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Please note! The authors of the articles contained in this special issue are responsible for the content as well as spelling and grammatical correctness of the provided information.

Leadership Authority and CEO Motivations in Romania: Max Weber Revisited

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Abstract

This paper aims to identify the authority types underlying the Romanian leadership and their correlation with 1) CEO's dominant motivation, 2) organization type of led organization and 3) the field of activity the organization belongs to. The present study must be exclusively seen as a research in progress because it is only a part of a more extended research processing a rich data base created during the international investigation of GLOBE 3 CEO Study in more than 60 countries. There are authors who already published remarkable studies in this project. Some conclusions concerning Romanian leadership in comparison with that from other countries are already in the field literature (Catana/Catana/Gheorghita 2003, Catana/Catana 2003, Alas/Alt/ Catana/Catana/Lang/Steyrer 2003, Lang/Catana/Catana/Steyrer 2004, Finlay/Neal/Catana/Catana 2005). Anyway, our paper presents only a few ideas to be developed based upon the debate, leading to new research directions.

The conceptual basis of this research are offered by Implicit Leadership Theory[1] (Lord/Bining/ Thomas 1978, Lord/Foti/de Vader 1984, Lord/deVader/Alliger 1986, Lord/Maher 1991), Max Weber research on authority (Weber 1947) and McClelland model of leaders motivation (McClelland 1973, 1975).

The study is based upon the data collected using GLOBE 3 methodology, from 43 Romanian CEOs and 92 executives, CEOs direct subordinates. The companies belong to three fields of activity (forestry and mining, manufacturing and constructions, services) and two types of companies: entrepreneurial and non entrepreneurial.

[1] Implicit Leadership Theory was created by R. Lord and his associates (Lord/Bining/Rush/Thomas 1978, Lord/Foti/ DeVader 1984, Lord/DeVader/Alliger 1986, Lord/Maher 1991) and represents an important contribution to leadership research. Implicit Leadership Theory approaches the evaluations individuals make about leaders and the cognitive process beyond these. In short, Implicit Leadership Theory starts from the idea that a leader is defined not so much by his behaviour, but the way of being perceived by the others (working with him). The assessment an individual makes about the leader is an evaluation of his behaviour, based upon some pre existent prototypes ("ideal types") in the evaluator's mind.

The research instrument used in identifying the authority forms is based upon Weber's (1947) "ideal types of authority" (charismatic, rational-legal, traditional) to which the authors added the interactive type, operationalized by Neal and Finlay (2004). Has to be mentioned this working instrument complements existing measurements in Implicit Leadership Theory.

The general conclusion of the study is that in selected sample, in the Romanian leaders behaviour prevail the interactive authority values, followed, in order, by those of rational-legal, charismatic, and, respectively, traditional authority. Relatively surprising is that the authority type in terms of Implicit Leadership Theory does not shows statistic significant difference with respect of leaders dominant motivation, entrepreneurial/non entrepreneurial type of activity or the company's field of activity. In the same time, the authority types are not significantly influenced by the above mentioned variables. This result can be considered, on one hand, another proof of Weberian concepts of authority (Ali 1989, Finlay/Neal/Catana/Catana 2005). On the other hand, it rein forces the belief that leadership styles based upon respective forms of authority have a very strong cultural determination.

Introduction

In the sense of *Implicit Leadership Theory* the authority types are not defined by the leaders, but by their direct subordinates. Consistent with the debate around *Implicit Leadership Theory*, we consider the leader's evaluations made by executives are not simple mental exercise, but cognitive processes in which the evaluator operates with *patterns (prototypes*) got during his career. When an executive is involved in a certain event or in a certain personal interrelation with the leader, he has the tendency to place him in an appropriate pattern. The executive makes this "arrangements" either automatically, or using logical deductions. Lord and his partners performed laboratory measurements through which tested the existence of some leadership prototypes (Lord/Maher 1991). This theoretical perspective is the basis of researches concerning the existence of some "universal" leadership characteristics and behaviours. For instance, GLOBE type research is on the way of discovering such "universal" leadership features, based upon *Implicit Leadership Theories* and other theories.

In another example, a comparative research performed in Romania, Great Britain and United Arab Emirates on a women sample showed that the Romanian women expect a *charismatic leadership*, but would accept a *rational-legal* and even *traditional* authority too (Finlay/Neal/Catana/Catana 2005). In turn, the women in Great Britain expect an *interactive* authority (beyond the charismatic one) while women in United Arab Emirates even though wish a charismatic leadership, strongly accept a traditional one, too.

Generally speaking, there are significant cultural variations in leadership authority perceptions within Europe. For instance, there are well known the differences between North-West and South-East Europe (Bakacsi et al. 2002, House et al. 2002), including previous East Germany (Brodbeck et al. 2000). It came out, for instance, that Romanian leaders are less participative than those from German speaking countries (Lang/Catana/Catana/Steyrer 2004, Catana/Catana/Lang 2003). When compared with Austrians and Germans, Romanian leaders seem to be more autocratic, more directive and less willing to delegate the power. In the same time, they seem more bureaucratic and status conscious, have less trust in their subordinates and a lower level of integrity. In turn, they are more team oriented, more human and more calm than the leaders from German language countries. Shortly, the Romanians got higher scores for what could be named bureaucratic leadership style and, respectively, traditional style (Lang/Catana/Catana/Steyrer 2004).

Concerning the expectations for a *charismatic authority* in Romania (Finlay/Neal/Catana/Catana 2005) some comments can be made, which, might seem contradictory. On one hand, in the field literature there is an opinion that charismatic leadership is appropriate for chaos and insecurity situations (Lang 1997, Grabner 2004) or in major social or organizational changes context, as the transition to the market economy is (Kanungo/Mendonca 1996). On the other hand, there are authors considering that charismatic authority is more appropriate when the changing situation calms down and start to settle (as in the case of today's Romania), allowing charismatic leaders to prove their efficiency (House et al. 1999). Anyway, both cases validate the opinion that in places and times of deep structural changes at the societal level, special types of leadership come out (Clark/Lang/Balaton 2001, Edwards/Lawrence 2000, Blazejewski/Dorow 2003, Danis 2003, Edwards 2003, Grabner 2004).

In the case of *traditional leadership* perception, the relative significant differences found by some studies on Romanian and other countries leaders can also have an enough contradictory explanation. For instance, there are partisans of the idea that in transforming contexts (reforms, restructuring, environmental changes etc) the *traditional* leadership (authoritarian, decisive, directive) is more suitable. It is true the transition to the market economy causes some very strong "organizational constraints" in company's restructuring and reorganizing, cost reduction, quality improvement, weak performance punishment, firing inefficient workers etc., context in which an authoritarian leader, able to perform the needed changes would be preferred. Other authors notice that after the "search" of an appropriate leadership style for major changes context, a return to more traditional leadership styles is possible (Kelemen 1999, Lang/Kovac/Bernik 2000, Steger/Winkler 2003, Rubatos 2004).

From the explanation of *traditional* leadership place and role in Romania and the other East European countries, one cannot leave out the communist heritage of these countries (Alt/Lang 1998, Catana/Catana/Lang 2003, Lang et al. 2004, Finlay/Neal/Catana/Catana 2005).

Finally, some considerations should be made on the bureaucratic leadership, with higher scores in Romania and East Germany than in other countries/regions, such as (former) Vest Germany, Austria or Great Britain (Lang et al. 2004, Finlay/Neal/Catana/Catana 2005). Some partisans of *Implicit Leadership Theory* argue there is an East European propensity toward a Weberian *rational-legal* authority based leadership. This propensity is (in these researchers opinion) caused by the communist heritage. Seems that this opinion does not have a too strong empirical evidence (Finlay/ Neal/Catana/Catana 2005), but the research worth to be continued in another direction than that of proving the communist heritage is an incubator for rational-legal authority.

After 1990, in the Romanian business environment and in other East European countries, beyond new leadership styles came alive new motivational profiles of the leaders (Edwards/Lawrence 2000, Clark/Lang/Balaton 2001, Lang/Steger 2002, Steger/Winkler 2003). Of course, the change of motivational orientation is a more complex process than adopting a new leadership model, because motivation is a more inertial, psychological variable (more deep). Maybe this is why there is an argument about the new leaders who will not have instantly and necessarily, a new attitude (Lang/ Muler 2001). Attitude change is obstructed not only by the still powerful influence of the old ”cadres” in the global thought on management and leadership (Steger/Lang 2003), but, probably, by the stability of ideological values backing up human behaviour in general (Lang 2002). Maybe this is why some authors assert the qualitative analysis of motivations on leadership styles is only at the beginning and thus, bigger research efforts are needed for improving the data collection and processing methods (Lang/Catana/Catana/Steyrer 2004).

A previous study (Catana/Catana/Gheorghita 2003) discovered on the same sample as used in the present study, that Romanian CEOs behaviours are dominated by personal achievement (52.2 percent), power (16.3 percent), moral responsibility (15.2 percent) and 16.3 percent behave based upon a mixed motivation. Another comparative study using GLOBE 3 data in Romania, East Germany and Austria discovered four *motivational patterns*: social oriented leaders, power motivated, achievement motivated and multi motivated leaders. Considered as a whole, the CEOs from the three countries had *power* and *personal achievement* as dominant motivation (Lang/Catana/Catana/Steyrer 2004). It seems that Romanian leaders got smaller rates on power motivation than their colleagues in Germany and Austria. Contrary to a certain negative image of a leader motivated by power, the mentioned study shows, relatively surprising, that such a leader installs a positive perception from the followers, at least with regard of their commitment. In the

same time, it was not proved that power motivated leaders are perceived as autocratic, non participative and self protector. The study also shows in Romania and Germany high power motivation is not caused by the special conditions of transition. In this way, the study supports the idea of a strong cultural determination of leader motivation and of their behavioural consequences on the followers. Of course, this statement does not want to minimalize the importance of similarities in the motivational profile and behaviours of the leaders in the three analyzed countries. Anyway, these similarities have a cultural basis, too, this time, a European one.

Concerning the leader's dominant motivation impact on the values shared by the followers, a study shows that leaders and their executives in a sample of 321 subjects believe in the same set of pragmatic values linked to the market economy (consumer satisfaction, profitability, cost control, product quality and sales volume) (Catana/Catana/Gheorghita 2003). This almost "romantic" fit (Meindl/Ehrlich/Dukerich 1985) in values could be explained through unanime awareness of the need for a real market economy, the only one way to overcome unstable and insecure context, specific for transition (Lang 2002). In the same time, seems that this pattern of values is impossible to bypass whenever and wherever it is needed a transition from survival management to a successful leadership (Catana/Catana/Gheorghita 2003).

More and more analysts are concerned by the influence of entrepreneurial attitude and entrepreneurship – as a process of index-linking the market economy – on the leadership styles, leader motivational profile and the values in which leaders and followers believe. Some studies show there are differences between entrepreneurial and non entrepreneurial leaders with regard of mentioned variables (Monson/Healz/Chernick1982, Lee/Asford/Bobko 1990, Barrick/Mount 1993, House/Shamir 1993, Catana/Catana/Gheorghita 2003, Lang/Catana/Catana/Steyrer 2004). It is considered, for instance, that in non entrepreneurial companies, the leaders are more bureaucratic, while the entrepreneurial companies provide a more appropriate environment for a leadership based upon more traditional or more participative authority values. With respect of Romania, seems that entrepreneurs have, in some extent, a more autocratic and directive, more individualistic and decisive and more performance oriented behaviour. In turn, the leaders of non entrepreneurial companies are perceived as being more fair, more integer, more open to communication (informative), using more often power delegation, but more status conscious (Lang/Catana/Catana/ Steyrer 2004). The Romanian entrepreneurs also have higher scores on power motivation than their counterparts from non-entrepreneurial companies. The first are perceived as more self protective, and the last ones, as more calm and more bureaucratic.

According to theory, the leaders of entrepreneurial companies believe mostly in pragmatic values (economical, performance), while in non entrepreneurial companies, the managers operate with

ideological values (dignity, equality, freedom etc.), but there is no empirical evidence for these theoretical considerations.

Theoretical Basis

Leadership and Authority

Max Weber's work on bureaucracy remains relevant to the analysis of modern organizations; but it is his work on "authority" that is most applicable to the analysis of leadership. In fact, three categories of authority identified by Weber – *rational-legal, traditional and charismatic* – remain as robust and enlightening today as they were originally (Weber 1947). While Weber's theories are often dismissed as being "out of touch" with modern management thought, many authors view his work on domination and authority as the foundation for leadership analysis (House 1977, Bryman 1992, Fiol/Harris/House 1999, den Hartog et al. 1999). In profiling leadership authority values along Weber's dimensions of "*charismatic", "rational-legal", "traditional",* (Weber 1947), Neal and Finlay (2004) added a new category that they termed "*interactive*".

Traditional Authority

Traditional authority refers to authority systems that are based upon *pre-modern* ideas and values, particularly those ideologically embedded in family, tribe or religion. According to Weber's analysis, traditional authority and its related form of social action (*traditional action*) are inter-related, mutually sustaining and elaborative. Traditional patterns of leadership authority are not simple top-down power structures. Some are complicated systematic relationships of what can be best described as "patriarchy" (Sharabi 1988: 17-18, UNDP 2003: 141), in which the authority invested in a person is sustained by subordinates' expectations of fair treatment. The traditional authority encourages a complicated system of politicking and lobbying for attention, special treatment and favours. Those close to the centre of power, who enjoy the patronage of the ruler, themselves are empowered, and enjoy the feting, lobbying and subordination of those seeking favours or access to the higher power (Abdalla et al. 1995). Traditional authority structures are thus not simple top-down autocracies; but can be highly politicized, dynamic, and prone to rapid, radical change. Whereas *traditional patterns of authority* may invoke a vision of a bygone era, there is nothing outdated about them. They may not be totally fitting with current conceptions of Western modernity or post-modernity but, as this study demonstrates, they are highly influential in enough regions of world.

Weber's category rational-legal is, on the other hand, firmly embedded in the notion of Western modernity; indeed, it is defining of modernity. Weber observed that this form of authority was

reflexively related to what he called Zweckrational action: the rational pursuit of goals that are themselves rationally determined. Like Weber's other categories, rational-legal authority and its related form of Zweckrational action are "ideal types", extreme theoretical constructs to which reality is unlikely to correspond fully or exclusively. We use the category "rational-legal" in a similar way as Weber: to refer to systems of authority that are based upon technocratic divisions of labour and imperatives, rules that mediate between, and systematize, the various organizational functions; rule-governed *Zweckrational* actions and policies that are applied impartially, without reference to non-technocratic factors such as gender, age, family, influence, race, wealth etc. While his theories have been broadly applied in the environments of management and leadership, Weber was at heart a sociologist and his interested tipped toward the political end of the leadership spectrum. As a result, he advanced a second level of rational-legal thought that is not generally covered. These *Wertrational* actions are manifested in systems that employ rational means to achieve irrational ends and while sometimes pursued by *deviant political regimes* (all extremist regimes performed in *Wertrational* way), their applicability to the business world are virtually non-existent.

Charismatic Authority

Concerning the ideal type of charismatic authority should be emphasized again that Weber's work on charismatic authority is often misrepresented because of a conceptual blurring of the relationship between transactional/charismatic leadership and charismatic authority. Weber was writing primarily about domination and authority, not leadership styles, so analyses of "Weber's charismatic leadership" are bound to result in confusion. Weber certainly saw a relationship between leadership and authority, one that was rooted in a mutually elaborative relationship between leadership styles, characteristics and action, wider socioeconomic institutions (state, family, legal system, systems of production) and follower's authority values. For the purposes of this study, we decided not to expand the category to stress actual or "embedded" interaction with others. To do so would have gone beyond what Weber would have found recognizable. Charismatic authority does <u>not</u> necessarily involve actual, embedded interaction with subordinates: one can be reclusive, distant, interactively incompetent and non-participative and still have high levels of charismatic authority. We thus decided to restrict the ideal type to refer to an individual's possession of attractive, appealing or compelling personal attributes or qualities, which sustain authority over subordinates, or more accurately "followers".

Interactive Authority

Restricting "charisma" in this way meant that a further category was needed. Weber was writing decades before the birth of human relations and its development into the participative/transformational ideologies of today. The corresponding rise of delay, teamwork and flexible management structures has encouraged a shift in authority patterns away from rational-legal; but towards what? Implicit in charismatic/transformation leadership studies is the notion that leader authority is based upon a combination of charisma and interactive skills. As we have seen, interactive skills, however, are in no way a prerequisite for "charismatic authority". As those same transformational/charismatic studies of leadership attest, authority in many sectors now rests *primarily* on embedded social interactive action rather than charisma: on participation and consultation. Having decided to leave the ideal type of "charismatic authority" true to Weber's original vision, it was thus decided to introduce a fourth category, "interactive authority" to capture those residual non-Weberian ideas about authority centred primarily on embedded contingent social interactive practices such as participation and consultation.

Leadership and Motivation

Most of the recent leadership theories integrate motivation theories in general, McClelland's motivation model (1985), and leader's motivation profile theory, especially (McClelland 1973, 1975). The motivation is the immediate cause of leader's behaviour. The leader acts under the influence of a motivational constellation, his behaviour being multi-motivated. The motivations compound, giving a resultant (dominant), which accomplishes two functions: one of individual and collective energetic involvement and the other of guiding individual and collective behaviour. This remark leads to idea that the leader's motive is a relational one. More specific, while motivation is an inner factor, in its actual manifestation is influenced by the relationships with the followers and the organizational internal and external contingency field. In other words, the leader's behaviour is both intrinsically and extrinsically motivated. The leader engages in his activity with a certain degree of motivation, materialized in a certain level of aspiration (expectation) concerning the satisfaction of his own and the group's needs.

McClelland starts from the premise that needs and desires are socially acquired or taught and they are the fundamental forms of expressing motivations. In his Thematic Apperception Test, McClelland states that in every culture, the general human motivation is a constellation of four unconscious motivations: realization, affiliation, power (influence) and responsibility. The degree in which each motivation is present in the motivational structure differs from one individual to another according to his or her life experience. According to the combination of those four factors, each

individual has a certain motivational structure and thus a certain behavioural predisposition. Knowing the needs and desires of his staff, the leader can create a concept of motivation for each individual.

Achievement Motivation

The need for achievement of a leader is actually his desire to succeed. For this purpose, he takes on the responsibility to find outstanding solutions to his tasks; sets high standards and tracks the feedback from his followers. A high motivation is an unconscious concern to achieve excellence through individual efforts. Theoretically, a leader highly motivated by achievement has the following characteristics: 1) sets challenging standards; 2) takes on the responsibility to achieve those standards; 3) is persistent in achieving them; 4) takes the risks of achieving the standards and 5) collects and uses information in order to have the feedback of his success. Such a leader is reserved when delegating responsibility and authority and thus has the tendency to centralize the decision and to interfere in the work of his subordinates.

Affiliation Motivation

The need for affiliation is characterized by the individual's desire of belonging, the joy of working in a team, the care for the interpersonal relations and the fear of high uncertainty. A high motivation for affiliation is an unconscious concern to establish, maintain and re-establish close interpersonal relationships with his followers. Theoretically, such a leader has the following characteristics: is non-aggressive, submissive, depending on others for approval and acceptance, tends to favour someone. This leader is reserved in monitoring the behaviour of his followers, in disciplining them and in communicating a negative feedback. He is interested in the quality of personal relationships and not in gaining influence (he wants harmonious and trusty relationships with people he knows). He gets upset when personal relationships are over (in his philosophy not the enemy creates the problem, but the friends do).

Power Motivation

The need for power is characterized by the desire to control, dominate, influence and overcome others. The high power motivation is the unconscious concern to gain statute and reputation, to influence the followers and to have an emotional impact on them. Theoretically, the main characteristics of such a leader are: exerts a customized, directive leadership, based on personal dominance; has an authoritative even aggressive behaviour; tends to exploit his subordinates in order to achieve personal goals; is eager to get richer; is not very cooperative (Terhune 1968); is not very grateful to his subordinates; gets a great deal of satisfaction out of exerting social influence; from the

psychological point of view, becomes very active when supervising his subordinates; seeks relationships with powerful people, wanting to influence them. The power motivation is important and necessary for the leadership effectiveness, because the managerial activity requires a behaviour that has social influence. Because a leader highly motivated by power gets a great deal of satisfaction out of exerting social influence, he is very interested in practicing leadership. Power motivation might increase the leader's effectiveness especially if the leader persuades the followers to engage in social influence type behaviours.

Responsibility Motivation

The motivation of responsibility is seen as a disposition towards the moral usage of power. The high responsibility motivation is an unconscious concern for moral exercise of power and in the same time, an aversion towards exerting power in an authoritative, constraining and manipulative manner (McClelland 1975, Winter 1991). Theoretically, such a leader is group oriented. Thus he is efficient and cooperative, not impulsive, self-controlled, has an ethical behaviour, based on good faith, being perceived as such by his subordinates. He is charismatic, fair with, supporting and rewarding the followers.

Research Methodology

Sample Selection and Data Collection

The subjects (CEO's direct followers) belong to a sample of 43 companies from three different fields: a) forestry and mining; b) manufacturing and constructions; c) services (wholesale trade, retail trade, transportation and warehousing; IT; finance and insurance; health care). It consisted of 19 entrepreneurial and 24 non-entrepreneurial (established) firms. The latter included both those that were currently under governmental control as well as those that had undergone privatization. The data were collected through interviews and questionnaires, according to the method used in GLOBE III, Cross Cultural CEO Study.

Data about leaders motivations are drawn from a previous study (Catana/Catana/Gheorghita 2003), based upon interviews. The authors used Winter's scoring system (1991) in order to isolate the structure of leaders (CEOs) motives. Their study revealed that most Romanian leaders were motivated by either *achievement* (approximately 48 percent) or *responsibility* (20.5 percent). *Power* was a behaviour al motivation encountered with 16 percent of the leaders, while *affiliation* was only incidental (one single case, approx. 2 percent). In 14 percent of the cases, the leaders were found to be driven by multiple motives.

To identify the authority forms of Romanian leaders, the authors used the *leadership behaviour questionnaire, form D from GLOBE study phase III*. The data were obtained from the CEOs direct subordinates, who answered 86 questions using a 7 points scale designed to describe behaviours.

Research Instrument

The present study recast the data from section D of the GLOBE III study done in Romania (Catana/ Catana) according to the methodology suggested by Neal and Finlay's (2004) modified version of Max Weber's authority relationships (Weber, 1947). We selected this instrument because Neal and Finlay approach leadership from a motivational perspective rather from the daily activities associated with human resource management.

One of the problems that researchers often encounter with the GLOBE instrument relates to the large number of categories into which the individual statements are divided. For the purpose of this study, it was necessary to synthesize the 29 categories used by GLOBE into those suggested by Neal and Finlay: (traditional, rational-legal, charismatic, and interactive).

An additional alteration of GLOBE methodology concerned scaling. Since Neal and Finlay used a scaling technique where high values were associated with high levels of agreement, some of the GLOBE statements were deemed inappropriate since they were designed on a "reverse scale". As a result, 74 of the 86 GLOBE statements in section D were used in this analysis (see Appendices 1a – 1c). In total, 21 of the statements fit the "rational-legal" definition of leadership authority, 19 coincided with "charismatic", 18 were consistent with "interactive" and 16 involved "traditional" suggested a traditional approach.

The instrument was subjected to reliability analysis using "Cronbach's alpha" which is widely used for multi-item measures (de Vaus 2002). Essentially, the alpha value is directly related to inter-item correlation and when variables are multi-dimensional and inter-correlated, the alpha value falls. Taking into account the complexity of the four authority types employed from GLOBE D questionnaire, a certain degree of multi-dimensionality is to be expected. However, the alpha values for the constructs all exceeded the .7 level for reliability suggested by de Vaus (2002) as an adequate measure of reliability.

The statements in Appendices 1a-1c were analyzed by comparing group means. The authors elected to employ the Scheffe' option available in ANOVA (using an alpha value of .05) to isolate any significant differences between the subjects' responses, with respect to the dependent variables. One of the strengths of the Scheffe' test is its conservatism. Some researchers criticize the technique since other methods of analysis can show significance when the Scheffe' does not (Hair et al. 1995).

For the purpose of preliminary studies, such as this one, Scheffe' is preferable since it guards against Type 1 error and unwarranted conclusions.

Results

In measuring dependent variables (the four types of authority) an ascendant scale of 7 points was used. So, if an executive totally agrees with a questionnaire statement this means he perceives the CEO as having in a high degree that type of behaviour (type of authority) the statement is about. The mean value of a certain type of authority was computed as an average of a rate given to all the statements featuring that type in the analyzed group.

All comparisons and considerations are made in this study exclusively based upon the mean values corresponding to different types of research variables: leaders authority, as explained variable on one hand and 1) leaders dominant motivation, 2) company type and 3) field of activity – as explanatory variables, on the other hand.

The data in Table 1 shows the rank of authority types as resulted from the way the 92 executives described their CEO, answering the 74 selected questions from GLOBE D questionnaire. Should be noticed the subject were enough exigent, even aver in their assessment, the mean values being not too high. In some cases, the mean values are very close to each other, forcing the authors to be very prudent in their conclusions (even though alpha values are higher or very close to 0.7). This is why the authors gave up hypothesis testing.

Table 1: Rank of mean values for authority types

Nr.	Authority types	Mean value
1	Interactive	5.3091
2	Rational-legal	5.3090
3	Charismatic	5.1653
4	Traditional	4.2425

Could be said in selected sample, the interactive and rational-legal authority values are more emphasized in the CEOs behaviour , followed, in order, by charismatic and, respectively, traditional ones. The fact that the mean value of traditional authority is significantly lower than the other mean values, allows the authors to consider that Romanian leaders have a clear tendency toward giving up older patterns of behaviour. Anyway, their followers see them more interactive, more rational-legal and more charismatic than resulted from other studies (Alas/Alt/Catana/Catana/Lang/Steyrer 2003, Lang/Catana/Catana/Steyrer 2004).

It is interesting to notice the leadership authority types (behaviours) perceived by executives are relatively different from the authority values expected by a women sample (students in the last two years attending economics/business studies), who's desires are clearly oriented toward a charismatic leadership, followed by the rational-legal, interactive and traditional (Finlay/Neal/Catana/Catana 2005). A distinction should be done between the desire (expectation) of a young about her/his future leader and the real perception of an executive about his boss behaviour.

The enough obvious perception of rational-legal authority values supports the thesis about the East European propensity toward such a type of leadership. As shown before, in other previous communist countries, the bureaucracy values got high enough scores, too (Lang/Catana/Catana/ Steyrer 2004, Finlay/Neal/Catana/Catana 2005).

The statements linked to each authority type were compared with the leader's motivation. In a previous study (Catana/Catana/Gheorghita 2003), the authors identified the leaders' dominant motivation in the entire sample (44 companies). For the sample of this study (43 companies) the dominant motivations are: personal achievement**,** desire to obtain and manifest power; desire to maintain high moral standards; and mixed motivation and the final results were: achievement (52.2 percent); power (16.3 percent); morality (15.2 percent); mixed motivation (16.3 percent). As the data in Table 2 reveal, there were very few significant differences (less than 10 percent) between the subjects in terms of implicit leadership authority. Essentially, the data did not reveal any clear preference in terms of Implicit Leadership Theory. Where differences were noted, they were primarily due to the fact that managers with morality motivations had lower mean rating on certain statements.

Table 2: Selected GLOBE statements of authority with significant differences in terms of CEO motivation

GLOBE Statement	**Authority type**	**Greatest Mean**	**Lowest Mean**
Communicates performance expectations for group members	Rational Legal	6.53 (M)	4.64 (m)
Is ritualistic, uses a prescribed or to carry out procedures	Rational Legal	5.40 (M)	3.79 (m)
Sets high performance standards	Rational Legal	6.20 (P)	5.14 (m)
Is vengeful; seeks revenge when wronged	Traditional	3.93 (P)	2.14 (m)
Allows subordinates to use their judgement when solving problems	Interactive	5.98 (A)	4.94 (m)
Insists only on the best performance	Rational-legal	6.07 (A)	4.43 (m)

(P) Power (A) Achievement (m) Moral responsibility (M) Mixed motivation

The authors also created *proxy variables* for each of the constructs by summing the statements under each of the four authority types. As would be expected, due to the minimal degree of variance in agreement with the statements, when compared in terms of leaders motivation, no significant

variances were noted when the mean values of the proxy variables were compared. As a result, strictly statistically speaking, leader's motivation does not strongly influence his authority type.

The result revealed by the data in *Table 3* is surprising enough because it is proven between leader's motivation and his leadership style (from *Implicit Leadership Theory* perspective) there are more complex connexions than could be performed based upon the six statements with significant differences. We would expect, for example, the leaders strongly motivated by power to be significantly more traditional and less charismatic (Terhune 1968). Or the data shows exactly the contrary, being consistent with previous finding showing power dominated leaders are not perceived as being more autocratic (Lang/Catana/Catana/Steyrer 2004). In the literature there is an opinion that leaders motivated by high moral standards are perceived as being more charismatic, fact not confirmed by the present study findings. In the case of Romania, the leaders motivated by moral exercise of power and ethical responsibility of decision are perceived firstly as having an *interactive* behaviour, than a *charismatic* and only lastly, a *traditional* one. Seems that in Romanian executives' perception, the leaders having a propensity toward moral responsibility behave in a way in which in decisional process take into account the care for the followers. The ethic of decision makes the leaders to be society and team working oriented (Lang/Catana/Catana/Steyrer 2004).

