customer of a firm that is not trusted by its own employees?

If we look at HR in more innovative companies, we can observe that their role is much more one of nurturing talent and creativity, rather than the hard edged approach of giving penalties or rewards to employees who do not completely toe the line (Diaz-Fernandez et al., 2015). This is not to say that egregious transgressors must not be disciplined, but in today's environment a more flexible approach is needed, in contrast to the traditional rigid corporate approach. A few years ago I was once told by HR, after spending a year in a state owned financial institution in London, and made redundant, on grounds that were not clear to me, that "we don't have to tell you why we are letting you go." Is this a good formula for the long term success of an organization, private or public?

In this summary paper, we are suggesting that involving HR more closely in promoting corporate governance will benefit banks and financial institutions, their stakeholders and the economy as a whole. Observance of good corporate governance propels good corporate performance and excellence. Further benefits are gained through higher and more motivated employment and financial system stability. Since banks which otherwise would have suffered prosper instead, the employee base remains loyal and intact, and the system stays sound. Employees are more dedicated in a setting where their rights are respected. This in turn helps to ensure that public confidence (without which no bank can survive) is raised through appropriate disclosure and maintenance of high ethical standards and professionalism.

6 HR AND ETHICS

HR experts have to play an active role in building an ethical banking organization in line with codes of corporate governance, which they should be involved in compiling. HR experts should be elevated to higher positions of power and influence within banks, and apply their special qualities to help build leaders and careers in the industry. Banks demonstrating high ethical standards are more likely to reach their strategic goals, are viewed more positively by their stakeholders, and are better positioned to attract and retain human talent. Under the leadership of Stephen Hester and others after the disastrous example of Fred Goodwin, RBS, for instance, has been making efforts in this direction, not with the greatest success (Martin & Gollan, 2012), which illustrates how challenging this process can be. To cite Barclays again, the departure of CEO Bob Diamond at the instigation of the regulator (Jenkins, 2012) was precisely the symptom of a misguided corporate culture, which the bank has apparently not made significant progress in changing.

Nonetheless HR is obliged to devote more attention and effort to assessing honesty and integrity of the company's decision makers. In some cases, these evaluations may result in termination, or lack of promotion, or lower compensation. In other instances, they may lead to imposition of additional controls. Nonetheless, assessments must occur and be thorough, ongoing, and all encompassing. It may be hard to believe that many top bank executives who fell foul of regulators and the law misbehaved for their entire careers without no one (even HR) noticing. Fraudulent bank officials were likely not always ill intentioned. Instead, as they regularly brushed against legal and ethical boundaries, they discovered they had crossed the line without even knowing, if not for the regulators. HR professionals are obliged to keep the bank executives from approaching the boundaries, and to speak up as soon as they are crossed, if not sooner, in the interests of shareholders and all other stakeholders, and in line with professional conduct. This should result in a more sustainable banking business model, building confidence among customers and employees and resulting in greater financial stability.

7 HR AND COMPENSATION

HR's role in remuneration of executives is also increasingly significant. A competent HR unit ought to have superior knowledge to anyone else in the bank of the effects of incentives, both positive and negative. Yet, given the prevailing scandals and continuous negative press, one questions where HR is to be found. We realize that linking pay to any performance measure has the potential for negative consequences, and stock compensation is no different. Did the huge amounts paid to executives ever appear to HR as something that might potentially pervert decision making? The argument is not that stock compensation should be excluded, that executive pay is excessive (although it tends to be), or that CEOs should be prohibited from earning external income. However, it seems that in most instances, such fundamental questions were never even asked. HR executives were likely either bought off (with their own big pay packages), implicitly (or explicitly) threatened (with firing or some other penalty) or simply ignorant of the situation. Nonetheless, this reinforces the duty of HR professionals, who should have the competence to recognise consequences of incentive systems, and the courage to speak up where they see danger.

As reward management experts, HR plays a critical role in risk/reward management and governance, and must not simply follow the status quo, where their role has often been peripheral to corporate governance issues. To contribute effectively, HR must work closely and win credibility with other key stakeholders, particularly the board

and senior executives. It is incumbent on HR to build a collaborative relationship with the board, especially remuneration committees, ensuring in particular that there is a formal and transparent procedure for developing policy on executive remuneration. It has often been observed that the compensation of directors and management have no link with their abilities and performance (Li & Young, 2016). Participation of shareholders in pressuring boards to formulate and disclose board remuneration is also to be encouraged. Good corporate governance dictates that compensation of executive and directors should be transparent, fair, and reasonable.

8 EXTERNAL STAKEHOLDERS, HR AND THE BOARD

The choice and management of auditors and tax consultants is likely also not something that has been of the greatest interest to HR. In addition, HR seems to have little influence over choice of board members. However, the scandals in banking should provide more than adequate incentives for HR to broaden its view of where it is to be involved. Who within the firm has better understanding of such incentives, and how they can create conflicts? Just as they ought to note internal conflicts between analysts and investment bankers within their banks, they ought to be best positioned to identify potential conflicting incentives within different units of the bank. HR must also become more engaged in board member selection, with a focus not just on competence of the members, but those potential members' networks of relationships.

Moreover, HR can play a leading part in helping to direct processes for functioning of boards. Many firms now periodically evaluate their boards and board members, and rightly so. Many have begun requiring board members to receive training, even subsidizing this activity. Many have moved to having some board meetings without managers being present. The established competencies of HR, such as team building, group process, selection, training, performance management, and so on, are all critical to an effectively functioning board. Therefore, HR's role must expand to include these activities at the board level, not just at the organizational level. This is in line with best practices to strengthen bank governance structure, and encompasses factors such as optimal board size, selection of directors, and the mix of skills and experience to be represented on the board.

At the end of the day, effective corporate governance comes down to the performance of the board. The responsibility of governing a corporate entity is the board's *raison d'être*. If the company is to be governed effectively, the board needs to be comprised of the right people, each of whom must play their part responsibly in the firm. An effectively functioning board should be made up of members who are independent, skilled, knowledgeable, experienced and who represent different perspectives.

The traditional HR roles of strategic partner, employee advocate, administrative expert, and agent of change should not disappear, nor should they diminish in importance. However, the bank scandals and failures have added to these current responsibilities that of "integrity officer" (Wright, 2003). Some firms have often used HR professionals as their ethics or compliance officers (Davis & Carnovali, 2010), but this enhanced role goes beyond a mere structural arrangement. HR must actively and constantly scrutinize the environment faced by the top decision makers. They must accurately identify the pressures and the incentives that could push decision makers to put their own self interest above the organisation's interests, and to do so in a timely fashion. They must continually evaluate the evolving character of the decision makers, recognising that individuals who demonstrated high integrity, and may still aspire to such, can slowly and gradually slide down a destructive path. They must widen their focus on relevant organizational participants beyond the internal executives to include the auditors, consultants, investment bankers, and board members, and be constantly on the alert for potential conflicts of interest. Most importantly, at the first signs of unethical behaviour, HR must exercise the confidence and courage to explicitly, rapidly and specifically table it for top managers and/or the board, who should welcome and encourage such feedback. Many executives have described the HR function as the "conscience" of the organization (Beatty et al., 2003). While "conscience" ought to permeate all units of the organization, HR professionals must take this role seriously within banks. Such a role creates a tension that the industry must recognize and to which it must be responsive.

9 CONCLUSION AND RECOMMENDATIONS

Top HR executives are typically hired and fired by the firm's CEOs. When HR serves at the command of those they may be required to report on, how can they be considered sufficiently independent to be expected to do so? Therefore, this may call for exploration of changes in the employment relationship of top HR executives. HR ideally should have a direct reporting line to the board. Their employment contracts should include meaningful clauses of protection for those who may be at risk of being penalized for effectively playing this "conscience" role. We do not have the perfect answer, but we recognize that all the issues discussed above as potential causes of management misbehaviour can also characterise the positions of HR executives. Consequently, as the industry seeks to improve

systems to encourage honest behaviour in senior management, it must at the same time examine its own situation to ensure the systems cannot be circumvented (Buyens & De Vos, 2001).

No one can legitimately blame the problems which led to the banking crisis on HR alone. Clearly, misguided bank management and officials, with incentives to act unethically, working under inadequate controls and within a flawed system, were major contributors to the problems we still see today. HR did not directly cause these problems, but to say that HR was not the cause does not absolve it totally from responsibility. If steps are taken as suggested herein, it could help to avert or reduce likelihood of further corporate scandals. Therefore, HR must be vigilant, diligent and proactive to stem the tide and nip in the bud such practices that run counter to corporate governance best practice, in order to help mitigate the next serious crisis and financial scandal in the sector. As custodians of the firm's legal and moral obligations, HR must be wide-ranging and versatile, reinforcing good governance and helping to ensure each bank's strict adherence to the code of conduct by the bank's CEOs, senior management and employees at large.

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Human resource manager's responsibility in creating a culture of legal compliance and ethics in an organization

Alexandra Bohinská

ABSTRACT

The aim of the article is to emphasize the importance of a role HR managers play in creating, implementing and applying compliance and ethics programs in their organizations once owners and top-level managers include strict legal compliance and ethics into the overall strategy. Not only make HR managers sure that all HR practices are ethical but also they act as change agents and involve other managers and employees in the process of turning an organization into a truly compliant and ethical one. Furthermore, they help build a culture of integrity by selecting and promoting people who embody organizational values.

KEY WORDS

business ethics, compliance program, ethics institutionalization, ethics management, ethics program, HR manager, integrity

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1 INTRODUCTION

We have witnessed a number of big organizational scandals impacting economies around the globe and lives of hundreds of millions of people since the beginning of a new millennium. Governments have reconsidered several times the level of autoregulation of the market and organizations operating in it by issuing laws to prevent undesirable organizational behavior. Activists and non-governmental organizations have pointed out to unethical activities of organizations with the aim to stop them. Organizational misconduct is not a phenomenon of only multinational corporations. Even local organizations can repeatedly breach set up rules and consciously harm society with their operations instead of serving it. It seems that such organizations do not realize that they in fact harm themselves in a way as they are also societal members or corporate citizens as Solomon (1992) calls them. They are morally responsible for their actions, and thus, have the obligation to follow the laws and ethical principles.

More governments need to regulate organizations by issuing new laws, more the legal environment becomes complex for organizations, and more it is necessary for them to create a strategy on how to prevent violations of the law if they want to avoid lawsuits and severe penalties. Furthermore, a growing concern of people about the consequences organizational activities have on society and the planet puts pressure on organizations to reassess what is expected from them. Consequently, owners or their representatives should revisit their approach to the legal and ethical obligations towards society to guarantee these are considered in the overall organizational strategy and can be met.

Human Resource (HR) managers, like owners and other managers in an organization, are confronted with an increasing list of rules, regulations and expectations regarding the area they are responsible for. In addition, according to Bajzíkóvá et al. (2009), one of two fundamental roles of HR management is to ensure positive behavior of employees by means of motivation. Despite many recent changes in the way businesses operate, organizations are

CONTACT INFORMATION:

Alexandra Bohinská / Comenius University in Bratislava / Slovakia / alexandra.bohinska@fm.uniba.sk

still mostly about people. Human beings are behind every illegal or unethical act or decision of an organization. HR managers are responsible for the people side of business, so they are accountable for everything relating to people in their organizations. Hence, when it comes to compliance tasks and ethical issues, on top of dealing with the regulations relevant to their field of work, HR managers play a crucial role in establishing a culture where laws and regulations are strictly followed by everyone in the organization, where ethical standards are pursued, and where people act with integrity. Evidently, the decision about strict legal compliance and an ethical orientation has to be taken by owners and supported by top-level management first. Without this important step, an HR manager cannot do much in favor of a compliant and ethical climate. There is no purpose for compliance and ethics to be managed in an organization, if the idea of a compliant and ethical organization is not approved at the top.

This article explores the theoretical foundations of compliance and ethics institutionalization in an organization, new trends influencing compliance and ethics management in an organization, the role of owners and top-level managers in the advancement of legal and ethical behavior of an organization and HR manager's tasks and limitations in building and developing a compliant and ethical organizational culture.

2 THEORETICAL FOUNDATIONS

There has been a long debate on the place and role of organizations in society, and businesses in particular, among scholars, as well as representatives of organizations and civil society since the 1950s. We can find different opinions on what responsibilities organizations should have and what contributions they should make to society in the scientific literature. Nevertheless, academics have generally agreed that organizations have a wider range of obligations towards society besides the economic responsibility, i.e. creating profits for their owners/shareholders. For example, corporate social responsibility concept (Carroll, 1979) and creating shared value concept (Porter & Kramer, 2011) assume compliance with laws, following of the ethical standards and the aim to reduce harm from organizational activities as something natural and essential, and assign other obligations to organizations too. Even Friedman (1970) who believed that the one and only responsibility of a business is to increase its profits recognized that an organization had to act in accordance with the law and social standards while pursuing this goal. On the one hand, Friedman's idea of corporations' orientation to profit making has been heavily discussed, on the other hand, his implications of other organizational responsibilities – namely the legal and ethical ones - have been mostly neglected, so was his opinion that individual owners were free to spend money on whatever cause they wished.

In today's globalized world, business ethics has become an even more prominent topic, especially in light of corporate frauds and other organizational unethical decisions that led to huge economic losses and financial crisis in the 2000s. With the increasing power of organizations, particularly multinational corporations, their position in society has shifted, and they are now considered as political actors (Crane & Matten, 2016), hence, they are expected to behave ethically. In addition, it has become clear that organizations can no longer act in the interest of shareholders only. Their owners and top-level management need to take into account other groups and individuals affected by the activities of an organization when making decisions, so they need to be aware of other stakeholders, shareholders being just one group of stakeholders (Freeman, 1984). The stakeholder theory is even more relevant with disruptions we have been facing this century. The continuing process of globalization, the rapid development in the area of information technology and the increased concern of civil society about the impact of business on communities have led to the need of redefining the understanding of business (Freeman et al., 2010). Owners (or their representatives) and top-level managers should take this fact into account since they are responsible for the formulation of a strategy and for making sure the organization is run in the right direction and well. So, it is up to them to set up the right tone, to define whether an organization behaves in an ethical manner and follows all applicable laws when trying to achieve its vision and fulfill its goals and whether its positioning matches its actions. It is also up to owners and top-level managers to control the priorities are followed within an organization.

Therefore, good corporate governance is essential for the development of an ethical organizational environment. Owners and top-level managers of an organization are responsible for acknowledging different social responsibilities and taking different stakeholders into consideration when making strategic decisions. They need to set up a goal for an organization to have broader range of social responsibilities, to act with integrity, to think about all stakeholders and be ready to take accountability for the results of all organizational activities. Only then, an HR manager can work with them on preparing a plan on how to reach this goal. Thus, I fully agree with Sloan and Gavin (2010) that the HR function is not able to build an ethical organization by itself. It cannot take such decision on behalf of owners and cannot make it happen unless an ethical direction, including strict compliance with the laws, is part of the overall organizational strategy. But once this goal is set up and is formulated in the strategy of an organization, then the HR function's role is critical in reaching the goal. It is an

HR manager's responsibility to drive the creation of a compliant and ethical climate in an organization, assuring everyone gets on board. If owners and top-level managers cannot see a need for institutionalizing compliance and ethics, an HR manager is the right person to present a business case to top-level management or help top-level management provide evidence about the importance and necessity of doing business ethically to owners. An HR manager, together with a manager from a legal department, are best placed to give arguments for an organization to fulfill other responsibilities than purely economic ones if owners and top-level managers lack this knowledge. Indeed, having a compliance and ethics program in place brings many benefits for an organization. For example, such a program helps an organization protect its reputation and avoid severe penalties in case it commits a crime and is prosecuted. Besides, according to Lašáková (2011), if HR management is based on ethical principles like transparency, fairness, objectivity and concern for employees, an organization minimizes the risk of occurrence of ethical problems. Moreover, if ethical behavior exists within an organization, it is reflected towards external stakeholders as well, and positively impacts them.

3 ETHICS AND COMPLIANCE INSTITUTIONALIZATION

Many organizations have already institutionalized ethics and compliance in different forms. Remišová (2011) defines the following elements of the ethics institutionalization in an organization which are also captured in Table 1:

1. Documents and other written materials – a code of ethics, ethical leitmotiv;
2. Information flow channels – hot lines, ethics roundtables, ethics discussion forums;
3. Subjects and bodies – ethics council, ethics manager, a person in charge of ethics, ombudsman, ethics advisor;
4. Education forms – ethics seminars, seminar sections on ethics, ethics workshop, e-learning activities, ethics advisory column;
5. Mechanism of supervision – ethics monitoring, ethics supervision, personal talks on ethics.

Table 1: Forms of ethics institutionalization in an organization

Documents and other written materials	Information flow channels	Subjects and bodies	Education forms	Mechanism of supervision
- Code of ethics	- Hot line	- Ethics council	- Ethics seminar	- Ethics monitoring
- Ethical leitmotiv	- Ethics roundtable	- Ethics manager	- Seminar section on ethics	- Ethics supervision
	- Ethics discussion forums	- A person in charge of ethics	- Ethics workshop	- Personal talk on ethics
		- Ombudsman	- E-learning	
		- Ethics advisor	- Ethics advisory column	

Source: Remišová (2011)

As for the institutionalization of compliance in an organization, I believe the same forms are relevant as well. An organization can have a written document capturing what laws and regulations employees need to adhere to and what it means for them when performing their daily activities. So, an organization addresses legal compliance in a formal way. The expectations for the legal behavior can be communicated via various information channels and an organization might have a hotline for employees to report illegal acts. A compliance officer or a person responsible for compliance can be appointed, which means an organization can have an official subject in charge of compliance. An organization can educate its employees on what laws are applicable for their profession or position through seminars, workshops or e-learning activities. And last but not least, an organization can do the audit and monitoring of compliance with the law in the organizational activities, in other words have some sort of mechanism of supervision over legal compliance in that organization.

In their survey, Weaver et al. (1999) found out that 98% of 254 Fortune 1000 firms were addressing business ethics and business conduct in some sort of formal document in 1995. This means that many big American companies had already institutionalized ethics by mid-1990s. Weaver and the team assumed an increase in number of companies which introduced formal elements of ethics or compliance in 1993 and 1994 was due to the enactment of Federal Sentencing Guidelines for Organizations (FSGO) in 1991. The FSGO have encouraged American organizations to implement compliance and ethics programs because they offer a sentencing

punishment mitigation for an effective compliance and ethics program in case an organization commits a crime. Nevertheless, just a few years after the FSGO came into force, the US faced a series of corporate frauds between 2000 and 2002 (Enron, WorldCom, Tyco). Their reaction to the corporate misconduct was a new legislation - the Sarbanes-Oxley Act of 2002 (Peterson, 2013) aimed at increasing corporate responsibility, improving disclosure of financial information and combating corporate and financial fraud. This act very much affected the way organizations, especially the publicly traded companies in the US, dealt with legal compliance because they were required to adopt and report on certain formal elements of legal compliance. As a result, many American organizations were forced to institutionalize compliance. Still, acting legally does not always equal to acting ethically. As Gump (2016) mentions, the cause of the global banking crisis of 2008-2012 was partly due to compliance with the rules since the financial products were over-leveraged yet legal. Therefore, it is problematic if organizations consider business ethics as equal to legal compliance. Compliance with the law, although fundamental for a fair functioning of the market, is only a minimum of business ethics (Crane & Matten, 2016; Michaelson, 2006).

What the first decade of the new millennium taught us is that it was not enough for organizations to only institutionalize ethics, neither just be compliant with the laws and regulations. The formalization of ethics and compliance in an organization should not be a series of randomly introduced formal forms of ethics and/or compliance. If an organization chooses to be ethical and comply with the laws, that decision needs to be strategic and lead to a meaningful change. An HR manager acts as a change agent, driving the overall process and supporting other managers in transforming the processes and activities they are responsible for towards being ethical. This is where HR managers certainly add value to organizations.

4 TURNING AN ORGANIZATION INTO A TRULY COMPLIANT AND ETHICAL ONE

Based on past experience, organizations have started to realize that institutionalizing some of the forms of ethics and compliance without a thought through plan might not be effective at all. Currently, a growing number of organizations seems to understand that ethics and compliance with the laws cannot be considered as an additional cost and complication to running business efficiently and they go far beyond a simple calculation of costs and revenues. This is partly due thanks to the pressure of governments and civil society. We have noticed a new trend – creation of compliance and ethics programs, in other words formulation of systematic plans of ethical development in organizations with the aim to manage legal compliance and ethics in an organization, and to integrate legal compliance and ethics in all organizational activities.

For Remišová (2011), “an ethics program of an organization is the system of connections and relations between ethical mechanisms” (p.70). It is up to an organization to decide which mechanisms it will adopt depending on different quality and quantity factors. The sector an organization operates in, owners’ and top management’s attitude towards ethics and their willingness to support it, a quality of an organizational culture, as well as an economic situation of an organization are some of the quality factors an organization takes into account when creating its ethics program. Quantity factors such as an organization size and structure, its technological level and the length of its existence belong among quantitative factors (Remišová, 2011). In her later work, Remišová (2015) characterizes an ethics program as an ethical infrastructure in an organization. In our work, we understand a compliance program as “a set of internal policies, procedures and instruments, which regulate the organization’s behavior, i.e. behavior of its owners, management and employees, so that the law is not violated during any activity undertaken by the organization” (Remišová & Bohinská, 2017:12). Theoretically, it is possible to think of a compliance and ethics program in terms of two separate programs an organization can have. Practically, both are so closely linked together that it seems they cannot be isolated one from another. Even when very first ethics programs appeared, they included the requirement for an organization to strictly follow the legal rules. The American legislators recognized the interconnection of compliance and ethics. In the 2004 amendments to the FSGO, programs to secure compliant and ethical behavior became linked as the program to prevent and detect criminal conduct has been referred to as a “compliance and ethics program” in the American legislation since then.

The FSGO’s concept of a mitigation of the punishment does not mean that the prosecuted organization simply states it has a compliance and ethics program, it needs to give proof that the program in place is functional, that it is embedded in the organizational culture. The FSGO (United States Sentencing Commission, 2016) outline seven key criteria for creating an effective compliance and ethics program:

1. Adoption of compliance standards and internal controls, which can reasonably reduce criminal conduct of employees;
2. Oversight and overall responsibility for the compliance and ethics program by the organization's governing authority and high-level personnel;
3. Due Care in delegating substantial discretionary authority so that this is not delegated to anyone who has engaged in illegal activities or other conduct inconsistent with the effective compliance and ethics program;
4. Comprehensible and regular communication about standards, procedures and other aspects of the compliance and ethics program to all levels of employees, for example through training programs;
5. Reasonable steps to achieve compliance with the law, including a regular evaluation of the effectiveness of systems for monitoring, auditing and reporting criminal conduct without fear of reprisal;
6. Consistent promotion and enforcement of the compliance and ethics program, including appropriate incentives to act in accordance with the program and disciplinary measures for engaging in criminal conduct;
7. Reasonable steps to respond to and prevent further similar illegal actions, including modifying the compliance and ethics program as necessary.

It is clear that these guidelines provide only a framework for organizations, they can be considered as fundamental principles of good corporate citizenship. They give organizations the flexibility when it comes to the creation and implementation of a compliance and ethics program. So, the FSGO make organizations responsible for coming up with a program that works in their organizational culture considering their size, sector they operate in and their history. In Slovakia, for example, the Act on Criminal Liability of Legal Persons became effective on 1 July 2016 recognizing that a legal entity can commit a criminal offence, be prosecuted and punished. The punishments can be reduced if the prosecuted organization proves that it has an effective compliance program in place. Therefore, Slovak organizations, similarly to American ones, have motivation to implement compliance programs. However, the Slovak legislation does not define the term "compliance program", nor its elements and criteria for assessing its effectiveness. Thus, the FSGO can serve as inspiration and guidance for organizations in our cultural, social and economic environment too.