Table 3: Mean values for authority types with respect of leader's dominant motivation

Authority type	**Mean values**			
	Power	**Achievement**	**Moral responsibility**	**Mixed motivation**
Charismatic	5.0385	5.2434	5.1127	5.0912
Rational-legal	5.1428	5.3720	5.4013	5.1873
Traditional	4.1958	4.3164	3.9419	4.3333
Interactive	5.2259	5.3449	5.4603	5.1370

It is known more than half of the leaders in the sample are motivated by personal achievement. From our study results that this inner need for personal achievement causes Romanian leaders to behave firstly based upon rational-legal authority (see Table 3). This finding supports once again other studies data and conclusions, showing that managers from former communist countries (especially from Romania and former East Germany) are more bureaucratic. Rational-legal authority is based upon principles and rules which impartial employment require procedures, which in some extent are bureaucratic. If we accept the idea that rational-legal authority is a system based upon Western modernity, the resulted correlation can be interpreted as a tendency toward Western patterns of leadership. It is known rational-legal authority is viewed by many researchers as an

actional and institutional model which should be used by emergent countries (Headland/Pike/Haris 1990, den Hartog et al. 1999).

Table 2 shows that four from the six statements with significant scores differences concern the rational-legal authority. Can be noticed that executives with leaders strongly motivated by moral responsibility do not perceive rational-legal authority values in their bosses' behaviour. These types of CEOs does not often tell subordinates which are the performance expectations, does not follow strictly the rules and procedures, is too demanding in establishing performance standards and is also obsessed by the highest performance. It is hard to find a logical explanation of these findings. One could be, for example, that those working under a more ethically responsible leadership are generally speaking, more exigent in assessing the questionnaire statements. It is visible, that the lowest scores in Table 2 are given only by such kind of executives.

Among the statements showing significant differences in Table 2, only one concerns the *traditional authority*. On this there are not too many connexions to be made. It is obvious in executives' perception; the leaders having traditional authority are not vengeful and do not seek revenge when wronged. Especially the leaders strongly motivated by *moral responsibility* are not perceived as being vengeful (mean value 2.14). In turn, the leaders strongly motivated by power seem to be more tempted to seek revenge, but still, the group mean is low enough (3.93).

Concerning the *interactive authority*, the only one statement with significant statistic difference in the subjects' perception was about the degree of subordinates' freedom in using their own judgement in problem solving. Seem surprising the highest freedom is perceived by the followers of the leaders strongly motivated by achievement (mean value 5.98) and the lowest one, by the followers of leaders strongly motivated by moral responsibility. It is surprising because, at least theoretically, the leader motivated by achievement has the propensity toward solving the problems through personal efforts (McClelland 1973, 1975).

An analysis was also undertaken to see the influence of *company type* on leader's authority. As was previously mentioned, the authors classified firms as either *entrepreneurial* (44.18 percent) or *established* (*non-entrepreneurial*) (55.82 percent). In the latter class, they included firms that had previously been under government control but which had undergone privatization. The reason for combining these two into a single category was that the employees of these organizations, particularly those at the managerial level, often remained with the firm after it went from government to private control. The data in Table 4 again reveal a high degree of similarity in terms of the mean values for the individual statements and as a result, little variation in terms of *Implicit*

Leadership Theory. Significant variations were noted in only five cases with no particular authority being prevalent.

While the number of significantly different cases were small, those that did show significant differences were quite interesting. The authors had made the assumption that privatized businesses would maintain some of the same bureaucratic structures that they had employed when under government control. This, of course, would be exhibited in a preference for the rational-legal approach to leadership. The data in Table 5 clearly do not support this contention. Since the *entrepreneurial respondents* did to provide significantly higher mean values for any of the 21 rational-legal statements and less than 10 percent of the total statements showed significant variances, from statistical point of view, *leadership authority values do not differ strongly with respect to company type*.

Table 4: Mean values for authority types with respect of company type

Nr.	Authority type	Mean values	
		Entrepreneurial	Non entrepreneurial
1	Interactive	5.2447	5.3633
2	Charismatic	5.2080	5.1294
3	Rational-legal	5.1959	5.4238
4	Traditional	4.3616	4.1425

As was the case with CEO motivation, the authors compared the *proxy variables* for each of the underlying constructs with the company type. Again, the small degree of variance in agreement with the individual statements produced highly similar mean values for the proxy variables and none were found to be significantly different. As a result, the authors concluded that the *company type does not have a strong influence on leadership authority* in the sample.

Table5: Selected GLOBE statements of authority with significant differences in terms of company type

GLOBE Statement	Authority type	Greatest Mean	Lowest Mean
Is subdued, suppressed, quiet; tame	Rational-legal	4.06 (NE)	3.19 (E)
Shows conviction in his/her beliefs and values	Charismatic	6.40 (NE)	6.02 (E)
Can be trusted to serve the needs of subordinates	Charismatic	5.14 (NE)	4.26 (E)
Tells me how to do my work	Rational-legal	4.56 (NE)	3.90 (E)
Looks out for my personal welfare	Traditional	4.57 (E)	3.78 (NE)

(E) Entrepreneurial (NE) Non entrepreneurial

Even though there were not too many significant differences between leadership authority and company type, some considerations must be made. Comparing with their colleagues from non-

entrepreneurial companies, the „entrepreneurial" leaders in the sample are more charismatic, but can have also behaviours making the followers to perceive them as relatively traditional. Should be reminded from some descriptions result the entrepreneurial leaders have a higher propensity toward traditional authority values (House 1977, 1999). With regard of Romania, there are findings showing the „entrepreneurs" are more self protective, more power motivated than their colleagues (Lang/Catana/Catana/Steyrer 2004).

In turn, the leaders of Romanian non-entrepreneurial companies are more interactive than the entrepreneurs. In our opinion this is normal, because these types of companies are either state owned, or were recently privatized. In such companies, large size usually, and with a well rooted organizational culture, the leader's authority significantly depends on social-interactive actions of the leader, on his participation and consultation and less on charisma (Neal/Finlay 2004).

Another difference (in fact the most significant in this context) between the two classes of leaders is that the leaders of non-entrepreneurial companies have a more rational-legal behaviour than those from entrepreneurial companies, empirically supporting similar findings (House 1977, 1999, Lang/ Catana/Catana/Steyrer 2004). As can be noticed from Table 5, two of five significant differences are assimilated to rational-legal behaviour. In non-entrepreneurial companies, the leaders have a higher propensity toward consultation and are more calm than their counterpart. But still in Table 5 there are two surprising significant differences with respect of the statements making up the charismatic authority. The leaders of non entrepreneurial companies have higher conviction in their beliefs and values, on one hand, but serving the needs of subordinates, on the other hand. The surprise continues if looking at the mean values of the latest statement in the Table: from the executives answers can be understood the leaders of non-entrepreneurial companies look out for the subordinate's welfare (4.57 vs. 3.78 for entrepreneurial leaders).

The final analysis was undertaken with respect to the *company's primary field* of business activity. In this case, the companies were involved in the following fields of activity: (1) forestry and mining industries (2) manufacturing and construction (3) service industries. The levels of variation, in terms of the individual statements, were even lower when company type was used as a comparison variable. This finding was not surprising since there was no reason to believe that leadership styles would not tend to differ widely within these three fields of company endeavour nor that a specific form of authority would be more common in one of these than the others.

Table 6: Mean values for authority types with respect of company field of activity

Nr.	Authority type	Mean value		
		Forestry & Mining	Manufacturing & Construction	Services
1	Interactive	4.8518	5.3863	5.2010
2	Charismatic	4.9047	5.3531	5.2879
3	Rational-legal	4.9473	5.1748	5.1979
4	Traditional	4.1354	4.2201	4.3422

The data in Table 7 reveal that there were only three cases in which significant variances were noted between mean values in the service sector and forestry and mining industry. While this by no means constitutes a trend in terms of implicit leadership theory, it was interesting to note that the importance of employee participation and status were somewhat higher in the manufacturing sector. Since the number of variances was minimal, the authors concluded that the leadership authority values in Romania do not significantly differ with respect of the company's field of activity.

Table 7: Selected GLOBE statements with significant differences in terms of field of activity

GLOBE Statement	Authority type	Greatest Mean	Lowest Mean
Communicates performance expectations to group members	Rational-Legal	5.71 (S)	4.00 (FM)
Is interested in temporal events, has a world outlook	Charismatic	6.33 (FM)	4.71 (S)
Rises to meet difficult goals	Charismatic	6.50 (FM)	5.95 (S)

(FM) Forestry &mining (S) Services

Again, the authors compared the *proxy variables* for each of the underlying constructs with the main field of company activity. As was the case with leaders motivation, the small variance in agreement with the individual statements meant that the mean values for the proxy variables would also be higher similar. Since it was found that the proxy variables did not differ significantly with type of company activity, it was concluded that the *primary field of activity does not significantly influence the preferred type of leadership authority.*

Excepting a previous study (Catana/Catana/Gheorghita 2003) the authors did not find studies concerned by comparative analysis of leadership styles in different industries. Some collateral considerations can be found in GLOBE II study (House, Charismatic Leadership), which assumes in industries in which physical work prevails (as in the cases of mining and forestry), the leaders are expected to have a stronger achievement motivation – argument partially confirmed by us (Catana/Catana/Gheorghita 2003). Starting from this interesting assumption, the data of our study allows us to formulate the following (more speculative) idea: it can be observed the leaders in mining and forestry have the lowest mean values for interactivity; it can be believed this result is determined by the fact that in natural resources industries, the social-interactive influence is not

very important in increasing business performance; so it would be possible that the leaders from this field to pay a special attention to organizing the physical work. The statements of questionnaire generating significant differences with respect of activity field are enough relevant. For instance, it is very logic and normal in mining and forestry unexpected difficult circumstances to occur and thus, the leaders need the ability to confronting with such situations and the followers to perceive well this ability. It is relatively surprising that the leaders in this field communicate less with the group in what concerns expected performance, even though, according to our assumption, the company performance strongly depend upon the followers' effective work.

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Appendix 1a: Selected GLOBE statements reclassified according to Weberian categories

GLOBE Statement	Authority type
Mobilizes, and motivates followers	**charismatic**
Tends to behave according to established norms, policies and procedures	**rat.-legal**
Is well organized, methodical, orderly	**rat.-legal**
Strives for excellence in performance of self and subordinates	**rat.-legal**
Emphasizes the importance of being committed to our values and beliefs	**traditional**
Has and shows patience	**interactive**
Anticipates and prepares in advance	**rat.-legal**
Is generally optimistic and confident	**charismatic**
Is individually oriented; places high value on meeting individual rather than group needs	**traditional**
Is generally prepared for meetings and foreseeable future events	**rat.-legal**
Follows established rules and guidelines	**rat.-legal**
Stimulates unrest	**charismatic**
Communicates his/her performance expectations for group members	**rat.-legal**
Is organized and methodological in work	**rat.-legal**
Is willing to invest major resources in trials that do not have high probability of success	**charismatic**
Is ritualistic; uses a prescribed order to carry out procedures	**rat.-legal**
Is in charge and does not tolerate disagreement or questioning; gives orders	**traditional**
Is punitive, has no pity or compassion	**traditional**
Clarifies who is responsible for what	**rat.-legal**
Ensures that subordinates are not embarrassed or shamed	**interactive**
Tends to conceal information from others	**traditional**
Forgoes self interests and makes personal sacrifices in the interest of a goal or vision	**charismatic**
Is aware of slight changes in other's moods	**interactive**
Sets high performance standards	**rat.-legal**
Means what he/she says, earnest	**charismatic**
Aware of others' socially accepted status	**traditional**

Appendix 1b: Selected GLOBE statements reclassified according to Weberian categories

GLOBE Statement	**Authority type**
Is subdued, suppressed, quiet; tame	**rat.-legal**
Acts to get the others working together	**interactive**
Is easy hurt or offended	**traditional**
Establishes my goals for me	**rat.-legal**
Provides feedback to help subordinates	**interactive**
Is subtle, does not communicate explicitly, uses metaphors and allegory, and example	**charismatic**
Deserves trust, can be believed and relied upon to keep his/her word	**rat.-legal**
Acts like a tyrant or despot	**traditional**
Is unique; has characteristics or behaviours that are different from others	**charismatic**
Is vengeful; seeks revenge when wronged	**traditional**
Has vision and imagination of the future	**charismatic**
Strong willed, determined, resolute, persistent	**traditional**
Able to identify solutions which satisfy individuals with diverse and conflicting interests	**traditional**
Is interested in temporal events, has a world outlook	**charismatic**
Is able to maintain good relationships with others	**interactive**
Shows confidence in subordinates	**interactive**
Pursues own best interests at the expense of others	**traditional**
Builds trust with subordinates	**interactive**
Delegates challenging responsibilities to subordinates	**interactive**
Allows subordinates to use their judgment when solving problems	**interactive**
Gives subordinates a high degree of discretion to perform their work	**interactive**
Is open in his/her communication with subordinates	**interactive**
Has a strong hand in establishing my goals	**traditional**
Shows conviction in his/her ideals, beliefs and values	**charismatic**

Appendix 1c: Selected GLOBE statements reclassified according to Weberian categories

GLOBE Statement	Authority type
Does not show favouritism toward an individual or group of individuals	**rat.-legal**
Sees that the interests of subordinates are given due consideration	**traditional**
Does not criticize subordinates without good reason	**rat.-legal**
Has confidence in my ability to contribute to the goals of this organization	**interactive**
Asks me to find a solution when I have a problem	**interactive**
Makes sure that his/her actions are always ethical	**charismatic**
Can be trusted to serve the interests of his/her subordinates rather than himself/herself	**charismatic**
Has ideas that made me rethink some things that I never questioned before	**charismatic**
Allows subordinates to have influence on critical decisions	**interactive**
Seeks advice concerning organizational strategy from subordinates	**interactive**
Will reconsider decisions on the basis of recommendations by those who report to him/her	**interactive**
Explains what is expected of each member of the group	**rat.-legal**
Explains each individual group member's scope of authority	**rat.-legal**
Clarifies priorities	**rat.-legal**
Shows a high degree of self confidence	**charismatic**
Rises to meet difficult goals	**charismatic**
Has strong convictions about the correctness of his/her actions	**traditional**
Has a clear sense of where he/she wants this organization to be in five years	**charismatic**
Insists only on the best performance	**rat.-legal**
Encourages subordinates to look for better ways of doing their work	**interactive**
Tells me how to do my work	**rat.-legal**
Makes sure his/her actions are always ethical	**charismatic**
Looks out for my personal welfare	**traditional**
Challenges me to think about problems in new ways	**charismatic**

Capability-based Sources of Competitive Advantage: A Case of Slovenian (Post)Transitional Economy

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Abstract

Basic characteristic of the capability-based school is that it follows the "inside out" approach of explaining the sources of a firm's competitive advantage. This means the competitive advantage primarily arises from the firm and its capabilities/competencies. The scientific literature usually divides a firm's capabilities into managerial, input-based, transformational and output-based capabilities. If a firm wants to base its competitive advantage on its capabilities they must be rare, durable, immobile, and cannot be easily substituted or imitated. Empirical research based on the sample of 225 Slovenian firms shows that the firms see the most relevant sources of their competitive advantage in transformational and output-based capabilities as well as in imperfect imitability of capabilities. The more relevant capabilities a firm possesses, the greater a firm's performance and competitiveness are, which means our empirical support of the capability-based school is quite unequivocal. Among the studied sources of competitive advantage within the capability-based school the imperfect imitability of capabilities and the transformational capabilities seem to have the largest positive influence on a firm's competitiveness and performance.

1 Introduction

Firms whose primary strategic goal is long-term progress, development and success must build up some kind of competitive advantage, which means that certain sources of competitive advantage must exist. The scientific literature usually discusses four basic schools concerning the sources of competitive advantage, i.e. the industrial organization school, the resource-based school, the capability-based school, and the knowledge-based school. The purpose of this paper is to analyze the sources of competitive advantage as seen by the capability-based school, examine the relationship between these sources and a firm's competitiveness and performance and, based thereon, offer a judgement on the relevance of the capability-based school. After briefly reviewing the relevant theory on the capability-related sources of competitive advantage, the paper mainly involves a presentation of the empirical findings of a study of 225 Slovenian firms. By comparing the empirical evidence with theoretical findings drawn from the literature, we believe some new insights can be offered to scholars and researchers in the area of competitiveness.

2 Capability-Based School on the Sources of a Firm's Competitive Advantage

2.1 Explaining the Origins of Competitive Advantage through the Capability-Based School

Advocates of the capability-based school on the sources of competitive advantage of a firm argue that a firm can win a competitive battle only if it possesses more relevant capabilities than its competitors. Competitive advantage therefore finds its source in capabilities (Collis 1991, Day 1994). Different authors use different expressions to describe the sources of capability-based competitive advantage. The most common expressions found in the related scientific literature are core skills (Tampoe 1994), distinctive capabilities (Snow/Hrebiniak 1980), organizational capabilities (Collis 1994, Ulrich/Wiersema 1989), organizational capital (Prescott/Visscher 1980), dynamic capabilities (Eisenhardt/Martin 2000, Luo 2000), and core competencies (Prahalad/Hamel 1990; Leonard-Barton 1992).

In Penrose's (1959) "The theory of the Growth of the Firm" capabilities are already mentioned as an important factor of firms' growth and development. This proves that the capability-based school at least partially takes its source in the resource-based school. The first step towards the separation between both schools happened when the authors within the resource-based school started to neglect tangible and stress intangible resources as sources of competitive advantage. In doing so they gradually stopped using the term resources and started to talk about the capabilities/ competencies. The ultimate separation between both schools happened when the literature started to discuss capabilities as sources of competitive advantage mostly on the corporate level (Stalk/Evans/ Shulman 1992, Very 1993, Tampoe 1994, Long/Vickers-Koch 1995, Pučko 2002a) instead on the strategic business unit level.

Another important turning point within the capability-based school happened in the 1990 when Prahalad and Hamel (1990) published their "The Core Competence of the Corporation". Nowadays, their approach is considered to be a special stream within the capability-based school. The origin of competitive advantage according to this "sub-school" can perhaps best be explained if we compare a firm with a large tree. In this case, the root system that provides nourishment, sustenance and stability is the core competence, while the trunk and major limbs are core products. These products, which invisibly connect core competencies and end products, are the physical embodiments of one or more core competencies. Out of the limbs (core products) grow smaller branches, which represent end products (Lado/Boyd/Wright 1992) Firms must understand that in order to shape the evolution of end products it must maintain dominance in suitable core products. Similarly, if it wants to be dominant in core products it has to have unique core competencies (Prahalad/Hamel 1990).

Many successful firms (such as Benetton, Canon, Honda, IKEA etc.) are said to have built their competitive advantages on the fact that they succeeded in creating some capabilities that their competitors did not have. Their experiences have led researchers to suggest the following basic principles of capability-based competition (Stalk/Evans/Shulman 1992):

1. The building blocks of corporate strategy are business processes. Firms should therefore focus above all on their business processes when formulating their strategies.
2. Competitive success depends mostly on transforming a firm's key processes into strategic capabilities that consistently provide superior value to the customer.
3. Firms create their capabilities by making strategic investments in a support infrastructure.
4. Since the capabilities on which competitive advantage can be built extend across the whole firm, the champion of any capability-based strategy must be the chief executive officer.

If a firm wants to base its competitive advantage on its capabilities several conditions must be met. Since these conditions were already discussed elsewhere (see for example, Čater 2001) we will not discuss them in details again. Let us just mention that capabilities that have a potential to be a source of competitive advantage have to be valuable, heterogeneous, rare, immobile, un-substitutable and may not be easily imitated (Zupan 1996, Teece 1998, Ndlela/Du Toit 2001).

2.2. Classification of Capabilities as Sources of Competitive Advantage

Although there are many different classifications of capabilities in the competitiveness-related scientific literature (see for example, Ulrich/Lake 1990), Henderson/Cockburn (1994), Kusunoki/ Nonaka/Nagata 1998) the classification proposed by Lado, Boyd and Wright (1992) seems to be one of the most frequent and thorough. This classification divides the capabilities into four categories:

1) Managerial capabilities/competencies: Broadly conceived, managerial capabilities include (a) the basic managerial capabilities such as planning, organizing, leading, controlling, and especially unique capabilities of a firm's strategic leaders to articulate a strategic vision, communicate the vision throughout the organization, and empower employees to realize that vision (Lado/Wilson 1994), (b) the unique ability to enact a beneficial firm-environmental relationship (Lado/Wilson 1994), and (c) the ability to respond quickly to all environmental challenges (Ahmed/Hardaker/ Carpenter 1996).
2) Input-based capabilities/competencies: These capabilities encompass different resources, knowledge and skills that enable a firm's transformational processes to create and deliver products and services that are valued by customers. They include (a) the ability to assure sufficient and quality resources needed in the business processes (Hay/Williamson 1991), (b) the ability to

operate with minimal stocks of material (Capon/Farley/Hoenig 1990), and (c) the bargaining power of a firm relative to the bargaining power of its suppliers (Powell 1996).

3) Transformational capabilities/competencies: Lado and Wilson (1994) describe a firm's transformational capabilities as those capabilities required to advantageously convert inputs into outputs. These capabilities include: (a) the ability of innovation and entrepreneurship (Lengnich-Hall 1992), (b) the ability to create a positive organizational culture (Fiol 1991), (c) organizational learning (Pucik 1988), and (d) the ability to master the business process as a whole (Levary 1992, McGinnis/Vallopra 1999), especially the ability to fully utilize a firm's (production) capacities (Capon/Farley/Hoenig 1990), the ability to master the production of core products (Prahalad/Hamel 1990) and the logistic capabilities (Inglis 1992).
4) Output-based capabilities/competencies: These capabilities typically include (a) the ability of developing new and improving old products and/or services (Flynn/Flynn 1996), (b) the ability to offer a wide variety of products and/or services in broad market, which allows a firm to exploit the effects of the economy of scope (Ghemawat 1986, Christensen 2001), (c) the ability to develop and preserve a high level of customer loyalty (Lado/Wilson 1994), (d) the ability to react flexibly (Overholt 1997, Hitt/Keats/DeMarie 1998), (e) the beneficial effects on a firm's (local) environment (Dechant/Altman 1994, Miles/Covin 2000), and (f) the bargaining power of a firm relative to the bargaining power of its customers (Powell 1996).

2.3 Review of the Past Empirical Research Regarding the Capability-Based School

As far as the managerial capabilities are concerned, considerable empirical support, i.e. positive influence on a firm's competitive position (Powell 1993) and performance (Piercy/Kaleka/ Katsikeas 1998), can be found for the ability to enact a beneficial firm-environmental relationship. The managerial capability to respond quickly to the environmental challenges is also important as it is said to have positive effects on a firm's competitive advantage (Larsen/Joynt 1991), profitability and sales growth (Morash/Droge/Vickery 1996). Even more empirical support than for the managerial capabilities can be found for the transformational capabilities (Li/Lam/Qian 1999, McGinnis/Vallopra 1999). This support mostly relates to the innovation and organizational learning, which have positive effects on a firm's return on investment, market share and sales growth (Piercy/Kaleka/Katsikeas 1998). In addition, a firm's ability to innovate has also positive effects on its competitive advantage (Makovec-Brenčič/Žabkar 2001), return on equity (Makovec-Brenčič 2001), earnings per share (Geroski 1995) and labour productivity (Kotnik/Mrkaić 2002). Droge, Vickery and Markland (1994) on the other hand believe that the largest shares of the variance of return on investment, return on sales and market share can be explained by the ability of

developing new and improving old products and/or services. Similar results were also obtained by several other authors who believe that the ability of developing new products has a positive effect on a firm's competitiveness (Subramaniam/Venkatraman 1998), return on investment, market share and sales growth (Piercy/Kaleka/Katsikeas 1998). Finally, we should also mention a positive influence of the ability to develop and preserve a high level of customer loyalty (as an important output-based capability) on firm performance (Piercy/Kaleka/Katsikeas 1998, McGee/Peterson 2000). Some empirical support, although much less cogent than for other types of capabilities, can also be found for the input-based capabilities (Čater/Alfirević 2003).

As far as the relative influence of different types of capabilities on a firm's competitive advantage and performance is concerned we have to conclude that the scientific literature offers few empirical studies on that. These insights are missing even for the firms in the market economies, while in the transitional economies they are nearly totally absent. Grosse (1992) for example ranked several potential sources of competitive advantage and found out that the managerial capabilities are more important for the creation of competitive advantage than the input-based capabilities. At the same time functional capabilities are ranked even lower than the input-based capabilities. Pučko's (2002b) research on the other hand confirmed the high importance of the managerial capabilities although the marketing (functional) capability and the ability to satisfy customers were assessed as even more important.

3 Methodological Backgrounds

3.1 Research Hypotheses

Based on the aim of the paper two research hypotheses dealing with the capability-based school on the sources of competitive advantage were developed as follows:

- H1: A firm's competitive advantage positively depends on the sources of competitive advantage discussed by the capability-based school.
- H2: Firm performance positively depends on the sources of competitive advantage discussed by the capability-based school.

3.2. The Sample of Firms, Collection of Data and Description of Variables

Empirical research in this paper forms part of a broader study on the strategic behaviour and competitive advantages of Slovenian firms. Data was collected by sending questionnaires[1] to the Chief Executive Officers or members of the top management of randomly selected firms by post. By the end 2002, questionnaires from 225 Slovenian firms had been satisfactorily completed and

[1] On consultation with leading Slovenian professors of management (in order to assure maximal reasonableness and validity) the questionnaire was designed by the author.

returned to the author, meaning the response rate was 44.3 percent. The respondents were mostly Chief Executive Officers (36.4 percent), assistant managers (27.6 percent) or members of the top management (25.3 percent). In the remaining 10.7 percent, the respondents were the heads of different (mostly advisory) departments such as controlling, accounting etc. If the above structure of respondents holds true, this can be regarded as very satisfactory as in most cases the respondents were individuals who should have fluently mastered the discussed topics.

Because of the broader goals[2] of the research we used stratified sampling in selecting firms in the sample. The structure of firms in the sample can be shown according to several criteria:

- Legal form: public limited companies (45.3 percent), private limited companies (54.7 percent);
- Sector: manufacturing (33.3 percent), service (34.2 percent), trading (32.4 percent);
- Size[3]: large (33.3 percent), medium-sized (33.3 percent), small (33.3 percent);
- Year of foundation: founded in 1989 or sooner (50.7 percent), founded in 1990 or later (49.3 percent).

Since the structure of firms in the sample, especially according to the criterion of size distribution, was quite different from the actual structure[4] of Slovenian firms, it cannot be said that the sample is completely representative. The reason for this primarily lies in the use of stratified sampling which, as already explained, was influenced by the research's broader goals.

Most questions in the questionnaire required an answer in the form of (dis)agreement with the offered statements. Respondents were asked to choose between five answers (a five-point Likert scale was used); where 1 means they completely disagree with the statement, whereas 5 means they completely agree with it. In this way we collected data for two groups of variables, i.e. the sources of competitive advantage as discussed by the capability-based school and the forms of competitive advantage. Data for the third group of variables, i.e. a firm's performance, were partially collected through the questionnaire (estimations of the non-financial performance indicators were obtained in

[2] The goals of the research were much wider than the goals presented in this paper. Among other things, we also wanted to examine the differences in the sources and forms of competitive advantage between different groups of firms such as manufacturing, service and trading firms, large, medium-sized and small firms, and so on. In order to have a sufficient number of large firms in the sample, as required to carry out these analyses, stratified sampling was used.

[3] The size of the firms in Slovenia (as well as in this research) is statutorily defined. Small firms are those that meet at least two of the following three conditions: (1) average number of employees in the last year does not exceed 50, (2) sales in the last year do not exceed 1 billion SIT, and (3) average assets in the last year do not exceed 0.5 billion SIT. Medium-sized firms are those that are not small and meet at least two of the following three conditions: (1) average number of employees in the last year does not exceed 250, (2) sales in the last year do not exceed 4 billion SIT, and (3) average assets in the last year do not exceed 2 billion SIT. Firms that cannot be defined as small or medium-sized are large firms (Uradni list RS, 2001).

[4] The actual structure of Slovenian firms shows that at the end of 2001 there were 83.2 percent of private limited companies, 8.2 percent were general partnerships, 2.6 percent were public limited companies, while the remaining firms (6.0 percent) involved other legal forms. With regard to the sectors involved, 17.4 percent of firms were in the manufacturing sector, 45.4 percent were in the service sector, while 37.2 percent were in the trading sector. From the aspect of size, there were 95.0 percent of small firms, 4.1 percent of medium-sized firms, and only 0.9 percent of large firms (Statistical Office of the Republic of Slovenia, 2002).

this way) and partly from the Gospodarski vestnik[5] (2002) database (the data needed to calculate the financial performance indicators were collected using this).

In order to test the research hypotheses we need to examine how the number of points for variables representing how firms follow the "teachings" of the capability-based school influences a firm's competitive position and performance. For this purpose, we first had to carefully study the relevant literature and, based thereon, form a list of variables that measure as accurately as possible how the lessons within the capability-based school are followed by Slovenian firms. Based on these basic variables, the compounded variables (constructs) were then calculated. The formation of these constructs was carried out by calculating un-weighted[6] means from the basic variables. The total estimation of the capability-based school was for example calculated as a mean from all individual types of capabilities and the characteristics of these capabilities (see Table 1).