5 HR MANAGER'S ROLE IN CREATING AN EFFECTIVE COMPLIANCE AND ETHICS PROGRAM

As already mentioned, an HR function cannot decide alone that it will build a compliance and ethics program and turn an organization into a compliant and ethical one. HR people will definitely not make it happen without the decision from owners and top-level managers who also need to be sponsors of the program and advocates of compliant and ethical behavior as stated in one of key FSGO's criteria for an effective compliance and ethics program. All other managers and leaders need to support such decision as well.

Once owners and top executives conclude that an organization will go in an ethical direction, an HR manager starts playing an important role in developing a compliance and ethics program. He/she needs to work with other people in an organization around the remaining six FSGO's criteria. This means that he/she needs to participate in creating the relevant formal written documents, make sure that the responsibility for the program is given to high-principled people, take part in the communication activities relating to the program and the development of the training activities. He/she has to engage in the regular evaluation of the program, support the respective employees in monitoring and auditing the effectiveness of the program, and work on creating a culture where people are not afraid to speak up. This implies that employees are not persecuted for reporting misconduct. An HR manager needs to persistently promote the program among managers and employees and last but not least, if a wrongdoing is detected, work on adjusting the program to avoid similar actions in the future.

One reason for an HR manager to be heavily involved in the creation, implementation and application of a compliance and ethics program is that employees see HR people as representatives of their concerns and as the ones who assure they are treated fairly (Weaver & Treviño, 2001), well and with respect. If an HR manager works on creating a compliance and ethics program, employees can perceive their views and needs are also considered and are more likely willing to adhere to it and apply it in their daily activities. Another reason is that the HR function oversees the overall ethical climate of the organization. That being said, an HR manager ensures that a compliance and ethics program is not entirely linked to compliance with the laws, norms and regulations, but is connected to organizational values, beliefs and attitudes and ethical principles too. Naturally, those values, beliefs and attitudes need to be ethical. Scholars (Sloan & Gavin, 2010; Weaver & Treviño, 2001) agree that the HR function cannot accomplish the task to turn an organization into a compliant and ethical entity without involving other functions and departments. On top of owners and top management, a legal department needs to be included in the process as

well. In addition, so that the program is not seen as an HR and legal departments' initiative that other departments have to follow, it is an HR manager's role to involve other managers and make a goal of becoming a compliant and ethical organization also their goal. Those managers are more likely to involve people in their teams to also adopt this objective. Managers and employees then do not consider a compliance and ethics program as a program of an HR department or a legal department, but as an organizational commitment that brings advantages for everyone. Only if an HR manager succeeds to engage everyone in their organization, if a goal of becoming a compliant and ethical organization is shared by all the employees, an organization is on the road to achieve this goal. Otherwise, a compliance and ethics program can be another organizational program that is followed so long as there are no conflicts on the way to reach departmental goals. When such problems or conflicts arise, managers will prefer solutions that might not be ethical.

Furthermore, an HR manager needs to understand that he/she sets an example for all other managers. Thus, he/she needs to ensure that all HR practices, processes and tools are ethical. He/she has to integrate legal compliance and ethics in the recruitment and selection practices, hiring, onboarding and training activities, performance appraisal and reward processes, promotion and succession planning, disciplinary activities and termination process. If HR practices and processes are not seen as ethical and in line with the applicable laws, a compliance and ethics program will not mean much for most managers and employees. They will take the program as a „window dressing” activity of an organization, and might decide not to follow it, nor act upon it. Other managers in an organization have the same responsibility as an HR manager in that they need to ensure actions and operations of their teams do not violate the laws and are ethical as stated in the strategy. Still, one of the most crucial HR manager's role in fostering ethical organizational climate is to support managers in the process of setting up departments that function ethically and in accordance with all legal rules and regulations. An HR manager makes sure to discuss ethics with other managers and help them solve any issues and dilemmas that emerge as a result of a conflict between economical and ethical reasoning in their departments. HR managers need to keep the discussion on ethics alive, invite activities and processes that build trust among employees so that they are not afraid to speak out. In doing so, employees contribute in their turn to building a truly compliant and ethical organization. In such case, legal compliance and ethics are no longer seen as something imposed from the top, and HR and legal departments, but something to base daily decisions upon.

Some authors (Krawiec, 2005; Laufer, 1999; Wellner, 2005) mention “cosmetic” compliance and ethics programs that are implemented for the sake of regulators or as marketing tools. This happens when owners and management teams do not take ethics and compliance with laws seriously. They might talk about the importance of legal compliance and ethics and declare they want their organization to behave legally and ethically but their decisions and actions are not in line with those declarations. Such programs are in fact not effective and can eventually be just a cost with no real benefit since when a criminal offence occurs, it might be difficult if not impossible to persuade the court and public that the program could reduce criminal conduct. Even if the need of integrity in business is not a new concept (Solomon, 1992), a growing number of owners and top-level managers start realizing that integrity is essential when it comes to ethical behavior. Governments and society do not want organizations to talk about ethics, they want them to truly behave ethically. Fortunately, illegal and unethical decisions are less and less tolerated in society. For Kaptein (2003), the manager of integrity is authentic, reliable and constructive and can turn words into deeds that add value. An HR manager plays an important role in selecting and promoting the right people, i.e. people with the right skills, competencies and character that embodies organizational values so that a compliance and ethics program is not a mere talk.

6 CONCLUSION

Since recently, Slovak organizations have been criminally liable for the illegal activities as enumerated in the Act on Criminal Liability of Legal Persons. Following the American experience from the 1990s, we can expect that an increasing number of organizations will soon start considering implementing compliance programs. Moreover, Slovak society has begun to be more perceptive not only to illegal but also to unethical conduct of organizations. Such conduct is no longer accepted the way it was accepted in our country a decade or two ago. Ethics has become an important topic for organizations too. In fact, it seems impossible to separate a compliance program from an ethics program in practice no matter what geography we refer to as legal compliance and ethics are closely interconnected. Each ethics program needs to be based on legal compliance and each compliance program should include requirements for ethical behavior. Thus, owners and top-level managers of Slovak organizations should ensure they implement a compliance and ethics program reflecting the new governmental and societal demands if they want to be successful. Still, based on their qualitative research of the activities undertaken by the Slovak NGOs to develop business ethics, Remišová and Lašáková (2018) found out that there is “a shortage of attention to ethics in human resource management, to the control of illegal and unethical activity within the company and to unethical leadership

and related negligence of the tone at the top of companies” (p. 402) in the Slovak business environment. Therefore, organizations in Slovakia, including their HR teams, have a long way ahead of them in terms of legal compliance and ethics advancement.

It is highly advisable that not only Slovak organizations make use of the American lessons learnt as the US has had the longest history of formal compliance and ethics programs. According to Sloan and Gavin (2010), a “tell and sell” approach to compliance and ethics programs does not lead to creating a compliant and ethical organization. Employees need to understand what the goal of becoming a compliant and ethical organization means for them. They need to know what the advantage of reaching this goal is for their organization, their customers, their communities and them. Furthermore, organizations can avoid a mistake of institutionalizing legal compliance and ethics without embedding them into the overall strategy. Every organization that is committed to behaving legally and ethically should have a thought through plan on how to ensure compliance with the law and ethical conduct. Besides, a concept of integrity becomes increasingly important since public and regulators expect to see that organizational declarations match with actions. All of this is not possible without the involvement of those who govern the organization. An HR manager’s engagement in ethics management is essential, yet not sufficient precondition for a development of a pro-ethical organizational culture. If owners and top-level managers are advocates of the importance of legal compliance, ethics and act accordingly, an HR manager can work on integrating compliance and ethics into all HR processes, support other managers in integrating compliance and ethics in their processes and help all employees understand what part they play on the road towards becoming an ethical organization. But the way an organization is governed can be limiting to a successful implementation of a compliance and ethics program. In case owners and top-level managers do not consider legal compliance and ethics important, an HR manager can try to persuade them about the necessity of having a compliance and ethics program by discussing many benefits a compliance and ethics program brings. If he/she is unable to change the opinion on compliance and ethics of those on the top, he/she should leave an organization.

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Dedicated but exhausted?

The role of ethical leadership for employee wellbeing in UK student unions

Josh Rivers, Neill Thompson, Debora Jeske

ABSTRACT

Building on previous leadership and well-being research, the aims of the present study were to investigate the relationship between ethical leadership and employee well-being (work engagement and emotional exhaustion) within student unions. We also considered the role of trust as a potential mediator in this relationship. Survey data was collected from 137 full-time employees working at student unions in the UK. Path model analysis revealed that trust in one's manager partially mediated the effects of ethical leadership and work engagement and emotional exhaustion. While trust increased work engagement and reduced emotional exhaustion, ethical leadership also had a significant indirect effect on both outcomes. An interaction between employee dedication and ratings for manager's ethical leadership suggested that more dedicated employees are less emotionally exhausted if their managers scored highly on ethical leadership. However, when the employees felt less dedicated to the job, managers' ethical leadership behaviours did not reduce employees' emotional exhaustion. The study examined the effect of ethical leadership in student unions, adding to the very sparse research on the experience of full-time employees working for student unions.

KEY WORDS

non-profit, ethical leadership, trust, work engagement, dedication

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1 INTRODUCTION

Non-profit employment in the UK topped 2 million employees in 2016, with half of these employees being employed in non-profit organisations with more than 500 employees (Statistica, 2017). A significant number of non-profit employees are also employed in the over 600 student unions that are member associations of the UK's National Union of Students (2017). But to date, very few studies have investigated the role of ethical leadership within non-profit settings (examples include Houston, 2007; Ogunfowora, 2014; Pierce, 2007). Early research into ethical leadership and its impact on non-profit organisations highlighted that ethical leaders are responsible for creating and sustaining a strong ethical climate in organisations (Houston, 2007). Yet very little is known about well-being in non-profit organisations, and the role that ethical leadership may play in promoting engagement and preventing emotional exhaustion among dedicated employees. The purpose of the current paper is to explore the role of ethical leadership within student unions and examine the influence of such leadership on employee well-being. The next section provides an introduction into student unions, followed by a general overview of research on ethical leadership and well-being.

1.1 A BRIEF INTRODUCTION TO STUDENT UNIONS

The non-profit sector is usually made up of all organisations that are incorporated as non-profit entities (Leete, 2006). Student unions are an example of educational non-profit membership groups, the size of which depends on the location and scale of the potential membership (e.g., student body; see also Tschirhart, 2006). Student unions often share collective values or missions such as promoting social justice, activism, contributing to social change and making a difference in the community (Whitford, 2014). Members are subject to regulations

CONTACT INFORMATION:

Josh Rivers / Northumbria University / United Kingdom / josh.rivers@northumbria.ac.uk

Neill Thompson / Northumbria University / United Kingdom / neill.thompson@northumbria.ac.uk

Debora Jeske / University College Cork / Ireland / adminapsych@ucc.ie

and the boards of student unions are usually composed of elected officers, who are frequently supported by full-time employees responsible for the student union's operation in cooperation with the university and student body that the student union serves. It is the experience of the full-time employees at student unions in the UK that this research focused on.

Student unions in the UK historically originated around 1864 (Brooks et al., 2015), while student unions in the USA have been a feature at American universities for just over a hundred years (Solheid, 2012). In 2011 and 2012, student unions in the UK employed 17,034 part-time/student employees and 3312 permanent employees (Day, 2012). The number of permanent and full-time employees has continued to rise over the last few years (see also Brooks et al., 2015). This is due to the need for consistency and continuity in terms of how student unions are run (Brooks et al., 2015) and to maintain team morale, wider engagement, loyalty and commitment (M. Day, personal communication, 21 August 2017). Like many other non-profit organisations (Knapp et al., 2017), student unions rely on employees to achieve long-term goals, many of which may take more than one election year to achieve.

However, despite the increasing numbers of permanent employees, the annual changes in membership and management, trends such as student-as-consumer (see also Ball, 2012), the emphasis on a positive student experience, and the coinciding decline in autonomy when organising student activities (Brooks et al., 2016) creates a number of competing demands for these employees. This means many employees may be caught between two worlds: the university which hired them and the interests of the students who make up the majority of people involved in student unions. The agenda and priorities of the university and students may not always align, creating strained interactions between these parties (e.g., Ropars-Huilman et al., 2005; Whitford, 2014).

1.2 ETHICAL LEADERSHIP, TRUST AND WELL-BEING

Ethical leadership has been defined as “the demonstration of normatively appropriate conduct through personal actions and interpersonal relationships, and the promotion of such conduct to followers through two-way communication, reinforcement and decision-making” (Brown et al., 2005, p. 120). Two dimensions of ethical leadership were identified. First, the leader as a moral person. In other words, the focus is on the personality and attributes of the leader as an upright, fair, and principled decision maker who shows genuine concern and care for others (Brown & Trevino, 2006). It is the role of the ethical leader to articulate and embody organisational values (Gomez-Mejia et al., 2008). Second, the leader as a moral manager who models ethical behaviour, communicates ethical standards and holds the followers responsible for ethical actions.

Existing research suggests that ethical leadership can have positive outcomes for employees, including enhanced well-being (Liu et al., 2010), increased job satisfaction (Den Hartog & De Hoogh, 2009), improved task performance (Mayer et al., 2012), and increased job dedication (Mayer et al., 2009). Ethical leadership has also been related to increased work engagement and decreased emotional exhaustion (Chughtai et al., 2015) as well as employee well-being (Kalshoven and Boon, 2012). Furthermore, poor leadership skills have been linked to increased employee stress (Densten, 2005). Leadership behaviours may also influence the experience of meaningfulness of work and the social identification of employees with the purpose of the organisation.

The relationship between employee well-being is also likely influenced by both leadership and trust. Managers who are capable and benevolent and act with moral integrity (traits that may also be prescribed to ethical leaders as, see also Eisenbeiß & Brodbeck, 2014) tend to promote trust (Brown et al., 2005; Chughtai et al., 2015). This, in turn, promotes work engagement (Cheng et al., 2014). This suggests that trust may mediate the relationship between ethical leadership and well-being. When employees feel that they have their manager's trust, they also feel confident that they will be supported should they encounter any job-related difficulties, which in turn strengthens their own sense of self efficacy, and ultimately can stimulate engagement and reduce likelihood of exhaustion (Xanthopolou et al., 2007). When employees have low trust in their manager, they may also be less engaged in the workplace and report elevated levels of exhaustion (Huhtala et al., 2014).

The relationship between leadership, trust and well-being was explored by Olinkse and Hellman (2017). These authors examined how employees reacted to the leadership behaviours of managers on the experience of their employees in an American non-profit. When the managers' leadership was perceived to be a source of enhancement (e.g., source of support and energy), employees reported better well-being and lower burnout. What is more, employee engagement strongly correlated with less employee exhaustion (Olinkse & Hellman, 2017). This suggests that the experience of engagement and exhaustion is subject to the relationship employees have with their managers.

In addition to well-being, work engagement may also be higher when a manager exhibits ethical leadership qualities and engenders trust among his or her employees. Work engagement has been defined as a positive, fulfilling work related state of mind (Schaufeli et al., 2002). Work engagement has been differentiated in terms of employee vigour, dedication and absorption. Vigour refers to the energy and effort employees put into their work; dedication encompasses enthusiasm and strong work involvement; while absorption reflects the extent to which an employee is fully immersed in their work (Schaufeli et al., 2002). Empirical research has shown that employees with high levels

of engagement in the workplace have enhanced job satisfaction (Saks, 2006), improved health and well-being (Schaufeli et al., 2008) and superior performance to employees with low engagement (Rich et al., 2010).

1.3 INVIGORATION AND EXHAUSTION PERSPECTIVE

In order to understand the relationship between well-being of employees and leadership in non-profit organisations, we introduce two perspectives: the invigoration and exhaustion perspective (Steffens et al., 2017). We briefly outline how these two perspectives and research on the positive and negative effects of identification and stress at work.

The positive association between social identification with various employee outcomes is also known as the invigoration perspective (Steffens et al., 2017). Research has shown that stronger organisational and social identification can reduce the experience of strain at work (van Dick & Wagner, 2002), the likelihood of burnout (Steffens et al., 2014), and support task performance in stressful situations (Häusser et al., 2012). High-performing individuals also tend to cope better with stress, particularly when they feel socially included (Mühlhaus & Bouwmeester, 2016). This suggests that greater social identification can have positive outcomes for the individual at work, particularly in terms of their health.

Employees working for non-profit organisations such as student unions are known to be motivated by the social mission of their work (Macy, 2006). Many seek opportunities for more exciting and stimulating work as well as quality of good work relationships (Onyx & Maclean, 1996). Managers benefit from having such motivated employees and may then be better positioned to ensure that their work remains meaningful, challenging and creates positive work relationships. This may reinforce the employees' positive social identification with their work, while also ensuring they remain healthy and productive. In this case, employees may be positively invigorated and thrive on stress, buffered by the quality of their relationships and commitment to a common goal.

Negative health outcomes due to social identification have also been linked to the *exhaustion perspective*. In other words, increased social identification has a dark side. It has been associated with excessive involvement in the form of workaholism (Avanzi et al., 2012), increasing the likelihood of poorer employee well-being and health-damaging effects (Steffens et al., 2017). These effects may be more pronounced when individuals feel they cannot meet the standards of their group (Mühlhaus & Bouwmeester, 2016). Poor well-being is linked to emotional exhaustion (Maslach et al., 2001) and lower employees' work engagement (Schaufeli et al., 2008).

The *exhaustion perspective* (Steffens et al., 2017) may also be very relevant to the non-profit sector, including student unions. Recent statistics from the UK's Office of National Statistics (2017), based on data collected in the 2016 Labour Force Survey, showed that the sickness absence rates for employees in non-profit organisations is higher (2.4 compared to 1.7) than the rates for employees in the private sector. The sickness absence rate is based on the percentage of working hours lost to employee sickness. Non-profits included charities, voluntary organisations and trusts. Almond and Kendall (2006) also state the importance of paying attention to well-being in non-profits, noting that non-profit employees in the UK are somewhat more likely to have unpaid overtime, which would contribute further to the exhaustion perspective through workaholism. These circumstances, alongside the structural characteristics of student unions (e.g., features such as flat hierarchies are common to many non-profit organisations; see also Knapp et al., 2017), may also limit pay and promotion opportunities while simultaneously increasing the pressures to provide excellent support to student union members.

2 GOALS OF PRESENT PAPER AND RESEARCH HYPOTHESES

The current paper addresses several knowledge gaps. First, to date, the experience of full-time employees in student unions in higher education in the UK has been explored in very few studies to date (e.g., Brooks et al., 2015; 2016). Second, non-profit organisations have been neglected in leadership research (McMurray et al., 2010). And third, relatively little research has investigated the influence of ethical leadership on employee well-being, particularly in student unions.

The research therefore expands on a small set of studies in this area such as Binder (2016), Chughtai et al. (2015), Kalshoven and Boon (2012). And finally, the present research will extend the area by investigating trust in manager as a potential alternative mediating variable. Few studies have investigated the impact of trust on engagement and exhaustion; with the ones that have suggesting positive trust in manager can increase engagement and reduce exhaustion (Chughtai & Buckley, 2011; Chughtai et al., 2015).

The present study examined the following hypotheses:

H1: Ethical leadership is a positive predictor of the trust that employees place in their manager.

H2 and H3: Trust predicts employees' work engagement (H2) and emotional exhaustion (H3) in a positive and negative manner, respectively.

Social identification and meaningfulness of one's work may not necessarily exist in a vacuum. The effects of these on well-being measures may be influenced via the prominent workplace features (either leadership or community aspects) that either promote or inhibit good relationships. We were particularly interested in the aspect of trust as this requires significant investment of time to be established. In the context of student unions trust in supervisors may be critical as the permanent staff face annual turnover and changes due to the annual election of new officers each year.

H4a and H4b: Trust in manager mediates the relationship between ethical leadership and employees' work engagement (H4a) and emotional exhaustion (H4b).

Given the importance of dedication in non-profit settings, we further propose that dedication may play an important role in influencing relation to exhaustion, a relationship that is attenuated by the type of ethical leadership employees experience in the workplace (in line with the invigoration perspective).

H5: When employees show more dedication and have a manager who exhibits ethical leadership behaviours, they are also less exhausted than employees who are less dedicated and have a less supportive manager.

3 METHOD

The present study used a survey-based design to collect data from a cross-sectional sample of employees working for UK student unions. The model proposed in our hypotheses are tested using path analysis following preliminary psychometric data screens. The next section outlines the data collection process, participants, and specific measures included in our survey.

3.1 PROCEDURE

The email addresses of potential participants were obtained from around 200 university websites in the United Kingdom. Only full-time student union employees were invited to participate via email. The participants had to be at least 18 years old or above to participate. Upon completion of the consent forms, participants were requested to complete measures regarding their engagement and emotional exhaustion in the workplace. They were also asked to rate the ethical leadership style and trust of their manager. Finally, the survey asked participants for demographics and concluded with a debrief sheet. The survey took on average 10 minutes to complete.

3.2 PARTICIPANTS

The online survey was accessed by 149 participants, 137 of which completed the survey (81 female and 53 male employees; three individuals did not reveal their gender). Participant age was 28 on average ($M = 28.10$, $SD = 8.77$; age ranged from 19 to 63 with the median being 24). Only 13.9% of participants were between 19 and 21 years old, more than 86.1% of participants were therefore older than most undergraduate students. Almost all respondents were working full-time ($n = 119$), only a small number worked part-time ($n = 15$) or did not disclose their employment status ($n = 3$). Nineteen participants did not provide any information about their employer. Participants were not asked to specify their exact job title (if temporarily elected or permanent employee at the time of the survey). The remaining participants ($n = 118$) worked for 61 different student unions in the UK. Forty-eight of these were named but removed from the analysis to ensure all participants remained anonymous. A small group of 13 participants listed acronyms or simply listed 'student union' as employer.

3.3 MEASURES

Several measures were used to assess leadership and engagement. Unless otherwise specified, all composites represented the mean across all items in each measure.

Ethical leadership. This construct was measured by using the 10-item Ethical Leadership Scale developed by Brown et al. (2005). A sample item is: "Disciplines employees who violate ethical standards." All items featured a 5-point Likert response scale ranging from 1 = *Strongly disagree* to 5 = *Strongly agree*. The alpha reliability for this scale was 0.93 ($M = 3.87$, $SD = 0.75$).

Trust in one's manager. Trust was measured by the five-item Affective Trust Scale by Yang and Mossholder (2010). A sample item is "I'm confident that I could share my work difficulties with my manager." Items were scored on a 5-point scale ranging from 1 = *Strongly disagree* to 5 = *Strongly agree*. Cronbach's alpha for the scale in the current study was 0.94 ($M = 4.08$, $SD = 0.94$).

Work engagement. This construct was measured with the nine item version of the Utrecht Work Engagement Scale (UWES-9) by Schaufeli et al., (2006). A composite was created based on three items from each of the three

sub-dimensions of work engagement: vigor (sample item: “At my work, I feel bursting with energy”), dedication (sample item: “My job inspires me”) and absorption (sample item: “I get carried away when I am working”). All the items were measured on a seven-point response scale ranging from 0 = *Never* to 6 = *Always*. Cronbach’s alpha for the aggregated scale combining all three subscales was .91 ($M = 4.12, SD = 0.86$). The subscales for dedication ($\alpha = .84, M = 4.48, SD = 0.99$), vigor ($\alpha = .85, M = 3.67, SD = 1.03$), and absorption ($\alpha = .77, M = 4.23, SD = 0.88$) also performed well.

Emotional exhaustion. This construct was assessed with five items taken from the Maslach Burnout Inventory-General Survey (Schaufeli et al., 1996). A sample item is “I feel used up at the end of the workday.” The items were scored on a seven-point scale ranging from 0 = *Never* to 6 = *Always*. The Cronbach’s alpha for this scale in the current study was 0.92 ($M = 2.72, SD = 1.44$).

Demographics. This included two questions regarding participants’ age and gender.