In order to carry out some empirical analyses we also had to group the firms according to their prevailing form of competitive advantage[7]. We created four groups of firms, namely "firms without a competitive advantage", "firms with mostly a price advantage", "firms with mostly a differentiation advantage", and "firms with a simultaneous price and differentiation advantage". A firm was said to have a competitive advantage (48.0 percent of firms) if its competitive position was estimated as positive (at least +1 on the –5 to +5 scale), if its competitive advantage lasted at least a month and if at least one of the forms of competitive advantage was estimated as being very strong (at least 4 on the 1 to 5 scale), while the remaining forms of competitive advantage were not estimated as nonexistent (at least 2 on the 1 to 5 scale). If all of these conditions were not fulfilled, a firm was said to be "without a competitive advantage" (52.0 percent of firms). Firms with a competitive advantage were further divided according to their prevailing form. Firms that estimated price advantage higher than differentiation advantage were labelled "firms with mostly a price advantage" (12.4 percent of firms), firms that estimated differentiation advantage higher than price advantage were labelled "firms with mostly a differentiation advantage" (19.6 percent of firms), while firms with equal estimations of price and differentiation advantage were labelled "firms with a simultaneous price and differentiation advantage" (16.0 percent of firms).

The third group of variables consists of different performance indicators. We used several financial and non-financial indicators. As for the financial performance indicators, firms were asked to

[5] Gospodarski vestnik is a leading Slovenian business newspaper publisher.

[6] Un-weighted means were calculated because we were unable to determine different weights for every variable in an objective way (for example, based on the study of the relevant literature).

[7] Since any discussion about the forms of competitive advantage is more reasonable at the strategic business unit (SBU) level than the corporate level, respondents were asked to take this fact into account. Where a firm was diversified enough to say it has at least two SBUs, respondents were asked to provide answers for the most important SBU. On the other hand, if a firm as a whole was a single SBU respondents were asked to provide answers for the firm as a whole.

provide the data needed to calculate: (1) return on equity; (2) return on assets; (3) return on sales; (4) revenues-to-expenses ratio; (5) sales-to-operating-expenses ratio; and (6) value added per employee. On the other hand, they were also asked to provide data on several non-financial performance indicators, namely: (1) percentage of loyal customers; (2) percentage of loyal suppliers; (3) turnover (of staff); (4) share of expenses on training and education; (5) share of expenses on research and development; and (6) percentage of reclaimed deliveries. The data for all performance indicators were collected for the period between 2000 and 2002. We then used these figures to calculate a three-year unweighted mean[8] for each indicator. These means were then used in all statistical analyses instead of individual annual indicators.

4 Empirical Findings and Discussion

In the research we first wanted to find out how the firms estimate the importance of the sources of competitive advantage within the capability-based school. The results (Table 1) show that firms on average ascribed the most points to the variables representing the output-based capabilities (Mean = 3.69), the transformational capabilities (Mean = 3.56), the managerial capabilities (Mean = 3.33) and the imperfect imitability of capabilities (Mean = 3.38). All other variables, i.e. the input-based capabilities and the characteristics of capabilities other than imitability, received considerably lower estimates of importance. Among several individual capabilities (which were also studied but are not shown in Table 1) the ability to develop and preserve a high level of customer loyalty (Mean = 3.80), the ability to innovate (Mean = 3.71), permanent organizational learning (Mean = 3.64) and the ability to be flexible in satisfying customers' needs (Mean = 3.62) were ascribed the most points.

Table 1: The Relevance of Capabilities and their Characteristics in Slovenian Firms

Capabilities and their characteristics		Mean	St. deviation
a)	Managerial capabilities	3.33	1.10
b)	Input-based capabilities	2.91	0.96
c)	Transformational capabilities	3.56	1.07
d)	Output-based capabilities	3.69	1.04
e)	Value of capabilities	2.06	0.93
f)	Heterogeneity of capabilities	2.11	0.90
g)	Rareness of capabilities	2.94	1.15
h)	Durability of capabilities	2.06	0.93
i)	Unsubstitutability of capabilities	2.84	1.14
j)	Immobility of capabilities	2.89	1.12
k)	Imperfect imitability of capabilities	3.38	1.02

[8] The measurement of firm performance based on three-year means was necessary to avoid the influence of unique and random events. At the same time, the measurement of firm performance over several years follows the logic of competitive advantage that is said to be a long-term phenomenon.

4.1 The Connection between the Sources and Forms of Competitive Advantage

In the first research hypothesis we examine the reasonableness of the capability-based school on the sources of competitive advantage. One possible approach here is to calculate the influence of the total estimation of this school as well as individual sources of competitive advantage within it (independent variables) on a firm's competitive advantage (dependent variable). If the independent variables are metric and the dependent one is non-metric a discriminant analysis can be used in order to determine whether or not the value of an independent variable has a statistically significant influence on the value of a dependent variable. The calculated values of the Wilks' lambdas and their levels of significance (α) (see Discriminant Analysis 1 in Table 2) reveal that, based on the total estimation of the capability-based school, we can make a statistically significant ($\alpha < 0.001$) judgement as to whether a firm has a competitive advantage. With regard to individual sources of competitive advantage it can also be concluded that they have a statistically significant ($\alpha < 0.001$) influence on the existence of a firm's competitive advantage. This conclusion is also supported by the calculated canonical correlation coefficients, which are highest (they exceed 0.5) in the case of the imperfect imitability of capabilities ($R = 0.628$), the total characteristics of capabilities ($R = 0.550$), the transformational capabilities ($R = 0.518$) and the output-based capabilities ($R = 0.508$).

A similar but more detailed analysis can be carried out when the dependent variable has four possible values, i.e. firms without a competitive advantage, firms with mostly a price advantage, firms with mostly a differentiation advantage, and firms with a simultaneous price and differentiation advantage. The calculated values of the Wilks' lambdas and their levels of significance (α) (see Discriminant Analysis 2 in Table 2) again reveal that, based on the total estimation of the capability-based school as well as on the estimations of all individual sources of competitive advantage within it, we can make a statistically significant ($\alpha < 0.001$) judgement on the type of a firm's competitive advantage. Also in support of this conclusion are the calculated canonical correlation coefficients, which again are highest (they exceed 0.5) in the case of the imperfect imitability of capabilities ($R = 0.639$), the total characteristics of capabilities ($R = 0.558$), the transformational capabilities ($R = 0.535$) and the output-based capabilities ($R = 0.513$).

Table 2: Examination of the Influence of the Total Estimation of the Capability-Based School and Individual Sources of Competitive Advantage within this School on the Forms of Competitive Advantage using the Discriminant Analysis

Independent variable (X) = Total estimation of the capability-based school and individual sources of comp. adv. within this school	**Aver. of X**		**Discrim. analysis 1**		**Average of X**				**Discrim. analysis 2**	
	Y = no comp. adv.	Y = comp. adv.	Wilks λ (α)	Canonical correl. coef.	Y = no comp. adv.	Y = lower price	Y = differentiat.	Y = simult. comp. adv.	Wilks λ (α)	Canonical correl. coef.
Capability-based school	2.51	3.29	0.682 (0.000)	0.564	2.51	3.19	3.28	3.39	0.676 (0.000)	0.569
Managerial capabilities	2.98	3.71	0.857 (0.000)	0.379	2.98	3.47	3.63	3.99	0.834 (0.000)	0.407
Input-based capabilities	2.64	3.05	0.933 (0.000)	0.258	2.64	3.10	2.99	3.07	0.932 (0.001)	0.261
Transformat. capabilities	2.98	3.92	0.732 (0.000)	0.518	2.98	3.64	3.96	4.09	0.714 (0.000)	0.535
Output-based capabilities	3.05	3.93	0.742 (0.000)	0.508	3.05	3.78	3.94	4.02	0.737 (0.000)	0.513
Characteristics of capabil.	2.19	2.98	0.698 (0.000)	0.550	2.19	2.86	2.95	3.12	0.689 (0.000)	0.558
Imperf. imitab. of capabil.	2.57	3.64	0.605 (0.000)	0.628	2.57	3.49	3.56	3.83	0.592 (0.000)	0.639

Although based on the discriminant analysis we can already reach a conclusion on hypothesis 1, this hypothesis can be further verified by using metric independent and dependent variables. Here, the values of dependent variables, i.e. the strengths of different forms of competitive advantage, are directly defined by the managers' answers, which is another advantage over the analyses presented in the previous paragraphs. The fact that both groups of variables (independent and dependent) are metric allows us to further verify hypothesis 1 by using the univariate (linear) regression analysis. The results (see Table 3) show that the strength of a firm's competitive advantage is positively dependent on the total estimation of the capability-based school as well as on the estimations of all individual sources of competitive advantage within this school ($\alpha < 0.001$). By the total estimation of the capability-based school we can explain a considerable share (44.7 percent) of variance of the strength of a firm's competitive advantage. Of all studied sources of competitive advantage, the greatest share of variance of the strength of a firm's competitive advantage can be explained by the imperfect imitability of capabilities (52.5 percent) and the transformational capabilities (41.1 percent). The results regarding both basic forms of competitive advantage, i.e. lower price and differentiation, are very similar as both forms of competitive advantage are again positively dependent on the total estimation of the capability-based school as well as on the estimations of all individual sources of competitive advantage within this school ($\alpha < 0.001$). Based on both statistical methods, namely the discriminant and regression analyses, we can conclude that *hypothesis 1* can be *confirmed*, as a firm's competitive advantage indeed does positively depend on the sources of competitive advantage discussed by the capability-based school.

Table 3: Examination of the Influence of the Total Estimation of the Capability-Based School and Individual Sources of Competitive Advantage within this School on the Forms of Competitive Advantage using the Univariate (linear) Regression Analysis

Dependent var. (Y) = Form of competitive advantage		**Independent var. (X) = Sources of comp. adv. within the capability-based school**						
		Capability school	Manager. capabilities	Inp.-based capabilities	Transform. capabilities	Out.-based capabilities	Charact. of capabilities	Imperfect imitability
Total	R^2	0.447 (+)	0.246 (+)	0.145 (+)	0.411 (+)	0.375 (+)	0.384 (+)	0.525 (+)
	α	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Lower price	R^2	0.341 (+)	0.164 (+)	0.157 (+)	0.264 (+)	0.269 (+)	0.291 (+)	0.411 (+)
	α	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Differentiation	R^2	0.445 (+)	0.260 (+)	0.122 (+)	0.439 (+)	0.384 (+)	0.384 (+)	0.516 (+)
	α	0.000	0.000	0.000	0.000	0.000	0.000	0.000

In the research we also examined the relative influence of the studied sources of capability-based advantage on a firm's competitive position. If the independent variables are metric and the dependent one is non-metric a discriminant analysis[9] with several independent variables can be used. The results (see Discriminant analysis 1 in Table 4) show that where the dependent variable has two possible values, i.e. firms without a competitive advantage and firms with a competitive advantage, only two independent variables enter the model. In step 1, the variable representing the imperfect imitability of capabilities is entered, while in step 2 the variable representing the transformational capabilities is entered. As the dependent variable has only two possible values we only deal with one discriminant function. Almost without any risk ($\alpha < 0.001$) we can conclude that this function is able to distinguish between both groups of firms (i.e. both values of the dependent variable). The calculated canonical correlation coefficients (R = 0.659 and 0.669) show that the contribution of the second independent variable (the transformational capabilities) to the strength of the relationship between the dependent and independent variables is relatively weak.

If the dependent variable has four possible values, i.e. firms without a competitive advantage, firms with mostly a price advantage, firms with mostly a differentiation advantage, and firms with a simultaneous price and differentiation advantage, an additional question about the number of discriminant functions arises and this makes the analysis more complex. Again two independent variables are entered in the model; in step 1 the variable representing the imperfect imitability of capabilities and in step 2 the variable representing the transformational capabilities. The results (see Discriminant analysis 2 in Table 4) show where both independent variables are in the model it is reasonable to use only one discriminant function as it contains 98.5 percent of the variance of both independent variables, whereas the second discriminant function contains only 1.5 percent of the variance. If we ignore the second discriminant function the results of this analysis, i.e. the values of Wilks' lambda ($\lambda = 0.568$) and canonical correlation coefficient (R = 0.653), are almost identical to

[9] The "stepwise" method and the criterion of Wilks' lambda are used to determine the sequence of independent variables that meet the conditions for entering the model.

the results of the analysis with only two possible values of the dependent variable. Based on both analyses we can conclude that a firm's competitive advantage depends mostly on the imperfect imitability of capabilities and the transformational capabilities.

Table 4: Examination of the Influence of the Sources of Competitive Advantage within the Capability-Based School on the Forms of Competitive Advantage using the Discriminant Analysis

Independent variable (X) = Sources of comp. adv. within the capability-based school	**Aver. of X**		**Discrim. analysis 1**		**Average of X**				**Discrim. analysis 2**		
	Y = no comp. adv.	Y = comp. adv.	Wilks λ (α)	Canonical correl. coef.	Y = no comp. adv.	Y = lower price	Y = differentiat.	Y = simult. comp. adv.	Wilks λ (α)	Explained varian. (%)	Canonical correl. coef.
Imperf. imit. of capabil.	2.57	3.64	0.605 (0.000)	0.628	2.57	3.49	3.56	3.83	0.592 (0.000)	100.0	0.639
Imperf. imit. of capabil.,	2.57	3.64	0.590 (0.000)	0.641	2.57	3.49	3.56	3.83	0.568 (0.000)	98.5	0.653
transform. capabilities	2.98	3.92			2.98	3.64	3.96	4.09	0.989 (0.293)	1.5	0.105

The relative influence of the studied sources of capability-based advantage on a firm's competitive position can be additionally verified by using metric independent and dependent variables, which mean the partial correlation analysis can be used. This analysis differs from the bi-variate correlation analysis in that it excludes the disturbing influence of all other variables when calculating the relationship between two variables. The results (see Table 5) show that the imperfect imitability of capabilities has the largest positive influence on all forms of competitive advantage (the coefficients of partial correlation are between 0.310 and 0.356). For all other studied sources of competitive advantage (except the transformational capabilities) this influence is no longer statistically significant ($\alpha > 0.05$) as also indicated by the low values of the coefficients of partial correlation (approximately between 0 and 0.1). Based on both statistical methods, namely the discriminant and partial correlation analyses, we can conclude that different sources of competitive advantage within the capability-based school have a relatively different influence on a firm's competitive advantage and its two basic forms. The most relevant seem to be the imperfect imitability of capabilities and the transformational capabilities. The relative influence of all other sources is much smaller. Based on the results of the partial correlation analysis the input-based capabilities take third place, the managerial capabilities fourth place, the output-based capabilities fifth place and the total characteristics of capabilities sixth place.

Table 5: Examination of the Influence of the Sources of Competitive Advantage within the Capability-Based School on the Forms of Competitive Advantage using the Partial Correlation Analysis

Dependent var. (Y) = Form of competitive advantage		**Independ. var. (X) = Sources of comp. adv. within the capabil.-based school**					
		Manager. capabilities	Inp.-based capabilities	Transform. capabilities	Out.-based capabilities	Charact. of capabilities	Imperfect imitability
Total	Part. R (rank)	0.037 (4)	-0.038 (3)	0.183 (2)	0.029 (5)	0.012 (6)	0.356 (1)
	α	0.589	0.577	0.007	0.668	0.856	0.000
Lower price	Part. R (rank)	0.003 (6)	0.062 (3)	0.084 (2)	0.019 (4)	-0.010 (5)	0.310 (1)
	α	0.967	0.359	0.215	0.778	0.879	0.000
Differentiation	Part. R (rank)	0.052 (4)	-0.091 (3)	0.216 (2)	0.031 (5)	0.024 (6)	0.342 (1)
	α	0.446	0.177	0.001	0.647	0.724	0.000

4.2 The Connection between the Sources of Competitive Advantage and a Firm's Performance

The second research hypothesis examines the reasonableness of the capability-based school by testing the direct influence of the total estimation of this school and individual sources of competitive advantage within it on a firm's performance. The fact that both groups of variables (independent and dependent) are metric allows us to use the univariate (linear) regression analysis. The results (see Table 6) show that the total estimation of the capability-based school as well as all individual sources of competitive advantage within this school have a positive influence on most performance indicators, except on turnover and the percentage of reclaimed deliveries (which was fully expected since smaller turnover and less reclaimed deliveries mean better performance). In spite of all that, relatively small shares of variance of financial (between 15 and 25 percent) and non-financial (between 5 and 15 percent) performance indicators can be explained by the total estimation of the capability-based school. Of all studied sources of competitive advantage, the greatest shares of variance of most performance indicators can be explained by the imperfect imitability of capabilities, the transformational capabilities and the output-based capabilities. Based on the above discussion, we can conclude that *hypothesis 2* can be *confirmed*, as a firm's performance indeed does positively depend on the sources of competitive advantage discussed by the capability-based school.

Table 6: Examination of the Influence of the Total Estimation of the Capability-Based School and Individual Sources of Competitive Advantage within this School on Firm Performance using the Univariate (Linear) Regression Analysis

Dependent variable (Y) = Firm performance		**Independent var. (X) = Sources of comp. adv. within the capability-based school**						
		Capability school	**Manager. capabilities**	**Inp.-based capabilities**	**Transform. capabilities**	**Out.-based capabilities**	**Charact. of capabilities**	**Imperfect imitability**
Return on equity	R^2	0.217 (+)	0.177 (+)	0.026 (+)	0.227 (+)	0.177 (+)	0.182 (+)	0.272 (+)
	α	0.000	0.000	0.015	0.000	0.000	0.000	0.000
Return on assets	R^2	0.264 (+)	0.189 (+)	0.053 (+)	0.258 (+)	0.201 (+)	0.215 (+)	0.335 (+)
	α	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Return on sales	R^2	0.256 (+)	0.166 (+)	0.107 (+)	0.292 (+)	0.258 (+)	0.190 (+)	0.331 (+)
	α	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Revenue-to-expenses ratio	R^2	0.188 (+)	0.120 (+)	0.079 (+)	0.224 (+)	0.193 (+)	0.142 (+)	0.257 (+)
	α	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Sales-to-operating-expenses ratio	R^2	0.191 (+)	0.140 (+)	0.087 (+)	0.203 (+)	0.177 (+)	0.138 (+)	0.232 (+)
	α	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Value added per employee	R^2	0.143 (+)	0.130 (+)	0.052 (+)	0.143 (+)	0.132 (+)	0.096 (+)	0.171 (+)
	α	0.000	0.000	0.001	0.000	0.000	0.000	0.000
Percentage of loyal customers	R^2	0.080 (+)	0.043 (+)	0.031 (+)	0.080 (+)	0.054 (+)	0.056 (+)	0.070 (+)
	α	0.000	0.002	0.008	0.000	0.000	0.000	0.000
Percentage of loyal suppliers	R^2	0.034 (+)	0.014 (+)	0.004 (+)	0.035 (+)	0.027 (+)	0.024 (+)	0.031 (+)
	α	0.005	0.076	0.344	0.005	0.014	0.021	0.008
Turnover (of staff)	R^2	0.145 (–)	0.071 (–)	0.041 (–)	0.066 (–)	0.081 (–)	0.148 (–)	0.174 (–)
	α	0.000	0.000	0.002	0.000	0.000	0.000	0.000
Share of expenses for training	R^2	0.121 (+)	0.074 (+)	0.012 (+)	0.120 (+)	0.106 (+)	0.129 (+)	0.152 (+)
	α	0.000	0.000	0.103	0.000	0.000	0.000	0.000
Share of expenses for R&D	R^2	0.109 (+)	0.042 (+)	0.031 (+)	0.085 (+)	0.078 (+)	0.095 (+)	0.147 (+)
	α	0.000	0.002	0.008	0.000	0.000	0.000	0.000
Percentage of reclaimed deliveries	R^2	0.141 (–)	0.077 (–)	0.027 (–)	0.153 (–)	0.159 (–)	0.113 (–)	0.172 (–)
	α	0.000	0.000	0.014	0.000	0.000	0.000	0.000

In the research we also examined the relative influence of the studied capability-related sources of competitive advantage on a firm's performance. Since both groups of variables (independent and dependent) are metric, probably the best approach here is by using a partial correlation analysis. The results (see Table 7) show that the imperfect imitability of capabilities has the largest positive influence on most performance indicators. The second largest effect on most performance indicators can be detected for the transformational capabilities. For all other studied sources of competitive advantage this influence is no longer statistically significant ($\alpha > 0.05$) as also indicated by the low values of the coefficients of partial correlation (approximately between 0 and 0.1). Based on the partial correlation analysis we can conclude that different sources of competitive advantage within the capability-based school have a relatively different influence on a firm's performance. The most relevant seem to be the imperfect imitability of capabilities and the transformational capabilities, while the relative influence of all other studied sources of competitive advantage cannot be precisely defined as the ranks of their coefficients of partial correlation differ among different performance indicators.

Table 7: Examination of the Influence of the Sources of Competitive Advantage within the Capability-Based School on Firm Performance using the Partial Correlation Analysis

Dependent variable (Y) = Firm performance		**Independ. var. (X) = Sources of comp. adv. within the capabil.-based school**					
		Manager. capabilities	**Inp.-based capabilities**	**Transform. capabilities**	**Out.-based capabilities**	**Charact. of capabilities**	**Imperfect imitability**
Return on equity	Part. R (rank)	0.119 (3)	-0.166 (2)	0.117 (4)	0.002 (6)	-0.032 (5)	0.257 (1)
	α	0.079	0.014	0.083	0.982	0.638	0.000
Return on assets	Part. R (rank)	0.098 (4)	-0.103 (3)	0.148 (2)	-0.040 (6)	-0.056 (5)	0.309 (1)
	α	0.148	0.127	0.029	0.558	0.411	0.000
Return on sales	Part. R (rank)	0.033 (4)	0.018 (5)	0.168 (2)	0.014 (6)	-0.130 (3)	0.299 (1)
	α	0.628	0.795	0.013	0.841	0.054	0.000
Revenue-to-expenses ratio	Part. R (rank)	0.010 (5)	0.011 (4)	0.147 (2)	0.002 (6)	-0.119 (3)	0.266 (1)
	α	0.886	0.875	0.029	0.977	0.079	0.000
Sales-to-operating-expenses ratio	Part. R (rank)	0.077 (4)	0.046 (5)	0.130 (2)	-0.012 (6)	-0.087 (3)	0.213 (1)
	α	0.258	0.494	0.055	0.854	0.198	0.001
Value added per employee	Part. R (rank)	0.124 (2)	-0.001 (6)	0.065 (4)	0.018 (5)	-0.093 (3)	0.190 (1)
	α	0.067	0.991	0.339	0.794	0.171	0.005
Percentage of loyal customers	Part. R (rank)	0.023 (5)	0.057 (3)	0.138 (1)	-0.064 (2)	0.016 (6)	0.051 (4)
	α	0.731	0.404	0.041	0.347	0.820	0.456
Percentage of loyal suppliers	Part. R (rank)	-0.013 (4)	-0.042 (3)	0.065 (1)	0.006 (6)	0.007 (5)	0.054 (2)
	α	0.853	0.540	0.341	0.927	0.916	0.426
Turnover (of staff)	Part. R (rank)	-0.046 (4)	0.041 (5)	-0.062 (3)	-0.030 (6)	-0.076 (2)	-0.179 (1)
	α	0.498	0.545	0.357	0.661	0.261	0.008
Share of expenses for training	Part. R (rank)	0.020 (6)	-0.148 (1)	0.048 (4)	0.047 (5)	0.062 (3)	0.139 (2)
	α	0.772	0.029	0.475	0.487	0.359	0.040
Share of expenses for R&D	Part. R (rank)	-0.038 (3)	-0.033 (4)	0.048 (2)	-0.004 (6)	-0.024 (5)	0.210 (1)
	α	0.574	0.625	0.482	0.959	0.729	0.002
Percentage of reclaimed deliveries	Part. R (rank)	0.010 (6)	0.120 (2)	-0.042 (4)	-0.118 (3)	0.037 (5)	-0.184 (1)
	α	0.881	0.075	0.539	0.081	0.581	0.006

5 Conclusions

By using different statistical methods several important conclusions can be drawn concerning the relevance of the capability-based school on the sources of a firm's competitive advantage. These conclusions can be summarized as follows:

- Slovenian firms believe that the transformational and output-based capabilities are the most relevant for creating a firm's competitive advantage. Among different characteristics of capabilities the most relevant and desirable seems to be their imperfect imitability.
- Based on discriminant and regression analyses it can be concluded that the more firms follow the teachings of the capability-based school the greater competitive advantage (hypothesis 1 confirmed) and performance (hypothesis 2 confirmed) they achieve.
- Based on discriminant and partial correlation analyses it can be concluded that among all individual sources of competitive advantage within the capability-based school the imperfect imitability of capabilities and the transformational capabilities have the largest influence on a firm's competitive advantage and performance.

In conclusion we can say that our findings generally confirm the findings of most empirical research on the sources of competitive advantage within the capability-based school that has been carried out in both transitional economies and established market economies. Non the less, we have to mention that this holds true above all for the individual sources of competitive within the capability-based school while an objective comparison of the relative influence of different types of capabilities on a firm's competitive advantage and performance is almost impossible. The reason for this lies primarily in the fact that similar studies are missing even for the firms in the market economies, while in the transitional economies they are nearly totally absent. In this respect, we can conclude that the value of our research is twofold. On the one hand our research might represent further support of the contemporary theory on firm competitiveness, which teaches us that the 'internal' sources of competitive advantage (such as capabilities) are extremely relevant and important for the creation of competitive advantage and superior performance. On the other hand, we believe our research also enhances our understanding of the capability-based theory on the potential sources of a firm's competitive advantage by offering some new insights that were probably never studied as completely and thoroughly before. Based on all that we can say that this paper has the potential to offer an orientation to researchers in the field of a firm's competitiveness as well as to top managers in transitional economies where they might look for the sources of their firms' competitive advantage.

Irrespective of all the findings of this research, its possible weaknesses should also be mentioned. Perhaps the most important weakness lies in the fact that real sources of competitive advantage are usually well hidden, making it impossible for a researcher to measure them completely objectively. For this reason, we had to use managers' relatively subjective assessments of the basic sources and forms of competitive (dis)advantage of their firms. This weakness might be partially avoided by personally interviewing managers and/or by observing each firm over a longer period of time. Another possible weakness of this research is the use of stratified sampling, which was necessary because of the broader goals of the research. The consequence of stratified sampling is that the sample is not completely representative, meaning the conclusions cannot be automatically extrapolated for all Slovenian firms. As a suggestion for further research, we believe that similar studies should also be carried out on a much more homogeneous sample of firms. In spite of these weaknesses, we still believe the research has the potential to broaden our knowledge in the field of firm competitiveness. It's most important advantage is probably the relatively large sample of firms involved, which has allowed us to draw certain conclusions with minimum risk.

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Did Communism Lead to Rational-Legal Leadership Expectations? Some Evidence to the Contrary from Prospective Women Managers in Romania

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Abstract

This paper discusses a comparative study of the way leadership authority is perceived. The study was conducted in 3 countries: Romania, the United Arab Emirates and the United Kingdom. Having significantly different socio-political backgrounds and future prospective, in these three countries, theoretically, leadership authority manifested differently. While Romania was selected as an East European (post communist) reference point, the United Arab Emirates was selected as a comparator to reflect a society in which traditional leadership authority has always been present and Great Britain as a comparator to represent a society in which "western-style" forms of leadership are more commonly practiced.

The theoretical framework of the study is Implicit Leadership Theory – ILT[1] *In order to create the authority value profile, the authors instrumentalized Max Weber's three ideal types of authority (Weber 1947): rational-legal, traditional, charismatic, adding a fourth one, interactive authority. The data was collected from a sample of comparable groups of women from the three countries. The comparison can be made on different aspects. Not only the subjects were all of the same gender, but they were all business majors in their final two years of study; in other words, these groups have been exposed to the same type of business education and would soon be entering the labour market, having certain perceptions and expectations about leadership values in their respective countries. Additional, all the women in the sample have relatively similar age and life experience.*

Must be underlined a previous comparative empiric study (Finlay/Neal/Catana/Catana 2005), made on the same (Romanian) sample, approached the values of direct managers (supervisors). The research was also, a cross-cultural approach, done in Romania, Oman and Lebanon. The main conclusion of that study was that in comparison with Arab women, the Romanians have a more "modern" (a more Western) vision in their expectations from the direct supervisors. They

[1] Implicit Leadership Theory was created by R. Lord and his associates (Lord/Bining/Rush/Thomas 1978, Lord/Foti/DeVader 1984, Lord/DeVader/Alliger 1986, Lord/Maher 1991) and represents an important contribution to leadership research. ILT approaches the evaluations individuals make about leaders and the cognitive process beyond these. In short, ILT starts from the idea that a leader is defined not so much by his behavior, but the way of being perceived by the others (working with him). The assessment an individual makes about the leader is an evaluation of his behavior, based upon some pre existent prototypes ("ideal types") in the evaluator's mind.

were found to like a rational-legal management, combined with some participative values. Women from Oman preferred a traditional management style. Their Lebanese colleagues also were willing to accept traditional style, but in their expectations could be found enough strong preferences for participative and rational-legal styles, explainable in a great extent through the fact that Lebanon is a cultural gate between East and West. The enough surprising outcomes of mentioned investigation formed a strong challenge for the present study. In fact, the main hypothesis of this study, (especially those concerning Romania and United Arab Emirates) are drawn from those outcomes.