4 RESULTS

The descriptive statistics, scale reliabilities and correlations between the measures are depicted in Table 1 below. Please note that both age and gender were unrelated to work engagement and not significant covariates. As a result, these variables were dropped as control variables in the analysis. Due to the high correlation between ethical leadership and trust, we used LISREL to conduct a confirmatory factor analysis. The model fit statistics for a one-factor structure incorporating all items under one factor suggested poorer fit ($\chi^2(90) = 309.80, p < .001$; RMSEA = .13, 90% CI [.12, .15], SRMR = .06, CFI = .87, and NFI = .83). All items did, however, load onto the one factor ($t > 1.96, p < .05$). Our results support a two-factor structure (one for trust and one for leadership) even before we considered correlations between the indicators of each scale ($\chi^2(89) = 193.23, p < .001$; RMSEA = .09, 90% CI [.07, .11], SRMR = .05, CFI = .94, and NFI = .93; $\Delta\chi^2 = 116.57, p < .05$). The two factors were significantly correlated with one another ($p < .05$) as observed in the correlations. All indicators loaded significantly onto their assigned factors (t -values $> 1.96, p < .05$). The model fit improved further as soon as we allowed modifications between items of the same subscale as well as the first trust item and allowing it to load onto ethics. As a result, we retained the two measures rather than merging them into one scale.

Table 1: Correlations between all measures

Measure	1	2	3	4	5	6	7	8
1. Ethical leadership	1							
2. Trust in one’s manager	.79**	1						
3. Work engagement	.22**	.21*	1					
4. Dedication §	.30*	.28**	.93**	1				
5. Vigor §	.20*	.19*	.91**	.82**	1			
6. Absorption §	.08	.06	.82**	.65**	.57**	1		
7. Emotional exhaustion	-.25**	-.27**	-.38**	-.36**	-.49**	-.15	1	
8. Age	.01	-.01	-.02	-.01	.01	-.04	-.30**	1

Note. N = 137; * $p < .05$; ** $p < .01$; *** $p < .001$. § Work engagement subfacet. Cronbach alpha reliabilities for observed variables are in parenthesis in the diagonal. Missing data was replaced using scale means ($n = 2$).

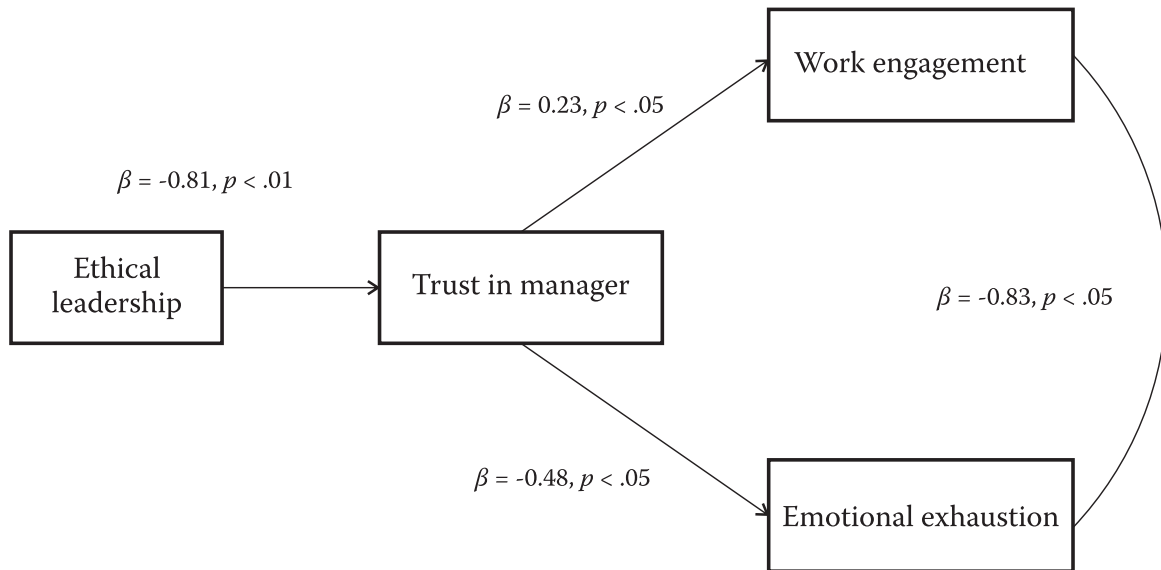
4.1 HYPOTHESIS TESTING

Our hypotheses specified several relationships. First, ethical leadership predicts trust in manager (H1). Second, trust predicts employees’ work engagement and emotional exhaustion (H2 and H3). Our mediation hypothesis (4a/4b) proposed that trust in one’s manager would mediate the relationship between ethical leadership and emotional exhaustion. All hypotheses were tested using a path model (LISREL 9.20). The results for the hypothesized model were as follows: $\chi^2(2) = 1.01, p = .60$, RMSEA = .000, 90% CI [.000; .139], CFI = 1.00, SRMR = .016. CFI values of .95 and above are considered as indicating good fit (Hu & Bentler, 1999), whereas RMSEA values less than .06 with the confidence interval upper limit not exceeding .08 signify a good model fit (MacCallum et al., 1996).

The estimated path coefficients revealed that ethical leadership predicted trust in one’s manager ($b = .76; t = 11.12, p < .01$), in line with the high correlation observed between these two constructs and in support of H1. Trust, in turn, was a positive predictor of work engagement ($b = .21; t = 2.55, p < .05$) and a negative predictor of emotional exhaustion ($b = -.33; t = -2.51, p < .05$), in line with H2 and H3. As expected, both work engagement

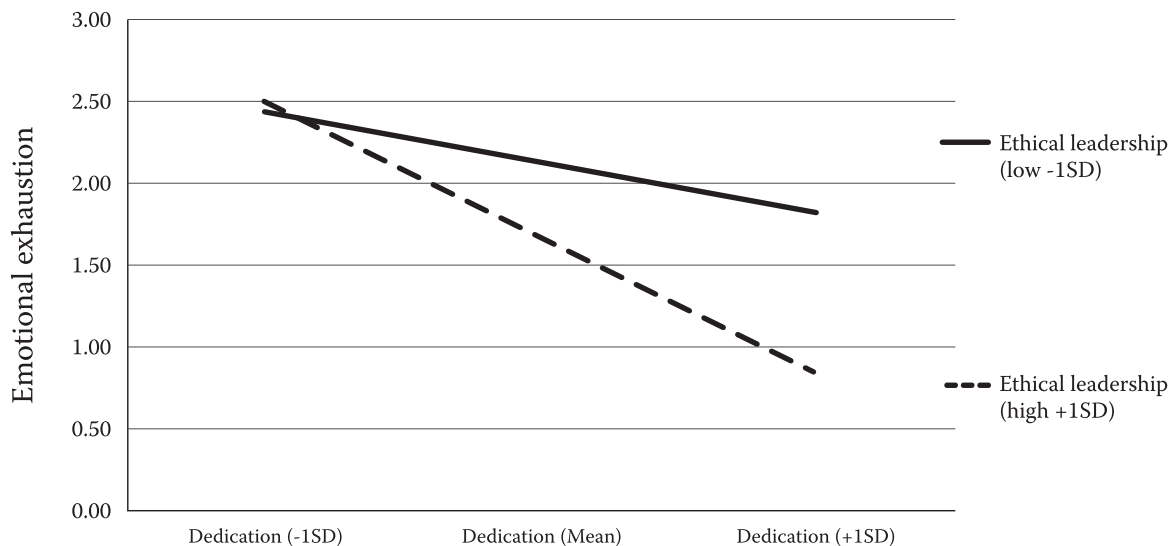
and exhaustion were negatively correlated ($b = -.62; t = -4.23, p < .05$). Ethical leadership also had a significant indirect effect on engagement and ($b = .16; t = 2.49, p < .05$) and emotional exhaustion ($b = -.35; t = -3.26, p < .05$). This suggests partial mediation, rather than full mediation, but is still in support of H4a and H4b. The standardized path coefficients are listed in Figure 1.

Figure 1: Mediation model



In line with the proposed mediation model, we further proposed an interaction (H5) between dedication and leadership in relation to exhaustion. This analysis was tested using multiple regression. Both dedication and ethical leadership were expected to predict exhaustion, although the specific effects were expected to depend on the degree to which employees were dedicated and also had a manager who was morally supportive. The analysis also included covariates such as demographics and employment. These were entered in the first step of the regression model and predicted a significant amount of variance in exhaustion ($R^2 = .10, p = .001$). Both dedication and ethical leadership were entered in the second step and explained a significant amount of variance in exhaustion ($R^2\Delta = .17, p = .001$). Dedication was a significant predictor ($\beta = -0.57, p < .001$). Ethical leadership also played a significant role in explaining employee exhaustion ($\beta = -0.31, p = .042$). In addition, a significant amount of variance was explained by the interaction between both predictors ($R^2\Delta = .03, \beta = -0.35, p = .017$). All variables explained 28.7% of the overall variance associated with emotional exhaustion ($R^2 = .32, R^2_{adj} = .29, F(6, 128) = 9.98, p < .001$). The interaction is outlined in Figure 2. Those employees who were highly dedicated (+1SD on the dedication axis) but rated their managers low on ethical leadership also reported much higher emotional exhaustion than dedicated employees who found their manager who shared an interest in them as a person and manager (high ethical leadership).

Figure 2: Interaction between employee dedication and ethical leadership



Please note that while the model remained significant overall when trust was included as an additional covariate in the first step of the model, the influence of ethical leadership on exhaustion was no longer significant ($\beta = -0.03, p = .912$). This suggests that trust is intimately related to ethical leadership construct (in terms of discriminant validity). This interpretation is in line with the high correlation between trust and ethical leadership.

5 DISCUSSION

The purpose of the current study was to understand the role of ethical leadership among managers in relation to employee well-being among employees in student unions (see also McMurray et al., 2010). The present study examined how employees perceived their managers (ethical leadership and trust) and how these ratings impacted their self-reported work engagement and emotional exhaustion. Additionally, this study sought to examine the mediating role of trust in these relationships. The relationships between these variables were tested using a path model. In addition, we considered the importance of good leadership in relation to emotional exhaustion and dedication among employees.

The results of the path model confirm the importance of ethical leadership on trust perceptions (H1). In addition, trust effectively predicted both employee outcomes - work engagement (H2) as well as emotional exhaustion (H3). In addition, trust mediated the relationship between ethical leadership and these two indicators of employee well-being at work. The results suggest that good ethical leadership not only increases engagement (H4a) but can also reduce emotional exhaustion (H4b). Further results confirmed (H5) that ethical leadership plays a key role in terms of the degree to which highly dedicated employees experience emotional exhaustion. More dedicated employees actually reported less exhaustion when they considered managers to exhibit more ethical leadership behaviours (in support of the *invigoration perspective* proposed in the social identification literature, see Steffens et al., 2017). When the employees appear to be less dedicated the quality of the leadership appears to have little impact on their rather high level of emotional exhaustion.

These findings support the notion that ethical leadership can play an important role in encouraging employee well-being, specifically, by reducing emotional exhaustion. However, the results also suggest that there are limits to the degree to which leadership alone influences employee well-being (as demonstrated by the results for H5). Positive leadership behaviours alone may not be able to address wider social exclusion, effort-reward imbalances or lack of resources in the workplace (see Bakker & Demerouti, 2007; Siegrist, 1996; Stirling et al., 2011). The present research also supports the findings of Chughtai et al. (2015) and highlights the importance of ethical leadership in improving employee well-being in non-profit organisations. This is an important finding as employees with poor well-being are less productive and have higher rates of absenteeism (Schaufeli et al., 2008), a concern also for the non-profit sector in the UK (see statistics reported by the UK's Office of National Statistics, 2017). Our findings regarding the role of dedication provide another level of insight into why ethical leadership behaviours may be important when managing employees in non-profit settings – and in what circumstances. Therefore, the findings of the present research suggest paying attention to how managers are perceived (e.g., in terms of their ethical leadership qualities) may represent an effective starting point intervention for improving employee well-being, specifically; work engagement and emotional exhaustion within non-profit organisations.

5.1 CONCEPTUAL AND PRACTICAL CONTRIBUTION

Our results lend support to the *invigoration perspective* proposed in the social identification literature (see Steffens et al., 2017). Strong social identification with a non-profit organisation might, in the absence of good self-regulation, lead dedicated employees to exhaust themselves for the good of their cause, but at the cost of their health. Our findings suggest that the adoption of an ethical leadership style by managers could reduce the negative impact and support coping of employees (Lu & Guy, 2014).

Our results furthermore suggest that ethical leadership behaviour may play a relevant role in promoting work engagement and reducing the risk of emotional exhaustion by building trust in student union settings. Managers in non-profit organisations, especially those under performance and financial pressures such as student unions, may reflect on how to reduce strains and help employees to pace themselves. This may also help to reduce the likelihood that employees in student unions report higher overtime than their counterparts in the UK's private sector (Almond & Kendall, 2006). In line with this, it may be important to assess job stressors. A decline in job dedication might be an early warning sign that the employee may be prone to more stress in the future.

Managers may wish to identify potential sources or causes of stress for the decline in dedication to ensure their

support is effective and they meet the expectations of their employees. In addition, higher work engagement from an ethical leader may also encourage employees to speak up and voice their concerns (Cheng et al., 2014). This can be very helpful as it might enable managers to assess whether low engagement and thus greater emotional exhaustion are outcomes of an imbalance between job demands and job resources (Bakker & Demerouti, 2007). Managers may also be more effective leaders if they participate in team building and emphasize their role as part of the social group. This interaction may also enable them to notice those employees who are very committed but who are not managing their own health sufficiently. Being closer to the teams they are supporting may also enable managers to identify and address stress due to effort-reward imbalance (Siegrist, 1996; see also Stirling et al., 2011) that may arise when employees make significant efforts to support the non-profit organisation but the effort is not noticed, rewarded or acknowledged. Managers need to be able to identify early signs of over-commitment as this might trigger emotional exhaustion, and maybe even burnout (e.g., Steffens et al., 2014). Being good listeners and communicators is key for the ethical leader (Pierce, 2007). These skills may be a particularly important also for managers in non-profits as these organisations often rely on the good will of their employees.

A number of studies have noted that managerial resignations from non-profit organisations may be traced back to leadership and relationship issues with the board or chairpersons in non-profit organisations (e.g., Olinske & Hellman, 2017; Peters & Wolfred, 2001). Our findings suggest ethical leadership may be important as a means to support non-profit employee well-being and work engagement. Training programs for managers in student unions could incorporate a stronger leadership and ethics component (Brown et al., 2005) and help to identify ways to recognise dedication but also reduce the likelihood of exhaustion among employees.

5.2 LIMITATIONS AND FUTURE WORK

A number of limitations exist. These concern the reliability and common-method variance inherent in self-report surveys (Podsakoff et al., 2003; Schwarz, 1999). Much of the literature about non-profit employees is based on self-reports (Leete, 2006). Future research should aim to utilize objective measures of well-being indicators rather than self-reports alone (e.g., by using HR records listing absence days or physiological indicators, Liu et al., 2010). Similarly, the high correlation between trust and ethical leadership suggests a significant conceptual overlap in some respects. It would be interested to consider additional components that may mediate the relationship between ethical leadership and employee outcomes to assess the robustness of the indirect effects when trust is substituted with another concept that may be affected by leadership as well (e.g., such as role identification or work centrality).

A second concern regards the difficulties that arose given the small, single cross-sectional sample and the lack of context information. The small number of participants from each student union did not allow for nested or multi-level modelling, unfortunately. However, if we had asked for role descriptions, tenure, the actual roles and responsibilities, it would have been relatively easy to identify individuals, a risk that we could not justify. While we invited only full-time employees to participate, it is potentially possible that elected officials participated without the researchers' knowledge. In addition, in order to maintain anonymity and the small number of participants from each student union, we were unable to assess whether or not individual employees in one and the same student union evaluated their managers similarly or not.

One final issue regards our assumption about causality. It is also possible for exhaustion to trigger less dedication, rather than the other way around. In addition, we did not obtain measures to assess the role and effect of peer and collegial support at work (see McMurray et al., 2012). As most student unions are relatively small and employ very few permanent employees, our results were based on cross-sectional information from employees working for a number of different student unions. As a consequence, the results may not generalize across all student union contexts and more work is required to assess the robustness of the results when these contextual variables are also taken into context.

More research on the *invigoration* and the *exhaustion perspective* (Steffens et al., 2017) is needed to better understand other potential leadership, self-regulation and support mechanisms behind employee well-being in non-profit settings. Future research in this area could consider the role of social identification on dedication in non-profit organisations while also examining managerial as well as social support. Especially given the evidence that non-profit employees seek meaningful, challenging work and learning opportunities (Macy, 2006; Onyx & Maclean, 1996), social identification may be particularly strong among these employees.

6 CONCLUSION

The findings in this study demonstrate that there is an association between good ethical leadership and increased employees' work engagement in student unions. This confirms the importance for non-profit organisations to establish ethical leadership in order to promote employees' work engagement. Our results also highlight the key role of trust as a contributing factor, particularly in maintaining employee wellbeing (Liu et al., 2010). More work in this area could be helpful as it may identify important lessons for non-profits on how to engage, retain and motivate employees within their non-profit organisations (see also O'Loughlin, 2006; Stirling et al., 2011).

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Barriers to work motivation of generation Z

Jana Fratričová, Zuzana Kirchmayer

ABSTRACT

Generation Z (born after 1995) has started to enter the labour market and in the decades to come, it is going to run the world. Naturally, researchers aim to understand unique characteristics of the generation to help employers prepare for the new 'cohort'. While there are many research efforts to separate factors that would help Generation Z feel good at work, less attention has been paid to factors that might present barriers to work motivation. Our study aimed to fill the gap by identifying and exploring factors that possibly create barriers for Generation Z in their work context. Using the narrative data collection method of empathy-based stories (MEBS) on a sample of 235 business students we collected 703 unique items of perceived barriers to work motivation, that were further analysed, coded, grouped into a set of 26 factors and finally organized according to their relationship to three dominant themes (employee, job, and organization) into 6 clusters presenting different intersections of these themes. According to our results, the most prevalent barriers to work motivation emerging from respondents' stories are: not enjoying the content of the work, bad team climate, workload, and having no sense of purpose in the job. We also aimed to identify dichotomic factors i.e. those which were identified as motivation drivers and barriers at the same time. A prominent list of dichotomic (overlapping) factors in both motivators and barriers indicates that most respondents do not separate motivation drivers and barriers in two isolated groups. Enjoying one's work and team climate were also the top two factors accounting for both states of mind at work (positive work motivation as well as lack of it). The most frequently occurring factors cited in surveys on Generation Z such as options of career advancement and continuous learning/growth, generous rewards and chances of making a positive impact were all replicated in our study as well.

KEY WORDS

generation Z, work motivation, MEBS, Slovakia, motivation drivers, motivation barriers

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1 INTRODUCTION

Examining generational differences has gained popularity and importance since the beginning of the new millennium. Academic and popular journals have been fixated with the topic of generational characteristics, many times emphasizing generational differences rather than searching for mutual connections. There are three prevailing generations in the current workplace - Baby Boomers, Generation X and Generation Y (Tapscott, 2009). Two decades ago, most people in their mid-60s would slowly leave the labour market to enjoy retirement. However, statistics of the World Health Organization show that global population aged 60 years could expect to live another 20.5 years on average in 2016. According to OECD, "in an era of rapid population ageing, many employment and social policies, practices and attitudes that discourage work at an older age have passed their sell-by date and need to be overhauled. [...] Employment at older ages will need to increase further to ensure adequate pensions for many people." (OECD, 2017).

It's no wonder that not being able to enjoy retirement is what most bothers Generation X (Bresman & Rao, 2017), who are now turning almost 40 to 60 with birth years ranging from 1961 to 1981 (Erickson, 2010). Longer life span and generally better health are not the only factors that contribute to people staying at work longer than they once used to. In addition, there is a need to offset financial losses from the economic crash of 2008 (Bejtkovský,

CONTACT INFORMATION:

Jana Fratričová / Comenius University in Bratislava / Slovakia / jana.fratricova@fm.uniba.sk

Zuzana Kirchmayer / Comenius University in Bratislava / Slovakia / zuzana.kirchmayer@fm.uniba.sk

2016). As a result, for the first time in history, five generations will soon be working side by side (Knight 2014) with Generation Z slowly entering the world of work. Individual studies on the youngest Generation Z (further also referred to as 'Gen Z') report some level of variation in terms of definition of its birth years. Some authors state Generation Z birth rate as 1995 – 2009 (McCrinkle, 2014), 1995 – 2010 (Bencsik et al., 2016; Seemiller & Grace, 2016; Koulopoulos & Keldsen, 2016), or simply "after 1997" (Bresman & Rao, 2017).

Nowadays, Gen Z is slowly converging onto the labour market and in the decades to come, it is going to run the world. It is obvious that the impact of this generation on workplace practices is going to be tremendous. It can hardly be denied that five different generations sharing a workplace of 21st century will increase complexity and make managerial work more challenging than ever. While intergenerational tension at the workplace is a topic on its own (e.g. Kupperschmidt, 2000; Crumpacker & Crumpacker, 2007; Parry & Urwin, 2011; Parry & Tyson, 2011), in this article we focus on Gen Z characteristics that can have potential implications for management and HR.

2 THEORETICAL INSIGHTS

A generational cohort refers to an "identifiable group that shares birth years, age, location and significant life events at critical developmental stages" (Kupperschmidt, 2000:66). "Differences between generations are theorized to occur because of major influences in the environment within which early human socialization occurs; influences that impact on the development of personality, values, beliefs and expectations that, once formed, are stable into adulthood" (Macky et al., 2008:858). Research on generations suggests that individuals belonging to the same generation also have similar values and personality traits that differ from those of previous generations (Twenge & Campbell, 2008). Generational differences also affect other aspects of people management, e.g. training and development (Berl, 2006), career development (McDonald & Hite, 2008) or working arrangements and rewards (Carlson, 2004).

The unique historical context shaping Generation Z is widely linked to technologies and digital age. Besides Generation Z, terminology describing this generational group thus includes terms "digital integrators" (McCrinkle, 2014) or "digital natives" (Friedrich et al., 2010) emphasizing that technology has been weaved into the early lives of Generation Z as if it was their sixth sense. Technologically fluent, always connected, using mobile phones, tablets and instant communication, the technological trait of this generation has been largely described already. "This Internet-savvy technologically literate generation has been shaped to multitask. They move quickly from one task to another, often placing more value on speed than accuracy. They have only known a wireless, hyperlinked, user-generated world where they are only ever a few clicks away from any piece of knowledge" (McCrinkle, 2014:66). While being used to instant online communication, there is some evidence that Generation Z are more concerned with privacy and safety than the previous generation of Generation Y, and more drawn to private social networks (Lanier, 2017).

As for the economic pattern shaping the generational cohort, Generation Z has had numerous chances to watch their parents go through difficult times. Their potential pragmatic view of the world may result from the fact that they were growing up during the period of economic recession and ever-present signs of a financial downturn. In 2016, Jericho Chambers and the CIPD created a work collaboration program for 24 people from Generation Z. Experience from this initiative suggest that some generational characteristics stood out as particularly pronounced. Above all, Generation Z is practical. "With formative years shaped by recession, terrorism, rising house prices and corporate scandal, Gen Z are likely to be worse off than their parents — and they know it." (Harris, 2016).

2.1 A BRIEF LITERATURE REVIEW OF GEN Z WORK PREFERENCES

As we outlined in literature review of our recent paper (Kirchmayer & Fratričová, 2018), research agenda regarding Gen Z has focused on five different research streams so far. Two of these streams are at the core of managerial implications of Generation Z entering the workplace. First, it is the research on unique features of Generation Z that make this generation different from the previous ones (e.g. Friedrich et al., 2010; McCrinkle, 2014; Meret et al., 2018). The other one comprises what we call the "business aspect", i.e. how Gen Z might affect the management, employment and HR practices in organizations (e.g. Schwabel, 2014; Bencsik et al., 2016; Meret et al., 2018; Kirchmayer & Fratričová, 2017).

As for the work preferences of Generation Z, research is largely powered by the effort to separate factors that would help Gen Z feel good at work. Naturally, employers believe that recognizing aspects that matter to the generation which is just about to start work will help them align business needs with employee needs and prepare for the new 'cohort'. This would also explain why some surveys on Gen Z work preferences are carried out by prominent consulting companies around the world.

For example, a 2014 worldwide study presented three dominant work motivators of Gen Z – advancement, more money and meaningful work (Schwabel, 2014). According to Meret et al. (2018) who conducted their research on a sample of high school students, factors that count most when Generation Z are deciding about their jobs are possibilities for learning and development, trust and job security. A Robert Half survey (2015) revealed that Gen Z consider career opportunities as the top factor when selecting a job. Followed by generous pay and making a positive impact, the survey showed top three of Gen Z job search priorities. A study by Deloitte (2018) disclosed that the aspects of financial rewards, positive workplace culture, flexibility and opportunities of continuous learning are the top factors that Gen Z consider when searching for a new job. Furthermore, our 2017 survey of work preferences of Gen Z business students in Slovakia showed that the nature of job along with work-life balance matter the most in search for a potential future employer among Gen Z. However, job security, flexibility of work and opportunities for training and development were also considered important (Kirchmayer & Fratričová, 2017).

Albeit some methodological differences, the underlying concept in most surveys on Gen Z work preferences is usually that of ranking a list of motivation factors so to recognize which of them matter most to Gen Z in the process of searching for a new job or at work itself. The level of consistency in survey results is remarkable, although the pattern on top three motivating factors tends to be somewhat versatile. The growth factor and opportunity for further development seems to be an overlapping factor identified as very important for Gen Z in most of the studies.

The survey approach that asks respondents belonging to a certain generation to rate their opinion of their own work preferences is for sure useful in mapping similarities and differences across generations. Still, we need to keep in mind the necessity of removing potential impact of age or data collection period before speaking of generation-specific distinctive features or generational gap. However, it is important to let members of individual generations express their feelings and perceptions without providing a qualitative menu of intended generational characteristics. Our current work within Gen Z intends to excavate the traits of Gen Z itself prior to any cross-generational work. Also, studying the work motives of Gen Z we need to remember that the great deal of its members are yet in the process of education and it can be expected that some new generational traits will emerge as they will move on to the labour market.

3 RESEARCH DESIGN AND METHODOLOGY

This article aims to explore barriers to motivation as seen by Generation Z business students in Slovakia. Our main research question was: *What are the factors, which Generation Z students perceive as barriers to work motivation?* The results presented in this article are part of a broader preliminary study on motivation preferences of Generation Z in Slovakia (see also Kirchmayer & Fratričová, 2018). Our study was based on the works of Kultalahti and Viitala (2014; 2015), who examined motivation preferences of the previous generation (Generation Y, which is referred to as “Millennials”) in Finland using qualitative data collection method of empathy-based stories (MEBS). It is important to emphasize that our research was not aimed to map the strength of factors provoking negative work feelings. Instead, the intention was to generate the list of items that would frame the existence, scope and range of themes, which Gen Z perceive as important for their future work. Revealing these factors provides ground for future quantitative research on Gen Z.

Method. MEBS, often also referred to as passive role-playing (Eskola, 1998) is a method considered to be positioned between surveys and interviews (Juntunen & Saarti, 2000). Although rarely used in management (Eskola, 1998), the method is well suited for conducting exploratory research or mapping out a research area as it can help reveal issues or topics the researchers were not aware beforehand or provide valuable insights into the topic and deeper understanding of respondents’ concerns and ideas around it (Juntunen & Saarti, 2000, Kultalahti & Viitala, 2014). MEBS uses at least two simple background stories to be interpreted, explained or completed by respondents. In these stories, one factor is varied in order to make comparisons. (Kultalahti & Viitala, 2014:573).

In our research on Generation Z, respondents were provided with one positive and one negative story regarding work motivation and engagement of an employee named Samuel and asked to explain why Samuel felt the way he did. We used the stories written and used by Kultalahti and Viitala (2014; 2015). The stories were translated to Slovak language and the wording was slightly adjusted to describe the situation naturally to Slovak readers. In this paper, we only present the results of the negative story, which read as follows:

Imagine that one day Samuel comes home from work. He feels tired, and he cannot seem to find any enthusiasm for his work. He does not feel like going to work again tomorrow in the morning and he is looking forward to the weekend, so that he does not have to go to work. Why does Samuel feel so negative about his job and why does he lack enthusiasm?

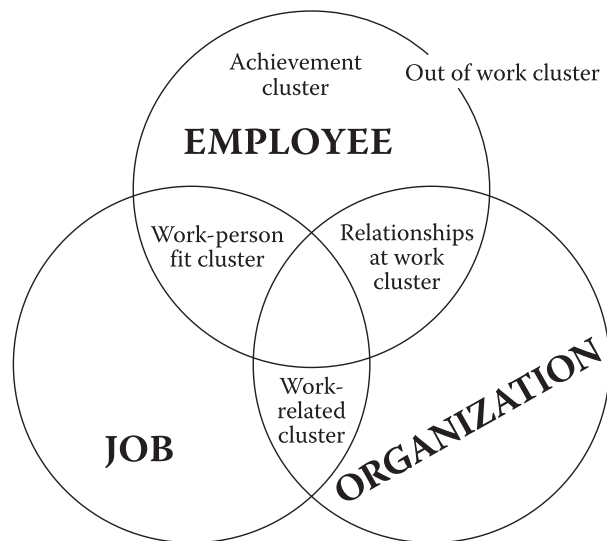
Data collection and sample. The data collection was performed among Generation Z management students at Comenius University in Bratislava in 2017. While aware that Generation Z grew up with technology at their hands, we insisted that data collection was performed on paper. We wanted to make sure to arrange for conditions of data collection as much alike for all respondents as possible. Providing extra time after seminars for respondents who wanted to participate, we tried to eliminate disturbances and impact of situational factors that possibly go with electronic data collection. Both stories were printed on one sheet, leaving enough space for respondents to express their understanding of why the suggested situation was happening.

Our sample consisted of 235 Generation Z members – students born between 1995-1998 studying towards their bachelor's degree in management, where the majority was born in 1997. Females counted for 55% (N=129) and males for 45% (N=106) of our sample. Most of our respondents (85%; N=200) stated they had a work experience in a form of part-time job, internship, or even full-time position.

On average, a respondent provided 3 different reasons why Samuel seems to lack enthusiasm for his work. All collected data were listed for further analysis, generating a list of 730 items in total. Then, all items were checked and in case a single respondent recorded more items that were equal in content or representing the same theme, they have only been coded once. Thus, 27 items were excluded from the list. Most repeated themes of Samuel's negative feelings were related to "work enjoyment" and "lack of interest" in his job. Finally, after excluding duplicated items, the total sample consisted of 703 items. Using content analysis, we have coded all of them into 26 unique factors, each of them comprising items that were equal or similar in terms of their meaning.

The next step in our analysis was to group the emerged factors into clusters based on their nature. Similarly to our previous results on (positive) motivational factors (Kirchmayer & Fratričová, 2018), the same three main themes (employee, job, and organization) and their intersections emerged (Figure 1). All factors were finally grouped to six different clusters: work-person fit, relationships at work, work-related factors, achievement, out of work factors, and organizational factors.

Figure1: Model of factor clusters



Source: Kirchmayer & Fratričová (2018)

4 RESEARCH RESULTS

Classification of items generating in data collection into factors allowed us to calculate frequencies by items as well by respondents as shown in Table 1 below. Since many respondents stated multiple items, we report both types of frequencies in Table 1 below. Two main themes seem to resonate more than others in prompting negative work emotions and a lack of enthusiasm. First, it is the theme of **'not enjoying one's work'** that was specified by 57.02% of respondents (19.06% of items) using very consistent wording. The second factor provoking negative feelings was **team climate** reported by 48.94% of respondents (16.36% of items). Here, the range of items classified in this factor was somewhat wider including bad relations with his colleagues, 'unpleasant' peers or work climate and peer pressure.

Next, the theme of **workload** appeared in the stories of 21.70% of respondents (7.25% of items). They ascribed Samuel's lack of enthusiasm to his exhaustion due to a terrible workload or mentioned that the work expectations placed upon Samuel are too high. Having **no sense of purpose** in his job was the fourth most frequent theme

appearing in the stories of 20% of respondents (6.69% of items). Here the items ranged from not being able to see the purpose of his job, to not identifying with it.

The theme of insufficient reward appeared in two different contexts and was therefore coded in two separate factors. The major difference in the stories was in how the respondents perceived that Samuel's reward is low – whether they just stated it as a matter of fact, or they argued that this state is not fair to Samuel. The items in which Samuel's low reward was attributed to the general pay level in his job (meaning this was a normal situation in the job, but it was low in general), were classified in the factor of **low pay**, which ranked the fifth most frequent (17.87% of respondents; 5.97% of items). However, insufficient reward was also mentioned in a way that there is a discrepancy between how Samuel should be paid according to his job, performance, or compared to others and his actual reward. These items, in which the respondents argued that Samuel's **pay is unfair** or inadequate, were found in the stories of 9.79% respondents (3.27% of items).

The sixth position on the list of barriers to motivation was taken by **no interest in work** (15.74% of respondents; 5.26% of items). It consisted of items explaining that Samuel is not interested in the job at all, he only works to earn some money (without any further reference to how much it was). Some respondents explained that he was forced to work to earn money, others stated that his only motivation was to earn the money that is paid for the job (without the condition that he had to work), but no interest in the work itself was common denominator in both cases.

Next, 14.04% of respondents (4.69% of items) attached Samuel's negative emotions to his **poor performance** at work. This factor included items suggesting that Samuel's work results were objectively not good enough to feel satisfied at work, he lacked skills or knowledge needed for the job, or received a poor job evaluation and therefore was not feeling happy about his work. This factor was followed by having a job which is **not his work of interest**. A typical narrative in this case was that Samuel works in an area that does not suit him. Unlike items coded in previously stated factors (especially "poor performance", "no sense of purpose", or "no interest in work") responses coded in this factor were not dealing with Samuel's performance, the actual quality or purpose of the job he was holding, or his motivation to work. They simply stated that no matter what the job was, it was not "the job" for Samuel and therefore his motivation was low.

The theme of **leadership** appeared in terms of **relationship** (10.21% of respondents; 3.41% of items), and in terms of being a **bad leader** in general (8.94% of respondents; 2.99% of items). While the "leadership: relationship" comprises items referring to Samuel's poor quality of relationship with his immediate superior, or perceived lack of understanding or support from his leader, "bad leader" factor refers to having a leader, who does not know how to lead the team in general or does not do it properly for some reasons. Some respondents believed that the barrier to Samuel's motivation lied in the **monotonous** and repetitive character of his work (8.94% of respondents; 2.99% of items), or that his **physical work conditions** were unsatisfiable, unhealthy, unsuitable or unfriendly (8.09% of respondents; 2.70% of items). It was followed by **conflicts with co-workers** (7.23% of respondents; 2.42% of items), **career stagnation** occurring either for objective or subjective reasons (6.81% of respondents; 2.28% of items), and **lack of recognition** described in terms of lacking any work feedback or feeling unseen by superiors (5.96% of respondents; 1.99% of items). For 5.11% of respondents (1.71% of items) the reason for Samuel's negative feelings were not tied to work itself but originated from his **private problems** he was dealing with.

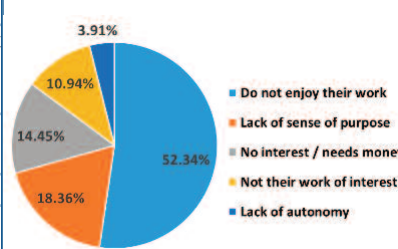
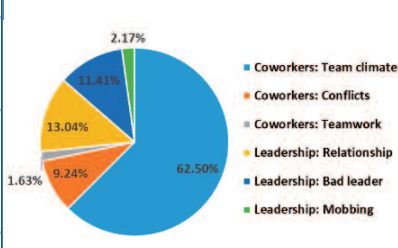
More factors occurred in the stories, including Samuel's **lack of autonomy** as there were strict rules and procedures he had to follow in his job, current or regular work **stress**, not being satisfied with his **work time**, being a part of a team that does not cooperate well and thus having poor **teamwork**, or being a subject of **mobbing**. However, the reasons for Samuel's situation were also seen in his **laziness**, **negative outlook** or just having a **bad day** in general. Finally, working for an organization with a bad reputation, or other major problems preventing it from being a good employer was seen as a problem, too.

Table 1: Most prevalent negative factors (barriers) emerging from respondents' stories

Factors of motivation	Nominal item prevalence (N=703)	% of items (N=703)	% of respondents (N=235)
Does not enjoy his work	134	19.06%	57.02%
Co-workers: Team climate	115	16.36%	48.94%
Workload	51	7.25%	21.70%
Lack of sense of purpose	47	6.69%	20.00%
Reward: Low pay	42	5.97%	17.87%
No interest in work / only works for money	37	5.26%	15.74%
Poor performance	33	4.69%	14.04%
Not his work of interest	28	3.98%	11.91%
Leadership: Relationship	24	3.41%	10.21%
Reward: Unfair pay	23	3.27%	9.79%
Leadership: Bad leader	21	2.99%	8.94%
Monotonous work	21	2.99%	8.94%
Physical work conditions	19	2.70%	8.09%
Co-workers: Conflicts	17	2,42%	7.23%
Career stagnation	16	2.28%	6.81%

For grouping the factors based on their relationship to employee, job and organisation characteristics or their intersections (Kirchmayer & Fratričová, 2018), six different clusters were needed. Clustering factors enabled us to better understand the areas of employee-job-organisation relationship where barriers to motivation are seen by Generation Z. As shown in Table 2 and Figure 2, more than a third of all items related to work-person fit (36.42%), followed by relationships at work (26.17%), work-related factors (23.76%), achievement (8.96%), out of work factors (4.13%), and organisation (0.57%).

Table 2: Factors and clusters of barriers to motivation

Factors and clusters of motivation	A brief factor descriptor	% prevalence	Number of items (N=703)
Work – person fit <i>Cluster factors breakdown:</i>		36.42%	256
Does not enjoy his work	He does not like or enjoy the work content itself. He does not like what he does on a daily basis.		
Lack of sense of purpose	He does not see the purpose in his job, the job is not fulfilling. He does not identify with the job purpose.		
No interest in work / only work for money	He is no interested in the job at all. His only motivation for working is to earn money.		
Not his work of interest	He works in an area that does not suit him.		
Lack of autonomy	He feels he cannot use his creativity within the job or do it his way. He is forced to follow strict procedures and he does not like it.		
Relationships at work <i>Cluster factors breakdown:</i>		26.17%	184
Co-workers: Team climate	The general team climate is not good. He does not feel good among his colleagues.		
Co-workers: Conflicts	He is in conflict with one or more co-workers.		
Co-workers: Teamwork	The team is not performing well. One or more colleagues are not working or cooperating enough and the team outcome is thus unsatisfactory.		
Leadership: Relationship	The quality of relationship with his immediate superior is poor. He does not feel his manager understands or supports him.		
Leadership: Bad leader	The manger is a bad leader in general – he/she either does not know how to lead his team or does not do it properly for some other reasons.		
Leadership: Mobbing	He is mobbed by his manager.		

Work-related factors <i>Cluster factors breakdown:</i>		23.76%	167
Workload	He has a terrible workload and is exhausted. The work expectations placed upon him are too much.		
Reward: Low pay	The pay for his job is low in general.		
Reward: Unfair pay	He feels his pay is not adequate or fair. There is a perceived discrepancy between his pay and the work content. He is paid unfair compared to other peers.		
Monotonous work	Work content is monotonous and repetitive. He is doing the same things for a long time.		
Physical work conditions	The work environment is unsatisfiable. The physical space is unhealthy, unsuitable or unfriendly.		
Stress	He is stressed by his work either now or on regular basis.		
Work time	He has to "sit at work" although all his work is done. He has to work long hours.		
Achievement <i>Cluster factors breakdown:</i>		8.96%	63
Poor performance	His work results are objectively not good enough to feel satisfied at work. He lacks skills or knowledge needed for the job. He received poor job evaluation.		
Career stagnation	There is no prospect for career advancement either for objective or subjective reasons.		
Lack of recognition	He lacks positive (or any) feedback on his work. He feels unseen by his superiors.		
Out of work factors <i>Cluster factors breakdown:</i>		4.13%	29
Private problems	He feels uneasy about some private issues (regarding health, family members, friends, etc.).		
Bad day	He's just had a really bad day. Something bad happened to him (not necessarily at work).		
Negative outlook	He is a negative person always being dissatisfied with everything.		
Laziness	He does not want to work at all. He is lazy.		
Organisation <i>Cluster factors breakdown:</i>		0.57%	4
Organisation	The organisation has a bad reputation, major problems, or is otherwise not a good employer.	0.57%	4

The **work-person fit cluster** comprising was the most prevalent one in respondents' narratives. More than one third of all items (36.42%) were proposing that the core of Samuel's negative feelings lied in his incompatibility with the nature of his job – be it a work content he does not enjoy, job purpose he does not see or find interesting, job area that does not suit him, or having no personal interest in work at all. Lack of autonomy was also included in this cluster. According to the narratives, items coded in this factor pointed out to the disharmony between Samuel's desire to be more creative in his work and the actual work procedures that had to be followed (not the job content in general). Therefore, it was included to work-person fit cluster rather than work-related factors cluster.

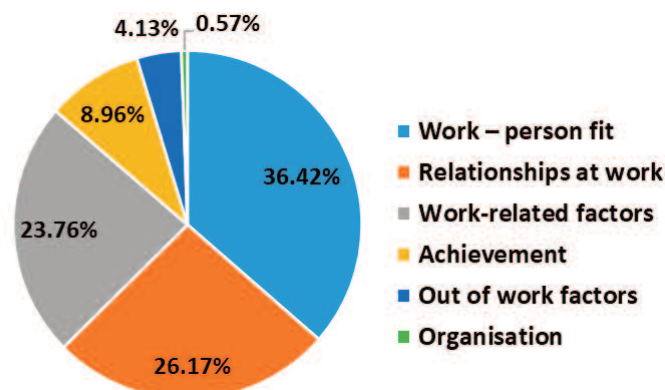
The **relationships at work cluster**, which covers more than a quarter of all items (26.17%) includes barriers to motivation arising from problems with Samuel's co-workers (such as bad team climate, conflicts, or bad teamwork) and leaders (having a bad relationship with a leader, having a manager who does not lead his team properly, or being mobbed). Interestingly, almost three quarters of items within this cluster (73.37%) deal with co-workers and only 26.63% ascribe Samuel's lack of enthusiasm to problems with leadership.

Work-related factors accounted for 23.76% of all items. Within this cluster, having a terrible workload and being exhausted was the most frequent theme (30.54%), followed by low pay (25.15%), and unfair pay practices (13.77%). However, Samuel's lack of enthusiasm was also assigned to having a job with a monotonous and repetitive work content (12.57%), unsatisfiable physical work conditions (11.38%), having a stressful job (4.79%), and having to work long hours (1.80%).

In **achievement cluster** (8.96% of items), poor performance was the most frequent reason for Samuel's bad feelings (52.38% of items within the cluster), followed by non-existent prospects for career advancement (25.4%), and lack of recognition from his peers or immediate superior (22.22%).

The remaining two clusters were represented less frequently. Factors grouped into **out of work cluster** accounted for 4.13% and covered reasons for Samuel's unhappiness that lied outside his work reality, such as private problems he had to solve, having a bad day, and being a negative or lazy person. **Organisation cluster** (0.57% of all items) consisted of only one factor pointing to organisation having a bad reputation or being a bad employer as a source of barriers to Samuel's motivation.

Figure 2: Percentage of factor clusters for negative work motivation



5 DISCUSSION

As mentioned in literature review, a substantial part of existing empirical research on Gen Z deals with underlying characteristics of the generation in work context and its career preferences based on quantitative research. As if following a general premise, most research questions are merged around the determination to specify factors that motivate Gen Z at work and enumerate their strength. To our best knowledge, the question of what does *not* motivate Gen Z has not received much academic/practitioner attention so far. Perhaps the reason for exploring mostly positive aspects of motivation is the belief that the *lack* of these factors will generally decrease the level of motivation. The research question of motivation/demotivation, satisfaction/dissatisfaction and other constructs working across the continuum as opposed to being at two different ends of a continuum has a very long academic tradition including classical works by Herzberg (1959; 1968).

On the contrary to the prevalent uniscale survey approach, our work aimed for generating unique factors that possibly create barriers for Gen Z in their work context and have not been linked to Gen Z so far. **The list of items, factors and clusters generated from research data collected** through MEBS should be considered more significant than actual frequencies of their occurrence. Items reported by respondents as triggers of negative emotions related to work and lack of motivation/enthusiasm were generated intuitively, providing no guidelines or options to select from. The idea was to observe how Gen Z students construct their thoughts of motivation barriers when they are not guided by the popular survey approach.

The exploratory stage of our research explains why we believe that **conclusions should not be drawn from cluster rankings at this point**. Still, we set the presented cluster ranking of ‘negative’ factors against our previous work on motivation triggers that was also based on MEBS (Kirchmayer & Fratričová, 2018) in order to outline potential overlaps. The most influential cluster in both positive and negative stories is that of work-person fit. While positive stories reported in this cluster mostly emphasized the link between enjoying one’s work and work motivation, negative stories depicted the lack of sense of purpose and the state when one does not feel fulfilled by his work.

When we sorted positive clusters of factors leading to work enthusiasm top-down by frequency, the battery of work-related cluster ranked second (Kirchmayer & Fratričová, 2018) comprising factors like reward, personal development, workload, work time and freedom at work. In motivation barriers though, the work-related cluster was overtaken by relationships at work including team climate, teamwork and various aspects of leadership. One possible interpretation that requires further research is that the negative effect of absence of healthy and pleasant relationships at the workplace possibly outgrows their benefits. Perhaps the toxic impact of perceived disharmony with peers or manager overrides the gains that come with pleasant co-workers and a good boss. The achievement cluster in both drivers and barriers included equal themes of performance achievement and career advancement. Naturally, these themes were specified in negative connotations on the barriers’ side, i.e. poor work performance and career stagnation. Out-of-work factors were at the bottom of both rankings, mostly related to private happiness/problems or situational factors such as having a good/bad day.

Table 3: Factor ranking by frequency

Motivation drivers	Motivation barriers
Enjoys work	Does not enjoy his work
Co-workers	Co-workers: Team climate
Reward	Workload
Achievement	Lack of sense of purpose
Career advancement	Reward: Low pay
Personal development	No interest in work
Recognition	Poor performance
Workplace	Not his work of interest
Leadership	Leadership: Relationship
Work of interest	Reward: Unfair pay
Good day	Leadership: Bad leader
Private happiness	Monotonous work
Impact	Physical work conditions
Other factors	Co-workers: Conflicts
	Career stagnation
	Lack of recognition
	Private problems and other factors

Source of motivation drivers list: Kirchmayer & Fratričová (2018)

Note: Top dichotomic factors in bold.

On top of cluster frequencies, we looked deeper into both motivation drivers and barriers (Table 3). The key question was to what extent are factors causing work (de)motivation of Gen Z relevant to just motivation or just demotivation. Does each side of the (de)motivation scale relate to isolated factors or do some factors work across the continuum? At this point, we analysed overlaps between motivation barriers and motivation triggers reported before. Above all, we aimed to identify dichotomic factors i.e. those which were identified as motivation drivers and barriers at the same time.

By frequency, **top two factors accounting for both states of mind at work (positive work motivation /enthusiasm as well as lack of it) are enjoying one’s work and team climate (relationship with peers)**. On the barriers side, chances are that these factors account for majority of work frustration that the respondents have lived through or witnessed so far.

Enjoying one’s work appears to be the most dichotomic factor on the list. On one hand, it was the most often quoted factor accounting for positive work motivation (64.70% of respondents, Kirchmayer and Fratričová 2018). In its absence, on the other hand, 57.02% of respondents think of it as a trigger of missing work enthusiasm.