Starting from the assumption that subordinates have a certain opinion about their direct supervisor's authority and another one about the whole organization leader, the present study approaches exclusively the individuals' perception on leadership.

Based upon ranking the preferences, our research leads with a high statistical accuracy to the conclusion that all the women from the three significantly different cultures prefer the charismatic authority. Surprisingly, in Romania and United Arab Emirates, the next ranked preferences are the same, meaning: rational-legal strictness authority. In turn, the British women, in the absence of a charismatic leader would prefer, an interactive, followed by a rational-legal one. Our data does not entirely sustain the outcomes of some previous empirical studies and some opinions about the correlation between post-communist status of leadership and ILT. More specifically, some supporters of ILT argue there is an East European propensity toward a leadership based upon rational-legal authority. As shown above, our research does not support this propensity as a top ranked preference, but a second placed one. Must be underlined that the nuances of traditionalism in Romanian women preferences are enough strong, fact revealed by other studies too. On the other hand, from their expectations perspective, the Arab women are not so traditional as believed, while those from Great Britain, even though have stronger participative preferences than their counterparts, the mean values of those preferences are not so high as expected.

Introduction

Weber's view of the rational-legal system was based on a belief that rules are often implemented and obeyed because of their perceived "legitimacy" and since they conform to a government's ability to monopolize their enactment with physical force. This issue of accepted legitimacy, manifested by an underlying belief in the "rightness of the governments cause", combined with the manifest threat of enforcement by force was never more obvious than in the East European countries and states. As a result, researchers often view the communist system as having been an "incubator" for implicit rational-legal authority. At the heart of this system were the bureaucratic officials who, while exercising their personal judgment and skills, must subordinate these to

service of a higher authority (i.e. the state-party) and ultimately accept the responsibility for the impartial execution of assigned tasks. A "bureaucratic leader" had some other features, also: gaining his position on the basis some "merits" rigorously assessed using an occult party grid; exercising personal authority in total accordance with the centre's impersonal rules; his main occupation was administrative work; was rewarded with a good and certain salary and prospects of advancement in a lifetime career. Concerning the "bureaucratic leader" selection and promotion (as general directors at that time) should be noticed that the main criterion was not his professional competency, but the political biography and the swearing of total commitment to the party. In Romania, the political chef used to say that "no one can become a leader without having a good ideological (Marxist-Leninist) preparation and without fulfilling the tasks assigned by the party. This should be underlined because it seems a belief appeared i.e. having a good professional knowledge is enough for becoming a leader. Does not matter how good specialist is someone, without a concern for raising his political-ideological level, there is no way to become a leader" Any promotion was done strictly aiming at "increasing the leading role of the party". Any company manager actually and directly expressed this role (Olteanu/Gheonea/Gheonea 2003).

The fact that Weber died in 1920, just a few short years after the communist revolution in Russia, makes the intuitive aspects of his theories even more compelling and encouraged the researchers to seek verification of this purported link between communism and rational-legal authority. Some researchers argue Max Weber's work on authority (Weber 1947) is still the foundation in the analysis of leadership (den Hartog 1999, House 1977: 1, Fiol/Harris/House 1999, Bryman 1992)[2]. Without entering a useful terminological analysis, we notice the present study makes distinction between leadership and Weber's ideal types of authority.

The enquiry instrument was inspired by Weber work, profiling leadership authority along four dimensions: rational-legal, traditional, charismatic (Weber 1947) and interactive. Should be mentioned our working apparatus complement existing measurements on ILT. It is also important to note that Weber was employing "ideal types" of authority relationships (*idealtyp* in the original German) that are not necessarily reflected in actual society. He asserted that this ideal type was "formed by the one-sided accentuation of one or more points of view and by the synthesis of a great many diffuse, discrete, more or less present and occasionally absent concrete individual phenomena, which are arranged according to those one-sidedly emphasized viewpoints into a unified analytical construct" (Weber 1947).

[2] Must be underlined Weber did not write about leadership, but about authority. Thus, analyses of "Weber's charismatic leadership" are bound to result in confusion. Of course, some Weberian ideas can lead to meditation on the relationship between leadership and authority. We think, for instance at the interdependency between leadership styles, characteristics and action, wider socioeconomic institutions (state, family, legal system, systems of production) and followers' authority values.

In the present study, the four types of authorities have been identified on the basis of sample subject's answers-concerning the features and actions of "an effective leader" (ILT). Those features and actions that reached high agreement levels can be considered *fundamental values* of the ideal type, respective of *authority*.

The reasoning of this step is found in Weber's own observation according to which a specific type of *authority* and its core values are mutually inter related. In the study context, the women expectations about the leaders' authority are *based upon* and are *supported by* fundamentals values of authority in the socio-economic system, to which those respective women belong. More specific, their ideas of what an efficient leadership means, about his features and actions are rooted in the fundamental values of authority. At the same time, the last ones are the result of ideas regarding efficient leadership styles about the features and actions of an efficient leader. Thus, the leadership and the ideas on authority are base on an undeniable cultural correlation. This finding is important because many previous investigations on ILT do not take into account the two aspects.

Concerning the chosen women sample for data collection, the authors started from the assumption that in East-European countries women will have an important role in economic growth of this region. Or, in the communist era, a few management studies analyzed women at their working place. We consider that it is a substantial need for these kinds of studies, describing and analyzing the beliefs and perceptions of female employees, about efficient leadership styles, the basic values backing up the leaders actions and behaviour, and the way they influence the subordinates employees (Eden/Leviatan 1975, Lord/Binning/Rush/Thomas 1978, Rush/Thomas/Lord 1977, Kenney/Schwartz-Kenney/Blascovich 1996).

The significant cultural differences between the three national groups, allowed us on one hand to evaluate the already existing analysis, performed in other countries without any nuances about the subjects gender. On the other hand, our investigation on a female sample could be very useful to specialists in human resources management from the three countries, at least concerning the training of women preparing to penetrate the labour market in those respective countries.

With the risk of repeating, our study focuses on the *cultural contrasts* between leadership values in those three countries, as they are perceived by them. In our analysis, United Arab Emirates are the prototype of an Arabian traditional society (in terms of religion, culture, and business practices), but exposed along its whole history to non-Islamic Western influences. The Great Britain is the symbol of *economic liberalism* and *gender equality* and Romania is typical for a society in a fundamental changing, including the women position and role in management.

Applicability of Weber's Model

In order to compare the leadership values in the three countries, our study has instrumentalized a *research apparatus* comprising Weber's authority "*ideal types*" (Weber 1947): rational-legal, charismatic and traditional, to which the authors have added the interactive authority type. In fact, the latest is the only modification that authors make on Weber's concept about the authority relations. We have chosen this approach because Weber's categories have an exceptional theoretical profoundness and they are very analytical. They can not be judged from modernity or post modernity perspective (enough criticized in the latest time – Bass 1997), because in Weber's own explanation, they are universal and generally applicable in any type of society (Ali 1989). There are authors arguing that Weber's idea overcome both Western modernity and modern managerial practices (Hunt 1999).

In the research on emergent economies there is a lively debate about the tension between "ethic" models of action and institutions (which are externally initiated, sustained and validated) and "emic" models (which are internally initiated, sustained and validated) (Headland/Pike/Harris 1990, den Hartog et al. 1999, Pike 1967, Berry 1969). The debate is centred on the concern that ethic analyses are literally meaningless to the subjects being studied, raising questions about the validity, propriety and applicability of external models. These issues were addressed directly by Weber, who recommended the use of two related techniques: the use of *Verstehen* analyses of action and institutions; and the development of "ideal types" which could be used to categorize measure, contrast and compare different societies and institutions. Weber's ideal types of authority may seem to be externally imposed Western categories, but they actually work extremely well at least at the local Arab "emic" level. The ideal types are strongly echoed in Arab analyses of local systems of domination and authority – particularly in the work of Ibn Khaldun (1967). In the sense of the previous idea, we consider that in the three studied countries, the Weber's authority categories are "adequate to the level of meaning" in the reflection of subjects from those countries.

Traditional Authority

Traditional authority refers to authority systems that are based upon *pre-modern* ideas and values, particularly those ideologically embedded in family, tribe or religion. According to Weber's analysis, traditional authority and its related form of social action (*traditional action*) are inter-related, mutually sustaining and elaborative. Traditional patterns of leadership authority are not simple top-down power structures. Some are complicated systematic relationships of what can be best described as "patriarchy" (Sharabi 1988: 17-18, UNDP 2003: 141), in which the authority invested in a person is sustained by subordinates' expectations of fair treatment. The traditional authority encourages a complicated system of politicking and lobbying for attention, special

treatment and favours. Those close to the centre of power, who enjoy the patronage of the ruler, themselves are empowered, and enjoy the feting, lobbying and subordination of those seeking favours or access to the higher power (Abdalla et al. 1995). Traditional authority structures are thus not simple top-down autocracies; but can be highly politicized, dynamic, and prone to rapid, radical change. Whereas *traditional patterns of authority* may invoke a vision of a bygone era, there is nothing outdated about them. They may not be totally fitting with current conceptions of Western modernity or post-modernity but, as this study demonstrates, they are highly influential in enough regions of world.

Rational-legal Authority

Weber's category *rational-legal* is, on the other hand, firmly embedded in the notion of Western modernity; indeed, it is defining of modernity. Weber observed that this form of authority was reflexively related to what he called *Zweckrational* action: the rational pursuit of goals that are themselves rationally determined. Like Weber's other categories, *rational-legal authority* and its related form of *Zweckrational* action are "ideal types", extreme theoretical constructs to which reality is unlikely to correspond fully or exclusively. We use the category "rational-legal" in a similar way as Weber: to refer to systems of authority that are based upon technocratic divisions of labour and imperatives, rules that mediate between, and systematize, the various organizational functions; rule-governed *Zweckrational* actions and policies that are applied impartially, without reference to non-technocratic factors such as gender, age, family, influence, race, wealth etc. While his theories have been broadly applied in the environments of management and leadership, Weber was at heart a sociologist and his interested tipped toward the political end of the leadership spectrum. As a result, he advanced a second level of rational-legal thought that is not generally covered. These *Wertrational* actions are manifested in systems that employ rational means to achieve irrational ends and while sometimes pursued by *deviant political regimes* (all extremist regimes performed in *Wertrational* way), their applicability to the business world are virtually non-existent.

Charismatic Authority

Concerning the ideal type of charismatic authority should be emphasized again that Weber's work on charismatic authority is often misrepresented because of a conceptual blurring of the relationship between transactional/charismatic leadership and charismatic authority. Weber was writing primarily about domination and authority, not leadership styles, so analyses of "Weber's charismatic leadership" are bound to result in confusion. Weber certainly saw a relationship between leadership and authority, one that was rooted in a mutually elaborative relationship between leadership styles, characteristics and action, wider socioeconomic institutions (state,

family, legal system, systems of production) and followers' authority values. For the purposes of this study, we decided not to expand the category to stress actual or "embedded" interaction with others. To do so would have gone beyond what Weber would have found recognizable. Charismatic authority does not necessarily involve actual, embedded interaction with subordinates: one can be reclusive, distant, interactively incompetent and non-participative and still have high levels of charismatic authority. We thus decided to restrict the ideal type to refer to an individual's possession of attractive, appealing or compelling personal attributes or qualities, which sustain authority over subordinates, or more accurately "followers".

Interactive Authority

Restricting "charisma" in this way meant that a further category was needed. Weber was writing decades before the birth of human relations and its development into the participative/ transformational ideologies of today. The corresponding rise of de layering, teamwork and flexible management structures has encouraged a shift in authority patterns away from rational-legal; but towards what? Implicit in charismatic/transformation leadership studies is the notion that leader authority is based upon a combination of charisma and interactive skills. As we have seen, interactive skills, however, are in no way a prerequisite for "charismatic authority". As those same transformational/ charismatic studies of leadership attest, authority in many sectors now rests primarily on embedded social interactive action rather than charisma: on participation and consultation. Having decided to leave the ideal type of "charismatic authority" true to Weber's original vision, it was thus decided to introduce a fourth category, "interactive authority" to capture those residual non-Weberian ideas about authority centred primarily on embedded contingent social interactive practices such as participation and consultation.

Some Ideas Concerning Women from ILT Perspective

Romanian Women and ILT

Romania has experienced dramatic cultural transition in recent years associated with the transition from communist totalitarianism to market democracy. The role of women in Romanian society is changing correspondingly. They represent a significant factor in the economic growth and have an important role in management. It is estimated that they own around 25 percent of Romanian small and medium enterprises. In terms of communist ideology impact on women attitude toward leadership authority, there are two relative divergent points of view. As Romanian society adapts to the new market economy, it remains to be seen which one will be proved.

The first point of view is enough spread in management and leadership literature, even though it has no significant empirical validation. Essentially, it starts from the assumption that if communist

ideology emphasized *gender equality principle,* (and ILT considers this principle as a rational-legal one), then Romanian women will easily adapt to rational legal leadership styles.

The second opinion argues that in fact, communism does not emancipate women but on the contrary, and thus, from ILT perspective, the women remain attached to the traditional leadership style. The partisans of this point of view consider that in reality, communism not only did not emancipate the women, but increased their subordination. If traditionally the woman was subordinated to her husband, in communism she became subordinated to the state, too (Olteanu/ Gheonea/Gheonea 2003). More specific, the communist state needed the women labour force. The planned economic growth had no more masculine working resources, determining the state to start looking to the "feminine pool" of labour force (over 51 percent of population). So called woman *emancipation* became a party task. The woman had to be enrolled in the work, and socially integrated. Additionally, she could not be ideologically initiated staying at home! The *emancipation* was not done at the women demand, but at the demand of the "*party-state*"! The women had exactly those rights which the state was agreeing to give up. Should not forget each additional won right by the citizen became a minus for the power of the state. An undeniable proof the state was not interested in the women rights, but in their productive and ideological potential is the fact that the state interfered in the family's private life with an extremely harsh legislation, forbidding abortion and making the divorce very difficult. In the politics of professional promotion:

- Women were promoted not so much based upon their professional skills, but on their political commitment. To assure the *democratic décor,* the communist party pre established the women percentage in the total *leading* positions in each company, institution etc., up to the national level.
- The truth is that being responsible for housework and child care, women usually neglected their professional careers.
- Upper-management positions were usually dominated by men, whose patriarchal mentality made them to promote only the women showing obedience to the power.
- When working in teams, women were typically assigned secondary roles, reinforcing gender discrimination (Finlay/Neal/Catana/Catana 2005).

In fact, the communist state reinforced the traditional patriarchal character of Romanian society. For instance, Ceausescu personality cult was the expression of a men leader who in order to dominate, *de institutionalized* the entire society, including the state and the party. This is why, after 15 years from communist system collapse, the "average" Romanian woman still believes she lives in a traditional patriarchal society, in which her role is strictly functional (both in family and organizational life). She believes she is under-represented, and that she has low status in a male-dominated society, which impedes female access to education, training and promotion.

Concerning their promotion, there is the opinion that sometimes men have a vehement reaction toward women competitors (Despre genul Romaniei, Curentul, 23 Martie, 2001). Reflecting their concern for gender discrimination, representatives of women's organizations argue that adoption of the market system has led to a backward step (from communism) in promoting the women in high authority positions (highly feminist opinion, without coverage in our opinion).

Comparing the above opinions, we consider that the thesis, according to which the communist experience of East European countries is an accelerator in adopting a leadership based upon rational legal authority, still needs empirical validation. Our purpose is not to analyze the solidity of this hypothesis, but still a question arises: *was or was not the communist bureaucracy a rational-legal one or, at least, did it have a matrix of this kind?* In our opinion, however tempting would be the rational-legal approach in ILT type research, it cannot explain the whole complexity of transition from the *socialist enterprise management* to the company *authentic management and leadership* in East European countries. To insist exclusively on this stream would mean to perform only a research for its sake and not an authentic one, serving to the specialists in the real decisional process. The decline of bureaucracy and its associated mode of authority (rational-legal) are real in enough private Romanian companies. Transformational leadership promoting authority relations which can be included in Weberian charismatic type (Bass 1997) wins space very rapidly in big size Romanian companies and others. Of course, this by far does not mean that the majority of Romanian executives have embraced this leadership philosophy. In Government agencies, in state owned companies (*regii autonome*), in huge strategic companies and even in many private ones a *survival management* is practiced resulting from "adjusting" *old directors* managerial style to the market economy requirements. This real situation makes us to consider that from ILT perspective, Romanian leadership still has strong traditional characteristics.

United Arab Emirates Women and ILT

The United Arab Emirates is a traditional tribal Islamic society that has seen rapid development due to its possession of large reserves of oil. This development has brought about urbanization; increasing contact with foreigners; increased personal wealth and consumerism. The entire region was a British protectorate during the 19th and 20th centuries and as such, the legacy of British administration remains strong (Al-Omar 1997).

Emiratis predominantly practice the same austere Wahabi interpretation of Islam as they do in Saudi Arabia. They are also relatively uniform in terms of ethnicity, with ancient regional tribal roots making them relatively homogenous in terms of ethnicity, culture and religion. While they exhibit some differences from some of their Arab neighbours, there is also a high degree of commonality in terms of the foundations of Arab culture, Islam (broadly defined), Arabic (as the

civil language), family and tribe are common; as are region, political system, climate and British administrative legacy. As such, we can assume for the sake of hypothesizing that Emiratis are an integral part of the "Gulf Arab cluster" of leadership and authority values (Abdalla/Al-Hamoud 2001): "The minimal effects of the demographic characteristics and the negligible influence of culture (Qatar and Kuwait) on the desired leadership profiles suggest the generalizability of the results to different geographical and demographic groups in the Arabian Gulf Region". From an ILT perspective, the United Arab Emirates is not profoundly different from its neighbours in the Gulf. The combination a "sheikhocracy", whose decisions are essentially unchallengeable, a "wasta-based" systems of rewards, and a "patriarchal" approach to gender mean that ILT is likely to follow a *traditional* approach.

Great Britain Women and ILT

With the rise in executive employment rates among women, it is important that research is done into leadership attitudes, attributes and activities among women. The gender based comparative studies focus more and more on women studying economic sciences/business (Omar/Davidson 2001). The aim of this special attention on those preparing to enter the labour force in the field of business is to discover the trends in leadership. Investigated women, as prospective employees, will be, on one hand, leadership *object*, while as future possible managers, on the other hand, will become leadership *subject.*

In Great Britain, the whole previous discussion about bureaucracy and rational-legal authority crisis and orientation toward transformational leadership has the highest level of relevancy, comparing with Romania and United Arab Emirates. Empirical studies reveal the power distance and uncertainty avoidance are low in Great Britain (Hofstede 1997), in spite of the long British corporate bureaucracy history. These outcomes are used by researchers when arguing the present British leadership is transformational, democratic, change oriented and less based on formal hierarchies one (Omar/Davidson 2001).

From ILT perspective could be considered the British women have leadership expectations and perceptions fundamentally different in comparison with Emirati women and significantly different from Romanian women. The differences in perceptions and expectations in Great Britain are mostly generated by the Western cultural background, Western approaches to education, gender equality, and more modern approaches to HRM. Based upon the above, we might consider that British leadership is based upon *interactive* authority.

Research Hypothesis

Based upon the literature and previous studies regarding ILT within these aforementioned countries, the authors developed the research hypotheses listed in Table 1.

Table 1: Hypothesized Leadership Authority Values in Romania, United Arab Emirates and Great Britain

H1:	Romanian women will favour the rational-legal approach to leadership authority values.
H2:	The United Arab Emirates women will favour the traditional approach to leadership authority values.
H3:	The Great Britain women will favour the interactive approach to leadership authority values.
H4:	Romanian women preference toward rational-legal authority values is stronger than that of their counterparts in the United Arab Emirates and Great Britain.
H5:	The United Arab Emirates women preference toward more traditional authority values is stronger than that of their counterparts in Romania and the Great Britain.
H6:	The Great Britain women preference toward more interactive authority values is stronger than that of their counterparts in Romania and the United Arab Emirates.

The first three of these (listed as H_1, H_2, H_3) measures the relative degree of commitment to the four authority types within each country. The second group (listed as H_4, H_5, H_6) compares the subjects' commitment to the four types of authority according to country of origin.

Research Instrument

The statements in the instrument were developed based on Weber's work on authority (1947), and contemporary discussions of ILT (den Hartog et al. 1999, Eden/Leviatan 1975). During its development and prior to its initial administration, a panel of volunteer academicians representing faculties in both the Middle East and Western cultures analyzed the statements. All members of the panel held terminal degrees in their respective disciplines including Management, Quantitative Analysis and Marketing, and all had extensive experience in attitudinal research. Based on their various comments and suggestions a pre-test version of the instrument was finalized. The initial version was then administered to two convenience samples of twenty student subjects from separate universities, one in England and the other in the United Arab Emirates. The data from these two groups showed similar variances with the only significant differences being associated with mean location. Workshops were also carried out to assess respondents' views on the questionnaire, and how the questions conceptually linked to the four ideal types.

The instrument was subjected to reliability analysis using the measurement developed by Cronbach. Generally referred to as *Cronbach's alpha*, this test of association is the most widely used for multi-item measures (de Vaus 2002). Since it is not technically a statistical test, the use of *Cronbach's alpha* poses certain problems for the researcher. Essentially, the *alpha* value is directly related to inter-item correlation and when variables are multi-dimensional and inter-correlated, the *alpha* value falls. Of primary concern was the research constructs associated with the various types of authority:

interactive, traditional, rational-legal and *charismatic*. With statements such as the ones being used in this investigation, the existence of multi-dimensionality is an issue that cannot be avoided. While certain questions are clearly associated with one of the four underlying constructs, others (i.e. has a sense of humor and smiles a lot) could be construed as belonging to more than one group. This does not diminish the importance of the statement or the respondents' ratings. As a result, the statements designed to measure each of the four authority types were not perfectly correlated nor were they expected to be. However, the *alpha* values for the constructs either achieved or closely approached the 7. Level for reliability suggested by *de Vaus* (2002) as an adequate measure of reliability.

Data Collection and Answers Measurement

The data were drawn from a *convenience sample* of female subjects who were enrolled in the last two years of economic sciences/business classes. In total, 321 usable responses were obtained. Of this number, 111 were citizens of Romania, 108 were citizens of the United Arab Emirates and 102 were citizens of the Great Britain. The three groups represented distinct cultural spheres and as such were particularly useful for comparative purposes. The Great Britain represented Western view points; the United Arab Emirates possesses an Arab culture that is deeply rooted in fundamental Muslim beliefs. Romania has a cultural heritage that is both Christian and European but is distinct from a political point of view due to its communist past. The instrument was constructed so that high levels of agreement with specific questions corresponded to a specific authority ideal type (referred to as a *construct*). These questions were intended to provide insight into the leadership authority values of young women who would soon be entering the business world. Each group of statements was prefaced with a caveat specifying the respondent's nationality to increase the likelihood that their responses would be country-specific. In all cases, *high mean values* on each question were associated with "strong agreement" and thus with the specific underlying construct. In addition, demographic data were collected relating to nationality, year of academic study, major field of study, prior work experience, and prior leadership experience in clubs and organizations.

Statistical Analysis of Data

The data were subjected to an analysis of *group means* on each of the questions using the *Scheffe* option available in *ANOVA* to isolate any significant differences between the subjects' responses *with respect to county of origin*. One of the strengths of the *Scheffe*' test is its conservatism. It has been reported that some researchers criticize the technique since other methods of analysis can show significance when the *Scheffe* does not (Hair et al. 1995). However, for studies such as this one, a conservative approach is generally considered to be more appropriate since it guards against

Type 1 error, and the risk of drawing conclusions that may be unwarranted (Hair et al. 1995). It is important to note that while all of the demographic categories were tested with respect to the leadership characteristics, the only demographic variable associated with significant differences was nationality. In all other cases, the respondent's ratings were found to be statistically independent of demographic differences. Table 2 provides a list of the statements relating to leadership where *significant differences* were noted between the respective means of the three national groups. In addition to evaluating the means of each individual statement, the authors *summed* the responses to obtain a measure of acceptance of the ideal leadership types.

Table 2: Statements Regarding Leadership Expectations with Significant Differences between National Groups

Q	My idea of an effective leader is one who . . .	Authority construct
1	changes his/her behaviour to suit different situations	Interactive
2	is from a rich or powerful family	Traditional
3	practices strong religious values	Traditional
4	is willing to show anger with employees and punish them when needed	Traditional
7	is most concerned about his/her own personal success	Traditional
9	is careful not to upset people	Interactive
10	considers the personal welfare of all employees	Interactive
11	promotes colleagues based on their loyalty	Traditional
12	embraces change	Interactive
14	advances subordinates based upon their performance	Rational-legal
15	has great charisma and personal presence	Charismatic
16	consults with his/her staff before taking action	Interactive
17	demands that all rules are followed	Rational-legal
20	takes ruthless actions with his/her enemies when necessary	Traditional
21	makes firm decisions and sticks with them	Traditional
22	can be persuaded to change his/her mind	Interactive
24	keeps subordinates informed of any activity which could affect them	Interactive
25	Maintains a formal distance from subordinates	Traditional
26	is always truthful with employees	Rational-legal
27	is more concerned about organization goals than personal goals	Rational-legal
28	inspires colleagues with a vision of the future	Charismatic
29	is enthusiastic about work	Charismatic
30	treats men and women equally	Rational-legal
31	is open with information	Interactive
32	provides subordinates with clear targets and goals	Rational-legal
33	accepts disagreement from subordinates	Interactive
Proxy 1	Summation of all statements regarding interactive authority	Interactive
Proxy 2	Summation of all statements regarding traditional authority	Traditional
Proxy 3	Summation of all statements regarding rational-legal authority	Rational-legal

The end result was the development of four additional proxy variables for the expectations representing the statements associated with the *Interactive, Traditional, Rational-legal and*

Charismatic authority. Three of the four summation (proxy) variables and 26 of the 33 individual statements (of the questionnaire) showed significant differences in the *mean ratings* (see Table 3*).* Based upon these variances, it is clear that national origin, and in turn cultural background, had an important impact on respondents' ratings. Because all of the women in the sample are willing to work under a charismatic leadership, there are no significant differences between the three national groups with regard of this type of authority.

Table 3: Comparison of Group Means with Significant Differences In Terms of Leadership Expectations

Question	ROMANIA	UNITED ARAB EMIRATES	GREAT BRITAIN	Sig. Level
1	3.5767	4.0278	4.1176	.000
2	1.9369	2.3796	1.3137	.000
3	2.6667	3.4722	1.6078	.000
4	2.1712	3.2500	2.6176	.000
7	2.1622	3.0463	2.0980	.000
9	3.0090	3.7870	3.4706	.000
10	3.2162	3.8611	4.2255	.000
11	2.7477	3.5093	2.9608	.000
12	4.1351	3.5093	3.9608	.000
14	4.4865	3.8148	3.8431	.000
16	3.8108	4.1574	3.9902	.000
17	3.8739	4.1296	2.9706	.000
20	3.6486	3.5741	2.9412	.000
21	4.3423	3.8241	3.5490	.000
22	3.3333	3.7222	3.2255	.000
24	4.1727	3.9722	4.3922	.000
25	2.2342	2.3431	3.2593	.000
26	3.1081	4.1204	3.8824	.000
27	4.1351	4.2315	3.6078	.000
31	4.5495	4.3241	4.0686	.000
33	3.8198	4.1296	3.9216	.026
Proxy 1	3.8138	3.9560	3.9632	.005
Proxy 2	2.8138	3.3035	2.5566	.000
Proxy 3	3.9219	4.0144	3.8126	.000

Table 4 provides an alternative view of the data by listing the specific questions where each of the national groups provided a response that was significantly larger than at least one other, and identifying the national group or groups whose rating were lower. In other words, Table 4 provides a listing of the instances where *each national group was in significant disagreement with the statements posed.* In terms of these statements, the data in these tables clearly reveal that Arab subjects were by far the most supportive. The Emeriti women showed the highest level of overall agreement with the constructs having a significantly higher rating than at least one other national group on 18 individual statements and three of the four proxy variables. The Romanian women

had a significantly higher level of overall agreement on 9 statements and one proxy variable as compared to 7 statements and 1 proxy variable for the Great Britain.

Table 4: Comparison of Group Means among National Groups In Terms of Leadership Expectation Statements from Romania, United Arab Emirates and Great Britain

National Group	Sig.>Romania	Sig.> United Arab Emirates	Sig.> Great Britain
Romania:			
2			X
3			X
12		X	
14		X	X
17			X
20			X
21		X	X
27			X
31			X
Proxy 2			X
United Arab Emirates			
1	X		
2	X		X
3	X		X
4	X		X
7	X		X
9	X		
10	X		
11	X		X
16	X		
17			X
20			X
21			X
22	X		X
25	X		X
26	X		
27			X
31			X
33	X		
Proxy 1	X		
Proxy 2	X		X
Proxy 3			X
GREAT BRITAIN:			
1	X		
4	X		
9	X		
10	X	X	
12		X	
24		X	
26	X		
Proxy 1	X		

Results

Leadership as Viewed by Romanian Women

In absolute terms, as obtained from the Proxy variables, the *rankings* of the *leadership authority value mean scores for the Romanian* women are shown in Table 5. The data clearly show that the subjects preferred the *Charismatic* style of *leadership* followed closely by the *Rational-legal* and *Interactive* approaches. However, the mean values of all four constructs were determined to be significantly different at the .000 level. Based upon the data in Table 5, the researchers were forced to conclude that hypothesis H_1: *Romanian women will favour the rational-legal approach to leadership authority values* was not supported by the data. It is true; the *rational legal authority* is on the second place in the subjects' preference, making us to believe there is some support to the research hypothesis H1. But this support is not significant, due to the fact the mean value of this authority in Romania is lower than in Great Britain and very close to Emirates one.

Table 5: Ranked Means for Ideal Type of Authority: Romanian Women

Ideal type of authority	Mean Value	Significance
Charismatic	4.1051	.000
Rational Legal	3.9219	.000
Interactive	3.8138	.000
Traditional	2.8138	.000

Analyzing the data provided by Table 6 can be noticed in fact, Romanian women showed strong levels of support for the *Traditional* form of authority (Proxy 2), the mean value of which is higher in Romania than in Great Britain. In particular, this was due to the fact that their ratings were significantly larger than the women in the Great Britain on 8 individual statements as well as the proxy variable for *Traditional* authority. The fact that they were in general agreement with the women in the United Arab Emirates (34 of a 37) cases was even more informative since the literature suggests more commonality with their European counterparts. In the same time, this finding strengthens previous arguments and expectations about a propensity of Romanian women toward traditional leadership. Should be reminded the research hypotheses were formulated to check some outcomes and suppositions in the field literature (one of the assumption being that the Romanian women attitudes are more closed to those of European ones). Based upon the data in Table 6 the authors concluded that H_4*: Romanian women preference toward rational-legal authority values is stronger than that of their counterparts in the United Arab Emirates and Great Britain* was not supported. It seems that traditionalist perspective of a society dominated by male leaders is enough alive in Romanian women vision.

Table 6: Statements Associated with Significantly Higher Mean Ratings among Romanian Women

Q Nr.	Statement	Authority type	Mean	Sign. dif. From:
2	is from a rich or powerful family	Traditional	1.9369	Great Britain
3	practices strong religious values	Traditional	2.6667	Great Britain
12	embraces change	Interactive	4.1351	United Arab Emirates
14	advances subordinates based upon their performance	Rational-legal	4.4865	United Arab Emirates, Great Britain
17	demands that all rules are followed	Rational-legal	3.8739	Great Britain
20	takes ruthless actions with his/her enemies when necessary	Traditional	3.6486	Great Britain
21	makes firm decisions and sticks with them	Traditional	4.3423	United Arab Emirates, Great Britain
27	is more concerned about organization goals than personal goals	Rational-legal	4.1351	Great Britain
31	is open with information	Interactive	4.5495	Great Britain
P2	Proxy 2: Summation of all statements regarding traditional authority	Traditional	2.8138	Great Britain

Leadership as Viewed by Women in United Arab Emirates

In absolute terms, the rankings of the *leadership authority value mean scores* for the Emeriti women are shown in Table 7. Their ordered rankings for the four approaches were the same as those obtained from the Romanian women with all differing significantly at the .000 level. Emeriti women would like to work under a *charismatic* authority, which seems to be in a total contradiction with the Islamic cultural matrix (thus, very surprising). When viewed in relation to the other form of *leadership authority*, it is clear that the *Traditional* approach is not preferred by the women from the United Arab Emirates and the researchers concluded that hypothesis H_2: *The United Arab Emirates women will favour the traditional approach to leadership authority values* is not supported by the data.

Table 7: Ranked Means for Ideal Type of Authority: United Arab Emirates Women

Ideal type of authority	Mean value	Significance
Charismatic	4.0772	.000
Rational Legal	4.0144	.000
Interactive	3.9560	.000
Traditional	3.3035	.000

While the Emeriti women do not prefer the *Traditional* form of leadership over alternative approaches to authority, the data in Table 7 and Table 8 clearly show a relatively higher level of support than their counterparts in other countries. While women from the United Arab Emirates did differ from at least one of the other national groups with respect to the *proxy variables* for *Interactive* and *Rational-legal* authority, the fact that their mean rating for the *Traditional*

category was higher than both the Great Britain and Romania makes them stand out most clearly. This is further supported by the fact that their levels of agreement with the individual *Traditional* authority statements were significantly higher than the Great Britain women in 8 cases and greater than the Romanians in 6. The combination of *Traditional*, *Rational* and – to a lesser extent – *Interactive*, within the context of a traditional bureaucracy means that traditional leadership is not only alive and well in the United Arab Emirates, but has a significantly higher level of acceptance among potential women employees. Based upon these findings, it is concluded that H_5: *The United Arab Emirates women preference toward more traditional authority values is stronger than that of their counterparts in Romania and the Great Britain* was clearly supported by the data.

Table 8: Statements Associated with Significantly Higher Mean Ratings among United Arab Emirates Women

Q Nr	Statement	Authority type	Mean	Sign. dif. from:
1	changes his/her behaviour to suit different situations	Interactive	4.0278	Ro
2	is from a rich or powerful family	Traditional	2.3796	Ro, Great Britain
3	practices strong religious values	Traditional	3.4722	Ro, Great Britain
4	is willing to show anger with employees and punish them when needed	Traditional	3.2500	Ro, Great Britain
7	is most concerned about his/her own personal success	Traditional	3.0463	Ro, Great Britain
9	is careful not to upset people	Interactive	3.7870	Ro
10	considers the personal welfare of all employees	Traditional	3.8611	Ro
11	promotes colleagues based on their loyalty	Traditional	3.5093	Ro, Great Britain
16	consults with his/her staff before taking action	Interactive	4.1574	Ro
17	demands that all rules are followed	Rational-legal	4.1296	Great Britain
20	takes ruthless actions with his/her enemies when necessary	Traditional	3.5741	Great Britain
21	makes firm decisions and sticks with them	Traditional	3.8241	Great Britain
22	can be persuaded to change his/her mind	Interactive	3.7222	Ro, Great Britain
25	maintains a formal distance from subordinates	Traditional	3.2593	Ro, Great Britain
26	is always truthful with employees	Rational-legal	4.1204	Ro
27	is more concerned about organization goals than personal goals	Rational-legal	4.2315	Great Britain
31	is open with information	Interactive	4.3241	Great Britain
33	accepts disagreement from subordinates	Interactive	4.1296	Ro
P1	Proxy 1: Summation of all statements regarding interactive authority	Interactive	3.9560	Ro
P2	Proxy 2: Summation of statements regarding traditional authority	Traditional	3.3035	Great Britain, Ro.
P3	Proxy 3: Summation of all statements regarding rational-legal authority	Rational-legal	4.0144	Great Britain

Leadership as Viewed by British Women

In absolute terms, the rankings of the leadership authority value mean scores for the women from the Great Britain are shown in Table 9. Like their counterparts from Romania and the United Arab Emirates, their most favoured approach was *Charismatic* but followed by *Interactive* rather than

Rational-legal. However, all four leadership authority styles differed at the .000 level. While the second place ranking for interactive values lends some support to the research hypothesis, the researchers were still forced to conclude that hypothesis H_3: *The Great Britain women will favour the interactive approach to leadership authority values* was not supported by the data.

Table 9: Ranked Means for Ideal Type of Authority: British Women

Ideal type of authority	Mean value	Significance
Charismatic	4.1438	.000
Interactive	3.9632	.000
Rational Legal	3.8126	.000
Traditional	2.5566	.000

The data in Table 9 show that the women from the Great Britain were generally less supportive of the individual statements than their colleagues. Their first preference was for the same type of authority as the other groups (charismatic). The one factor that did set them apart from was their relatively higher degree of agreement with the statements relating to *Interactive* Leadership. In fact, the level of support for this construct caused proxy variable P1 to differ significantly from the Romanian women. Taking these factors into consideration, the authors concluded that H_6: *The Great Britain women preference toward more interactive authority values is stronger than that of their counterparts in Romania and the United Arab Emirates* was supported in terms of the Romanian subjects but not those from the United Arab Emirates. As a result, the authors concluded that this research hypothesis was partially supported by the data.

Table 10: Statements Associated with Significantly Higher Mean Ratings among Women in the Great Britain

Q Nr	Statement	Authority type	Mean	Sign. dif. from:
1	changes his/her behaviour to suit different situations	Interactive	4.1176	Ro
4	is willing to show anger with employees and punish them when needed	Traditional	2.6176	Ro
9	is careful not to upset people	Interactive	3.7870	Ro
10	considers the personal welfare of all employees	Interactive	4.2255	Ro, United Arab Emirates
12	embraces change	Interactive	3.9608	United Arab Emirates
24	keeps subordinates informed of any activity which could affect them	Interactive	4.3922	United Arab Emirates
26	is always truthful with employees	Rational-legal	3.8824	Ro
P1	Proxy 1: Summation of all statements regarding interactive authority	Interactive	3.9632	Ro

Conclusions

This study has attempted to explore from ILT perspective, the authority values that underpin women's ideas of effective leadership in a post-communist society and to compare them with women from a traditional society and one where modern management beliefs are more prevalent.

The data revealed that the women in the three countries wish a leadership based upon *charismatic authority values*. There are no significant differences between the three national groups regarding this preference. Thus, the conclusions will concern only some ideas transcending this general outcome.

1) In Romania, beyond their global preference, the women tend to view leadership from a perspective that includes both *Rational-legal* and *Traditional* authority. The empirical results are in consonance with the dichotomy among researchers about the residual impact of communism on authority values (it is exactly the dichotomy between rational-legal vs. traditional showed by the field data). While the literature suggests an Eastern European predilection toward *Rational-legal* authority, this hypothesis was not supported by our data. In fact, the data revealed a more complex vision of Romanian women, with a relative level of acceptance for *Traditional* authority, albeit smaller than the Emeriti respondents, but higher than the Great Britain group.
2) In United Arab Emirates, surprisingly, the women expect a charismatic leadership, but have a high level of acceptance for *Traditional* forms of leadership, validating the conclusions of other previous studies performed in Arabic Golf region. In particular, the tendency for Arab countries to adhere to some form of *traditional* leadership paradigm is supported by these findings and the fact that the level of support from the Emeriti women was significantly higher than both the Great Britain and Romanian groups makes this finding even stronger. While this does not suggest a preference for the *Traditional* approach, in fact the ratings show just the opposite, it does reveal a pragmatic recognition and tacit level of acceptance. In short, the United Arab Emirates women do not prefer this system; they are just less adverse to it than their colleagues in the Great Britain and Romania. Also of interest, was the relatively higher level of support for the *Interactive* and *Rational-Legal* approaches. While the latter was not entirely unexpected, and in fact coincides with bureaucratic behaviour, the former came as a surprise and suggests a potentially productive area for future inquiries.
3) Finally, the women from the Great Britain were generally the least likely to show strong levels of agreement with the individual statements. While this was true in an overall sense, their levels of support for *Interactive* authority were sufficient to distinguish them from Romanian subjects.

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Influence of Expatriates on Organisational Structures of German Subsidiaries in Russia

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Introduction

In times of globalization, western companies come to middle and Eastern Europe to start new businesses. In particular in Russia, many firms, including German concerns, expect a great market potential. But not all companies are as successful as the forecast said and the booming market suggested.

Scientists and experts from different fields already searched for reasons why company subsidiaries in Russia not ever work with good results. While manager try to find an economic solution for their daughter companies, others suppose the reasons in cultural differences. A German representative in Moscow mentioned as main reasons for subsidiary failures: not to Russia prepared and adjusted expatriate manager. Obviously the results may be influenced by economic, cultural and human factors.

Analysing the state of each of these single factors to success from a proactive organizational management point of view the hierarchy is given: To transfer headquarters strategy into successful organizational structures cultural conditions of organization, home and foreign country have to be considered and there is a need of suitable human resources. Of course all four determinants are influenced by their environment.

Comprehending the different fields of research there is a growing importance of expatriate role which has not been sufficiently scientifically explored. To draw a conclusion:

- If organizational structures not following strategy as proved by many studies
- Headquarter strategy and culture conditions are the frame in which expatriate managers fulfil company missions
- Cultural conditions in Russia presently change in a transformation society
- than with dip in existing research the scientific focus should only be the:

Influence of expatriates on organizational structures of German subsidiaries in Russia.

This dissertation is part of an international management research. Its general aims of scientific findings are description, explanation and advice to company practice. Although the work tries to contribute to international Human Resource Management (HRM) research while considering the gap of existing studies to expatriates.

Theoretical Background

Using a micro-institutionalistic approach of organizational theory enables to focus the human factor "expatriate" on his impact to organizational structures of subsidiaries. The way should initially follow the reconstruction of developing structures by looking at the practices of expatriate managers (description). This step allows us to discover reasons and conditions (explanation).

First of all the study's contest was concreted to the institutionalization process of HRM practices and organizational culture of German subsidiaries in Russia. The following eight items should be analyzed most from an expatriate point of view (see next picture):

- given headquarter frame for the expatriates tasks (1)
- supporting the expatriates work through headquarter (2)
- perception the local staff by expatriates (3)
- perception the expatriates by local staff (4)
- value conformity between expatriates and local staff (5)
- influence of other expatriates (6)
- expatriate ambitions (7)
- expatriate reaction to headquarter frame (8)

Methodology

"Problem centralized interview" is the chosen qualitative method. This procedure on one hand follows theory. On the other hand its principle is openness. Additionally, observation of artefacts included documents were used as an exploration method.

After checking the research field and exploration talks in the beginning of 2004, nine German subsidiaries were chosen for the study. One of the companies is a so called representation. Except one all subsidiaries are situated in Russian capital Moscow. The interviews took place between May

and July 2004. In some companies the researcher was given the opportunity to talk later on again with interviewees. The last additional conversation took place in March 2005.

In total 13 interviews with German expatriates and 11 with local employees were conducted. The interview language was German with the expatriates, and lasted between one and a half to three hours. The locals were interviewed either in German or in English. These talks took from between half an hour to one and a half hours.

After all, the taped interviews were transcribed and then analyzed. Based on the guideline and new themes interview partner mentioned, codes were distributed. After that, single cases could be described and separately analyzed. Added by observed symbols and documents a statement for each case was given.

In a next step central themes of cases could be compared and similarities in some characteristics checked. The combined characteristics were concluded into three different types of expatriates each following a specific organizational structure.

Results

As presumed for the study, organizational structures of subsidiaries are mainly influenced by expatriates' operation (and connected with cultural circumstances in Russia). But an expatriate individual impact is much less if headquarters follow a comprehensive developing plan, and also if foreign managers introduced socialization in their headquarters. Under those circumstances expatriates operate mainly by transferring approved headquarters procedures. Anyway, there are opportunities for German expatriates to bring in their individual (cultural) experiences. Especially in HR Management practices and organizational culture expatriates get only a small number of strategic goals.

Headquarters support also depends from expatriates engagement and organizational perception. Additionally, two requirements must be met: expatriates must know headquarters opportunities and have suitable contacts to get things organized. For expatriates working outside headquarter or sending business unit before delegation the chances to get support are less than those who are socialized at the parent company.

Although German expatriates had been acting in a comparable cultural environment they developed rather different solutions which followed an adaptation of local staff behaviour. The study demonstrates different institutionalisation processes of HRM practices and organizational culture. Detailed examples in knowledge transfer, leading the local staff and maintain headquarter contact are shown.

Based on the dates, three different types of manager could be found who practice those mechanisms. The distinctions reasoned in individual manager values which based on national culture, organizational culture and perceptions inside and outside the subsidiary.

Assumed a high degree of autonomy based on their individual values German expatriates in Russian subsidiaries practice different ways of HRM and organizational culture and in reaction to headquarter.

A principle acceptance of Russian values is characteristic for **managers with a high relation to Russia**. Typical Russian personnel relations are especially visible in their HRM practices. These expatriates are well adjusted to Russian culture and thus they seldom criticise the Russian staff behaviour. Only in for company success extreme critical situations they give orders to their local employees. As a consequence these managers are unable to delegate and have to complete a lot of tasks by themselves. The use of customer or Russian partner contacts has developed as their success formula. As a preferred reaction to headquarter they try to explain local specific and to persuade to adjustment on Russian reality.

Common for **managers with a low relation to Russia** is the predominant non-acceptance of Russian values. Although these managers notice great cultural differences they try to enforce in their opinion approved HRM techniques even sometimes they know it won't work well. To long managers with a low relation to Russia do not criticise their employees. They expect a local staff adaptation to expatriate values. In companies with strong headquarter support expatriates are able to practice this way. But support depends on expatriate engagement and influence at parent company. Company success in manager opinion can only be reached by transferring established headquarter procedures into subsidiary.

The inked characteristic for typical **manager with a medium relation to Russia** is called tolerance. These expatriates are able to combine advantages of different cultures and they react to disadvantageous local staff behaviour with more patience than managers with low relation to Russia. But not always their ideas they can take into account in cultural and HRM processes. Their waving relations between transferring approved headquarter routines and considering local reality is connected with a big intrinsic conflict. A well parent company as Russian staff expect a one side manager position. In reaction to headquarter they sometimes have to secret their decisions or expect punishment.

Assuming a given company success, every one of these types empowers to legitimize a structural element inside subsidiary. But organizational structure developing process depends from some more factors. Working together with other expatriates and strategic-coordinating headquarter, decisions

are influencing. Probably manager with good headquarter relations are able to enforce their preferred structures.

Also the study has found out conformity between expatriate ambitions and values. To stay and fulfil a job ("Stay/Job") seems to be typical for managers with high relation to Russia. But to go and to follow a career ("Career/Go") seems to fit to expatriates with low relation to foreign country.

During the stay abroad as well expatriate ambitions as connected values can change. From a former "Career/Go" wish which is connected with a low relation to Russia some time later expatriate motive can alter into "Job/Go" and a medium relation to foreign country. Even so an intension "Go/Job" can fluctuate into "Stay/Job" which is typical for managers with high relation to Russia. These four constellations can be imagined as rotating wheel which offers only two neighboured segments. The picture below shows it.

The second aim of the study was asking behind the HRM politics to use expatriate managers in foreign subsidiaries. To show conditions and reasons for this practice a comprehensive description of expatriate (and local staff) perceptions and operations mainly in knowledge transfer, leading the local staff and maintain headquarter contact was given. Furthermore the study showed correlation between expatriate ambitions and values and its implications for personal strategic decisions.

These research findings are additionally useful for companies who should also take into account as well expatriates' choices as organization strategic headquarter decisions.

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Author has focused on main educational partners (students, their parents, teachers, school heads and authorities) and designed three main models of their interrelations (democracy, autocracy and partnership) in educational systems. These models are related to institutional organization theories and to structural-functional analysis in sociology. They rely on laws and are justified by ideological and cultural concepts. This system of models has been complemented with political and cultural models, too (Bolman/Deal 1991). In this paper, the framework is elaborated and related to educational theories of teaching and learning (Beattie 2002, Haas/Poynor 2005).

As a result, two main ideal models of schooling are contrasted. They are considered as extremes, the majority of schools could be classified as something between the extremes. One of them is the traditional transmission schooling and hierarchical leading. It relies on behaviourist models of teaching and learning, and managerial model of school organization.

The other is the transformational teaching, learning and leading. It relies on social constructivist models of teaching, learning and leading. The model of such school is a complex organization that is rather a community than a hierarchy. The ideal organizational structure for that model is partnership, supplemented with other models of decision making (democratic, collegial, administrative, political, ideological etc.).

Stemming from this framework, the paper reviews studies and other relevant literature on educational management and education of school heads in Estonia (Aus 2005, Goldman 2003, Haav 1996-2005, Kink 2001, Otepalu 2004, Sarv 1997, Takkis 1999, 2004, Torokoff/Õun 2005, Türnpuu 1994, 1999, Viisma 2005, Vooglaid 1999).

The Ideal Models

Educational management is a new subject of study and teaching in both organizational and educational sciences. The Institute of Education, University of London, introduced relevant courses in 1960s.

National education systems started to emerge in the 18th century. Traditionally, they have been centralized and hierarchical. In the USA, the system has been de-centralized. There have been relatively independent educational districts. The districts have been hierarchical, too. These hierarchical educational systems have been managed in administrative ways as have been the other public traditional administration systems.

F. Taylor, M. Weber and many others have elaborated the hierarchies for contemporary business and public organizations. In America, some educationalists immediately started to introduce the Taylor's **managerial model** into schools, too (Callahan 1962). Administrators were viewed as factory managers, teachers as assembly line workers and students as the products (Haas/Poynor 2005: 491). There was a call to establish standards for students and, later, for teachers. This governance model has been combined with behaviourist transmission model of schooling. Haas and Poynor argue that this transmission model of schooling still dominates in America. The same can be argued about many other national systems of education. This **knowledge delivery model** has been justified by positivist methodology. Many social critical scholars have criticized this positivist orthodoxy (Greenfield/Ribbins 1993, Foster 1998, etc.). At the same time, there have been calls for **alternative models** of teaching and governance (Dewey 1916, 1938).

As a result of reforms in the last decades, there has been a trend towards *de-centralization* of the systems. The role of hierarchy has diminished and those of *participative democracy* and *partnerships* have increased (EURYDICE 1996). This has happened at schools, local, regional and national levels. In various countries, the degree of de-centralization has been different. The national systems of education can be classified according to the dominant level. In some countries, the main educational decisions are made on the national level, in many others on regional, local or school levels (EC 1999).

Since 1994, I myself have been focused on main educational actors (students, their parents, teachers, school heads and authorities) and relations between them. I have synthesized from the two main forms of decision making **(democracy and autocracy)** a third one **(the partnership)**. I have used the three main effective models for comparative analysis of different organizations (Haav 1996, 1998, 2004). School is a complex organization, combining many models. The technical administration of school itself is and will remain hierarchical. Teachers have enjoyed relatively high autonomy of how to teach their subjects and manage their classes. Typically, they manage their classes in a more or less authoritarian way, but they supplement it with elements of participative democracy and partnership. Teachers have collegial decision-making bodies, various committees, study councils and unions. Students have an elected self-government. They may also set up other organizations for themselves. Usually, there is a higher governing body like school council, representing teachers, parents, students, administration and authorities. If the council is authorized to make main organizational decisions and the partners are more or less equal, this school model is a partnership. Consequently, the school democratization does not mean that all members should participate in all decisions. There is a need for de-centralization and complex approaches.

Such a model has been implemented in the U.K. (Dean 2001) and many other Anglo-American countries. Such **a partnership** enables to combine *organizational equality, justice and effectiveness*. As a result, *an institutionalization of the improvement* in education will be achieved.

Most research on educational administration is not focused on organizational actors and structures, but on relations between the leaders and the followers. There is a focus on social psychological **concepts of leadership**.

Tony Bush outlined six main models of educational leadership in 1995 and nine different ones in 2003. In 1995, he used the concepts of formal, collegial, political, subjective, ambiguity and cultural leadership. In 2003, he outlined the following ones: managerial, instructional, transformational, participative, interpersonal, transactional, post-modern, contingent, and moral. These concepts are mainly normative, there is not much evidences about their roles in practice. Still, Bush argues that in 1960s and 1970s, **the managerial model** was most popular. Since 1990s, **the transformational leadership** became popular. Actually, J. M. Burns coined the concept already in 1978. Now, many authors refer to significance of the transformational model (Cunningham/Cordeiro 2003, Harris et al. 2003).

Kenneth Leithwood, Doris Jantzi and Rosanne Steinbach (2003) analyzed different concepts of leadership in four main Anglo-American journals after 1988. They found 121 articles with 20 specific leadership concepts and assigned them to six broad categories. The main criterion was the role of influence (who exerts the influence, sources of influence, purposes for influence, and outcomes of influence).

They describe the six types in more detail (instructional, transformational, moral, participative, managerial, and contingent). They prefer **the transformational model** as a place to begin. Typically, formal leaders exert the influence in all these models. The models do not challenge the basic organizational structures (the hierarchy). They complement the latter with some additional moral, cognitive and managerial devices. The authors also describe the experiences of implementation of the transformational model in a secondary school in Canada.

Leithwood, Jantzi and Steinbach (2003) outline the following main dimensions of the model:

- Building school vision,
- Establishing school goals;
- Providing intellectual stimulation;
- Offering individualized support;
- Modelling best practices and important organizational values;
- Demonstrating high performance expectations;
- Creating a productive school culture;
- Developing structures to foster participation in school decisions;
- Building relationships with the community.

These dimensions are summarized into three directions:

- Setting goals and visions;
- Developing people;
- Organizational design and re-design.

They conclude that the image of school as *learning community* will be most comprehensive in the future. Still, the authors do not argue that there is a need for a new organizational structure. An elaboration of the basic (hierarchical) model with participative democracy, collegiality and partnership would suffice.

Alma Harris has analyzed research on theories and practices of leadership and noticed its close relations with concept of organizational culture in the last decade (Harris et al. 2003: 9-25).

T. Bush and D. Middlewood (2005: 10) distinguish four levels of principals and their visions:

- On the basic level, principal follows goals set by school board and the ministry;
- On the intermediate level he or she sets goals from his or her own vision;
- The advanced principal works with teachers and designs common visions;
- The expert principal collaborates with all educational stakeholders and designs general visions.

Mary Beattie (2002) outlines **a holistic view** of educational leadership and describes how this view has been implemented in a secondary school in Toronto, Canada. In this school, main administrative and managerial duties are conducted by two teachers-leaders. The coordinators rotate in two years. Other teachers and also students are encouraged to participate in this governance and decision making. They have the opportunity to participate in weekly meetings. The holistic leaders create *learning environments* that are egalitarian and creative for all members of the school community.

They focus on development of students' identities via supportive relationships, dialogue and shared governance. They create a culture of collaboration, connectedness and commitment to community. The main activities are similar to those outlined by Leithwood et al. (2003) above.

Haas and Poynor outline most comprehensive framework for teaching, learning and leading. They call it the **transaction model**. It is grounded in *constructivist learning theory*. In this model, school is rather a *community* than a hierarchy. Boundaries between students, teachers and school heads diminish. The same happens to concepts of learning, teaching and leading (Haas/Poynor 2005: 495). All the parties and representatives of parents and wider community participate in development of the school curriculum. In this way, there will be a radical social movement challenging the social hierarchies. Unfortunately, the power elite have enough opportunities to resist the progressive schooling and support the traditional one instead. The transaction model after Haas and Poynor is actually close to the transformational one by other authors.

Complex social phenomena can not be adequately explained by unitary theories and models. There is a need for **pluralist approaches**. **Lee G. Bolman and Terrence E. Deal (1991)** promote four complimentary approaches (frames) to complex organizations:

- Structural (it can be interpreted as administrative);
- Human resource (or psychological);
- Political and
- Symbolic (cultural or ideological).

The various models have different foci of managerial control (power relations, human relations, participation in management, interpretation of meanings and values).

These perspectives are necessary for both, pedagogical and administrative processes. **Basil Bernstein (2000)** considers pedagogy as *a symbolic control*. Teachers establish power relations and control their communication with students. Bernstein defines the relations between instructional and regulative discourses as framing. This approach enables to combine the pedagogical models with administrative and political ones.

In sum, there are <u>two main models of schooling</u>. As one extreme, there is an administrative or managerial hierarchy between principals, teachers and students. In this school, authoritarian teachers deliver knowledge to their students. Such schools contribute to an increase in social stratification and inequality. Some former investigations have revealed that most teachers use the traditional authoritarian model of teaching. Only 10-30 percent of teachers attempt at implementing new child-centred models of teaching. This is a surprise for many teachers and teacher educators. Actually, some of them are not interested what is going on in practice. It is easy to teach narrow normative theories that work in ideal conditions. It is very complicated to provide students with a complex set of models and theories for different educational, social and economic conditions.

As another extreme, there is an institutionalization of educational improvement. There are flexible relations between main actors and processes: learners, teachers and leaders, and learning, teaching and leading. These processes are approached by multiple theoretical perspectives in both theory and practice. One of them is the social constructivist theory, and this has been implemented in both pedagogy and school management.

There may be one of two main organizational models, a sophisticated hierarchy or a partnership. They both should lead towards a learning community. In such a community, development of members' social identities is supported. Such schools contribute to a decrease in social stratification and inequality.

Main Trends in Educational Administration in Estonia in the Last Century

Lembit Andresen has described and analyzed the development of the school system on the territory of Estonia up to 1918 when Estonia declared its independence. First review of the years 1918-2005 has been conducted by my-self (Haav 2004a, b). I distinguished three main periods, the Republic of Estonia in 1918-1940, the years of Soviet occupation and the new independence after 1991 (Table 1).

In the first period, **Peeter Põld** was one of the main actors who designed the national school system. Põld studied educational governance and philosophy in Berlin, Leipzig, Jena, Wickersdorf, Mannheim and Zürich in 1908. He became familiar with new ideas (A. Sickinger, R. Eucken, F. W. Foerster). Since 1909, he started to introduce the modern ideas in a secondary school and, since 1917, into the national school system. He stressed the principles of de-centralization and partnership. In the education system, the traditional hierarchy was supplemented with democratic and partnership models. According to the Law on Secondary School (1922), the principal shared his power with that of study council and school council. The latter consisted of representatives of local authorities (five members), parents (two members), teachers (one member), financial supporters (one or more members), the principal and the school doctor. For political reasons (the Communist influences), the students were not included into the school councils.

The school system had three levels as did the whole governance system: local, regional and national ones. There were collegial representative bodies on all these levels. At the beginning, the national educational council was considered as the educational parliament. In total, the national educational system was very complex, democratic and dynamic. As a result, teachers and parents had significant roles in the education.