The theme of reward also has a twofold character. It was described in many stories as a powerful motivation driver (with strong emphasis on financial reward, though) (Kirchmayer & Fratričová, 2018). On the other hand, low or unfair reward is a clear motivation barrier to many respondents.

The list of factors which appeared on both sides of the motivation continuum includes achievement, too. To many, outstanding performance was a source of work enthusiasm and motivation, while poor performance was often seen as a source of frustration. Similarly, career advancement and space for personal development were mentioned in both groups.

A prominent list of dichotomic (overlapping) factors in both motivators and barriers indicates that most respondents do not separate motivation drivers and barriers in two isolated groups. This is in line with the findings of Kultalahti and Viitala (2014) who found several dichotomies when exploring (de)motivation factors in Millennials.

Although due to exploratory stage of our research we need to interpret factor frequencies with caution, it is interesting to see that **the theme of leadership was surprisingly not among the top frustration factors.** One potential reason is that university students do not yet have enough empirical experience to comprehend potential impact of the direct superior on their motivation. This would clarify why most items reported in the leadership theme were rather unspecific in terms of explaining why exactly the leader is a source of Samuel's demotivation. Some of the less frequent factors, such as lack of recognition or career stagnation will have to be explored with equal attention in the future since the actual importance of individual factors to Gen Z can potentially differ from the results of our preliminary research.

Surprisingly, the MEBS approach has not generated too many new unique aspects of motivating Gen Z. Most of the reported stories related to factors which were also identified as important to Gen Z members using a standard survey approach outlined in literature review above. The most frequently occurring factors cited in surveys on Gen Z such as options of career advancement and continuous learning/growth, generous rewards and chances of making a positive impact were all replicated in our study as well.

6 CONCLUSION

Nowadays, Generation Z presents the youngest pool of talent entering the world of work and thus is gaining a lot of attention in the business environment. Understanding their unique motives, and attitudes to work-related issues might be crucial for attracting and retaining young talent in the coming years.

Our study aimed to understand what factors are seen as barriers to work motivation by Generation Z. As the motivation patterns of generational cohorts are usually researched in terms of (positive) motivation, we wanted to look at them from a different angle to see to what extent they are overlapping. In order to generate a set of unique factors that might be otherwise hidden behind the scenes, we adopted a method of empathy-based stories that has been rarely used both in management as well as in the region of Central Europe. Not enjoying the content of the work, bad team climate, too much workload, and having no sense of purpose in the job seem to be the most prevalent barriers to work motivation. Although the MEBS approach has not generated too many new unique aspects of motivating Gen Z, the study revealed important themes regarding work motivation and provided a compact set of items for further quantitative research.

Naturally, there are some limitations to our study that must be addressed. The first limitation lies in the size and character of our sample. The sample consisted entirely of business students and its size was not big enough to come up with generalized conclusions. Further studies are needed to see if the motivational patterns remain unchanged across different fields of study. Second, the method of empathy-based stories works with projections of one's beliefs and motives on an imaginative stranger, which might not reflect the respondent's patterns perfectly. Therefore, it is likely that some factors remained still uncovered. Third, the work experience of our respondents is very limited due to their young age and thus their perception of the work situation might not be comprehensive. Although most of our respondents stated they had a previous work experience, it is reasonable to assume that the real full-time work experience is yet to come. Fourth, some of the findings might not be generation-related but age-related. To distinguish between generation-related motives and those that are tied more to age than to a generational cohort, a future research examining the same cohort at different age and life stage is needed.

To conclude, future studies are needed to fully understand Generation Z work motives and unique characteristics. A further quantitative study might be useful in uncovering the intensity of the factors identified in this study. However, it is hard to predict which work preferences and motives remain unchanged over time. It is vital to get back repeatedly to the generation at different ages to see what characteristics remain unchanged and thus really set Generation Z members apart from the others.

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Applying behavioral economics insights at the workplace

Viktorija Ilieva, Ljubomir Drakulevski

ABSTRACT

Behavioral economics insights are widely applied by policymakers worldwide, but the private sector seems to be still not fully embracing them. This opens up a new research field and there is a salient call among researchers and practitioners for accumulation of evidence-based nudge interventions at the workplace. This paper reviews studies that apply behavioral economics insights in an organizational setting. The reviewed workplace interventions are based on reminders, default nudges, implementation intentions and priming. There are important take-home messages for human resource practitioners from this relatively novel research stream which has already helped policymakers improve individual and societal welfare worldwide.

KEY WORDS

workplace, behavioral economics, nudging, interventions

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1 INTRODUCTION

It has been a decade since the nudge concept was popularized by Thaler and Sunstein (2008) in their eponymous book. The book really seems to have become the bible of behavioral economics (Kahneman, 2011). Not only did it become a bestseller, but it also made its way to public policy circles leading to the establishment of the world's first government institution dedicated to the application of behavioral sciences - The Behavioural Insights Team. The Government of the United Kingdom established this institution to make public services more cost-effective and easier for citizens to use, improve outcomes by introducing a more realistic model of human behavior to policy and enable people to make better choices for themselves (The Behavioural Insights Team, n.d.). Other nations followed the UK example by introducing their own nudge units: USA, Singapore, Germany, Australia among them (Purnhagen & Reisch, 2016; Samson, 2018). According to recent data the number of institutions worldwide that are using behavioral economics insights in public policy has reached 196 (OECD, n.d.). There are reports on interventions based on behavioral economics insights in various domains of public policy: public health, household finance, education, energy consumption, voting, traffic (Felin, 2014; Samson, 2018).

Although the concept of nudging is relatively new, the discipline of behavioral economics dates back from much earlier. The 2017 Laureate in Economic Sciences, Richard Thaler, who popularized the concept of nudging, is considered as one of the founders of the discipline and is credited for its reception into mainstream economics (Angner & Loewenstein, 2007). Whether this field will end up fully integrated into economics or it will become a separate discipline is still uncertain, but economists who apply insights from psychology into their work offer better advice to policymakers due to their predicting and explaining capacities (Earl, 1990; Metcalfe, 2018).

Judgment and decision-making theories are generally categorized into two groups: normative – concerned with how humans should think and decide and descriptive – aimed at explaining how humans really think and decide based on empirical evidence. Early decision-making models were models of a perfectly rational human being. They

CONTACT INFORMATION:

Viktorija Ilieva / Ss. Cyril and Methodius University in Skopje / Republic of Macedonia / viktorija.ilieva@eccf.ukim.edu.mk

Ljubomir Drakulevski / Ss. Cyril and Methodius University in Skopje / Republic of Macedonia / ljubomir.drakulevski@eccf.ukim.edu.mk

were based on the idea that decision makers are fully informed about all available options regarding their decision task as well as the possible outcomes from these options, highly sensitive to the slight differences among the options and totally rational in terms of choosing the option with the highest utility. Economics textbooks teach us that homo economicus can think like Albert Einstein, store memory as IBM's Big Blue, and exercise the willpower of Mahatma Gandhi (Thaler & Sunstein, 2008).

But no matter how sophisticated the normative models may seem, human decision making is far more complex than calculating utility and probability. Behavioral economics is particularly concerned with the limits of rationality (Ho et al., 2006). In the 1950s psychologists questioned the concept of unbounded rationality and in 1955 Herbert Simon introduced the concept of bounded rationality. This concept did not conform to the assumption that the theory of subjective expected utility provides a relevant explanation about human rationality (Albar & Jetter, 2009; Polic, 2009). The concept of bounded rationality implies that individuals tend to make rational decisions, but they are faced with certain limits when collecting and processing information, in terms of time, costs, memory, intelligence and perception (Bazerman, 2006). In order to illustrate how human rational behavior is shaped, Herbert Simon uses the scissors metaphor where one blade represents the cognitive restrictions of humans, and the other blade represents the structure of the environment (Basel & Brühl, 2011; Gigerenzer, 2008). Just as it cannot be understood how scissors cut by focusing on one blade only, human behavior cannot be understood neither by studying the cognitive skills nor by studying the environment in isolation. When deciding, individuals do not consider all the options and they do not calculate which one of them yields the highest gain or the lowest loss. They consider the options one by one and choose the first one that satisfies, or that meets the lowest level of acceptance. Herbert Simon's conception of making decisions which are good enough by using the strategy of satisficing has paved the way for a decision-making theory with higher explanatory power than the subjective utility theory and more real assumptions about the psychological capacities of decision makers (Eisenhardt & Zbaracki, 1992; Gigerenzer & Goldstein, 1996).

The broad intellectual tradition which supports the viewpoint of humans as bounded rational creatures, greatly influenced by their social environment, and the way in which choices are presented provided a fundament for the idea of nudges (van Oorschot et al., 2013). Nudges are liberty-preserving approaches that steer people in particular directions, but also leave them the freedom to go their own way (Sunstein, 2014).

Closely related to nudges is the idea of choice architecture as an interface of available options. The design and construction of the menu, ordering and structure of options available can involve various considerations like: which options are made salient and how, which options are made available in the first place, the nature of default options, the order of the options, how the options are framed or made salient, what information is available about each option and which options are incentivized (Felin, 2014).

For good or for bad, choice architecture can increase the probability that a favored option is selected by influencing the decision maker's environment without changing incentives (de Haan & Linde, 2018). Despite debates about the ethics of nudging are becoming the main subject of many recent papers (Loewenstein et al., 2015; Sunstein, 2015), large-scale individual and collective benefits that can be achieved by implementing small nudges are not to be overlooked in the organizational context (Felin, 2014).

In comparison to the ever growing literature reporting on public policy applications of nudges all over the world (Hallsworth et al., 2016; Halpern, 2015; Halpern & Sanders, 2016; OECD, 2017; Whitehead et al., 2014), the literature on nudging and choice architecture at the workplace lags behind. Indeed, applications of behavioral economics insights are not uncommon in organizations. Google's People Analytics Team, for instance, applies behavioral insights to support workplace decision-making and wellbeing (Hollingworth & Barker, 2017). However, those reports are single organization case studies and there is a literature gap for a review focused on applications of different behavioral change interventions at the workplace, related to a particular target behavior or across various contexts.

The aim of this paper is to contribute to this literature gap by reviewing interventions commonly applicable at the workplace based on insights from behavioral economics and regarding various target behaviors. The reviewed behavioral change interventions are based on reminders, default nudges, implementation intentions and priming. It is worth mentioning that defaults and reminders can be found in literature as choice architecture techniques (Münscher et al., 2015), defaults and priming can be found as nudge mechanisms (Blumenthal-Barby & Burroughs, 2012) or nudge interventions (Friis et al., 2017), prompts to form implementation intentions as behavioral nudges (Milkman et al., 2011), reminders and implementation intentions as behavioral design principles (Datta & Mullainathan, 2012). Furthermore, different categorizations of choice architecture techniques are to be found in literature (Szasz et al., 2018) which is a barrier for a literature review and not to mention scientific reproducibility. The target behaviors vary across the reviewed interventions and are related to: sedentary behavior at work, energy efficiency, saving for retirement, paper usage, productivity, vaccination behavior, job performance, ethical behavior. What connects all of these reviewed examples of interventions at the workplace is that the employees are the target population. This is relatively rarely the case in the literature from the field which is mostly about interventions applied in laboratory, among citizens, customers, students or hotel guests (Münscher et al., 2015; Szasz et al., 2018).

2 BEHAVIORAL CHANGE INTERVENTIONS AT THE WORKPLACE

2.1 REMINDERS

The everyday information overload and new stimuli mean that information which is more salient has a higher probability of being considered when individuals decide or act. To address the limited attention and cognitive capacities of humans, choice architects might use an intervention based on reminders. Reminders are deliberation nudges that modify the salience and ease of access of options encouraging active, reflective decisions (Haugh, 2017; Münscher et al., 2015; Szaszi et al., 2018).

In the domain of corporate compliance, many companies use interventions based on providing reminders to their employees (Haugh, 2017). Employees usually have the task to fill out forms where they report travel costs. Before performing this task they are reminded of morality with certifications positioned at the top of the form, instead the usual position at the bottom of the form. This intervention prompts one to consider their ethical obligations, resulting in truthful answers. A certification placed at the bottom of a form is also a reminder, but not a timely one. Furthermore, it has become a common practice for companies to include ethics focused certifications prior to any kind of employee engagement that might pose a compliance risk.

Cadena et al. (2011) examine the effect of reminders on employee's procrastination in a bank in Columbia. Loan officers in the bank showed inclination to procrastinate the sourcing of new clients and the collection of credits until the end of the month when the monthly bonuses were calculated. Cadena et al. (2011) introduced a program aimed at nudging loan officers to get more work done at the beginning of the month. For executing a particular set of goals early in the month, employees were offered small prizes to remind them of their progress towards accomplishing the goals. In the second part of the program employees were additionally reminded by branch managers about the goals and their progress. This particular behavioral intervention including the branch managers reinforcing the reminders helped employees fight the procrastination. Redistributing the workload led to higher monthly compensation, increased job satisfaction, less stress at work and improved overall performance at individual level.

2.2 DEFAULTS

As a behavioral change technique, defaults go further than reminders by more directly addressing the dual-system thinking (Haugh, 2017). Defaults are pre-set courses of action that take the effect if nothing is specified by the decision maker. It is crucial that they still leave the decision maker freedom to select a different option. Münscher et al. (2015) enlist the following processes as causes for the default effect: decision inertia, loss aversion and implied endorsement. The implementation of this choice architecture technique categorized as decision structure has shown to be very effective in targeting societal welfare or consumers' lifestyles. From what follows interventions based on this technique seem also very promising in various contexts at the workplace.

Although it would be expected that most USA employees take the required effort to enroll in a defined contribution plan, such as a 401(k), the percentage of enrolled workers is far from 100 %, and it usually takes a long period for workers to enroll (Thaler & Sunstein, 2008). As already widely acknowledged in literature, this has a lot to do with the design of the typical contribution plan where the default option that the employee is presented with is non-enrollment – she has to opt in to become enrolled. Bearing in mind that most individuals procrastinate and become inert, an intervention in the savings program consisted of switching the default from opt-in to opt-out. So, instead requiring an effort from the employee for enrollment, the employee was enrolled into a 401(k) plan by default in case she did not take an action to opt out. Madrian and Shea (2001) examined the effect of such a default intervention on the retirement savings in a firm and it showed positive results in terms of the number of employees enrolled in the automatic enrollment condition.

Although employees join sooner and more of them join at the end (Thaler & Sunstein, 2008), the disadvantage of applying this intervention alone is in terms of the saving rates because workers did not change the modest rate provided by default. Thaler and Benartzi (2004) approached this disadvantage by proposing the Save More Tomorrow (SMT) - a program of automatic escalation of contributions, which prescribed that the employees commit themselves to increase their contribution rates synchronously with their pay rise. The SMT plan successfully addressed the self-control restrictions, loss aversion, the money illusion and the status quo bias. This choice-architecture system was first tested in 1998 at a midsize manufacturing company (Thaler & Benartzi, 2004) and following its benefits for employees' saving rates employers have widely adopted its basic concept in practice. Defaults have also been applied in the UK where employees are automatically enrolled into retirement plans, while they still have the opportunity to opt out. This default resulted in increased pension savings and more people having pension (Service et al., 2014).

The study of Venema et al. (2018) was conducted at a large governmental organization that had invested in sit-stand desks (SSDs) three years beforehand. It was detected that employees very rarely used the desks for working in a stand-up position. The goal of Venema et al.'s (2018) study was to examine if changing the default setting of the SSDs from sitting height into standing height would effectively nudge employees in terms of general time spent working

standing up and whether the nudge would still be effective after the nudge intervention period. This study found that the default nudge intervention raised the stand-up working rates at least until two months after the nudge intervention.

A randomized controlled experiment run by Brown et al. (2012) showed that defaults are an effective behavior-change mechanism also in the context of encouraging energy-efficiency at the workplace. A small reduction in the default setting on office thermostats in an OECD office building during the winter season caused a significant effect on changing the employees' chosen thermostat setting – it reduced the average chosen setting, which in turn led to decrease in energy use. However, in case of large decreases of the default setting, the OECD employees did not stay inert and they responded by returning the setting to the one that they preferred.

Many people use far more paper than needed just because their printers have simplex as default. Switching the default option on printers from simplex to duplex was tested in a natural field experiment at a large Swedish university (Egebark & Ekström, 2013). The university staff was initially informed about the default switch (but not about the study) via email sent by the heads of departments. This gentle nudge intervention saved paper and the effect stayed stable over time. On the other side, applying a more conventional method of pure suggestion by encouraging employees from a random subset of departments to save resources in order to contribute to the university's pro-environmental initiative had no impact at all on paper consumption.

Another example of a default nudge applied at the workplace is highlighted in the study of Chapman et al. (2010). Many people fail to receive an annual flu shot although it is freely available at their workplaces. In the study of Chapman et al. (2010), employees at Rutgers University were randomly assigned to two groups. The first group received an email from the university's occupational health department which informed them about the pre-set date and time of their flu shot appointment, leaving them the freedom to change or cancel it. The participants in the second group were also informed about the freely available flu shots, but instead of a default appointment they were sent a link to schedule the date and time by themselves. What this study found was in line with the previously discussed studies related to the default effect. The implementation of an opt-out condition increased the number of employees who received a seasonal flu vaccination.

In their point of view article, Ebert and Freibichler (2017) propose a slightly different type of default nudge which targets the productivity of knowledge workers. Knowledge workers usually complain about a workplace environment that does not allow them to stay continuously focused on a task without being interrupted. As consultants of many companies, Ebert and Freibichler (2017) propose an intervention which is already implemented by organizations leading to increased productivity. The intervention consists of making a certain day of the week a "no-meeting" day, which could be reinforced by an appropriate default rule in the software the organization uses for scheduling meetings. Furthermore, knowing that knowledge workers spend a lot of time in (virtual) meetings and the efficiency of these meetings is low, the authors propose another default nudge – to adjust the business software which is used for organization of meetings by setting the default duration of a meeting to a shorter period of time than the standard 60 minutes.

2.3 IMPLEMENTATION INTENTIONS PROMPTS

Often there can exist a gap between the individual's intentions and actual behavior so the question that might arise is how can individuals be aided on their way to fulfil their goals (Service et al., 2014). Implementation intentions are strategies for goal achievement that define the conditions that will activate certain behaviors. They are mental links between a specific future situation and the goal-directed behavior which are created unconsciously. The individuals switch to being controlled by a preselected contextual clue of which they are quite unaware (Shantz & Latham, 2011). Pirolli et al. (2017) and differentiate between goal intentions and implementation intentions. The former are viewed as mental representations of desired behavior and end states, whereas the latter are mental representations of simple plans to translate goal intentions into behavior under specific conditions. The prompt to form an implementation intention comes with a minimal expense and as in the case of a default option, does not restrict the individual's freedom of autonomy (Milkman et al., 2011).

Milkman et al. (2011) designed a field experiment to measure the effects of prompts to form implementation intentions on actual influenza vaccination. The study was conducted among employees in a large Midwestern utility company and the vaccination was freely available as in the previously discussed study of Chapman et al. (2010). All of the employees were sent an email reminder with the times and locations of the relevant clinics. The treatment group was also sent an additional prompt to write down the date/date and time the employee planned to get vaccinated. This additional prompt proved to make a difference when comparing the actual vaccination rates between the treatment and the control group. This rate was lower in the latter group where employees were only reminded via email of the freely available flu shots and informed about the location and time details, but were not prompted to form an implementation intention. Another finding from this experiment is that the prompts show the highest effect in the subset that was offered only one available day to plan a vaccination appointment.

Srivastava (2012) successfully applied a planning prompt in an energy company which was promoting annual physicals for its employees. The mail that the employees received emphasized that a great number of their colleagues were showing interest about the physical examination and also prompted the individual to write down the date, time and name of a doctor for the examination.

2.4 PRIMING

Similarly to implementation intentions, a primed goal activates a behavior unconsciously. To consciously set a goal requires cognitive efforts and humans are inclined to conserve this limited resource. Priming effects are of particular relevance for getting the whole picture when thinking about human behavior at work, bearing in mind that most of the human resource (HR) practitioners relate employees' motivation to cognitive processes alone.

Shantz and Latham (2011) examined how primed goals affect employee's performance, focusing on the implications for human resources management. The target population of their study were call center employees whose performance was measured in terms of the amount of money raised from donors. The experimental group was presented with usual instructions on ways to obtain donations printed over a photo of woman winning a race. The study found that the experimental group consisting of primed employees raised significantly more money compared to the control group whose directions did not include a photo of personal achievement. This proved the hypothesis that environment primed a nonconscious goal that had a positive impact on job performance lasting over an entire work shift.

3 CONSIDERATIONS FOR HUMAN RESOURCE MANAGEMENT

Understanding human behavior at work lies at the heart of HR (Gifford, 2014) and HR practitioners mostly look at it through the lens of economic rationality. Including subconscious processes as a research stream in the context of managing organization's human resources is certainly a challenging expansion of conventional thinking regarding human resources management (Shantz & Latham, 2011).

Thaler and Sunstein (2008) argue in favor of nudging at the workplace by pointing at various instances when individuals fail to act in accordance with their clearly defined goals. The authors interpret the failure in behavioral change as a confirmation that individuals would certainly be open for nudges that would help them achieve their goals.

To change employee behavior, companies need to start identifying the required behavior change and define the target behavior. Then, it should be determined if choice architecture is the appropriate or the most pragmatic behavior change approach. The analysis of the behavioral bottleneck shows why the actual behavior of people diverts from the targeted behavior and it enables choosing the right intervention technique. As Münscher et al. (2015) underline, being aware of the relevant biases that hinder the display of the target behavior is essential in the process of matching the insights from the bottleneck analysis to specific choice architecture intervention techniques.

There is an evident gap for practical guidelines on the implementation of behavioral nudges in organizational setting (Michaels & Powell, 2017). Although there is evidence of the impact of nudges within organizations, empirical papers that study the long-term effects of nudges are scarce (Venema et al., 2018) and this is an important drawback for HR practitioners who are concerned with the issue of time length (Latham & Piccolo, 2012). Moreover, implementing nudges at the workplace requires specialist guidance by behavioral economists at best. Nevertheless, there are plenty of sources that might be helpful on the way such as websites, guides and books mostly freely available online (Michaels & Powell, 2017). Companies can also benefit from using the tools of behavioral science already applied and promoted by policymakers.

4 CONCLUSION

This paper contributes to the literature gap on using interventions based on behavioral economics insights at the workplace in various contexts. Regarding the studies reviewed in this paper, the approach for their selection was domain general meaning that they treat various target behaviors at the workplace and intervention general meaning that they are related to different techniques based on behavioral economics.

Behavioral change interventions that are reviewed in this paper are applicable in organizational setting in different contexts. Those contexts include: corporate compliance, employees procrastination, saving for retirement, sedentary behavior, lower energy use, saving resources, attending vaccination appointments and health assessments, job productivity and performance. Workplace interventions based on behavioral economics insights are simple and cost-effective way to help employees translate their personal intentions into actions. A default nudge that changes

the standard setting of a SSD from sitting into standing position has been shown to decrease the time spent sitting at work. Considering that most adults spend approximately 60% of their waking hours at work, the employer can play an important role into shaping employees health behavior (Morgan et al., 2011). Furthermore, nudging employees to healthy lifestyle is also of advantage for employers as improving employees health leads to a healthier bottom line (Srivastava, 2012). Beyond improving the bottom line, companies can also make a pro-environmental contribution by taking the advantage of environmental nudges (Thaler & Sunstein, 2008).

To nudge or not to nudge will be the question that will increasingly attract the attention of businesses and mark a shift from a conventional thinking about human behavior at work. It is clear that employees as decision makers do not make choices in vacuum (Thaler et al., 2010). A modern HR organization can benefit from advances in behavioral economics in many ways. At first it is necessary to remain aware that there is there is no such thing as neutral design (Thaler & Sunstein, 2008). Even an organization avoiding to influence people's choices may have devised unintentional nudges that have major effects on its people's behavior.