In 1920s, the number of students in secondary schools and universities increased quickly. Their percentage in the whole population was in Estonia bigger than in Finland, Sweden and Germany. In 1930s, the centralization tendency increased in both public and educational administration in Estonia. Johannes Käis implemented the ideas of active learning and labour school at the Võru Teacher Seminar in 1930s. Unfortunately, the ideas had but peripheral role.

In the next period, the Soviet school system based on orders of the Communist Party was introduced in Estonia. The system relied of the principle of autocracy, but this principle was combined with collegiality (teachers' council) and participation of wider community (parents and others). The education theory relied on behaviourist models and Herbart's didactic principles. Students were very organized (children of the Communist revolution, pioneers and young communists). The organizations were controlled by educational and political authorities. Teachers took advantage of their authoritarian position, they were subject-centred and, often, humiliated students' self-respect, instead of developing their personalities. There was neither systematic

education for school heads nor academic study on educational management in the Soviet period. The criticism of the centralized and bureaucratic system started in 1987-1988.

The first Estonian **educational program (1988)** called for a *democratization* of education system on all levels and for a *humanization* of education (orientation on student development) (Sarv 1997, Kareda et al. 1988). The Centre for Development of Education existed at Harju County in 1990-1992 (Sööt 1992, Türnpuu 1994).

After 1991, the education system was decentralized, but the governance of schools remained hierarchic. The Law on basic and secondary schools (1992) is ambiguous. It declares that the school head is responsible for academic, economic and financial activities in his or her school. There should be a co-operation between school head, academic and school councils and student self-governance. School heads have become even more powerful than in the Soviet period. Already in 1989, they obtained the control over school finances, except teachers' salaries. In the following years, they increased their control over teachers' salaries, too. Since 1996, teachers' remuneration became decentralized.

In the present model, the local authorities as owners elect school heads. School heads, in turn, hire teachers and other staff. There has been followed mainly the **neo-liberal model** of educational governance (EC 1999). The national curricula were introduced in 1996 and 2002, the national examinations in 1997 and the financing via vouchers in 1997.

Ene-Silvia Sarv (1996) has collected materials about changes in educational administration in Estonia in the period of 1987-1995. She relates concept of democracy to that of educational democratization (Carnoy/Levin 1985, etc.).

Lembit Türnpuu, former head of chair at the Tallinn Pedagogical University, published a book about theory and practice of school development in 1994. He contrasts totalitarian (authoritarian) and democratic (transformational) models of education and school.

The movement for school development started in 1993 (omanäoline kool – a school with its own face).

Table1: Changes in Models of School Governance in Estonia

Period	Indicators
1918 – 1940	A balance between centralized hierarchy, democracy and partnership. Educational councils at school, local, regional and national levels. Parents and teachers play significant roles.
The Soviet period	A complex centralized hierarchy (a number of students' organizations, study councils and parents' committees subordinated to the educational and political hierarchies).
After 1991	Decentralized hierarchies combined with democracy (study council, students' self-governance) and partnership (school councils). The roles of educational officials, administrators and academics are significant.

Source: Haav, 2004b.

I myself attempted to implement new ideas (creative teams, teachers' teamwork, organizational knowledge creation etc.) in a business school **in Tallinn in 1995 and 1996**. In years 1994-1998, an

extensive **business education reform** program was conducted at the school. A business school from a Nordic country headed the project and the PHARE program supported it financially. Unfortunately, the reform concept was inadequate. It relied on foreign instructors and not on the national staff of teachers. My proposals did not enjoy adequate administrative support. The principal was more concerned about his power than about the school development. As a result, the international reform program failed. Even worse, the school does not exist any more.

After that, my research focused on educational systems and policy. I started to promote alternatives to the dominant hierarchies in education. In my paper to the 3rd Chemnitz East Forum (March, 1997), there are following ideas: equal partnership, independent schools, de-centralization, competition, various ways of financing (including via consumers) and a combination of different ways of organizing (Haav 1998a: 478). In the process of educational policy, these ideas have partly been realized (school council, de-centralization, vouchers, competition between schools).

In 1995, a new institution that of **Estonian Educational Forum** was established. It aims at promotion of participative democracy and partnership. All main educational stakeholders are invited to take part in its activities. The main activity is the annual educational forum. Some groups (teacher educators and administrators) have managed to dominate at these forums. They promoted educational issues for public discussion (strategy, quality, drop-out, education for all, life-time learning, equal opportunities etc.). They implemented administrative and political models to do so.

Students, parents and teachers have been not very effective in taking advantage of their new opportunities (Haav 2004c). They discussed the abstract educational issues (strategy, equal opportunities for students etc.), and they forgot their own problems, their equality at the forum and in the educational system. E.g., there was a national teacher strike in 2002, but the forum even did not mention it.

In 1997-1999, a Nordic-Baltic Project on democratic school management was conducted. **Toomas Kink,** a former secondary school principal, headed the project in years 1997-1999. He also disseminated his experiences and managerial knowledge to school heads (Kink 2001).

Toomas Takkis (2001) reviewed the activities of the project. There were 10 seminars for 21 educational administrators and officials in 1998 and 1999. The participants also designed a master program for school administrators in 1999.

Takkis, the head of the Kuressaare Secondary School since 1987, also analyzed changes in school management in the period of 1987-2004 (Hämäläinen et al. 2004). In 1993, a two-level public administration system was introduced. Local authorities became owners of schools and employers of school heads. The role of the regional level was strongly diminished and the national control over

school heads became minimal. Since 1994, the authorities started to introduce terminal employment contracts with principals.

Takkis argues that the national examinations have had significant effect on school activities. The examinations assess and evaluate mainly factual knowledge and intellectual abilities. They ignore the role of schools in developing humane and democratic values. The value education has remained a personal concern of teachers and school heads. Teachers must be real missioners to do so. Takkis stresses the central role of school leaders in school development (Takkis 2001: 195 and 2004: 38-39). The role of teacher centred teaching increases, if the leader trusts and relies on teachers.

Olavi Otepalu (2004) shares his experiences in creation of a student friendly learning environment in years 2000-2004. In 2002-2003, he headed a secondary school in a rich local community near Tallinn. Since 2003, he acts as vice principal of an elitist private secondary school in Tallinn. As a school head, he introduced a new governance model. This was actually a partnership, as it provided to all main stakeholders wider opportunities for participation than it is foreseen in the relevant law. He put a lot of emphasis on students and their parents. The parents were represented in the school council. Actually, they were mostly successful businessmen, with strong managerial experiences and large financial resources. First, he had to increase the control over the teachers, as the latter had had dominant role in comparison with that of students and their parents. As result, a strong and democratic governance system was implemented. It provided all main stakeholders with equal opportunities in school development. Up to local elections in 2003, the local authorities strongly supported the school improvement by Olavi Otepalu. After 2003, the political situation changed and new local political leaders changed the school's development plan and hampered the innovation process.

The Tartu case

Boris Goldman has implemented the Senge's (1990 and 1994) concept of learning organization in a good secondary school in Estonia. He describes the situation as follows.

Concerning the personal mastery, most teachers follow administrative orders and deliver knowledge to their students by traditional and authoritarian ways. Teachers have obtained mental models that consider educational problems in context of their school, not in a context of educational system and theories. There is no systems' thinking as all problems are considered as individual and isolated cases. There is no need either for teamwork or for team learning in hierarchical administration. The school vision is outlined in market terms as an increase in school's academic competitiveness on the educational market.

The Tallinn Case

I this case, I outline problems in an average secondary school in Tallinn. The case relies on interviews with school principal, some teachers and students. Also main formal documents like school statute and development's plan have been used.

The school is relatively young, it was established in 1975. Now, there are about 800 students and 55 teachers. There are 12 classes; the average number of pupils per class is 30. In the last five years, the number of students has increased by 150 (almost 25 percent). As the schools are financed by per capita vouchers, the students' number is very vital. If the number drops below 400, the school will be closed down. Since yet, two secondary schools in the periphery of city have disappeared. The schools with more than 1000 students are rich and elitist ones. Usually, they are located in the city centre. They can pay their teachers better salaries than other schools.

The school competitiveness depends on success on national examinations. Some public universities take new students on the basis of applicants' marks on the national examinations. The observed school has been quite successful. In the last years, about 60-80 percent of graduates have entered some institutions of higher education. It should be added that higher education is very popular in Estonia in the last ten years. The students' number has been tripled. In the last years, the number of new students exceeds the number of secondary school graduates. To be competitive on national examinations, students must study their elected subjects more than it is planned after curriculum. As a result, their opportunities to study more electives diminish. The principal argues that the financing and examination systems increase social inequality. Many small schools in rural area can not compete with large schools in main cities and regional centres.

According to the principal, the school's governance system is effective. The study council is active and effective. The principal takes time to deal with teachers' concerns and he supports the active teachers. The students' self-governance collaborates with the principal. The principal participates two times per year in his students' meetings. They discuss many important issues and find agreements as a rule.

The school council has nine members, one from students, two from teachers, one from the local authority and five elected by parents. It is not easy to find five parents who are qualified and have enough time for the school issues. The opportunities for training of the council are limited. The principal is not satisfied with legal regulation of the school council. This regulation is ambiguous.

The school head also criticizes the teacher education system. In the Soviet period, the study period was five years. It included extensive practice in schools. Now, the students study three years. The role of practice is not sufficient. Since 2004, the institution of probation year was introduced. Experienced teachers (mentors) supervise the novice teachers. This means that the teacher educators

push their responsibilities for student teachers to schools. This can be understood, as most teacher educators do not have close contacts with schools. The principal argues that the in-service training system is almost non-existent in Tallinn. The school works out its own in-service training plans. In the last year, there was a one-day seminar on development conversations with students, a two-day seminar on emotional intelligence and a school visit to another city for all staff. Besides that, there were special trainings for class teachers and new teachers (about self-assertion). The administration conducted development conversations with teachers.

The study council had six meetings. They discussed problems of e-learning, teasing, active learning and internal evaluations. The principal dedicates much of his time to financial and economic problems of his school. He is also concerned about teachers and students. He promotes the culture of active learning at his school. Still, he is aware that the school does not have enough resources to make the active teaching and learning the dominant model.

The Quality Award in Education in Tallinn

Since 2001, the Tallinn Educational Office has introduced the quality award for all schools and educational establishments in Tallinn. The evaluation develops the model of balanced scorecard (Kaplan/Norton 1996). The evaluation criteria rely on those of quality assessment by European Foundation for Quality Management. The procedure combines self evaluation with external evaluation. There are four different categories: school management, learning environment, student hobbies and teachers (Kast 2004).

The performance of school heads is evaluated in the following fields: strategic, personnel, educational and financial management and public relations.

Imbi Viisma has analyzed the effectiveness of the quality improvement in Tallinn (2005). She has asked more than 50 percent of the heads and revealed both some positive and negative consequences. The heads have realized the significance of all main aspects of school management (strategic, personnel, educational, financial and political). They have got an opportunity to demonstrate their efforts to the educational office. The office will recognize and appreciate these efforts. From the negative side, the competition takes time and efforts to fulfil all the required documents and forms. The evaluation is often emotional. It depends on documents more than on observation of the practices.

Trends in Education of School Heads in Estonia

University of Tartu designed its professional master program on school administration (80 credits or study weeks) in 1999, but it was opened later. The master students studied educational theory, new theories of learning and teaching, curriculum development, developmental psychology, research

methods and some courses on management. The managerial courses (19 credits or study weeks in total) covered organization theory (for business organizations), educational administration (with a focus on Estonian practice), strategic management, micro and macro economics, financial management in public sector, educational and labour laws.

The Tartu curriculum was accredited in March, 2004. There are some changes in comparison with the first curriculum. There are courses of educational philosophy and ethics instead of the former educational theory. There is no special course on financial management any more. Some new courses like comparative education systems, sociology of education, quality management, information technology, and education in the European Union have been added.

The Tallinn Pedagogical University (since 2005, the Tallinn University) opened its master program on school administration soon after the University of Tartu. In Tallinn, there are seven courses on management (23 ECTS): educational system and policy, organization theory, strategic management, school administration, quality control, personality and competences of educational administrators, and psychology in organizations.

There have been problems with integration of the curriculum. The course on Education system focuses on description of formal structures. The system is not approached by relevant political and sociological theories. Courses on Organization theory and Strategic management concern mainly business organizations. They do not analyze educational institutions. They are but loosely linked with empirical studies on Estonian corporations. In the course on School administration, some experienced school heads (or former heads) share their practical experiences that are not illuminated by contemporary theories and research. Psychology in organization outlines different psychological theories that are but loosely linked to education.

In sum, there are still problems with a complex approach to educational institutions. The courses on school management are often one-sided and loosely related to both educational theories and practice. There is a lack of co-operation and academic discussions between teacher educators and scholars of educational management. There has been much ado about student-centred teaching, teamwork, learning organization, participative democracy, and partnerships in Estonia. The role of these concepts is not that significant in practice.

One of such popular concepts is that of **learning organization**. In Estonia, it is considered as a psychological construct, separated from power relations and organizational structures (Roots, 2004). This concept is not combined with employee participation in management and organizational improvement.

Some Conclusions

The paper provided many evidences that the hierarchy has remained the dominant model of school governance. In the last fifteen years, it has been criticized and it has become more sophisticated and complex. The autocratic model also dominates in private and public sectors, and there is not much criticism. There have been some movements for school development and management improvement in 1990s. Still, they have concerned but a limited number of principals (about 5-10 percent). The number of empirical studies on teachers and school heads has been small. This is the first review on studies on Estonian school governance in English. In Estonian, the studies were first reviewed in 2004 (Haav 2004d).

Master programs for school heads started after 2000, first at the University of Tartu and then at the Tallinn University. The programs have contributed to an improvement in the school administration. There have been changes in the relevant programs, too. Still, some shortcomings have remained and there is a need for improvements in the near future. There are gaps between educational theories and practices. The theories promote educational ideals, they are one-sided (psychological and philosophical) and normative. In practice, the behaviourist models of knowledge delivery still dominate. There are contradictions between the humanist and constructivist educational theories, from one side, and administrative and managerial models and practices of school governance, from the other. The mainstream management courses and textbooks are centred to owners and managers. They are positivist, rational and objectivist. There is not much about power relations and symbolic control. In educational practice, the roles of power and culture, and political and ideological models are significant. This role is much bigger than that of pedagogical and psychological models.

As the compulsory education system, the education of school heads focuses on delivery of knowledge (theories and texts). It does not focus on development of competences (educational, organizational, political, and cultural) of the school heads.

Fortunately, there are still some educational scholars and leaders willing to study the management and improve the education (the cases in Tartu and Tallinn, the quality award in Tallinn, the leaders like B. Goldman, T. Kink, O. Otepalu, T. Takkis, the educational officers like S. Kast and I. Viisma).

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The Challenge of Latecomers: An Explorative Study of Foreign Market Expansion Process of Selected Companies from Hungary

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Abstract

As a direct consequence of political and economic transformation and globalization, the option of cross-border investment is open to companies originated in transformational countries from Central and Eastern Europe[1] *as well. The question arises how these companies employ this possibility and how they handle the disadvantages of being latecomer as well as the problems deriving from the economic disequilibrium that affects their home countries. The objective of this study was to describe and understand the foreign market entry-strategy process in its complexity and to identify the specifics that derive from the latecomer status and the economic disequilibrium that affects these countries, as home bases for the newly emerged multinationals. In this study foreign market entry-strategy process refers to the logic that explains the causal relationship between the multiple influencing factors and foreign market entry by means of foreign direct investment. The main question driving this research was how various factors influence the foreign market entry of companies. A qualitative approach was adopted involving interviews and document analysis at three locally grown and controlled companies from Hungary. The findings suggest that foreign market entry strategy of the analyzed companies is more opportunity driven that derives from the latecomer status and the economic disequilibrium that affects the home environment of these companies.*

Introduction

Companies from former state-socialist countries followed different paths of development (Balaton 1994, Peng/Heath 1996, Whitley/Czabán 1998, Peng 2000, 2003, Balaton 2004). Many local companies from the region were been acquired by foreign direct investors mostly originated in developed economies. In his recent publication Szelényi, the well-known analyst of social transformation of post-socialist countries postulated that Central and Eastern European countries are deeply embedded in and conditioned by the global economic processes. This is because the "national owner bourgeoisie" of these countries is weaker than that of the western countries which have the same size and are in the same stage of their development (Szelényi 2004). However, there are local companies that attempt to become lively actors of the global economy. These firms were able to consolidate their position in the domestic market and to invest abroad. Moreover, some firms succeeded to carry out ambitious strategies to become regional player.

[1] In this paper the term "transformational countries from Central and Eastern Europe" refers to countries with state-socialist background and recently joined to European Union.

Inward foreign direct investment (FDI) had a considerable role in increasing the pace of internationalization of industries, developing skills and technology (Svetlicic/Rojec 2003, Kalotay 2003). The inflow of managerial and technological knowledge as a direct consequence of the emergence of foreign firms on these markets and the mimetic behaviour (Di Maggio/Powel 1983) – observing these firms with high legitimacy and acting in a similar way – also contributed to the development of local companies. These companies gradually learnt "how to do business", capability used as a firm-specific advantage when they entered other markets of Central and Eastern Europe, where the local companies were not "equipped" with these capabilities (Jaklic/Svetlicic 2001b, 2003, Svetlicic/Jaklic 2002, Svetlicic/Rojec 2003). Simultaneously with the institutional transformation (e.g. privatization, opening up the national stock exchange, and consolidation of the banking sector) these companies were able to collect financial capital necessary for regional growth.

When discussing the foreign direct investment (FDI) activity of companies originated in the region, it should be noticed that countries from the region followed different paths of political and economic transformation. The former economic, cultural and mental convergence that characterized the state-socialist period was changed by divergence, and post-socialist countries differ from each other more and more (Szelényi 2004). Besides the globalization of industries and markets, and the domestic market narrowness for growth, the above discussed economic divergence was between the main factors that triggered outward FDI of local companies. This is confirmed by the significant outflow of FDI from the region towards the economically less developed part of Europe (Svetlicic/ Rojec 2003). However, it is important to mention that based on statistical data about foreign direct investment outflows from the region one cannot distinguish between companies originated in CEE and controlled locally and subsidiaries of foreign investors that use the local subsidiary for subsequent investments in the region, in the literature referred as indirect investors[2] (Altzinger et al. 2003).

As regards the nationality of the firm Casson (1985) identified four aspects that are important to distinguish: the country in which the parent firm is registered, the location of group headquarter, the national culture on which the informal relations between managers (and among employees generally) are modelled and the nationality from which most of the top management is recruited. Concerning the national (or much rather the organizational) culture on which the informal relations between the actors are modelled is important in headquarter-subsidiary relationship, but this is not the subject of my study, therefore it is not considered. The background of the top management is important however it is less common that the top management of a multinational company to be recruited from homogeneous national cultures. The location of group headquarter is important

[2] FDI by a foreign affiliate is indirect FDI, signifying that the resulting asset-stock is owned by the parent firm via the foreign affiliate, and that it represents, therefore, an indirect flow of FDI from the parent's home country (and a direct flow of FDI from the country in which the affiliate is located) (UNCTAD 1998: 145).

because one can suppose that the strategic decision of foreign market entry is made by the group headquarter. Based on this latter aspect in Hungary two categories of outward foreign direct investors can be found: outward investors whose group headquarters are located inside Hungary, that constitute the subjects of my study and outward investors whose group headquarters are located outside Hungary.

My study explores the foreign market entry-strategy process of three companies originated and headquartered in Hungary. These cases are not "sampling units" they are rather "experiments". However, these companies represent the regionally significant multinationals from Hungary. My aim was to describe and understand the foreign market entry-strategy process in its complexity and to identify the specifics that derive from the latecomer status and the economic disequilibrium that affects these companies.

In this study foreign market entry-strategy process refers to the logic that explains the causal relationship between the influencing factors and the foreign market entry by means of foreign direct investment. As regards the influencing factors, the firm internal and external environment including industry characteristics as well are considered. Given the latecomer status as one of the specifics of these companies, the time factor is also considered. The foreign market entry is a multidimensional construct (Meyer 2002) and in this study incorporates the intent of foreign investment, the location, the mode of entry and timing (see Figure 1).

Figure 1: Foreign market entry-strategy process

Following a review of previous research on foreign market entry of firms from transformational countries of Central and Eastern Europe the foreign market entry-strategy process of the three

Hungarian regional multinational is analyzed. Thereafter findings are discussed and conclusions are drawn.

Previous Research on FDI Strategy of CEE Companies

In the course of the review, my focus was on previous literature about internationalization and foreign direct investment of companies from transformational countries of Central and Eastern Europe (CEE) referring to the period starting from the system change until recently. Therefore, neither articles discussing general MNC and FDI theories[3], nor articles about outward foreign direct investment of local companies dated before systemic change[4] are included.

Research on the topic was mainly preoccupied with the internationalization behaviour of firms from these countries (Svetlicic/Rojec 2003, Jaklic/Svetlicic 2001b, 2003, Liuhto 2001, Svetlicic/Jaklic 2002). Research describing general patterns of outward foreign direct investment and MNC behaviour in five selected countries of CEE[5] in a comparative manner is that of Svetlicic and Rojec (2003). The authors found that the internationalization path of MNCs from CEE is consistent with that of suggested by the Scandinavian Internationalization Process Model (Johanson/Vahlne 1977, Luostarinen 1979, Johanson/Wiedersheim-Paul 1975) mainly as regards their geographical orientation. Companies from the selected countries invested primarily in countries with close cultural and historical ties. My point here is that in terms of location choice albeit "psychic distance" (Johanson/Wiedersheim-Paul 1975) and experiential knowledge as suggested by the Scandinavian Internationalization Process Model are important determinants of the initial market selection of CEE companies, other factors should be considered as well and the weight of their influence should be measured.

As regards the intent of foreign direct investment, the general conclusion was that companies were more "pulled" by external factors than "pushed" by internal firm-specific factors.

The results on entry mode choice showed a predominance of Greenfield investments (exception was Hungary). This result was explained with the preference of MNC's from CEE to exert strong control over subsidiaries in order to keep the firm-specific advantages they rely on, which is knowledge on "how to do business". This explanation of entry mode choice is oversimplified especially because advantages deriving from knowledge on "how to do business" are temporal and in my opinion this is not an "asset" that firms try to protect through Greenfield investment.

In most of the cases, statements about FDI strategy of CEE firms referred to companies registered as outward foreign direct investors regardless if they were direct or indirect investors. In a study of Svetlicic and Rojec (2003) analyzing the differences between direct and indirect investors, foreign

equity share (10 and 50 percent) is used, as variable to distinguish between the two types of investors (Altzinger et al. 2003). However, the authors point out that the "ideal, substantive criteria" (Altzinger et al. 2003: 94) to distinguish between direct and indirect investors would be the location of company control (foreign or local). Based on equity share no important differences between direct and indirect investments were found. The location of company control is important because one can find many companies with majority foreign ownership, but controlled locally because the foreign investor is financial or institutional investor or because the foreign equity share is dispersed. Strategic decision-making – including that of investing abroad – of a foreign headquartered indirect investor could differ from that of a locally headquartered direct investor. The authors themselves postulated that outward FDI by indirect investors had been in most cases initiated by foreign parent firms as part of their global strategy (Svetlicic/Jaklic 2002). As regards the location for example, one can suppose that foreign controlled MNC's are not motivated to perform indirect investment to developed markets through their foreign subsidiaries from a less developed CEE country. Further on, in the course of a foreign investment, the indirect investor (the foreign strategic owner) can contribute with its financial resources and ownership-specific advantages that could influence the location, entry mode and timing of the investment as well. Consequently, variation between these two types of investors could be significant that implies a differentiated analysis of them.

The present review is far to be comprehensive. There are several specific country studies (e.g. Prasnikar et al. 2001, Jaklic/Svetlicic 2001a, 2002, Reiljan 2002, Incze 2003, 2004, Kilvits/Purju 2003, Varblane/Sorg 2003) that in most of the cases follow a partial conceptual explanation of the internationalization and foreign direct investment process. Consequently, there is a need for a holistic view of internationalization and foreign direct investment process of these companies.

Empirical Analysis

To explore the foreign market entry-strategy process, more explicitly the relationship between the influencing factors and the foreign market entry by means of foreign direct investment three Hungarian companies grown and controlled locally were examined. These cases are not "sampling units" they are rather "experiments" on relevant cases. The three companies represent three different industries. However, they are success stories illustrating how these companies became regional multinationals. They represent the three regionally significant MNC's from Hungary owning more than 20 foreign subsidiaries in total.

[3] Detailed review of the theoretical literature on multinational enterprise and foreign direct investment can be found for ex. in Dunning (1993).
[4] E.g. McMillan (1987).
[5] The research referred to Czech Republic, Estonia, Hungary, Poland and Slovenia.

Interviews were carried out with FDI project leaders at each company's headquarters. Indirect data was also collected, analyzing company statements, written materials provided by the individual MNC's as well as materials published in newspapers and webpage's.

The three MNC's I investigate in this paper are among the top 25 TNC's in Central and Eastern Europe (UNCTAD 2003) as measured by their foreign assets and the trans-nationality index[6]. These traditional, formerly state-owned and successfully restructured companies play a crucial role in Hungary's economy not only due to their regional but also because of their domestic importance: they are among the largest companies as regards net sales, number of employees and operating profits (Figyelő TOP 200). Each of them is quoted on the Stock Exchange and in Hungary they are considered blue-chip companies. The State has minority stakes in these companies and its influence on firm strategy is very limited. They are managerial driven companies. However, the State ownership could be beneficial as regards the participation of these firms on international markets: it can offer protection against an unfriendly acquisition and the company could make good use of the State's network assets as well.

Foreign Market Entry-Strategy of PROD[7]

PROD established in 1901 (it was nationalized after World War (WW) II.) it is the largest pharmaceutical manufacturer in Hungary and on the generic drug's market, important actor in the region as well. In global terms it is a medium-sized company. PROD is the only Hungarian pharmaceutical company operating without foreign strategic investor.

PROD has been traditionally export oriented. In the period of WW II, the company established several subsidiary companies abroad and operated a worldwide network of representative agencies. In the state-socialist period, the company concentrated on Eastern European and Soviet markets. The 1990's brought along the loss of traditional COMECON[8] markets, but the consistent restructuring process and the company strategy turned out to be a success: the company retained its status in the domestic market and regained its markets in the former Soviet Union, as well as in Eastern Europe. Moreover the company increased its exports to Western European and US markets. The latter became important export market of PROD. The expansion of its international commercial network in developed markets was facilitated by the acquisition of a Hungarian foreign trade company. In the region the commercial network was built through acquisition of small commercial firms.

[6] The trans-nationality index is calculated as the average of the following three ratios: foreign assets to total assets, foreign sales to total sales, and foreign employment to total employment.

[7] The names are pseudonyms.

[8] Council for Mutual Economic Assistance among socialist countries.

On the international arena, PROD's competitors are the generic drug producers originated in the region and some middle-sized generic drug producers from developed markets. The latter are very few and do not have brand names in the region. The interviewee related about the difficulties to compete with global MNC's despite of PROD's good market knowledge:

> "The big global companies can easily go through the problems."

This is not true for the smaller competitors from developed markets which are not prepared enough neither financially nor as regards their knowledge and power for the specific problems may arise on this unstable environment. The sequence of foreign direct investments of PROD is presented in Figure 2.

Figure 2: The Sequence of FDI of PROD

1996	Joint venture (60%) to get the property owned by a local firm	Russia
1998-2002	Acquisition (97,36%) of a local manufacturing firm	Romania
1999	Buying out the Russian partner and beginning of production	
2000	Acquisition of a local wholesaler and reorganization to a packaging field	Ukraine
2002-2003	Privatization acquisition (63%) of a local manufacturing firm	Poland
2004	Joint venture agreement (51%) with an Indian firm on establishment of a manufacturing firm in India with production start in 2006	India

The intent to invest in foreign production facilities was formulated following the capital raise as a direct consequence of company privatization. The company leader having previous international experience had an important role in formulating this intent. The principal feature of the renewed strategy launched in 1998 after the Russian financial crisis was to invest in foreign production facilities in order to strengthen the market position and to gain the necessary critical mass so important in the pharmaceutical industry. The consecutive entries represented the implementation of the intent to become a regional multinational company.

Motives to choose the region as the main location of the investments were multiple. First of all, being a traditional exporter in Central and Eastern Europe (CEE) and in the Community of Independent States (CIS) the brand name of PROD was well known and appreciated in this region. An important advantage of PROD in these markets was its affordable-priced drugs as alternative to the very expensive drugs imported from developed markets. However, PROD products are not the cheapest on the market. Local producers without GMP (Good Manufacturing Product) standard technology are cheaper. PROD strategy is to keep and further develop a reputable brand name with affordable prices.

Location was also a consequence of the possibilities available on the market and affordable for a company based in a country negatively affected by the economic disequilibrium. The financial resources needed for these investments were relatively modest. Therefore, the necessary critical mass could be acquired on these markets easier and more quickly than anywhere else. It is remarkable that in spite of the financial crisis from Russia PROD remained committed, moreover strengthened its position in CIS countries that proved to be a good strategy. One reason for this strategy could be that PROD is used with unstable markets. Consequently the willingness to take risk is higher. On the other hand, one should take in consideration that MNCs from the region, being latecomers in the FDI arena are pushed towards unstable markets overlooked by firms from developed economies. For example one of the important reasons that PROD outperformed a US company in the privatization tender in Poland was that it accepted the necessary state part-ownership for a longer period than its contender who was willing to do business on "real" market terms without state control.