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Developing a model for alignment between individual and organizational performance management and organizational objectives

Shapoor Sherafat, Ahmad Ali Khaef Elahi

ABSTRACT

The success of each organization depends on its ability to evaluate its performance and then use the results of performance evaluation to enhance its efficiency. The present study is aimed at developing a model for investigating the relationships between individual and organizational performances, alignment, and organizational goals. To this aim, a correlational-descriptive research design was adopted. The participants of the study included 504 employees working in the banking industry. The data were collected through a researcher developed questionnaire consisting of 57 items. Then, the accrued data were analyzed through structural equation modeling via SPLS smar3. The results indicated that the model had acceptable goodness of fit and there existed a significant correlation among the components of the model.

KEY WORDS

individual performance, organizational performance, alignment, organizational goals

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1 INTRODUCTION

In the present changing world, organizations and their jobs have characteristics such as uncertainty and unpredictability. These organizations and the people working for them are under pressure from changes inside and outside the system (Bell & Kozlowski, 2008). These variables are affected by various factors such as political and social instability, the evolution of procedures and organizational structures, as well as cultural and social changes. As a result, employees often face emerging, unstable, unpredictable, and complex situations. These conditions force individuals and teams to react quickly to duties and demands of the work. Performance management, as a reaction to such necessities of the organizations, appeared to become an integral component of the organizations (DeNisi & Smith, 2014). Likewise, performance management as one of the management processes has a prominent role in helping to realize the goals and missions of the organizations. That is, organizations are equipped with their own personnel and the adjusted goals will be met by the same human resources.

In fact, an organization is not composed of single voices, but as a symphony based on harmonization of voices from all members (Pulakos & O'Leary, 2011). The human resources of the organizations require more attention and development because human resources alone can increase productivity.

The emergence of the theoretical and functional micro- (at individual level) and macro- (at team and organization model) models focusing on the identification of the processors, processes and characteristics of performance management and its adaptability with work environment is the consequence of the works done by researchers and managers who perceived this challenge, although the perception of the theoretical framework is quite different from applications such as selection, training, refinement, and performance management (Kozlowski & Chao, 2014). Baard et al. (2013) take performance adjustment as the most important function of performance appraisal and define it as cognitive, emotional, motivational, and behavioral reforms in response to new demands or fatalities or situational requirements.

CONTACT INFORMATION:

Shapoor Sherafat / University of Tehran / Iran / sherafat51@ut.ac.ir

Ahmad Ali Khaef Elahi / Tarbiat Modares University / Iran / khaefelahi@modares.ac.ir

In various definitions, the concepts of planning, management, and performance control are within the term performance management. The strategic concept of performance management is associated with three Cs: 'Consistency', 'Coordination', and 'Control' which are necessary for meeting organizational goals (Brauns, 2013).

The definition of performance management includes different aspects with a wide range of contradictions, in word definitions, and conceptualizations. As there are a lot of differences in theoretical foundations among the scholars, the practical criteria is also contradictory. Therefore, there is no agreement among the theorists on the concept of performance management and how it is measured (Pulakos & O'Leary, 2011). According to Lebas (1995), the main reason for lack of consensus among the theorists on the definition of performance management is because of the different applications of the definitions in various contexts. The disagreement over the theoretical field has led to the emergence and development of different models and theories in the practical field at three levels: 'individual', 'group' and 'organization'.

Alignment at different levels and in different units of the organization for implementing performance management is one of the requirements and at the same time a major challenge for the executive managers of the organizations. Different individual and organizational backgrounds and in some cases divergences in organizational models has resulted in the lack of universality and generalizability of the models reviewed in the literature. Hence, this research intends to provide a model for explaining the relationship between the individual performance management and the organizational performance aligned with the organizational goals which seems to be a suitable model in organization performance management.

2 THEORETICAL FRAMEWORK AND RESEARCH MODEL

One of the basic challenges for any organization in the process of performance management is to achieve alignment. Alignment is a condition through which any organization does its best to achieve its goals. Likewise, Alignment consists of top-down evolution in which communication, leadership, goals, and expectations of everyone are understood. Each organization experiences alignment over time and usually in crises (Brauns, 2013). Employees often come together to solve the problems of the company because they are usually faced with uncertainty to deal with their concerns. Organizations cannot wait for crises and accidents to determine their internal and external alignment.

Examining successful organizations suggests that their performance is the outcome of the strategic alignment of two or more effective variables (Ladib & Lakhali, 2015). By adopting appropriate preventive steps in the organization, every person in the organization can sense ownership and accountability and acts with the right energy and ability, with a clear vision that is consistent with the environment and the requirements (Shih & Chiang, 2005). The concept of alignment or fit is not only a key factor in performance management, but it is also a fundamental issue in strategic management as it brings about a competitive advantage (Venkatraman & Camillus, 1984). As Venkatraman (1989) holds, the strategic fit between some of the core activities not only creates competitive advantage but also contributes to the sustainability of this competition.

The alignment in the organization is taken into account when there is a realistic assessment of the opportunities and threats of the environment and assets within the organization. In fact, alignment requires a common understanding of the goals and objectives of the organization by managers at different levels and units in the organization's hierarchical system (Venkatraman, 1989). The concept of alignment in the theoretical context of the organization refers to the performance of the organization and the consequences of two or more variables, such as goals, strategy, technology, culture, and environment, which refer to the contingency strategic approach to the dynamic relationship between organizational strategy and organizational culture.

The convergence of organizational resources with environmental changes and human resource support for this convergence expresses the importance and necessity convergence role in the organization (Bergeron et al., 2004). Researchers have identified two types of organizational alignment, vertical alignment, and horizontal or lateral alignment. Similarly, Vertical alignment, as Kathuria et al. (2007) believe, refers to organizing and structuring strategies, goals, and practical plans for all decisions at different levels of the organization. In this sense, the definition and application of strategy is evident at three levels. In other words, the organization level, the business unit level, and the operation level can be identified as these three levels.

Strategic management should move from the lower levels of the organization to its highest levels, viewing all the resources and units for decision making, to be truly effective. Therefore, the vertical alignment can be achieved by realizing such an objective in the organization. In addition, the Horizontal alignment refers to the coordination of efforts throughout the organization. Moreover this kind of alignment can be seen in the lower levels of the organization. Also, the horizontal alignment is more frequently considered in interoperability and inter-organizational integration (Hung et al., 2010).

The integration of in-house operations in some cases guarantees consistency and stability of decisions that include all human resources operations and other complementary and supportive activities. By the same token, in-house applied coordination is possible through coherence in all sections and also across the organization. Correspondingly, the nature of applied internal organizational coordination refers to internal alignment. Likewise, the internal fit is due to the compatibility between an objective specific task and the operational and functional policies (Freifeld, 2013). For example, the consistency between production priorities, flexibility and workforce are among those that are defined within the organization. In addition to the necessity of horizontal and vertical alignment in the organization, the compatibility is defined by the important components of alignment (Santala & Parvinen, 2007).

Convergence and fitness in the organization are more important than anything else in terms of interacting (adaptation) with the environment, achieving goals, and achieving organizational strategies. Furthermore, the alignment of organizational processes and their effects on organizational performance management is considered as dynamic capacity which is a consequence of flexibility and efficiency. In addition, the alignment in the organizational hierarchy (vertical) and the horizontal units leads to an alignment within the organization and makes it more possible to achieve strategic goals (Zhang, 2012).

2.1 PERFORMANCE MANAGEMENT

Performance management is a strategic and comprehensive process for achieving organizational success by improving the performance of team members and developing their capabilities. According to Armstrong (2010), performance management in an organizational dimension is usually synonymous with the effectiveness of activities, and the purpose of effectiveness is to achieve goals and programs with the characteristics of the effectiveness of activities and operations. Also, Performance management in the dimension of how to use resources is expressed in terms of performance indicators. If, in the simplest form, efficiency is associated with the attribute, the performance management assessment system measures the efficiency of management decisions regarding the optimal use of resources and facilities (Armstrong, 2010).

Expressions of organization's outputs, in addition to showing the amount of primary resources consumption, represent the correct and optimal interaction of management with the external environment and internal factors of the organization (Samsonowa, 2012). Moreover, Performance management can be defined as a comprehensive process and procedure for effective management of individuals and teams in order to achieve group goals and strategic objectives of the organization (Micheli & Mari, 2013). Likewise, the process of performance management is constantly evolving since the tools needed are always larger and wider than the tools available, and the social units are always behind what is anticipated and expected (Etzioni, 1960). Similarly, the Performance appraisal of the individual and group reflects the attention to the optimal use of resources and the achievement of the predetermined ultimate goals. In order to accomplish its goals, the organization must set up its own work plan, which is a fit between resources and ultimate goals (Santala & Parvinen, 2007; Suttapong et al., 2014).

Although the impact of human resources on the performance management process was confirmed (Boselie et al., 2005; Suttapong et al., 2014), performance-related research mainly refers to indicators and variables, such as personality, rate of investment return, goals, efficiency, and rewards, and the organizational level which consists of organization business unit, and operational level (Hung, et al., 2010).

Tseng and Lee (2012) believe that individual performance management has significant impact on organizational performance. In addition, they have identified performance management indicators at three levels: individual level (job satisfaction, acquisition of personal goals and goals), group level (ethics, Solidarity, effectiveness and productivity) and at the organizational level (income, efficiency and productivity, rate of absenteeism, return on capital and adaptability). In the same vein, Behn (2003) sets out a set of indicators in three general headings of destination, time, and priority of goals which are relevant to and effective for performance management and aligned with strategic goals. Moreover, Slavić et al. (2014) maintain that indicators such as productivity, quality of services, creativity and innovation of global management and their alignment with organizational goals are effective for the success of organization.

Furthermore, Qureshi et al. (2009) believe that the variables of leadership, employees, policies and strategies, shareholders and resources, organizational life cycle processes and the key performance indicators are given in their effective performance management process. By the same token, Tangen (2003) showed the relationship between performance management and the individual indicators such as motivation and employee improvement.

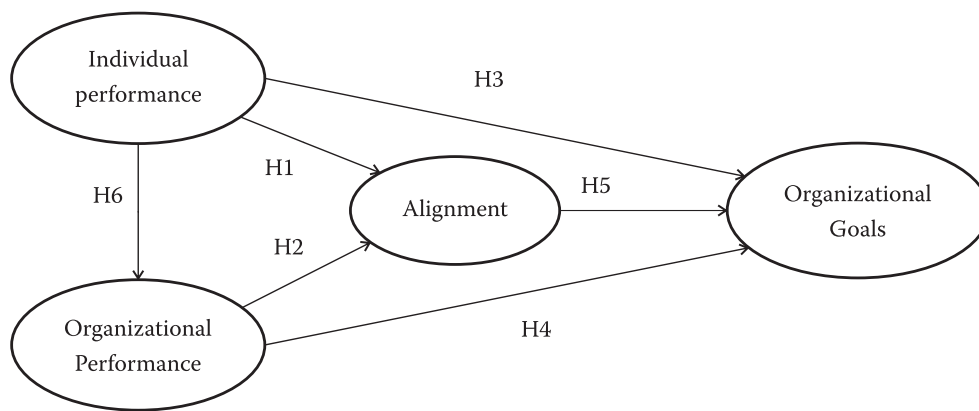
What's more, it was claimed that there is a significant relationship between a person personality, apprenticeship-training, individual attitude, and performance management (Anderson, 2012). It was also stated that the relationships between intra-organizational variables (skills, size, age, focus, choice, individual motivation, problem solving ability, education, compensation services, incentives and rewards, evaluation and feedback, promotion mechanisms) and outsourcing (financial regulation, macroeconomic policies, competitive conditions, market structure) and performance management are statistically significant (Anderson, 2012).

Likewise, the review of the related literature shows that different models of performance management were presented at individual, group, and organizational levels, based on different indicators. Executive models of performance management at the organization level should include the overall organization and lead to the efficiency and effectiveness of the system (Freifeld, 2013). These models, which were presented to increase productivity and efficiency of the system, mainly focused on performance management indicators (Yavari & Zahedi, 2013). Therefore, it is necessary to develop a model for performance management that includes variables at all levels of the organization.

By combining the findings of the related studies on performance management and the relationship between its components aligned with organizational goals, it is essential to develop a comprehensive model. Thus, the present study is an attempt to explore the relationship between the components of organizational performance management which are aligned with organizational goals. This study also aims at providing a model, which aligns performance management with organizational goals, and explains the relationship among its components.

Similarly, the conceptual model of this research is a theoretical model based on the relationships between a numbers of factors that are recognized in the statement of the problem. Likewise, the hypothesized relationships between research variables are shown in Figure 1.

Figure 1: Conceptual model of research



3 RESEARCH METHOD

The method of this research was using a survey. In order to undertake it, the questionnaire developed by (Sherafat, 2017) was used to collect the required data. Therefore, It consisted of four main components and 57 items which are measured on five-point Likert scale (1 = strongly disagree, 2 = disagree, 3 = neutral, 4 = agree, 5 = strongly agree). Also, the questionnaire measures individual performance (twenty four items which were divided into seven subcategories: judgment ability, productivity, attitude, learning, cooperation, ethics, and creativity), organizational performance (consisting of sixteen items and five subcategories: promotion and rewarding, structure, financial regulations, leadership, and competition conditions), alignment (consisting of twelve items and three subcategories: compatibility, vertical alignment, horizontal alignment), and organizational goals(consisting of five items). Similarly, the construct validity of the questionnaire was estimated through running Structural Equation Modeling using Smart PLS3 software (See appendix A). The internal consistency of the questionnaire was also estimated through running Cronbach’s alpha. Therefore, the detailed description of the instrument is presented in Table 1.

Table 1: Components of the questionnaire

Factors	Items	Factors
Individual performance	1-24	0.85
Organizational performance	25-40	0.82
Alignment	46-57	0.89
Organizational goals	41-45	0.82

3.1 PARTICIPANTS

The participants of the study were consisted of 504 employees of the banking industry, who were selected through multi-stage sampling. The first step in this selection was to randomly choose 16 banks, consisting of eight private banks and eight public banks, out of 30 banks. Then, some participants were selected through convenience sampling from each of these banks. In other words, sixty percent of the participants were selected from public banks, and forty percent of the participants were selected among the employees of the private banks. The results of the demographic analysis of the participants also show that thirty percent of the participants had working experience of less than 10 years, 40 percent had working experience of 10 to 20 years, and 30 percent of the participants' working experience was more than 20 years.

4 FINDINGS

In order to test the research model and the hypotheses and to determine the causal relationship between the variables, structural equation modeling was used using SmartPLS3 software. Therefore, the results are shown in Figures 2 and 3 as well as Table 2.

Figure 2: Standardized Coefficients between the components of research model

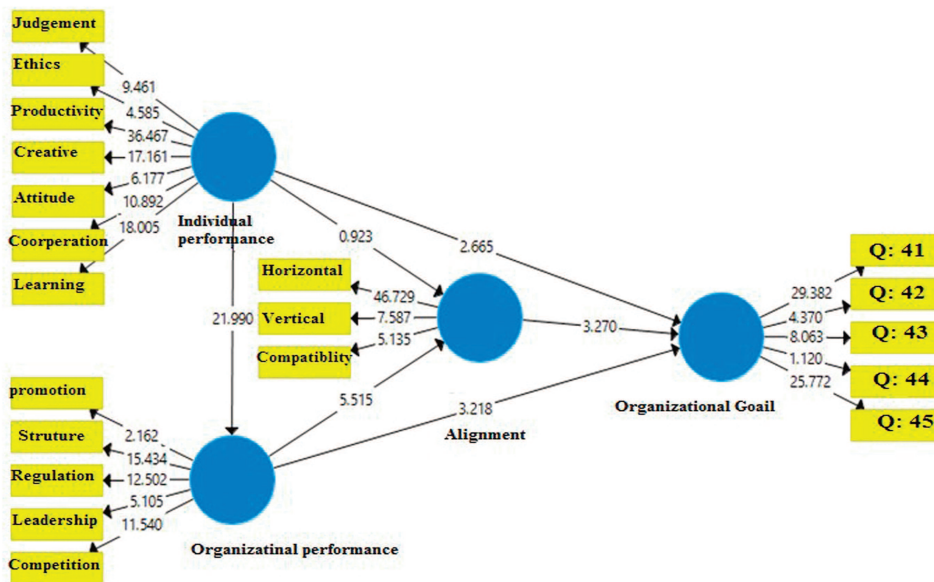
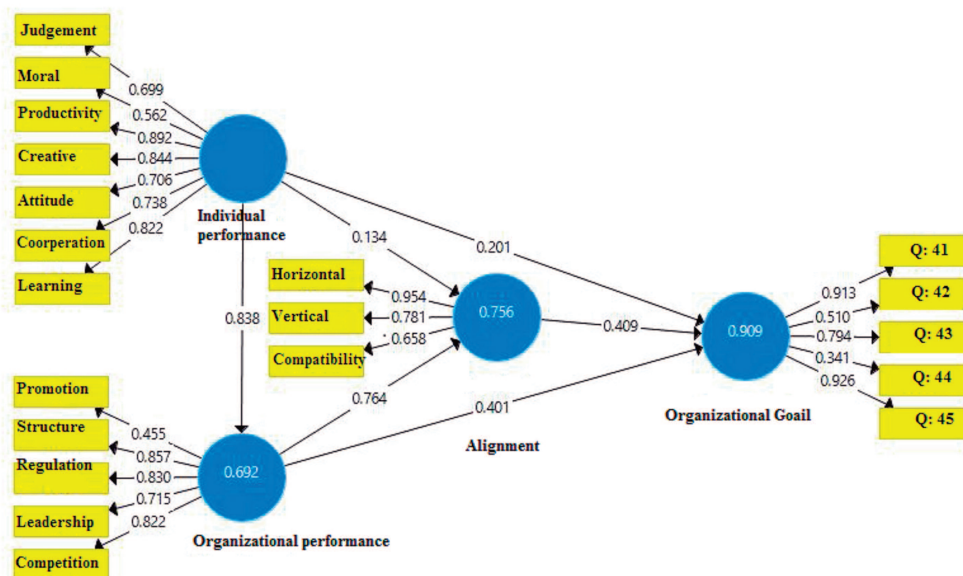


Figure 3: Correlation coefficient between components of research model



As displayed in the Figures 2 and 3, t values for all relationships among the components of the model exceed +1.96 and -1.96; therefore, the relationships among the components of the models are all statistically significant. The goodness indices are also presented in Table 2.

Table 2: Goodness indices of the model components

Component	Goodness fit							
	χ^2/df	RMSEA		GFI		AGFI		
	range	result	range	results	range	Result	range	result
Individual performance	< 3	2.26	< 0.1	0.064	> 0.9	0.97	> 0.9	0.92
Organizational performance	< 3	0.681	< 0.1	0.075	> 0.9	0.97	> 0.9	0.96
Organizational goals	< 3	0.35	< 0.1	0.095	> 0.9	0.94	> 0.9	0.96

As displayed in Table 2, the goodness indices of all components of the model are within acceptable range. Therefore, it can be strongly argued that the model has an acceptable goodness.

Hypothesis 1: Individual performance has a positive and significant effect on alignment.

This hypothesis examines the relationship between the individual performance and the alignment variables. That is, the individual performance has a positive and significant effect on the alignment. Also, the standard coefficients, which show the strength and significance of the relationship between the two variables, were estimated through Bootstrap method in the PLS software. As shown in Table 2, the standard coefficient between the two variables of individual performance and the alignment variable is 0.134, which is a very weak effect. Moreover, the t-value is 0.923 is smaller than 1.96. Therefore, it can be strongly argued that the relationship between the two variables is not statistically significant.

Hypothesis 2: Organizational performance has a positive and significant effect on alignment.

This hypothesis aims at investigating the relationship between the organizational performance and the alignment variables. That is, the organizations performance has a positive and significant effect on the alignment. The standard coefficients, which indicate the strength and significance of the relationship between the two variables, were estimated through Bootstrap method in the PLS software. As shown in Table 2, the standard coefficient between the two variables of organizational performance and the alignment variable is 0.746, which is estimated to be relatively strong. Moreover, the t-value is 5.51 which exceeds 1.96. Therefore, it can be strongly argued that the relationship between the two variables is statistically significant.

Hypothesis 3: Individual performance has a positive and significant effect on organizational goals.

As shown in Table 2, the standard coefficient between the two variables of the individual performance and the organizational goals is 0.201, which is estimated to be relatively weak. Moreover, the t-value is 2/655 which exceeds 1.96. Therefore, it can be argued that the relationship between individual performance and organizational goals is statistically significant.

Hypothesis 4: Organizational performance has a positive and significant effect on organizational goals.

As shown in Table 2, the standard coefficient between the two variables of the organizational performance and the organizational goals is 0.401, which is estimated to be relatively average. Moreover, the t-value is 3.218 which exceeds 1.96. Thus, it can be argued that the relationship between the organizational performance and the organizational goals is statistically significant, and the stated hypothesis is confirmed.

Hypothesis 5: Alignment has a positive and significant effect on organizational goals.

As viewed in Table 2, the standard coefficient between the two variables of alignment and the organizational goals is 0.409, which is estimated to be relatively average. Moreover, the t-value is 3.27 which exceeds 1.96. Therefore, it can be argued that the relationship between organizational performance and organizational goals is statistically significant, and the stated hypothesis is confirmed.

Hypothesis 6: Individual performance has a positive and significant effect on organizational performance.

As presented in Table 2, the standard coefficient between the two variables of the individual performance and organizational performance is 0.83, which is estimated to be strong. Moreover, the t-value is 21.9 which exceeds 1.96. Therefore, it can be argued that the relationship between individual performance and organizational performance is statistically significant, and the stated hypothesis is confirmed.

5 DISCUSSION AND CONCLUSIONS

The purpose of this research is to provide a model for aligning performance management with organizational goals. We used Pearson correlation and path analysis to test the hypotheses. The results of the correlation test show that there is a positive and significant relationship between personal performance, organizational performance and alignment. Also, the relationship between all of these three variables and organizational goals is significant. As the results indicate the intensity of the relationship between the individual performance and the alignment is weak, therefore, the relationship between all variables is significant, except in hypothesis one.

The model confirms the findings of Suttapong et al. (2014). It means that human resource performance is the basis of performance management system. Moreover, the findings are consistent with the model provided by Zhang (2012) which assumes that the alignment between human resource management activities and company business goals affects performance management system. The findings also confirm the model of Tsang and Lee (2012) which holds that individual performance management affects organizational performance.

Results of the study also indicated that individual performance has a (strong) positive and significant effect on organizational performance. This finding confirms the findings of prior studies (e.g., Sang and Lee, 2012; Van Ree, 2009).

Therefore, in light of the findings, it can be postulated that it is very important to develop an organizational mechanism, which guarantees pointed variables and encourages a comprehensive performance management system aligned with organizational goals. Organizations and HR managers should pay more attention to the individuals' roles in the management performance process. Moreover, managers should provide creative context in organization and do practices lead to facilitate learning process all of the organization and encourage employee participation.

Regarding the findings of the present study, it could be strongly argued that the provided framework is to some extent different from the models developed by the other researchers since 1980. It could also be stated that the difference between this study and the other related studies is that this study enjoyed an integrative approach. Moreover, through interviews with elites meaningful themes were extracted. Therefore, the explored themes are more complete than those of the previous studies. That is, the extracted components of individual performance, organizational performance, alignment, and organizational goals are to a great extent novel.

Finally, it can be argued that the present study is the first study in banking industry which has ever been undertaken in the context of Iran. Therefore, the results should be generalized to the other settings with great care.

The findings of the present study have theoretical and practical implications for human resource management researchers and managers. The first implication is that managers of the organizations should have a clear definition of systems, and try to take into account all of the sub-components of the variables of the given study in order to contribute to the productivity of the organization and maintain the human resources. The administrators should also recognize the significant roles, which individuals can play in the organizational performance, and they should also encourage the employees' innovations and creativities. Another implication is that the managers should highly appreciate the employees' judgment ability, productivity, and ethics if they aim at enhancing the productivity of the organization. Moreover, as individual performance, organization performance, and alignment significantly affect the organizational goals, managers should take into account variables such as cooperation, creativity, learning, and productivity at both individual and group levels, and they should also pay great attention to the structure, promotion and rewarding system and the cooperation conditions, so that they can successfully achieve the organizational goals.