As a direct investor, PROD is also interested in India. It has been present on this market starting from 1969 through its equity shares (8.2 percent) in an Indian pharmaceutical company. In 2004 the company signed a contract with its Indian partner about the establishment of a new joint venture company (51 percent going to PROD) with production start in 2006.

The entry mode choice varies with the location. The entry mode in CEE markets was through acquisition of an existing company while in CIS markets the initial entry mode was joint venture that ended up with buying out the local partner. In most of the cases, the acquisitions turned into incremental Brownfield investments. Reasons for these modes were also multiple. On one hand, acquisitions were preferred against Greenfield because of financial and other resource constrains. Further on, the need to act quickly in order to get the necessary critical mass facilitated acquisitions. The joint venture was chosen because of underdeveloped institutional environment from Russia: PROD formed a joint venture with a local company operating in textile industry just to get the property owned by the textile firm. This is consistent with the pervious findings from the literature according that the host country's institutional environment has influence on the entry mode choice (Henisz 2000).

Foreign Market Entry-Strategy of MIX

Oil refining, transportation, wholesale and retail of oil and petrochemical products are the core business of MIX founded in 1957. As an international company MIX is one of the few CEE players in the branch active also in exploration and production of oil abroad. However, as a direct investor it concentrates on refining and retail of oil products. Through foreign acquisitions, MIX has several indirect investments as well as presented in Figure 3.

Figure 3: The Sequence of FDI of MIX

1995→	Continuous greenfield investment with elements of acquisition in retail	Romania
1995	Greenfield investment in retail	Slovakia
(1975)1997	Joint venture (75%) for wholesale oil product trading	Austria
2000-2004	Acquisition (98,4%) of a local refinery with retail activity too	Slovakia
2000-2004	Indirect investments in retail as a consequence of acquisition	Austria, Czech Rep., Ukraine, Poland
2001	Winner in a privatization tender canceled by the local government	Poland
2003→	Privatization acquisition (25+1%) of a local refinery with retail activity too	Croatia
2003→	Indirect investments in retail as a consequence of acquisition	Serbia, Slovenia
2004	Buying out the Austrian partner in wholesale oil product trading	Austria

In order to understand the foreign market entry-strategy of MIX, first the market characteristics should be considered. The Central and Eastern European market for oil industry comprises Austria, Hungary, Slovakia, Czech Republic, Romania, ex-Yugoslav countries and Poland. The national oil companies from the region operated inefficient, and became clear from the beginning of their privatization process that they could not be competitive unless they manage to reach the necessary critical mass in business branches. Unlike the companies from developed western markets and Russia active in the region that were motivated by market demand and returns, these national oil companies were interested in stabilization of their markets. Consequently, the main influencing factor of the intent of foreign market-entry of MIX was reaching the necessary critical mass needed for market stabilization and competitiveness. This was important also from the capital market point of view. In order to remain competitive even in the EU capital market, MIX was interested in reaching a proper level of capitalization before the EU accession. Therefore, fast entry was decisive.

MIX started its foreign direct investment activity in 1995 through Greenfield investments in petrol stations in Romania and Slovakia. The motivation to choose these locations was that these markets were undersupplied with high growth potential. The political motivation to invest in countries where Hungarian minorities live also should be mentioned. In 1997, MIX renewed its joint venture agreement dated back to 1975 with an Austrian partner for wholesale oil product trading in the region, partner that was bought out by MIX in 2004. The Austrian market is the most important "Western" market of MIX.

Parallel with the above mentioned foreign direct investment activity MIX restructured itself. Through its restructuring process MIX had changed both its management style and its strategic direction. In 1999 simultaneously with the emergence of acquisition possibilities in the region, the ambitious strategy to become regional multinational was formulated. The role of the newly appointed leader in formulating the new strategy was also important as in the case of PROD. In

2000 the company realized a big success acquiring a decisive 36 percent stake in the Slovak refining, retailing and petrochemical leader with option for reaching a majority ownership after four years, which was archived in 2004 through the ownership of 98.4 percent of the shares. The deal was one of the biggest take-overs on CEE market until that time. Following its corporate strategy MIX continued the acquisition activity in the region. In 2001 MIX won the privatization tender for the Polish national oil company, privatization cancelled later by the local government. In 2003 MIX realized its second big success acquiring 25+1 percent shares in the Croatian national oil company.

From the above one can draw the conclusion that the location, entry mode and timing of MIX's foreign market entry by means of foreign direct investment was driven by the possibilities available on the market as well as the logistics considerations specific to the oil industry (location of pipelines). However, the entrepreneurial capability to become aware of the opportunities arising on the market and timing were decisive factors in this "acquisition battle" to achieve the winner position in the regional consolidation.

Foreign Market Entry-Strategy of SERV

SERV established in 1949 operates as a universal financial and related services group. It is the largest retail bank in Hungary. In spite of the intensive competition in the Hungarian retail-banking sector, SERV maintained its local market position, currently being the market leader. During the nineties SERV collected useful experience and expertise in up to date banking services and accumulated considerable capital, that represented the main motivating factors for cross-border investments. SERV had no previous experience on international markets. The company acquired its three foreign subsidiaries between 2001 and 2004 (see Figure 4).

Figure 4: The Sequence of FDI of SERV

Besides the accumulated capital and know-how, the intent of foreign investment was driven by the privatization opportunities arising on the regional market. Being mainly a retail bank, the motivation to follow the customer suggested by the literature about internationalization of service firms was minor.

As regards investment location, besides the acquisition opportunities available on the regional market, the main driving force to choose the region was the growth potential of these markets in spite of the unstable market environment. As the interviewee explained:

> "Growth is possible on markets where there are many open questions and a company from the region believes more in the future development of the region than a foreign company".

The first acquisition of SERV was a company under litigation. SERV was confident that it will able to resolve the problems and believed in the market opportunities. Within one year, it turned out to be a good deal. Further on, because the former corporate image of the acquired company was discredited due to the lawsuits, the change of corporate image was easily done.

Further motives to choose the region was that the experience gained through its own restructuring process and the know-how and expertise on up to date banking services could be best employed in the region, where the local companies were absent of these knowledge.

Motives for entry mode were the acquisition opportunities as well as the limited possibilities for Greenfield investments. The banking sector is highly competitive and it is very difficult to create brand name on a new market especially for a retail bank. The precondition for the acquisition set by the company was to gain majority of the shares.

Beside the acquisition opportunities available on the market, investment timing was influenced by the time needed to accumulate the necessary capital and know-how that could be utilized for foreign market entry.

Discussion and Conclusions

The literature suggests that in the process of studying internationalization within a strategy process framework, it is crucial to focus on "organizations in their sectors" (Child 1988, Melin 1992). The present study aimed to fulfil this requirement analyzing the foreign market entry-strategy process of companies placed in their sectors.

Based on the empirical findings about the three Hungarian regionally significant multinational companies one can draw the conclusion that the foreign market entry strategy of these companies was more opportunity driven than specific advantages driven (Dunning 1993) strategy. These findings correspond to the previous research on internationalization of CEE firms according which firms are more "pulled" by the external factors than "pushed" by the internal firm-specific factors (Svetlicic/Rojec 2003). Although, all the three companies started their foreign expansion with relatively small investments, they successfully participated in some of the biggest transactions in the transition region. This observation confirms the gradual market commitment posed by the Internationalization Process Model and illustrates the fact that in spite of the late mover status and economic disequilibrium that affects the home countries of these companies they were able to achieve sufficient financial strength and were able to developed adequate knowledge to carry out major cross-border acquisitions. All interviewees agreed that many times Western competitors underestimated the role of Hungarian companies as regional multinationals. Contrary to the

expectations, these companies managed to become successful in the region, which caused some of the competitors to leave the market.

The Scandinavian Internationalization Process Model argues that companies start to invest in countries with low physic distance. This was confirmed by the location choice of the case companies. However the main motivation to choose countries from the region was not the low physic distance. As regards the selection of foreign market, the literature suggests that location may be a rational choice of a specific country or a more inherent consequence of a market possibility (Melin 1992). In our cases the choice of location was more opportunity driven influenced by the latecomer status and the economic disequilibrium that affects the home countries of the investing companies than a rational choice of a specific location. The case companies entered immature, undersupplied markets where acquisition possibilities existed and competition was not so intensive. The case companies attributed less importance to host country characteristics such as economic development and political stability. The most influential variable was market potential. They were convinced that they should be present on these markets despite the unfavourable economic and political environment. As one interviewee said:

> "Risk is with business and we believe in these markets."

The considerable Hungarian minority in the neighboring countries (especially Romania and Slovakia) was no decisive factor in location choice. However, respondents confirmed a positive relationship between the existence of local Hungarian's and the location of the investment. Based on these findings one can draw the conclusion that networks provide mechanism to overcome deficiencies, rather than being drivers for location.

A great number of subsidiaries were acquired by privatization acquisitions. Research on privatization-acquisition as an entry mode choice in transition-markets (Uhlenbruck/Castro 2000, Meyer 2002) suggests that such acquisitions differ from ordinary acquisitions because of several management challenges that firms have to face. Acquired firms need massive restructuring, there are severe restructuring conditions imposed by host governments that need to be respected (Meyer 2002). The restructuring and consolidation process implies several politically sensitive issues, such as workforce reduction, rising prices etc. In the course of restructuring of the acquired, formerly state-owned companies, Hungarian MNC's with state-ownership background oneself, took advantage of their own experience of restructuring. Learning from their own experience, Hungarian MNC's knew how to restructure a "socialist" company as well as how to deal with the State. Generally, it is very difficult to deal with a government being prior to the national elections. As one respondent related:

> "Often, it is not enough to pay for a deal; during negotiations it is crucial to be able to build up the political resolution".

This observation is consistent with the findings of Antal-Mokos (1998) who, analyzing the privatization process in a Hungarian firm, argues for a political view of organizations. One can draw the conclusion that Hungarian MNC's are accustomed to such "politicking".

Selling a national company with strategic importance for the host country to firms from former state socialist countries is politically a very sensitive issue. One could say that this is rooted in the "national pride" of these firms and, especially of the governments with interest in them. It is a delicate issue to be acquired by a counterpart who started the restructuring and development process from approximately the same level. The general opinion regarding regional foreign investors was that they are not prepared enough to carry out such a deal. Therefore the Hungarian MNC's first had to secure their acceptance as trustworthy companies. Investments in countries where the opinion about Hungarian firms is sensible not only politically but also culturally (e.g. countries where Hungarian minorities live) the political considerations are much more significant. In these countries Hungarian investors "have to face the pain from the historical past" as well (Figyelő 2003). These inexplicit political and social (nationalism) factors had also influence on foreign entry-strategy process. These findings support the literature according which the strategic logic of foreign market entry may express not only rational formulas but institutionalized myths and subjective rationales (Melin 1992).

Investment timing of Hungarian multinationals in the region was simultaneously influenced by two facts. One was the timing of their own privatization and restructuring. The sample companies started to invest abroad after the State Privatization Agency had sold its majority stake and their restructuring had been completed. Secondly, foreign direct investment by Hungarian companies was a reaction to the privatization programs lunched by governments from the region.

The general conclusion of this study is that the foreign market entry-strategy is influenced by many interrelated aspects; therefore a holistic view of this process is needed.

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Functions of the Supervisor as an Immediate Boss: An East-West Comparison

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1 Background and Aim

The supervisor is situated in a dual position. He/she controls workers' performance as a lower manager, while he/she is expected by his/her subordinates to represent and protect their interests. This dual function is sometimes ambiguous, and by case contradictory (Hirszowicz 1981, Chap. 5). Besides, his/her position and function are of variety between countries due to a difference in industrial and organizational culture (Maurice et al. 1980). This variety might be certainly caused, too, by the economic system, and therefore the supervisor in the socialist organization might have had a particular function differed from that in the capitalist organization, and this particular characteristic would be succeeded even in the transformed organization.

In advanced capitalist economies there has been a significant shift in the function of a supervisor especially in light of the role of technological and organizational changes these two decades.

On one side a supervisor's autonomy in the workplace has been undermined to a significant degree by the spread of the Fordist work method together with a degradation of their conventional skills and authority. Firstly, competence on the job decision-making and personnel allocation has shifted significantly from the supervisor to the personnel department. Secondly, the wide-spread application of micro-electronic technology at work has resulted in the transfer of some of the competences of supervisors to engineers, although this differs between countries (Maurice et al. 1980, Warner 1984). And thirdly, new information technology has transformed office work as well. In addition the intra-network of communication inside a company is changing the supervision pattern significantly. Traditionally the supervisor has been regarded as the connecting point of vertical and horizontal information flow. Now, however, direct channels of communication between relevant people are replacing this. Assumedly, these changes have deprived the supervisor of his/her conventional authority and function.

On the other side, a managerial strategy for increasing the flexibility in work organization has been introduced and wide-spread. This enlarges the shop-floor autonomy that has been dissimilated to some extent by means of the "kaizen" movement" or "quality circle". Coincidentally decentralization in work organization has taken place, which necessitates the enhancement of a supervisor's competence for coordinating shop-floor activities.

Turning our eyes toward former socialist countries we have noticed a dramatic change in the situations of supervisors and managers in the processes of transformation in ownership and organization. They got rid of the controlling power of the Communist party in the plant and firm, but at the

same time they were thrown into unknown situations. Workers were at a loss as to whom to rely upon. In recent years, however, organizational structure and process have stabilized and the supervisor-subordinate relation seems to be re-established.

With these differences in mind, this chapter will try to display some traits of this relationship in an East-West cross-cultural comparative perspective. The focus of analysis will be left on workers' perception of their relations with a supervisor and the legitimacy of a supervisor as their "boss".

2 Data and Method

The data for analysis hereby are an outcome of the Denki Rengo international research that was longitudinal with a series of sampling years: 1984-85, 1994-96 and 1999-2001. This research aimed at an international comparison on workers' perception of their working life in the electrical and electronic industry (see Ishikawa et al. 2000). In the questionnaire that was used in this research there are several questions on workers' relations with their supervisor. Not only ordinary workers including non-managerial white-collar employees but also supervisors and lower managers responded to the survey. The majority of respondents, however, are non-managerial ordinary workers for whom the "boss" means their supervisor.

If the supervisor is to be accepted well by workers, he/she should fulfil at least the following three requisites. Firstly, as the supervisor is situated between workers and management, he/she is expected by workers to represent their interests effectively. This expectation should be filled for the supervisor to be accepted by his/her subordinates. Secondly, as the supervisor is to be regarded by his/her subordinates as a part of "our" side, workers should perceive supervisor's interests as being similar to their own. Thirdly, workers should be satisfied with a relationship with the supervisor personally as well as professionally. The significance of these requisites above raised, however, might be different from country to country, as the supervisor could have multiple roles, depending upon national contexts. The international comparison in this concern is a task of this chapter.

From this viewpoint, the workers' reliance on the supervisor for interest representation, the interest similarity between workers and the supervisor, and the workers' satisfaction with their relationship with the supervisor will be analyzed.

Concerning the first point, the responses of workers to the following question will be observed: "In your experience, who represents your interests most in the following issues?" There are alternative answers as follows: "Management", "Union", "Works Council", "Immediate Boss", and "Nobody". And the proportion of those who answered "the immediate boss" will be used as an indicator to measure their reliance upon the supervisor. The issues of interests to be represented will be integrated into two categories, as below.

a) Labour-related issues: “Working conditions”, “Job security” and “Wage”.
b) Job-related issues: “Training and education”, “Work organization”, “Transfer and allocation of personnel”.

As for the second point, namely the interest sharing between workers and their supervisor, responses to the following question will be used: “How far would you say that you share interests with your immediate boss? 1. The same interests, 2. Similar interests, 3. Partly different interests, 4. Mostly different interests, or 5. Opposite interests”.

The third point, namely the workers’ satisfaction with their supervisor which may indicate the degree of workers’ acceptance of their “boss”, will be measured with the data drawn from the question: “How satisfied are you with the relationship with your boss? 1. Very satisfied, 2. Fairly satisfied, 3. More or less satisfied, 4. Fairly dissatisfied, or 5. Very dissatisfied”.

Two main topics will be dealt with below. The first is on the changes in the degree of workers’ reliance on the immediate boss for their interest representation, and the second concerns interest similarity and satisfaction.

For the East-West comparison six countries will be raised in this paper: Czech Republic, Hungary and Poland from the East, and Germany, France and Italy from the West.

3 Interest Representation

The supervisor is not only a lower manager to control work and performance of his/her subordinate workers, but at the same time he/she is an intermediary for bottom-up communication in the organization and is expected by workers to represent their interests at work in all ways. From the workers’ perspective there are various channels to express their interests at the workplace. In our survey five agents who are supposed to represent workers’ interests at work are raised, namely the plant management, the local union, the works council, the immediate boss and ‘nobody’. The respondents are asked to choose one major agent according to their experiences.

There are different issues related to workers’ interests, who are classified into two groups: labour-related issues and job-related ones, as mentioned before. (A correlation analysis by Pierson’s correlation efficiency indicates a significant relationship with a probability of 99 percent between the three issues in each group.) Table 1 displays the average proportion of the respondents who raised ‘the boss’ in these two groups.

Table 1: The Proportion of the Workers Relying on "the Boss"

Country	Labour-related Issues			Job-related Issues		
	1985	**1995**	**2000**	**1985**	**1995**	**2000**
Germany	20.3	28.5	21.0	15.6	44.3	40.0
France	30.5	15.2	14.2	-	41.8	42.3
Italy	16.5	22.5	28.7	26.6	37.5	59.9
(Average)	**22.4**	**22.1**	**21.3**	**-**	**41.2**	**47.4**
Czech R.	-	51.8	55.1	-	56.1	60.9
Hungary	72.0	45.1	46.5	43.5	52.8	58.1
Poland	38.7	25.0	37.8	42.2	39.4	62.2
(Average)	**-**	**40.6**	**46.5**	**-**	**49.4**	**60.4**

Note: For instance of the labour-related issues, the average proportion means the average point of the percentages of those who raised "boss" in "Working conditions", "Job security" and "Wage". Hence, if all the respondents would have chosen "boss" in all of these three issues, the figure should be 100.0.

Czech data is missing for 1985, so that only Hungarian and Polish data can be used for a longitudinal comparison with the West.

3.1 On Labour-related Issues

As far as the labour-related issues are concerned, the level of workers' reliance on their supervisor has rarely changed between 1985 and 1995, and then 2000 in the West, although there were some differences between countries. This level in the West was much lower than in the East in each year of observation. This means a greater reliance by Eastern workers upon their supervisors for representing their interests in labour-related issues. Assumedly the supervisor in the East played and is playing the role of interest representation which is largely borne by the trade union and/or the works council in the West.

Unlike the West, there has been in the East a significant change in the level of reliance upon the supervisor. In the data of Hungary and Poland it is clearly noticeable that, first, the level of the reliance decreased drastically between 1985 and 1995, and, second, it increased to some extent between 1995 and 2000, including the Czech Republic. The drastic decline in 1985-95 was certainly caused by the radical organizational changes with anomic situations that took place with the collapse of the former regime. At that time there was a remarkable increase of those who were thrown into isolated situations and could not find anybody to rely upon (Ishikawa 2002). On the other hand, a certain recovery of the level in 1995-2000 is presumably a reflection of gradual stabilization in organizational life. But it has not reached the level of 1985, partly because the newly institutionalized mechanism such as the union or the works council has been assumedly taking over a role of the supervisor in interest representation.

3.2 On Job-related Issues

While being expected by his/her subordinates to represent their interests at work, the supervisor is at the same time assigned by management to organize and control effectively the activities in his/her

working group. The latter is connected with job-related issues such as education and training, work organization and job design, and allocation and transfer of personnel (see the right side of Table 1).

The data of France and the Czech Republic are missing for 1985. But if we compare Germany and Italy with Hungary and Poland, it is visible that the reliance upon the supervisor in work-related issues was far larger in two countries in the East than those in the West in 1985. At that time presumably the work organization in the West was centralized in a traditional style and the competence in job-related issues was situated at an upper level than the supervisor. However, the reliance on the supervisor in the West increased remarkably to 1995 and further to 2000. It implies an increase of the competence of the supervisor at work, probably in parallel with a trend of decentralization and flexibility enhancement in work organization.

A similar trend is found in the East. Between 1985 and 1995 the reliance on the supervisor in–creased in Hungary and stagnant in Poland, but it greatly increased to 2000 in the East. Czech data displays the same trend. It seems that the role of a supervisor at the shop-floor level has remarkably enhanced both in the West and the East since the mid of the 1990's, and it is visible more clearly in the East.

Summing up the above, the function of a supervisor in interest representation regarding both the labour-related and the job-related issues was great in the East of the previous regime, compared to the West, and this trait is still remaining under a new environment.

4 Interest Similarity and Satisfaction

Taking the data from Table 1 and ranking each country surveyed in 2000 with respect to the proportion of those who rely on their supervisors in each issue, the surveyed countries are ranked as shown in the left part of Table 2. As seen there, the countries in the East is ranked higher than those in the West both in the labour-related and the job-related issues.

Table 2: Ranking Order of the Surveyed Countries in 2000

	Reliance on Supervisor		Similarity of Interests to Supervisor	Satisfaction with	
	Labour-related Issues	Job-related Issues		Relations with Supervisor	Capability of Managers
Germany	5	6	-	-	-
France	6	5	4	4	5
Italy	4	4	5	2	2
Czech R.	1	2	3	5	4
Hungary	2	3	1	3	3
Poland	3	1	2	1	1

Next, let us leave a focus on a social distance between workers and their supervisor. This is measured here by means of the workers' perception of interest similarity between themselves and their supervisor, by using respondents' answers to the question as to how far they think they share common interests with their "immediate boss". The respondents were requested to choose one from

the following five alternatives: Their interests and that of their "immediate boss" were "the same", "similar", "partly different", "mostly different", and "opposite". For an international comparison the proportion of positive responses ("the same" and "similar") is used to indicate an interest similarity between workers and their "boss". In the middle part of Table 2 shows the rank of each country in accordance to the proportion of positive responses.

This displays a higher rank of the East than the West. It means that the workers who regard their supervisors' interests as close to their own are much more in the East than the West. In other words, the social distance between a supervisor and his/her subordinates is smaller in the East. This implies an existence of solidarity, horizontal as well as vertical, at the shop-floor level in the East compared to the West.

It does not mean always, however, that generally the workers in the East are satisfied with their supervisor. Satisfaction is measured by using the proportion of the two positive responses ("very satisfied" and "fairly satisfied") to the question: "How far are you satisfied with the relationship with your boss?" (An option of five alternative answers was provided.) The right side of Table 2 illustrates a lower degree of satisfaction by Czech and Hungarian workers than Italians. A greater reliance on the supervisor for interest representation and a closer distance of interests between workers and their supervisor does not lead always to a higher satisfaction with the supervisor in the East. In other words, the greater reliance and the closer interest relations are not enough to enhance the satisfaction. Satisfaction seems to stem from another logic than the reliance in interest representation and the closeness of interest relations.

It is note worthy that satisfaction is higher in catholic countries (Poland and Italy), while lower in secularized countries (Czech Republic and France), and Hungary is in between. This difference is not between the West and the East, but seemingly between different cultures. It may be said that the reliance and the interest awareness are a matter of the perception on structure, while the satisfaction is connected with culture.

5 Concluding Remark

Both workers' reliance upon their supervisor for interest representation and workers' perception of interest similarity with their supervisor is higher in the East. This is assumed to be a tradition of the countries which underwent the socialist system. On the other hand, workers' satisfaction with their supervisor is not necessarily higher in the East. The greater reliance and the closer interest relations are presumed not enough to produce the satisfaction which might indicate a degree of the acceptance of the supervisor by workers. Presumably the legitimacy of the supervisor as a "Boss" does not directly stem from the subordinates' perception of structure and relations in the workplace, but is significantly conditioned by culture and belief system.

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Post-Socialist Entrepreneurs in Behavioural Traps? Special Types of Entrepreneurial Orientations and Behavioural Patterns in Transforming Societies[1]

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1 Introduction

The paper underlines the important role of entrepreneurs and managers in the process of firm restructuring and their influence on the building of followers trust and commitment as essential pre-conditions for economic survival and success of the firms in transforming societies. In turn, the actors' experiences contribute to a successful re-institutionalization of entrepreneurship and management in these countries, shaping the motives and establishing new styles of leadership (see Clark/Lang/Balaton 2001, Edwards/Lawrence 2000, Lang/Steger 2002, Steger/Winkler 2003).

On the other hand, the special situation in transformational settings may contribute to a stabilization of traditional patterns of motives and leadership (e.g. Lang 1997, Catana/Catana/Finlay 1999, Kelemen/Hristow 1998, Catana/Catana 2000, Lang/Kovac/Bernik 2001, Catana/Catana/Lang 2003, Lang et al. 2004). There are also some empirical evidences that also the new entrepreneurs will be not in the "forefront" of new leadership styles and attitudes (Lang/Müller 2001, Ungureanu 2002), not only because of the influence of old cadres in this social group (Steger/Lang 2003), but probably because of the stability in values and central motives, induced by the typical transformational situation of instability and insecurity (see Lang 2002)

As shown in Lang et al. (2004), there is a special pattern of motives, orientations and behavioural patterns shared by the transformational countries of Romania and East Germany in comparison with Austria.

The special situation in transformational settings seems to support a similar situational context for all the CEOs in the new and in the established private firms, despite of the cultural heritage coming from the past socialization of the main group of managers in the big state owned enterprises. Moreover, transformational influences combined with an impact of the cultural heritage may be responsible for the considerably higher share of affiliation motives in Romania and East Germany (Lang et al. 2004: 24). At the same time, the motivational orientations are combined with a more bureaucratic or administratively competent behaviour, and at least partly less power sharing but more human and team-oriented. The mentioned motives and behavioural patterns are combined with the consideration of welfare and regional issues as well as ethical considerations in critical decisions (ibid: 21-22).

[1] Earlier drafts of the paper have been developed with the support from Alexandru Catana and Doina Catana (Technical University of Cluj Napoca).

I want to explore these "traps" of the orientations and behaviours of entrepreneurs (and managers) and their respective consequences in transformational settings, as well as alternative types of thinking and behaving, suggesting departure and change.

By discussing the different types of "traps" with respect to theoretical explanations, the article is focusing especially on the entrepreneurs. Managers in established firms are included as a reference group to show similarities and differences.

I will go on to explore the different types of entrepreneurial "traps" based on our empirical data from the GLOBE project (e.g. House et al. 1999, den Hartog et al. 1999, House 2002, Brodbeck/ Frese/Javidan 2001, Steyrer/Lang/Schiffinger 2004, Lang et al. 2004). Especially referring to our data from the CEO-project in East Germany, Romania and Austria, the latter is used as another reference group.

The CEO study is based on case descriptions of leadership behaviour. In around 40 firms in Romania, East Germany and Austria, owner- and manager-led, a two hours interview with the CEO have been carried out, including questions concerning leadership career, experiences and philosophies, as well as change management. It includes a short CEO questionnaire on management preferences and strategies. In addition, a number of up to nine followers have been asked to describe the leadership style and behaviour of their CEO, with a questionnaire from the GLOBE project which have been translated (and re-translated) into Romanian and German language before. The questionnaire has asked s for leadership behaviour, trust and confidence of the followers, and their perception of the objectives and strategies of the firm.

The data of the interviews have been subject of a motive coding according to Winter (1991a, 1991b, 1992), using McClelland's (1985) motive types (affiliation, power, achievement, responsibility). We will combine the results quantitative and qualitative analysis for explanations.

2 Theoretical Background and Frame of Reference

The problems, discussed in the introduction part, ask for a multi-causal explanation of the observed stability in values, motives and behavioural patterns of entrepreneurs and managers in transforming societies.

"Traps" are seen as patterns of an interaction, situational or societal context framing and stabilizing the thinking and acting the values, motives and behaviours of entrepreneurs and managers in transforming societies.

I will therefore describe 5 possible single explanations for such "traps" referring to different theoretical reasoning, and their empirical basis in CEE research. In a next step we will combined the arguments to develop a frame of reference for our empirical analysis on entrepreneurial "traps".

The first one can be called as **value and motive "trap"**. It is based on assumptions, mainly from personality theory, behavioural theory, and concepts of core values, e.g. Rokeach 1968, 1973, about the stability of behavioural patterns based on stable sets of core values and beliefs, developed during earlier stages of personal growth. Moreover, the actual behaviour is said to reinforce the core values and beliefs. Following the argument of McClelland's motivation theory (1953, 1985), one can assume a similar influence and reinforcement cycle with respect to central implicit and non-conscious motives of the personality like power, achievement, affiliation and responsibility (on the relation between personality/motivation and leadership behaviour, see Yukl 1994, Cropanzano et al. 1993, den Hoogh et al. 2005, and for entrepreneurs Gupta et al. 2004).

Stable behavioural patterns of entrepreneurs and managers are seen as anchored in their personalities, based on respective mindsets (e.g. McGrath/McMillan 2000). Further stabilization, e.g. reproduction and reinforcement of such patterns of basic values and motives depends on their successful activation and use, even under critical circumstances. As a result, they become unconscious, "taken for granted". Changes are difficult, depending on growing mismatch and failure of actions based on these assumptions (see similar the concept of double-loop-learning).