As for the limitations of this study, the first limitation regards the sampling procedure. In other words, it was difficult to select the banks randomly. Therefore, due to the possible differences between the banking industry and other organizations, these results should be interpreted and generalized with great caution the second limitation was the sampling size. In fact, the sample was representative of all of the banking employees in Iran. Hence, the findings should be interpreted with taking into account all of the contextual factors that are present in Iran. As a result, other researchers can replicate the study using a larger sample size to see whether the findings differ or not. The next limitation of the study was the researcher's inability to make a distinction between the public and the non-public organizations to include more variables. Thus, it is recommended for other researchers to study the relationship between the performance management and other human resource management functions such as, retention, carrier development, and promotion.

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Case Study

A Slovenian company Kolektor: Its development and evolution into a multinational enterprise

Yoji Koyama

ABSTRACT

Kolektor is a Slovenian company producing commutators, small components of motors. It was established in 1963 and came to cooperate with a West German company in 1968. It endeavored to absorb advanced technology from the partner, concentrate on education of its own employees and improve the quality of its products by investment in R&D, in the early 1980s its technological level finally surpassed that of the 'teacher'. This is a rare case in which a newly established firm has grown into a multinational enterprise within a short period. This paper presents its history and discusses secrets to its success.

KEY WORDS

Kolektor, Slovenia, commutator, market niche, multinational enterprise

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1 INTRODUCTION

As Slovenia was under the rule of Habsburg Empire for about 700 years, still now the country has kept its cultural influences. The country was the richest republic in former Yugoslavia. Slovenia gained independence in 1991, joined the European Union (EU) in 2004 and adopted Euro in 2007 earlier than any other New EU Member States. In this sense the country was the best performer until it was severely damaged by the 2008 global financial crisis. Having inherited the tradition of trade unions' rather strong mobilizing power from self-managed socialism, this country has had a neo-corporatist regime since the system change (see Bohle & Greskovits, 2012:17-18). The privatization of socialist enterprises was implemented here with an emphasis on insiders against advice by the IMF. While other post-socialist countries have been enthusiastic in attracting foreign direct investment (FDI) since the system change, this country has been less enthusiastic and it has been rather active in outward FDI (see Svetlicic, 2008). Also in this regard Slovenia is a unique post-socialist country.

In such a country especially unique is Kolektor, a company producing commutators. The commutator is an essential part of an electromotor that makes the electrical connection to the moving coil of a motor or generator. It allows current to pass in or out of the coil while it rotates (Zagorsek & Marc, 2004:1). The head office and main factories of a multinational enterprise Kolektor are located in Idrija valley in Western Slovenia. Although small with a workforce of about 700, this is a company which shows the best performance in Slovenia. Looking at the ranking of Slovenian companies in terms of export, it was ranked 19th in 2000 and 7th in 2014. It is quite interesting that this small company, located in such an out-of-the-way place, entered in cooperation with a western company during the socialist period, absorbed advanced technology and know-how, raised its technological level and has finally become a world-class company, albeit in a niche market, within a short period. In order to investigate the secret to its success, I visited Kolektor and made an interview with Mr. Stojan Petric, the former President of the company and Chairman of the Advisory Committee, on September 6, 2016. At that time I was

CONTACT INFORMATION:

Yoji Koyama / Niigata University / Japan / ZAC00343@nifty.com

given a book titled *Kolektor – 50 Years (1963-2013)* (Lazarevic, 2013), which was published in commemoration of its 50th anniversary. In order to clarify its secret to the success and its significance, I will describe the history of Kolektor mainly based on this book *50 Year*.

2 ESTABLISHMENT OF THE FIRM

In Idrija valley 60km west of Ljubljana, the capital city of Slovenia, organic mercury was found in a river in 1490, and a mine was opened in the early 16th century. Many people including engineers, miners, merchants and others gathered here. As of the end of the 19th century, with the population of slightly more than 5,500 Idrija was the second largest town in Karniola region (which corresponded to the western half of present Slovenia) after Ljubljana. As of 2009, the population of Idrija is 5,870. The population of the whole Idrija city as a wider municipality including neighboring villages is 11,930 (Leskovec & Peljhan, 2009). With more than 13% of the world's mercury output, the Idrija Mine became the second largest mercury mine in the world after a Spanish mine. With a decrease in the world consumption of mercury and a decrease in its price in the second half of the 20th century, the extraction and refining of mercury gradually became unprofitable. As the mine was being closed in the first half of the 1960s there were about 400 unemployed. In addition, the mine had potential unemployment. The government of the Republic of Slovenia thought of launching new business in Idrija replacing the extraction and refining of mercury in order to provide this town with employment (Lazarevic, 2013:18-19).

The 1960s was a period in which the Yugoslav economy was being transformed from the central planning model into the model of market socialism. Since 1948 when Yugoslavia came into conflict with the Soviet Union leaders of Yugoslavia were skeptical about the Soviet type of socialism and they embarked on construction of unique self-managed socialism in 1950. Workers' council has become the supreme decision-making body in firms. However, specialists in management were indispensable. A general director of each firm was appointed by its workers' council after an open recruitment and a selection of applicants by the selection committee. Depending on circumstances, general directors could be fired by workers' councils. In external relations directors represented their firms. Directors prepared their firms' development plans, income distribution plans and other agendas and proposed them to workers' councils, which adopted these proposals after discussion. Collective workers at a self-managed firm had the constitutional right to work using means of production in social ownership, and at the same time they were requested to constantly raise their value. Social ownership is a kind of public ownership, but it is quite different from state ownership. In former Yugoslavia, especially after the conflict with the Soviet Union in 1948, state ownership was rejected on the ground that it had become the foundations of gigantic state and party bureaucratic apparatus as was seen in the Soviet style of socialism. It is social ownership that was placed emphasis instead of state ownership. Roughly speaking, means of production belong to nobody but to every member of the society. In this way, this concept has a character of strong anonymity. It was forbidden for the collective workers to dispose the means of production and distribute their sales among them. Self-managed firms were given autonomy to a certain extent, but for a certain period of time there still remained control by state administrative bodies. Owing to the 1965 economic reform, however, the power of state administrative bodies was significantly reduced, and at the same time some of the power on the economic sphere was transferred to self-managed firms and municipalities, expanding elements of a market economy.

In 1965 Yugoslavia joined the GATT (General Agreement on Tariffs and Trade) as the first socialist country. The Yugoslav authorities wanted the country to become part of the international division of labor. They became aware that this also meant opening the country up to foreign investment. In 1967 the law on foreign investment was enacted. At that time in Slovenia there was a huge comprehensive producer of electric machine and appliance called Iskra. It decided to close less significant and small-scale productions including commutators and relocate them to other firms which were interested in them. The municipality of Idrija decided to accept the production of commutators. Workers' training and education for production of commutators was to be conducted by Iskra. It took several months to relocate the production line for commutators from Kranj, where Iskra's main factories were located, to Idrija. It became fully operational in May 1963, at first with 47 workers. This small firm was named *Tovarna kolektorjev Idrija* (Idrija factory workers group) (Lazarevic, 2013:19-26). This name continued to be used for a while, and later the firm was renamed *Kolektor*. As at present the firm name *Kolektor* is very famous let us call it *Kolektor* from now on.

Although *Kolektor* was a distinct firm different from *Iskra*, but it seems that *Kolektor* was under protection by *Iskra* for a certain period of time after its establishment. One of the commitments *Kolektor* made when the production was transferred to Idrija was to guarantee the supply of commutators to *Iskra*. As the technology and knowhow provided by *Iskra* was obsolete, the company keenly needed foreign strategic partner in order to introduce advanced technology. It would take a long time to develop new technology by its own based on the knowhow inherited from *Iskra*, and it would be uncertain. When *Kolektor* searched foreign companies which

might be positive about technological cooperation Iskra together with its representative in West Germany played a big role. On various occasions such as negotiations and the conclusion of contracts the headquarters of Iskra gave Kolektor advices. Finally Kolektor chose a West German company as its partner (Lazarevic, 2013:27-35).

3 PARTNERSHIP WITH A WEST GERMAN COMPANY

A West German Company Kautt & Bux (K&B) was a family company established in Stuttgart in 1923 by Anton Woerner and Max Ersing. This company had its branch offices in the USA, the UK, France and Italy and established its factory in the USA in 1980. In the early 1980s K&B employed about 1,600 people, and it was a major company in this area (Lazarevic, 2013:30-31).

The negotiations on license contract and joint investment agreement with K&B began in February 1967. According to the license contract draft, i) K&B was to deliver machinery equipment and tools as well as all the necessary raw materials with a 5% mark-up on regular prices; ii) K&B would need to transfer to Idrija the production of a classic model of commutators with all the necessary technical documentation, machines and tool. K&B was to also educate the Idrija workers at its own cost and send its own expert to Idrija to take care of the transfer of production; iii) K&B reserved all the rights concerning the sale of commutators. Kolektor was only allowed to sell independently in Yugoslavia; iv) Sales to the Italian market needed to be conducted through the K&B representative in the Italian market. Kolektor was not allowed to sell in the third countries but allowed only exceptionally with the approval of K&B; v) K&B was obliged to repurchase half of Idrija's production; vi) Kolektor would need to pay K&B an 8% license fee for each item produced, in addition to a yearly lump sum. K&B wanted a majority equity stake. However, they had to accept the upper limit allowed by the Yugoslav legislation, i.e. 49% equity stake. According to the contract, Kolektor would invest all its available assets, and the foreign partner would invest cash, machinery and tools, the necessary know-how, experience and goodwill. The negotiations continued for a year and reached an agreement on joint capital investment. It was also agreed that the economic cooperation would be valid for 20 years. Iskra's representatives in West Germany also participated in the negotiations and supported Kolektor's management. The examination of the contract and drafting of positions of Idrija factory took place on the Chamber of Commerce's premises (Lazarevic, 2013:45-46).

Prior to the signing the agreement, on July 9, 1968 draft contract was proposed to the workers' council. After director Ciril Lazar read the draft contract and provided an extensive interpretation of individual provisions, all the hidden fears and distrust, objections and reservations came to the surface. The fears stemmed largely from the difference in the levels of wages in West Germany and Slovenia and the reservations regarding the real prices of supplied raw materials and semi-products. The president of the Idrija municipality assembly was also present at this meeting and stressed several times that the contract was not the type of contract allowing the exploitation of workers. His presence meant the municipality's wide support for the contract. After a lengthy discussion, they reached a decision that Tovarna kolektorjev Idrija [i.e. Kolektor] should sign the contract. On August 28, 1968 the contract was signed (Lazarevic, 2013:47-48).

Incidentally, Iskra's representatives proposed the general director to employ a young engineer who not only was eager to work but also had an excellent command of German and also recommended him to hire a good typist with knowledge of German in order for Kolektor to become more independent in its communication with K&B (Lazarevic, 2013:43). Kolektor continued to supply Iskra's factories with its products, but it seems that Kolektor became out of Iskra's protection by the end of 1969 because in the book *50 Years* (Lazarevic, 2013) the description about Iskra's head office and its representatives in West Germany disappears around this time.

4 FOREIGN PARTNER AS A TEACHER

For several years after the start of partnership Kolektor was doing well, but the impressive growth came to halt in 1974. The first reason was the oil shock that occurred in the previous year. Due to this, the economic standstill spread across the Western world, also affecting Kolektor. The second reason was organizational problem. The book *50 Years* explains the latter point as follows: It was generally observed that the increases in quality and productivity recorded in the past years had halted. The quality of production had gone down, and the control mechanism had failed. The number of customer complaints had started to surge, not only from domestic but also from foreign clients. At first, K&B reactions were mild and limited to mere warnings. As things had not improved, they took measures. A meeting was convened in Idrija on March 6, 1975 where Dieter Ersing, a son of Max Ersing, in the role of a co-director rebuked the heads of technical, quality inspection department and production department. He stressed at

the very beginning that the demand for quality was not his whim, but was something required by their customers, who are renowned world companies. If they could not guarantee the permanent quality of commutators, everything would be put at stake (Lazarevic, 2013:56).

Dieter Ersing admitted that K&B itself also sometimes received customer complaints about commutators produced in Germany, but he said that these problems were always solved smoothly because individuals were held accountable for their actions in accordance with respective responsibilities. He added that production errors were always possible, but it was unacceptable that these problems were not solved along the way. Not only was the number of customer complaints growing, but so too was the share of scrap. He was particularly surprised by the fact that both production department and quality inspection department denied their responsibility for poor quality and occurrence of scraps and blamed others for these problems (Lazarevic, 2013:57).

The foreign partner acted not only as an adviser but also as a supervisor. After this incident, Kolektor established a system of direct responsibility whereby it clearly defined direct individual responsibility for the quality of commutators in all phases of production and control. The concept of direct (workers) and indirect (management) responsibility was introduced. These changes laid down the foundations for a gradual rise in quality and productivity in the subsequent years. Another important approach to solving the organization problem was a new approach to working processes and measuring labor efficiency (Lazarevic, 2013:58).

Till then Kolektor in fact had no sales department of its own. As its only customer was Iskra's factories, it did not have sales department. After 1969 when cooperation with K&B started and the production capacities expanded, the need emerged for a more active commercial department. In particular, the domestic market had to be approached by precise and regular activities to attract new customers. Consequently, a commercial department was established. As for foreign trade, all export and import services were entrusted to Elektronabava under contract. The situation had changed in the mid-1970s. The economic crisis which hit the Western world in the 1970s narrowed the possibilities for exports through K&B, and in turn the importance of the Yugoslav markets grew. K&B requested Kolektor to increase its sales in the domestic market. Kolektor started to pay more systematic attention to the domestic market and strove for better organization of sales (Lazarevic, 2013:59).

In the second half of the 1970s demands from Western Europe became stabilized and demands from the domestic market and East European countries increased. In 1976 demands exceeded the production capacity by one-quarter. The production lines that had been established or modernized with K&B technology were operating at the maximum of their capacity. In this way, there was a need for new technology and the expansion of production. In 1977 Peter Rupnik, who was the first University graduate in Idrija, was appointed as the general director of Kolektor and set about the reorganization of departments in Idrija factory. In addition to the exiting technical and commercial departments, Kolektor set up two new departments: development department and later also foreign trade department. This reorganization significantly contributed to the further development of Kolektor (Lazarevic, 2013:59-60).

5 DEVELOPMENT OF ORIGINAL TECHNOLOGY

Kolektor was gradually gaining independence by enhancing its own development activities and market activities. This started in 1978 when Kolektor obtained technology for rolling band and drawing copper profile relevant to commutators. Svetlicic and Padilla (2016) explain the development of original technology in the area of intermediate products as follows: Kolektor exported its products by the brand name of K&B through the channel of K&B, but customers were aware who produced the commutators. It was trade in B to B market (business to business market, i.e. trade among enterprises). Kolektor was producing products for known customers. Different from the case of final products which were produced for unknown customers, here it was not necessary to make a huge amount of investment to establish the brand name. Potential buyers when purchasing commutators from K&B, produced in Idrija by Kolektor, knew that they were produced by Kolektor since before production started they had to negotiate with them how to modify the product and tools for their production to their specific needs. All these induced some local R&D activities (Svetlicic & Padilla, 2016, Part 2).

Kolektor started with its own development of technology and necessary tools. This gave an influence on organizational structure of the firm: the importance of the development department and the tool shop rapidly increased. By the first half of the 1980s, Kolektor had obtained two patents and was slowly turning from a subordinate into an equal partner. This strengthened the self-confidence of its employees. The level of knowledge in the firm has generally risen. The tool shop was given a central role in starting new methods of production in the coming five-year period (Lazarevic, 2013:62).

One of Kolektor's characteristics was a high investment rate. They were aware that investment in technology was a precondition for preserving long-term competitiveness. The production of copper profiles was by far the most important investment as they were the basic material used in the production of commutators. By then, the copper

profiles had to be imported, which restrained the Kolektor's price competitiveness. After having launched their own production of copper profiles, they only needed to import a special copper wire, which they transformed into the required profiles by a process of rolling, drawing and annealing. The capacity of the profile production exceeded its own needs. The part exceeding its own needs was exported through K&B. K&B also provided all of the technical and technological documentation for the investment. At that time 34% of the total investment was financed by K&B, based on its legal obligation, 36% by Kolektor, while 30% was financed by bank loans (Lazarevic, 2013:62-63).

By the 1980 Kolektor became the biggest producer of commutators in Yugoslavia, holding an 85% market share. Exports remained the most important item. In the early 1980s Kolektor was selling one-third of its production abroad, mostly through K&B (Lazarevic, 2013:67). The process of establishing its own foreign trade activities continued. As mentioned in Section 2, Kolektor was not allowed to sell in the third countries but allowed only exceptionally with the approval of K&B. In 1978, however, Kolektor obtained the technology for rolling bands and drawing of copper profiles. In a few years Kolektor obtained some patents and became completely independent from K&B in this segment of production. In 1979 they took a braver step towards the commercialization of their own products. At first this applied to only to the markets where they were allowed to sell, namely in Eastern Europe. In the early 1980s, the exports to foreign markets through K&B still accounted for half of all exports. But at the same time exports to the East European markets through Kolektor's own commercial department were increasing. Direct sales channel were established with East Germany, Czechoslovakia, Romania, Hungary and Turkey. Kolektor also entered the Greek market. By strengthening its own foreign trade activities, Kolektor also took over all of the operations which had for the previous two decades been carried out by Elektronabava (Lazarevic, 2013:60).

By the mid-1980s, the domestic and foreign markets became almost equally important for Kolektor. Exports through K&B and exports to East Germany and other Eastern European countries accounted for almost half of the commutators produced, which indicated the successfully realized plan for the period 1980-1985. The main customers in the domestic market were Iskra Nova Gorica and Iskra Zeleznik. These two factories of Iskra purchased more than three-quarters of the commutators produced for the domestic market. 64% of all exported commutators went abroad through K&B and almost 30% to the East Germany and Czechoslovakia through Kolektor's own foreign trade department. In the mid-1980s, in terms of revenue Kolektor was ranked among the top five of such companies in Europe. Altogether, there were 14 of such companies in Europe. This was really great success for the company which was still not 20 years old. At that time the top position was occupied by K&B, which recorded almost four times higher revenues than Kolektor (Lazarevic, 2013:70).

A very important turning point in the factory's development was its five-year strategy adopted in 1985. It was worked out by Kolektor in cooperation with the Institute for Labor Productivity from Ljubljana. Looking back the firm's history, it recognized its virtues as well as its weaknesses. The firm not only copied others but also developed its own technological solution. As for the firm's production program, its program was limited to the production of commutators (above 90%) and slip rings. The market for these products for these products was huge and constantly expanding with new purposes and methods of using electric motors. Although not realistic at that time, the Strategy took into consideration that there might be technical changes which would gradually reduce the demand for commutators in the long-run. The *Strategy* set out ambitious goals: i) to increase the volume of production; ii) to increase labor productivity both by better organization and investment in modern equipment; iii) to improve the quality of products or to reduce the scrap; 4) to increase the volume of exports to foreign markets. The *Strategy* proved successful. Thanks to the huge investment in technology and production capacities, Kolektor became the largest European producer of commutators in the second half of 1990s. It beat all its competition. In terms of turnover, K&B lagged behind by as much as 20%. However, Kolektor' market shares differed for different commutator types. It covered 12% to 15% of total demand for commutators for the car industry, 40% of demand for commutators for power tools, but it held a mere 5% share in the European market of the production of commutators for household-appliances (Lazarevic, 2013:70-73).

6 HUMAN RESOURCE MANAGEMENT

Kolektor had been a self-managed firm since 1963 when it was established. The firm had been influenced by K&B since it entered into cooperation with K&B. The foreign partner also required additional assurance of the safety of its investment. They therefore negotiated the right to co-sign any contract. Each contract had to be co-signed by a representative of K&B management. The term "co-director" was used in the contract. In line with the existing legislation, the contract laid down that the company would be managed by a joint management committee with full mandate to run and manage the company. Yet the self-management organization of the company had to remain intact. In this respect K&B made a concession. Two parallel mind structures were pragmatically established in Kolektor. One of its employees described this dilemma by an allegory on the split personality of the company: "Half of the time we lived in socialism, and the other half in capitalism". That was a pragmatic solution which was respected

by both sides and thus enabled long-lasting cooperation (Lazarevic, 2013:50). It seems that for a while K&B's involvement was mainly limited to technical guidance with its involvement in other areas being restrained. As mentioned in section 4, however K&B strengthened its involvement in 1975. Since then Kolektor has implemented human resource management suitable for a market economy.

Kolektor was established in Idrija in order to cope with unemployment problem and secure employment, and therefore it was not so difficult to recruit workers. Along with investment, the number of employees was also increasing. Moreover, thanks to its good economic performance, the wages exceeded the average wages in other firms in the municipality and surrounding areas by 15 to 27%; they also exceeded by one-quarter the wages in other firms engaged in this activity. Thus working for Kolektor became prestigious (Lazarevic, 2013:71). Annual growth in employment of 6% was anticipated. In the second half of 1970s the majority of the workforce was women accounting for a solid 60%. Mostly they had no particular technical education; they were usually trained for work in production. As for the qualification structure, it was indeed modest at that time. A quarter of workers had finished vocational school, 8% secondary school, 2.5% had a higher education and a mere 1.5% had a university education. To overcome this situation, they decided to invest a lot of time and funds in education. It was planned to change qualification structure by providing scholarships to students and employing them after finishing a university education, and by encouraging the existing employees to obtain further education. Some of the employees were expected to increase their education through part-time schooling, with the emphasis on secondary school education (Lazarevic, 2013:62).

In the mid-1980s Kolektor was employing 693 workers. Slightly more than half of them were men and the same proportion was 30 years of age or younger. Most employees came to the firm at a young age, and the firm itself was also young. It had a typical Idrija character, with most of its employees coming from its close surroundings (up to 10 km). The firm's employees had no major housing problems since this issue had been continually addressed in the past by purchasing flats and by offering loan schemes to employees for the construction of private houses (Lazarevic, 2013:71).

In the late 1980s, Kolektor faced employment problems for the first time. Given the industrial capacities in Idrija and the declining rates of natural population increase it became obvious that all companies in the municipality would be unable to meet the demand for workers. Kolektor alone planned an 11% rise in employment. The required number of workers could no longer be assured only from the surrounding area of Idrija. As the pool of labor resources in the rural areas of Idrija's surroundings had been drained, there was almost no unemployment and the generations of children in the local area were at a stable level or even on the decline. When addressing this problem, for the first time, Kolektor started to consider the possibility of transferring part of labor-intensive production outside Idrija (Lazarevic, 2013:69). Later, Kolektor indeed transferred part of labor-intensive production to other regions but kept its head office, R&D department and main production department in Idrija.

7 RELATIONSHIP WITH THE FOREIGN PARTNER

The family company K&B had transformed into a limited partnership called Ersing and Woerner KG. There is no explanation in the book *50 Years*, but it seems that this was a holding company because K&B as a producer of commutators continued to exist as will be described later. The book *50 Years* positively evaluates the cooperation with K&B as follows: The 20 years of cooperation had resulted in a constantly high level of investment in technology and development in the Idrija factory. On the one hand, this was thanks to the Yugoslav legislation which obliged the foreign partner to reinvest a certain percentage of its profits. Besides, K&B had managed to include in the contract that Kolektor had to contribute the same proportion to each new investment. On the other hand, the owners of K&B behaved fairly and actually looked ahead to the future. They were aware that in the long-term competitiveness in Western markets could only be preserved by a high level of investment in development. Consequently, they regularly reinvested the generated profits. The repatriation of profits represented a mere 2% of the generated profits. The owners of K&B were well aware of all the circumstances of this joint investment. They accepted the Yugoslav political reality. Although they benefited from the liberal approach of this system, they themselves pragmatically respected the prescribed methods of company management in line with structure of the self-management ideology. They accepted these particularities and built them into the model of joint operation. On numerous occasions the management of Kolektor stressed that decisions of the joint management board and the self-management bodies, in particular the workers' council, had always been unanimous and that there had been no disagreements or conflicts. The pragmatic approach of both sides allowed the realization of both the common and individual interest of both partners (Lazarevic, 2013:74).

However, during 20 years of cooperation the relationship between the partners was gradually changing. In the first half of 1980s Kolektor obtained several patents. Kolektor turned from being a recipient of knowledge, from somebody who was merely consuming and using knowledge, to an innovator, a company which generated its own

knowledge and started to base its further growth on it, thus becoming an equal partner to K&B. Thanks to certain patents some of Kolektor's products even surpassed those of K&B in a technological sense. In the 20-year period, the relationship turned upside down (Lazarevic, 2013:73-74).

The contract with the foreign partner was to expire in 1988. The talks on the future relationship after the expiry of the contract started already in June 1984 (Lazarevic, 2013:77). In the second half of 1980s Kolektor, which had gained power, proposed networking in the hope to establish equal partnership with K&B. This meant that except financial cooperation both parties would align their interests in 4 functions of companies, i.e. i) sales and purchases, ii) development, iii) production, iv) quality control, through the networking. In a turbulent situation in the subsequent period, however, K&B could not afford to accept this proposal (Lazarevic, 2013:90).

8 SYSTEM TRANSFORMATION FROM SELF-MANAGED SOCIALISM TO CAPITALISM

Serious changes have occurred from the end of 1980s through the early 1990s. In Yugoslavia an economic crisis surfaced in the second half of 1979 in the form of an expanding deficit in the balance of payments. The Federal Government of Yugoslavia took measures to restrain all kinds of import, but since then the economy has been stagnating with an inflation escalating year by year. In spite of the long-term program for economic stabilization, which was implemented in 1984, as well as various attempts, the economic crisis was getting worse and worse. In parallel with deterioration the economic situation the League of Communist of Yugoslavia (LCY) was losing its prestige gradually, and conflicts among Republics and Autonomous Provinces grew deeper and deeper. In this way, self-managed socialism in Yugoslavia had practically collapsed. The law on enterprises replacing the Associated Labor Act, which had prescribed organizational structures and relationship among self-managed enterprises and other organizations, was enacted in 1989. Consequently, Kolektor was obliged to transform itself from a self-managed enterprise into a private enterprise with clearly defined property right. The property relationship with the foreign partner was also obliged to be redefined.

The joint investment by Kolektor and K&B was thus transformed into equity-based relations. In the given circumstances, they considered that the "limited liability company" (Ltd.) to be the most appropriate form. Before transforming into a limited liability company, they had to resolve the status of that part of Kolektor's property that was in social ownership. Thus, they established a Company for Financing, Marketing and Development – FMR; first it was a socially-owned enterprise but it was later privatized according to the Act on the Ownership Transformation of Enterprises by an internal buyout. The entire socially-owned property of Kolektor was transferred to FMR, which on the same day reinvested it back in Kolektor as an equity contribution. The foreign partner's investment was transformed into an equity stake. The company Kolektor, Ltd. was entered in the register on October 24, 1990 after obtaining permission from the federal authorities (Lazarevic, 2013:81-82).

This transformation into a company with share capital was welcomed by the representatives of K&B because at that time it was in great financial difficulties. During the 1980s the company was gradually losing competitiveness. Some bad business decisions, rising labour costs in West Germany and falling profitability slowly cut the ground from under K&B's feet. For some time they were solving the excessive deficit problem by borrowing (Lazarevic, 2013, p. 89). K&B hoped to include Kolektor into its own consolidated financial statements in order to improve their financial position and strengthen their creditworthiness toward banks. In order to do so, K&B had to become Kolektor's majority shareholder. The book *50 Years* describes that it was very difficult decision for Kolektor's management to accept a change in the proportion of ownership. They had to protect the interests of FMR. It could be a risky decision to concede majority ownership by a foreign partner because the partner could take advantage of its predominant position. This time, the decision was more difficult by far than the decision by the first director of Tovarna Kolektorjev Idrija (the previous name of Kolektor) Ciril Larzar who arranged the partnership with K&B. He was still able to rely on the state when the protection of Idrija's interest was at stake, but in the new situation this support no longer existed. Kolektor's management had to overcome psychological barriers and fear to be able to concede to a change in the equity ratios. Finally, Kolektor hesitantly agreed to reduce their equity stake in the new limited liability company to below 50% because they had confidence in the partner as well as the expected benefits from the market (Lazarevic, 2013:82-83).

Any outsider would be impressed very much by a very clever device which Kolektor management thought out at that time. As a precondition for majority equity to be allowed to K&B, Kolektor management proposed a new partnership agreement, thereby all main decisions require 75% consensus. It meant that if a 75% consensus could not be attained, the final decision was to be made by Kolektor's management board. It was only in distribution of profit that majority ownership in the new partnership agreement would become important. K&B accepted that it would be transformed from a strategic investor into a portfolio investor, but this decision could not rescue K&B (Lazarevic, 2013:83-84).

9 K&B'S INSOLVENCY

At the beginning of 1993 Ersing & Woerner KG was dissolved due to huge losses and its proprietary rights in Kolektor were transferred back to K&B. In the summer of 1993 the situation worsened further and K&B filed for insolvency proceedings. Kolektor's management had to consider how to separate Kolektor from K&B and thus prevent Kolektor from suffering the damage incurred to its parent company. Kolektor took the initiative. This was also an opportunity to overcome their subordinate position and establish an equal partnership with K&B. The summer and autumn of 1993 were very hectic. The insolvency procedure of K&B fundamentally changed the relationship with Kolektor. As Kolektor was a limited liability company, only K&B's equity share would form part of the insolvent company's assets. But this meant that Kolektor had to face a new interlocutor on the other side – K&B's administrator. If Kolektor had not been transformed into a limited liability company, the situation would have been much worse; the administrator would simply have recovered the value of the foreign partner's investment on the basis of the joint investment contract. However, as Kolektor was a limited liability company, K&B's administrator was only able to obtain the equity share, which it then had to sell. Kolektor had no obligation with regard to K&B's insolvency procedure. But the question was who would purchase K&B's share in Kolektor (Lazarevic, 2013:89-91).

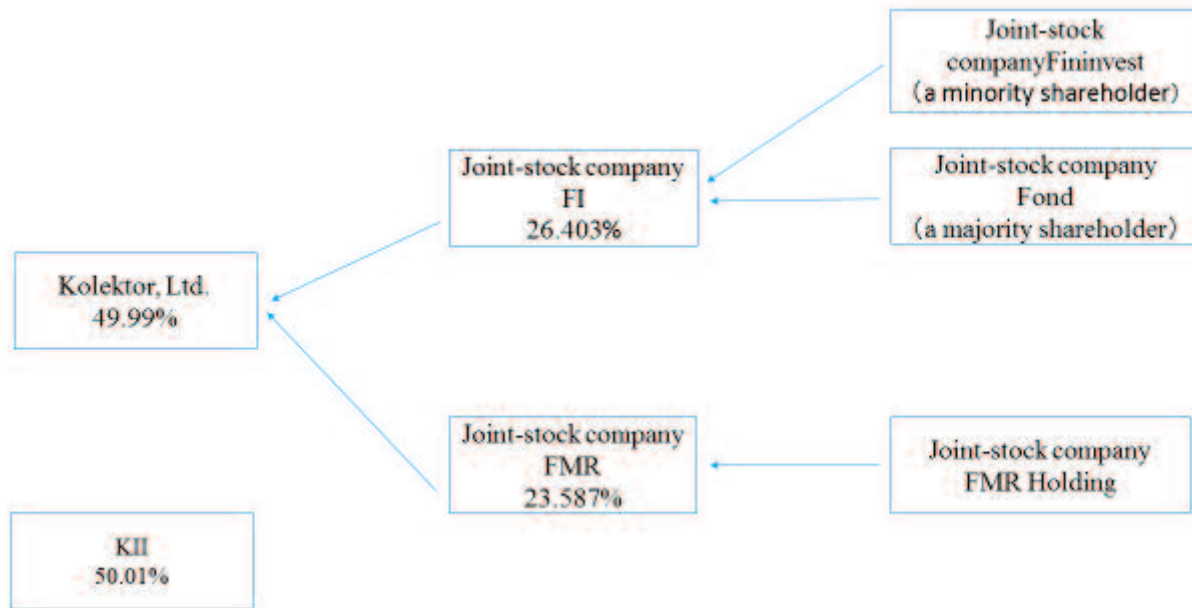
On September 1, 1993, Kolektor's director Peter Rupnik sent a letter to K&B's management, informing them that Kolektor would withdraw from the contract. K&B filed for compulsory composition proceedings, which was eventually carried out on September 14. Kolektor's management was very much surprised at this news. They immediately entered into negotiations with the manager of the compulsory composition who in his initial contacts showed little understanding of the Slovenian company. It took them several meetings to explain to him that he could not sell the 51% equity share in Kolektor without the consent of the Slovenian side and that the value of K&B was (due to its over-indebtedness) in fact negligible; only then did he start to cooperate with Kolektor's management. Thanks to a protocol signed on October 18, 1993, Kolektor became able to start settling the issues related to intellectual property and gained the right to independently perform in all markets of the world. Kolektor was finally allowed to independently engage in all of its sales activities without intermediary, and it became able to directly communicate with them. Moreover, the new partnership agreement between K&B, FMR and FI signed in November 1992 assured Kolektor stability and continuity. The development together with the decision-making mechanisms in place in Kolektor upset the compulsory composition (and from December 1993 also the insolvency) manager because they narrowed his room for maneuver for selling K&B (Lazarevic, 2013:91-92).

At the news about K&B's insolvency the main European customers also feared that their supply of commutators would stop. At this moment the management of Kolektor exhibited great determination and made efforts to establish direct contacts with these customers. By providing a reliable supply and quality of products, Kolektor eventually won recognition with the largest and most demanding clients. These efforts were crowned with success and Kolektor gained market independence, established its own sales network and started to promote its own trademark. The market independence also provided Kolektor with direct access to the relevant market and development information from their clients without an intermediary and Kolektor could quickly adapt its technological and business process. After October 1993 Kolektor gradually changed its approach to the market and moved from being a mere producer to a partner whose relations with key customers went beyond mere sales and purchases. Kolektor adapted its business processes and added global marketing to the existing production and development functions and became a company providing comprehensive business services. Thus Kolektor became the second largest producer of commutators in the world (Lazarevic, 2013:93).

10 APPEARANCE OF AN AMERICAN COMPANY KIRKWOOD

K&B was taken over by an American commutator manufacturer Kirkwood Industries in February 1994. The German company continued its operation under the name KII K&B. In addition to K&B's total assets, Kirkwood also took over slightly more than 50% share in Kolektor. Cooperation with the new owner was quite problematic. Kirkwood entered completely unprepared the takeover procedure of K&B and Kolektor. Kirkwood's management expected to have gained total control of the company, but they were soon faced with the reality. They found out the contractual provision on the three-quarters majority of shareholders required for the adoption and enforcement of decisions. The book *50 Years* says that although Kolektor's management correctly informed the potential buyers of K&B's share about the conditions and contractual provisions, the administrator more than obviously withheld this important information from Kirkwood (Lazarevic, 2013:95).

Figure 1: Kolektor's Ownership Structure as of 1999



Source: Lazarevic (2013:83)

This resulted in a clash of interests, two different perceptions of reality, two visions and two business cultures. In this way began 'eight years of their unpleasant co-existence' (Lazarevic, 2013:101). Kolektor's management proposed to Kirkwood to establish a partnership on an equal footing, and further they also proposed a modified concept of networking, similar to what they had proposed to K&B previously (see Section 7), but they failed to convince Kirkwood. Reasons for the failure could be ascribed to differences in their policies: Kolektor was a company in expansion, with a high level of investment in development, technology and production while Kirkwood was in a defensive position, merely striving to preserve the status quo (Lazarevic, 2013:96-101).

The book *50 Years* summarizes the reasons for why its proposal for networking had failed in the following six points: i) Both partners are direct competitors in all markets. Despite the majority equity share, the foreign partner does not have a controlling share; ii) Strategic goals are the same, but they are mutually exclusive; iii) Wrong or different expectations by the foreign partner upon taking over the share in Kolektor; iv) In spite of equal competencies of management and equal level of development of key functions of the company (development, marketing functions), Kirkwood wished to subordinate Kolektor to itself; v) Different approach to solving common problems (development: Kolektor – own development, Kirkwood – purchase of licenses); vi) On one side there is a wish for predominance and takeover by the foreign partner (Kirkwood) and, on the other, a wish to pay out the foreign partner. Both partners are too strong in all functions of the company (Lazarevic, 2013:102).

Kolektor's ownership structure as of 1999 is shown in Figure 1. For its ownership structure some explanation would be necessary: In the early 1992 a joint-stock company 'Fond' was established in the following way: Due to the economic and political crisis in 1990, a restriction on wages was imposed on all companies in Slovenia. Kolektor decided to issue its employees commercial paper which were to serve as compensation for the parts of wages that could not be paid out in cash. They were a type of security which the company promised to cash in when it was again allowed by the government. Each employee owned a security in the amount of at least one average salary in the company. In this situation an idea emerged to use these funds for more long-term purposes and not just for personal use. They started to think about the concept of broad employee co-ownership of the Slovenian part of Kolektor. In autumn 1991 a project was initiated to establish a new joint-stock company. At talks with the employees the management presented to them the project and above all the purpose of establishing the new joint-stock company 'Fond'. Around 800 employees accepted their persuasion. The employees transferred their outstanding claims stemming from the unpaid wages to 'Fond' and Kolektor then allocated the due amount to 'Fond'. 'Fond' was anticipated to enter the ownership structure of Kolektor. In order to make the assessment to be completely impartial, they engaged independent American experts. It was proved that 'Fond' would be unable to purchase the Slovenian part of Kolektor on its own. Therefore, they established a new company called Financial Engineering – FI, in which 'Fond' held the majority share and Fininvest, a subsidiary of the former Komercialna banka Nova Gorica (today's NKBM bank) held the minority share. In February 1992, FI, which had by then been financially strengthened, entered the ownership structure of Kolektor by purchasing 26% of the equity stake of Kolektor from FMR. FMR retained a 23% share of Kolektor (Lazarevic, 2013:85).

11 FULL INDEPENDENCE AND ITS WAY TO A MULTINATIONAL ENTERPRISE

The only possible way out of this situation was the withdrawal of one of the partners. In 2002 director of Kolektor Stojan Petric sent a letter to the director of Kirkwood, proposing the purchase of 51% of KII-K&B. There was no reply for a while, but in August 2002 after a change in the management, Kirkwood finally agreed to accept Kolektor's offer and sell its share in Kolektor. At the same time, Kolektor also purchased the German company K&B from Kirkwood and thus came to completely dominate the European market (Lazarevic, 2013:103-104). The book *50 Years* proudly describes "The student had overtaken the teacher! After 40 years of its existence, Kolektor became an independent company" (Lazarevic, 2013:104).

Kolektor came to have its production sites and affiliates abroad: It established Greenville factory in the USA (North Carolina) and acquired K&B in Germany (Stuttgart) in 2002 and a commutator producer Sinyung in South Korea (Gumi) in June 2000, etc. Andrea Jaklic and Marjan Svetlicic (2003) explain that the most important motive of Kolektor in investing abroad is market seeking one and that labor costs, other costs and asset considerations are less important. According to them, there were three reasons for establishing production to the new foreign locations: i) protectionism, meaning that in some countries a company must get the status of 'domestic producer' to be able to successfully penetrate the market there; ii) requests of the main customers which support the strategy of 'local production for the local market'. In the case of Kolektor, following its main customer Bosch (a German producer of electric tool), Siemens (a German producer of telecom, electric train and electronic apparatus), Valeo (a French producer of automobile parts), Black & Decker (an American producer of electric tool), etc., it goes to their production sites abroad; and iii) response to the global competition and behavior of the key competitors (Jaklic & Svetlicic, 2003:257; Lazarevic, 2013:115-116).

Obsolescence of the product by declining product life cycle and fast technological developments started to threaten the existing development strategy. For example, electronic ones can replace the mechanical ones, and during the last 15 years the earning on one commutator built in washing machine has fallen from 1.3 € to 0.9 € (Svetlicic & Padilla, 2016, Part 5). The response to this tendency was diversification of production. With production and sale of commutators as its core, Kolektor advanced to related areas. As a result of their own development and takeovers at home and abroad, the product portfolio of Kolektor has expanded. Its activities now focus on three areas based on the three-pillar business model: i) automotive technology; ii) building technology and home products; and iii) energy and industrial technology (Lazarevic, 2013:128-129).

Kolektor has become a group consisting of 30 companies. In 2011 Kolektor group as a whole employed 3,076. Its turnover is 450 million Euro. In the area of commutator this group has 80% share in the European market and 20% share in the global market. Many of Slovenian companies, which evolved into multinational enterprises around the turn of century, borrowed a lot of money from financial institutions and were severely damaged by the 2008-09 global financial crisis. In contrast to them, Kolektor was a company least affected by the global financial crisis. The reason is that it acquired companies mainly by its own funds, therefore its borrowing from financial institutions was very small (loans represented only about 25% of total capital) (Svetlicic & Padilla, 2016, Part 10).

Kolektor has always put emphasis on technological development. The funds earmarked for research and development account for about 5% of its total annual turnover. It holds more than 50 patents which were developed within the company. According to Jaklic and Svetlicic (2003), Kolektor's most important competitive advantage is technological, closely followed by organizational and marketing knowledge. In addition, they add some other competitive advantages which assist in Kolektor's internationalization: employment policy and training, customer service and a set of home-country-specific and micro-location-specific advantages. These are enhanced by the coherence of management and employees' long-term commitment to the company and the local community. The probability of leaving Kolektor for being employed by the competitors, and in such a way to transfer the specific knowledge, is very low. It is particularly successful in the development and creation of machinery and tools. The core abilities of Kolektor are to a large extent based on craft skills of the employees rather than on patents. Such competitive advantages are difficult to imitate (pp. 257-258).

12 CONCLUSION

Slovenia's experience is quite interesting because while other post-socialist countries were eager to attract inward FDI Slovenia was active in outward FDI with Kolektor being an example. From 1989 through 1991 system changes occurred in Central and East European countries. These countries were struggling for transition to a market economy as well as restructuring of enterprises, and therefore they experienced serious transformational recession in the first half of 1990s. As for Slovenia, during the period from the mid-1980s through the early 1990s when Slovenia was part of the former Yugoslavia it experienced turbulence such as the economic crisis, conflicts among Republics, collapse of socialism, secession from the Federation and independence. In the case of Slovenia, it did not suffer from the transformation recession as it had a pseudo market economy already before the system change. Rather, its production

declined in the early 1990s due to a loss of the former Yugoslav market. In order to cover the loss, many Slovenian companies including Kolektor actively advanced to Western markets. Among them, Kolektor's experience is a rare and interesting case. This small Slovenian firm concluded a joint investment agreement with a foreign partner in 1968, and it was even a subsidiary of foreign company during the period 1992 through 2004, and finally in 2004 it gained full independence from a foreign partner and became again a Slovenian but at the same time multinational company.

A German company K&B has played a role of good teacher. It was not only in terms of transfer of technology and knowhow. Especially in the mid-1970s when in spite of a decrease in products quality at Kolektor no adequate countermeasures were taken in Idrija factory, a representative from K&B came to Idrija and reprimanded leaders of the production site. He taught the Slovenian people what should be a market economy and established the principle of direct responsibility in the production process. Kolektor has not only absorbed advanced technology and managerial skill from K&B but also developed its original technology in the course of responding to requests by foreign customers. In Svetlicic's opinion, the reason for Kolektor's success is a combination of its aggressive strategy of own R&D development – which was induced partly by the foreign partner and partly by deliberate strategy – with FDI. Inward FDI was instrumental for learning by doing, but without deliberate strategy of own development it would not produce the same results. Kolektor was able to »milk the cow« (i.e. foreign partner) when it was weak, and in parallel to this it embarked on own R&D aiming at becoming better than the foreign partner. Without FDI Kolektor could not be what it is now. FDI speeded up learning by doing and acquiring missing knowledge. In addition, Kolektor has tackled technological development in collaboration with Faculty of Engineering at the University of Ljubljana and worked out its development strategy taking into consideration advices by individual economists at the University of Ljubljana. It has continually endeavored to raise its technological capability. In the early 2000s it made outward FDI, evolving to a multinational enterprise.

We can grasp Kolektor's development from the perspective of internationalization. Marko Jaklic advocates the model of three-stage internationalization (see Jaklic, 1998). In the context of the three-stage internationalization, Kolektor's development path started in 1968 by concluding a contract with K&B. The first stage (1968-1993) was ranked in the category of dependent internationalization as the company's marketing functions were limited. The second stage, independent internationalization, consisted of various periods and lasted from 1993 to 2000; it started with the acquisition of the right to independent marketing and ended with reorganization into a group. During this period Kolektor started to sell its products in foreign markets under its own trademark and the global trademark Kolektor first started to gain recognition; it formed its own sales network and made its first direct investments abroad (USA, South Korea). The third stage started in 2000; it was defined as interdependent internationalization (Lazarevic, 2013:114-115). According to Svetlicic's view, internationalization and local acquisition was not only market seeking but also part of diversification strategy because commutator was becoming an old product. Now commutators are less than 50 % of Kolektor group production portfolio. In parallel to internationalization, organization of the company had to be changed to Kolektor Group in 2003.

There have always been capable entrepreneurs at Kolektor. In contrast to central planning economies, self-managed socialism in the former Yugoslavia had a pseudo market economy. There was almost no instruction and intervention by the Republican government. The city authorities of Idrija acted in place of the Republican government and decided to accept the transfer of part of Iskra's production lines in this municipality and provided the new firm with premises. Also in the later period it continued to play a role of guardian. It can be said therefore that there has been larger room for entrepreneurs to display their managerial ability. Since the mid-1960s managers at Kolektor have learned how to do business in a market economy and with Western companies, accumulated experiences and become shrewd managers. Their judgement was crucial especially in the end of the 1980s when K&B, which fell into financial difficulties, proposed to include Kolektor into its own consolidated financial statements in order to improve its financial position and strengthen its creditworthiness toward banks. In exchange for a change in equity ratio in favor of K&B, more specifically 50.01% : 49.99%, Kolektor management forced K&B to accept a new partnership agreement, thereby all main decisions would require 75% consensus. This clause became important later as exemplified by the relationship with a new partner Kirkwood. Kolektor's management has been very cautious toward dispersed ownership structure. In the course of the system change Kolektor was transformed into a company based on equity capital. It adopted the form of limited liability company, and in cooperation with FMR, FI and local banks it strengthened the unity against possible acquisition by a foreign company. If it aimed at more rapid development, it could list its shares on the stock market, but it would have dispersed ownership. If it aimed at steady growth in the niche market, a limited liability company would be sufficient. The unity of Kolektor's management and its employees' long-term commitment to the company and the community has contributed to Kolektor's competitive advantage.

Idrija valley is an out-of-the-way place in Slovenia. According to Jaklic et al. (2009), Idrija valley has been different from other parts of the country in the following points: First, Idrija's key businesses (digging, refining and sale of mercury) have always competed in the international market. This has been so since the 15th century as the price of

mercury was set on the international market and the Idrija mine had to adjust to it. Second, for centuries the people of Idrija have been workers rather than peasants. The local inhabitants have based their living on industrial work instead of agriculture for which their valley with its steep walls and cold climate was in any case ill-suited. Third, a considerable pool of engineering knowledge has been created and a culture of engineering achievements has been established. This has brought a technical and geodetic school, which was opened to train miners and engineers in 1772. Such a strong linkage between education and industry has continued until today as both multinational enterprises (Kolektor and Hidrija) have been actively investing in their employees. It is difficult to verify, but it might be said that the engineering and cultural tradition has positively influenced Kolektor's development.

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