While societal changes in a long run, and during the life course, may have an influence on the importance of values and motives, radical environmental breakdowns of the institutions and structures as in transforming societies did not lead to changes in values or motives as partly expected (e.g. Luthans 1998, Edwards/Lawrence 2000). Contrary, there is some empirical evidence for a re-stabilization of traditional values (e.g. Alt/Lang 1998, Catana/Catana 2000, Lang/Kovac/ Bernik 2001, Lang 2002, Dietrich 2003). Biographical continuity is proved to support this stability, while breaks in the professional biography or critical events in every life, can contribute to changes (Alt/Lang 1998:266).

The second "trap" can be named as **behavioural or interaction "traps".** It refers to a stabilization based on the acceptance of the leader and his/her behaviour by their subordinates. The new leadership theory, as represented e.g. by the GLOBE project supports this assumption. Leadership is seen as socially constructed by managers and followers in their daily interaction. From these experiences, the leadership behaviour is learned, and assessed by the followers, forming a stable social practice of interactions. The acceptance of a leader by the subordinates depends on how he/she is close to the role models of "good" and "effective" leader (den Hartog et al. 1999, House et al. 1999). Successful leadership requires therefore acceptance of the style by the followers, which will be in turn the result of leader's success (e.g. House et al. 1999: 189), as empirically proved by Steyrer/Lang/Schiffinger (2004) for (East) Germany and Austria.

With respect to transforming societies empirical studies have also confirmed that followers more or less accept the partly authoritarian styles of leadership (e.g. Alt/Lang 1998, Catana/Catana 2000, Lang et al. 2004), leading to a social practice of non-participative interaction. Alt and Lang (1998) have developed a number of dilemmas or "locks" for post-socialist managers, e.g. the "taking charge" or "responsibility driven" management orientation as a reaction against the past restrictions against the necessity or expectation of sharing responsibility (pp. 264-265). As empirically shown by Gupta et al. (2004), there is also a more or less universal prototype of effective entrepreneurial leadership, including universal behavioural attributes like decisive, foresight, encouraging, bargaining, team building and confidence building behaviour (pp. 254-255).

Departure from the "old" or change can take place if there is a need for motivated and autonomous staff, if management activities fail continuously, or if resistance of employees against authoritarian styles increase, destabilizing the existing social practice of interaction.

While values, motives and behaviours of entrepreneurs and managers are not only a result of universal personal traits, but also influenced by the given national and organizational culture, a third group are **cultural "traps".** Culture theory and concepts of national culture (e.g. Hofstede 1991, House et al. 2004), or concepts of organizational culture (e.g. Schein 1985) and socialization theory refer to the important influence of values and norms of a social group on individual values and behaviours. While national culture values are spread through social institutions like families or schools, religious institutions etc., professional work organizations develop their own cultural settings within the national cultures, based on common practices (Hofstede 1991) or shared basic assumptions and norms (Schein 1985) with a stabilizing influence on individual values and leadership behaviour.

For the group of managers and entrepreneurs in CEE countries, the influence of the special values of their national cultures on their behaviour has to be taken into account. As shown in the GLOBE project, both groups share some similarities in values and behaviours (see Lang et al. 2004:15), and build a special pattern of CEE cultures and leadership preferences (see Brodbeck et al. 2000, Bakacsi et al. 2002, House 2002). Despite of country differences CEE countries especially share a strong in-group collectivism and a relatively high power distance combined with a less participative, more self protective leadership style (e.g. House 2002), which may seen as a stumbling block for changes in leadership behaviour. This may also be the case in entrepreneurial leadership as shown by Gupta et al. (2004), where Anglo-Saxon countries have shown the highest scores, while CEE countries are scoring lower (pp. 252-255). Moreover, as comparative data from Romania, Estonia, East Germany and Austria have shown, the Romanian and Estonian managers and entrepreneurs to be more autocratic, less power sharing, but also more bureaucratic and administratively competent, team oriented and calm (Lang et al. 2004:14, Heuer 2004a: 47).

After the break down of the old regime, traditional national values seem to gain influence in CEE countries, supported by a growing influence of the religion.

With respect to organizational culture, an influence of values and norms of the big state owned company cultures can form a "trap", but mainly for managers in the old, restructured firms. This kind of "traps" has been often reported as organisational inertia of post-socialist firms or resistance to change enshrined in management cultures (e.g. Kelemen/Hristov 1998, Catana/Catana/Finlay, Catana/Catana 2000).

As a good example and empirical proof for this kind of heritage from the past cultures, bureaucratic styles of leadership can also be found within the transformational countries as Romania, Estonia and East Germany (see Alt/Lang 1998, Catana/Catana/Lang 2003, Lang et al. 2004, Heuer 2004). Other analyses have revealed that new entrepreneurs, who have been professionally socialized in such organizational cultures, often share similar attitudes than managers (Alt/Lang 1998, also Lang et al. 2004).

Cultural changes are closely connected with the globalization process and the various trends to universal, "ethic", cultural patterns as a result of international cooperation and activities of transnational firms in CEE countries. At the level of organizations, the decreasing influence of former state owned firms experiences of managers and emerging cultures of new entrepreneurial firms may support a "departure" with the development of new values.

Transformational "traps" refer to the special context for firms and management activities in transforming societies. Transformational settings with an often enduring lack of a stable environment of the firms reinforce types of traditional or strong leadership and support the reproduction of such values and behaviours (see e.g. Clark/Lang/Balaton 2001, Edwards/Lawrence 2000, Blazejewski/Dorow 2003, Danis 2003, Edwards 2003, Gräbner 2004). Especially all kinds of strong and charismatic or transformational leadership seem to be appropriate for a situation of chaos, and insecurity, which may support the attribution of charisma to leaders. But similar as in developing countries (see Kanunga/Mendonca 1996), the different types of leadership have to face facilitating as well as constraining factors of the special environment of emerging markets and societies in change. The special situation in the transformational settings may also contribute to the often observed stabilization of more traditional, authoritarian styles of leadership (e.g. for East Germany, Slovenia, and Romania, Alt/Lang 1998, Catana/Catana/Finlay 1999, Kelemen 1999, Lang/Kovac/Bernik 2001, Steger/Winkler 2003, Rubatos 2004).

Moreover, the transformational settings with a de-fragmentation of big state-owned enterprises to a small and medium sized firm structure have led to similar contextual settings of entrepreneurs and managers in the firms. Both groups are often facing the same insecure political and economic

environment. Similarities in values, motives and behaviours between Estonian, Romanian and East German entrepreneurs and managers, and contrary, differences at the same places in an established market economy like Austria (Lang et al. 2004, Heuer 2004) support this assumption.

Changes are on the one hand depending on a stabilization of the environment with foreseeable and accountable activities of the new capitalist institutions. In addition, the process of differentiation of the various contexts in different branches (industries, services etc., old and new industries, old firms and new firms, different ownership and decision making structures in the firms) may come to the forth, giving raise to alternative contexts for entrepreneurial and managerial actions.

Socio-Structural "traps" has to do with the social background of entrepreneurs (and managers) in CEE countries. After early expectations about a circulation of the (economic) elite in transformations (for an overview, e.g. Szelenyi/Szelenyi 1995, Szeleny et al. 1995, Waldner 2003), the vast majority of empirical studies support the thesis of an reproduction of the old economic elite, at least in management positions (e.g. various contributions in Lang 1998, for East Germany Steger/Lang 2003). Depending on the way of transformation of ownership structures, the old cadres, and especially the group of party technocrats, often with university degrees were able to survive in the new market economy environment. Thus, their values, motives and behaviours are influential to shape the new organizational cultures of the post-socialist firms, newly founded, privatized or run by the new elite, and so contribute to the stability of values, motives and behaviours.

In addition, the similar social background of entrepreneurs and managers from engineering also contributes to the stability in thinking and acting. Taking into account the fact, that engineering knowledge have been not fundamentally devaluated, contrary to the economic knowledge on the past system, the group of engineers had better chances to survive in management positions or to occupy the ownership of firms. Moreover, the age structure of the above mentioned groups could also lead to a persistence of the existing values and behaviours.

As for changes, new and alternative recruitment structures, leading to another elite composition with respect to profession and age, the inflow of foreign capital, ownership and management or different social recruitment structures in the various branches have to be seen as preconditions for shift this respect.

As shown in the discussion of the different theoretical explanations, this kind of reproduction and reinforcement circles or models of recursive processes can be found in a number of theoretical concepts, if one would give up the traditional linear-causal argumentation (see Table 1).

Table 1: Types of Re-enforcement Circles and their Explanations for Behavioural Stability and Change in Transforming Societies

Type of re-enforcement circles ("traps")	Theoretical background	Explanation for stability	Explanation for changes
Value and Motives	Personality theories, motivation theory value concepts	Behaviour is based on a stable set of values or/and implicit, unconscious motives, "successful" behaviour supports reproduction/ re-enforcement of values and motives	Mismatch and permanent failure, fundamental changes/breaks in the professional biography, critical life events
Interaction	Interactive concepts of Leadership theory	Leadership is a stable pattern of interaction, requires the acceptance of a leader and his/her behaviour by followers	Destabilization by leadership failure, resistance of followers, different expectations on leadership style, alternative models or external pressure
Cultural	National culture concepts, theories of organizational culture	National culture in CEE countries have formed values of indigenous managers and entrepreneurs, organisational inertia and resistance to change of post-socialist firms	Globalization process leads to universal, "ethic", cultural patterns, decreasing influence of former state owned firms, emerging cultures of new entrepreneurial firms
Transformational	Transformation theory, Contingency approach	Transformational settings with instable, insecure situation for firms reinforce types of traditional or strong leadership, de-fragmentation with small and medium sized firm structure leads to similar contextual settings of entrepreneurs and managers	Development of stable environments or at least foreseeable changes in environments, differentiation of the environmental situation through different types of ownership and decision structures, branches, old and new firms and industries etc.
Socio-structural	Elite theory, Class theory	Social background of entrepreneurs and managers from the old elite, tendency to reproduction instead circulation of economic elite, similar social background of entrepreneurs and managers from engineering influence of older age groups	New, alternative "recruitment" structures, and changing elite composition with respect to age, profession etc. or inflow of foreign capital, and management staff

It is also clear that we can refer to a number of other concepts with a similar theoretical figure, like the concept of cognitive dissonance or the concept of institutional embedded ness. The latter is close to the cultural and transformational "traps" as discussed above. In addition, the social, informal networks may be seen in a similar way, but as the empirical literature on post-socialist countries have revealed, transformation and the break down of established structures had also an destructive effect on such networks, a kind of change leading to restructuring activities by the various economic actors.

But the discussion have also shown that there is some empirical evidence for "traps" of stability in values, motives, attitudes and behaviours of entrepreneurs and managers in CEE countries, despite of partly radical changes in the societal and organizational environment.

A combination of the different recursive factors of influence on behaviours will lead to a frame of reference for a complex analysis in transformational setting (see Picture 1).

We assume that the behaviour of entrepreneurs bound by their individual basic values and motives, whereby the national cultures have to be seen as influencing the individual values. Cultural features

of CEE countries like in-group collectivism and power distance have to be mentioned and gain influence especially in situations of the breakdown of social institutions with their structures and guiding values.

Picture 1: Frame of Reference

In addition, behaviours of entrepreneurs are reproduces by the acceptance of the "new" leader by their followers, their reaction to leader's behaviour and the follower's commitment. This is again influenced by the national culture which has shaped the values and behaviours of subordinates too, as the willingness to follow all kinds of strong leadership performed by the entrepreneurs. Moreover, we expect an influence from the social background and socio-structural aspects of the entrepreneurs on the behaviour. Especially entrepreneurs with engineering background and managerial experience in big state owned firms may stand for a reproduction of traditional values and behaviours. In this case the socialized influence of typical cultural characteristics of state owned enterprises may have strengthened the reproduction of such behaviours, e.g. procedural, bureaucratic behaviour, accompanied by contextual factors as the continuation of the firm as a de-fragmented privatized part of the old one, instead of new firm structures and cultures.

The outline shows that the factors discussed above, are interwoven, enabling, enforcing and limiting each other. This special combination of contextual-transformational, cultural and structural patterns on macro and micro levels with motivational and behavioural patterns is forming the "traps" for stability and reproduction in behavioural patterns, also in a social group seen as being at the forefront of a new capitalist development in CEE countries.

In the following sections we will try to look a bit deeper into our empirical data from the GLOBE project, and especially the CEO study, focusing on entrepreneurial firms in Romania and East Germany. Both countries share the same societal past, but are different in national cultures, and the way of transformation.

4 Methods

The CEO study is based on case descriptions of leadership behaviour. In around 40 firms in Romania and East Germany, owner- and manager-led, a one to two hours interview with the CEO have been carried out, including questions concerning leadership career, experiences and philosophies, as well as change management. It includes a short CEO questionnaire on management preferences and strategies.

In addition, a number of up to nine followers have been asked to describe the leadership style and behaviour of their CEO with a questionnaire from the GLOBE project which have been translated (and re-translated) into Romanian and German language before. The questionnaire asks for leadership behaviour, followers' commitment and satisfaction, and their perception of the objectives, strategies and effectiveness of the firm.

The Romanian sample consists of 41 CEO interviews, 19 with owner-entrepreneurs, and questionnaires and 277 follower questionnaires. In the East German sample 52 CEO interviews and questionnaires, 25 of them entrepreneurs, and 212 follower questionnaires have been included[2]. Since different questionnaires have been used, the assessment of the leadership behaviour of entrepreneurs and managers is based on 142 respective 139 statements of followers for the whole group.

From the questionnaires, we will use descriptions on leadership behaviour from the followers, and the followers' acceptance and reaction as engagement, commitment and cooperation as well as value preferences of managers and followers.

The descriptions of leadership behaviour are based on singles items with a 7-point-scale have been used, ranging from "strongly agree" (7) to "strongly disagree" (1). Typical single items are:

Visionary: "Has a clear understanding of where we are going"

[2] The reference sample from Austria consists of 40 CEO, 20 from entrepreneurial firms, and 258 questionnaires of followers.

Diplomatic:	"Is able to maintain good relationships with others"
Administratively effective:	"Is organized and methodological in work"
Malevolent:	"Is punitive, has no pity or compassion"
Autocratic:	"Acts like a tyrant or despot"
Humane:	"Has empathy for others, is inclined to be helpful or show mercy"
Autonomous:	"Acts independently, does not rely on others"

According to the GLOBE methodology, the data on the leadership items have been summarized to leadership sub-scales (leadership attributes) and main factors (leadership style patterns or dimensions) based on the empirical data in 4 countries. We will use the scales developed from a 4-country sample with overall 1054 questionnaires including Romania, East Germany, Austria and Estonia, developed by Heuer (2004).

The description of commitment includes is also based on a 7-point scale, ranging also from "strongly agree" (7) to "strongly disagree" (1). Typical single items are:

Optimistic perception of the future (4 items):	"I am optimistic about my future with this organization."
Engagement (3 items):	"I am willing to make serious personal sacrifices to contribute to the success of this organization."
Co-operation (3 items):	"The top managers work as an effective team."

The value preferences of managers and employees in critical organizational decisions have been asked by using a 7-point scale from "highest importance" (7) to "no importance" (1) with respect 17 different factors, among them customer satisfaction, long term competitiveness of the firm, ethical considerations, professional growth and development of the employees, contributions to the region or the state.

From the interviews we will use the motives of managers, and their references to values, behaviours and environment, as well as their reasoning for attitudes and actions.

The data of interview transcriptions have been subject of a motive coding according to Winter (1991a, 1991b, 1992). The motives were counted according to McClelland's motive types: power, achievement and affiliation (McClelland et al. 1953, McClelland 1985), and in addition responsibility. The motives are seen as attributions of an action, a desire, an interest or an internal state of the interviewed himself/herself, or another person, a group or institution in the interview text.

The achievement motive involves a concern for excellent and unique accomplishments and high performance, and is associated with restless, instrumental activity, moderate risk taking, using feedback or knowledge of results, and entrepreneurial activity (Winter 1991a: 62-65). Affiliation (-intimacy) involves a concern for close relations with and positive, friendly feelings to others. The power motive is a concern for impact and prestige, leads both to formal social power and also impulsive actions (see Winter 1991a: 62-66). Power is to be understood as an impact on others, not

an internal capacity. The responsibility motive describes 5 different aspects expressing a reference to a responsible behaviour of the entrepreneurs and managers: moral standard of conduct, concern about others, and concern about consequences, self judgment or internal obligation.

Scoring systems have been developed from authors in the field of personality research, and used with respect to texts from literary work as transcripts, stories, but also interviews, speeches, press conferences etc. Based on the existing systems, Winter developed an integrated scoring system (Winter 1991a, 1991b), which can be applied to any verbal material. It is focusing on "motive imageries" of the main motives according to McClelland, leaving out subcategories.

A sentence is the unit of scoring. It can be scored only once for the imagery of any motive, but it is possible to score the same sentences or part of it for two or three different motives.

If motive imagery is expressed in two consecutive sentences, they will be scored only one time. The scoring procedure is based on a manual developed by Winter.

Typical examples of sentences with achievement, power or affiliation images are:

Achievement:	"We had a higher growth rate than any other firm in the region" or
	"The firm is fighting for higher standards in quality for years."
Power:	"My business policy has a strong influence on the whole branch!
	"The management rejects the proposal of Mr. X in order to reach the main objectives."
Affiliation:	"We had a close and friendly co-operation with a firm in the US."
	"He was alone to stand the competition in the new market."
Responsibility:	"I saw that the subordinates need some help to understand the new situation…that's why I felt I had to explain in more detail."
	"We really underestimate the situation on the new markets; I think we have learned a lot from the early years."

The imageries have been counted and expressed per 1000 words.

In our case, we have used two raters, who, after a manual based testing period, had to assess the text, independently and to count the motive imageries. In case of differences the average between both has been used for further calculations.

Moreover, we have used statistical data from interviews or questionnaires for the firm size, professional background of the entrepreneurs (and managers), and the decision structure in the firm (single owner, or CEO, number of deciders), age of entrepreneur, branch of activity.

With a cluster analysis we try to identify a number of typical entrepreneurial "Motive-behaviour-types". Using the interview sample, we try to find a number of such typical entrepreneurs to illustrate their circumstances, and special lock-ins and contradictions.

5 Results

The cluster analysis of motives and behaviours has led to 4 groups of motivational and behavioural patterns:

1. An achievement motivated entrepreneur with social responsibility, and autonomous but team oriented leadership behaviours ("Responsible performer"/ around 18 percent of the East German sample, a similar share number for Romania);
2. A power motivated entrepreneur with low affiliation, but some social responsibility, charismatic and self protective leadership ("Entrepreneurial Patriarch"/around 14 percent in East Germany, and a larger group in Romania);
3. An achievement and power motivated entrepreneur with lower affiliation and responsibility, charismatic and human but less participative leadership styles ("Entrepreneurial Expert"/around 31 percent in the East German sample, a bit less in Romania);
4. A responsibility and power motivated entrepreneur with also high affiliation motives, team oriented and participative leadership ("Responsible Team-player"/ around 31 percent in the East German sample, a similar share in Romania).

In the Romanian sample, a subgroup with strong achievement motivation, less responsibility and affiliation, but a more directive and self-protective, and less performance oriented behaviour have been found, forming a negative prototype of the "Responsible Performer" and the "Entrepreneurial patriarch".

It is interesting to note, that this groups are similar for managers and entrepreneurs, especially in East Germany. As for East Germany, the groups 1 and 3 are dominated by East Germans, while a majority of West Germans or foreigners can be found in the second and fourth group.

There was no significant influence of the composition of the boards, despite of a concentration of firms with two or three founders in the groups 2 and 3.

There was also no striking difference in the age structure, but with a tendency of younger entrepreneurs, surprisingly not mainly in group 1 but in groups with higher affiliation motives and partly power motives (group 4, partly 2 and 3). The subgroup with negative stereotypes consists of older Romanian entrepreneurs.

To explore the "contextual-cultural-motivational"-bound behaviour of entrepreneurs from these groups a bit more in depth, we will firstly point on some of the single "locks" found in the data, and than present some examples as prototypes for the groups mentioned above.

Value and Motive Traps

The data suggest some correlations between motives, value preferences and behaviours as supposed. Power and achievement motivation by the managers tends diminish the bureaucratic and procedural behaviour. As shown in the behavioural types, high affiliation and responsibility is

combined with more participative and human leadership, while achievement motivation is often combined with an individualist pattern of entrepreneurial activity. Power motivation is positively correlated with charismatic or transformational styles of leadership in combined with a certain degree of responsibility. Another type of charismatic behaviour is combined with the technical expertise of the entrepreneur. The combination suggests a reproduction and stabilization of such behaviours and the motives were it is based on.

Behavioural or Interaction Traps

The impact of behaviours on followers could especially see in the influence of leadership behaviour on commitment, but also of the motivation (and the respective behaviours) of the entrepreneurs on the values of the subordinates. One important results points to the problem that achievement oriented individualists may have: strong achievement motivation have a negative influence on the co-operation of the followers, while higher affiliation motives seems to positively support co-operation, and at least partly the willingness to engage in the interest of the firm. High responsibility motivation can contribute to similar attitudes of the followers which may in turn support the respective behaviours. High achievement motives, if not combined with responsibility may lead to the rejection of ethical values in decision making as well as a low preference to consider state or regional welfare as an important issue.

This is clearly reflected in the values of the followers, reproducing a climate of a solely “technical expertise culture”, close to type 3.

Despite of a negative impact of a very few attributes of leadership to followers commitment and engagement for the future, there is partly only a neutral effect of such behaviours (autonomous, directive or status conscious and self protective behaviours). Only autocratic, malevolent or self protective behaviours show a slightly negative impact, partly compensated by others. So, we can assume that nearly all the types of entrepreneurial patterns of motives and behaviours from above are accepted and therefore reproduced, with the exception of the mentioned subgroup with behaviours close to the negative stereotypes.

Cultural Traps

National culture differences can especially be seen in a higher degree of autocratic, less power sharing, calmer and more directive behaviour of Romanian entrepreneurs in comparison with their German counterparts, behaviours close to the higher poser distance as an important cultural characteristic of East European and Romanian Culture.

The data show, that East German and Romanian entrepreneurs show a significant higher degree of procedural or bureaucratic and calm, and less communicative and less visionary behaviours than the

Austrian counterparts, despite of significant differences in procedural or bureaucratic and calm behaviours between entrepreneurial firms and established firms (see also Lang et al. 2004: 15). This may point back to traditional enterprise cultures, were these kinds of behaviours were not necessary or at least not supported by the organizational cultures.

Contextual or transformational Traps

On the macro level, the transformational context has to be treated with its instable, insecure environment. We found a number of traces, often combined with organizational culture issues from the past. The transformational context seems to contribute to the reproduction of these kinds of thinking and acting. Namely, lack of visionary behaviour or less communicative behaviour as shown for entrepreneurs in Romania and East Germany in comparison to Austria should be mentioned. Moreover, the entrepreneurs in our sample shows a significant higher degree in affiliation motives, compared again with Austrian entrepreneurs.

This could be on the one hand interpreted as a reflection on old, more collectivist culture, but with a lock at the contextual problems of transitions it may be seen as a re-evaluation of the social aspects in the light of a partly radical transition to capitalist structures.

With respect to factors on the micro level, the firm size can not be seen as influential. This have, despite of the sample to do with the results of a de-fragmentation process.

The entrepreneurial firms of our sample are very similar in size, with some exceptions, ranging from 20 to 600 for entrepreneurs and from 35 to 3000 (the only big one) for managers in Germany. The Romanian entrepreneurial firms are ranging similar, from 73 to 1950 employees. This has certainly to do with the important part of a privatization of existing firms within the transition process in the 90ties. But neither firm size nor the decision making structure have strongly influenced the results on motives and behaviour; especially the latter nee further consideration.

Despite of a similar size, the entrepreneurial context differ form a managerial context, also in transforming societies. Entrepreneurs are seen as less bureaucratic (both countries), less calm, but more autocratic and self protective (Romania) and more self conscious (East Germany).

The entrepreneurial setting is supporting therefore, an unlocking on the one hand (bureaucratic, calm, self conscious) but also a reinforcement of traditional values, especially in Romania.

Socio-structural Traps

In our samples, we have found a lot of continuity in the professional careers, and mainly some managerial experience from the past, especially in the East German sample. As mentioned above, the group of entrepreneurs is a bit younger than of the managers but both with an average of around 48 to 50 for the German and Romanian entrepreneurs. The main influence on behavioural patterns

seems to come with the old-age sub group of Romanian entrepreneurs. While this problem will find a natural solution anyway, the affiliation oriented younger group of entrepreneurs has to be explored in more detail in the future. As for now, the data point to the fact that the continuity in the recruitment structure and the past experiences may support the reproduction and reinforcement of the typical patterns of behaviour. The main difference between the two countries is the high share of entrepreneurs without managerial experience in the Romanian sample (65percent!).

I will now give some examples from the interview material, illustrating the types and locks developed before.

"An Performance oriented Individualist in East Germany" (D1)

The entrepreneur is an about 60 years, a one of the three owners and the CEO of the firm, which have been privatized in the early 90ties. The firm in mechanical engineering produces spare parts and was originally founded in 1905. From 1963 to 1990 it was state owned, and has now 115 employees.

Two of the owners, also the interviewee, had experiences from inside the firm. The entrepreneurs studied **engineering and worked in that field and the firm**, and later on in the respective "combinate" in management positions years before.

> „In a big enterprise a lot are living anonymously, the top management did not know the employees, but with around 120 employees you know everybody personally…and if you have to say to someone " Here is the end" with a consequence not only fort he job but fort he whole family, this is really difficult…I think we did it (*refers to the early 90ties*) in a proper way if that is possible at all, but **we try to have respect for the feelings…**but **you have to stand** that as an CEO and owner, you have no other choice, otherwise you would bring the danger **to the whole enterprise**…"
>
> "In 1993 we reached again a good technological level…to be fair, we have to say with some support by the Treuhand…**We invest** a lot, all we could, simply **to create an innovative firm** and to develop the capacity to serve the costumers growing need."
>
> "Since we did not have someone for economic issues in the firm, **I had to learn** that too…at the beginning…but I have got support from many people…"
>
> "And we had to train the people if the did not have enough knowledge, partly we simply putt them "into the boat", and if we saw they were **ambitious and willing**…and so we developed a core of employees, where I am proud of…"
>
> "You as the management can develop the strategy, but you need a **long standing trust**, and **good co-operation**, since they have to putt he plan into practice…I go home with good feelings every evening; since I know there is good team how can do the job…!"

"A Romanian Entrepreneurial Patriarch" (R33)

The entrepreneur is a medical doctor and professor, who was only one owner of a private clinic, founded 1991, employing 253 individuals, out of which 108 famous doctors in the area. The following quotations may characterize his motivation and behavioural style.

"I am an **elite expert** and practician…A…cancer is operated in 4 hours in…, while I need less than 2 hours…I opened the first private clinic in Romania. I am the only one owner of it; everything you see here is mine…" *(Introducing himself)*

"In business you must **be the number one**."

"Someone can accomplish this if has ***social relations*** accounting more than the capital."

"I had many meetings with **people from the Government who are my friends**; for instance, I met with…previous prime minister and candidate for presidency…Whenever I have opportunity I meet the minister…in Bucharest, then…at the Senate, have lunch with minister…to set some solutions."

"If I allow the chief assistant to buy surgeon gloves, cotton and other supplies, **I must control** her… (In controlling the subordinates' behaviour)…asks a friend to give a call for an appointment at the clinic and listen how is spoken with him on phone…"

"…I am sure you are convinced that only 10percent of men are physically and mentally developed for the business; I give chance to another third of them, offering working places…In fact, poor countries are poor due to uneducated, stupid, un-organized and lazy people they have". *(Speaking to one of the previous prime minister)*

"An East German Entrepreneurial Expert" (D5)

The entrepreneur was one of the three founders of a trade and distribution firm for PC systems with 143 employees, 45 years old. He studied electrical engineering and worked in a big computer enterprise and a smaller firm before 1990.

„During my studies in engineering I learned mainly who to solve a problem…that helped me a lot…in my further work at Robotron, where I had to design, to develop and to test electronic steering systems and components…for different machines, every machine have been unique."

"We were founded in 1990, similar as other computer firms; in a garage…it was a really kid of the "Wende". The **founders were three engineers**, who have worked together before, Dr. M., Mr. E. and me."

"We learned that **cooperation** with other firms is **difficult**, especially if you need a high degree of flexibility….that is impossible with another firm, if they do not work after 5 or 6 p.m. That why we are doing a lot by ourselves, because we are than simply more flexible….we try to **solve all problems with our own know how**…also marketing…"

"You will start to ask, **who can do of the work**….if some on could not do the work, from his attitudes, and than we have to talk with him…one has to find out if he is able to meet the targets…"

"A Responsible Team-player in Romania" (R30)

The entrepreneur is one of the three founders of a company in the field of natural gas equipment, around 45 years, engineering background with middle management experience.

"It is difficult to speak about myself. The **subordinates can tell you** more about me…" *(Introducing himself)*

"Because we know each other from our childhood, our way of communication is very particular; sometimes we fight, even hurt each other (in words, of course), but when the stress passes, **we are friends** again. This way of behaviour is enduring…" *(Relationship to the other owners)*

"The experience proved that the most important strength of the company is the way of behaving with the employees. My benefits come from this behaviour. My **relationships with the subordinates are of friendship**, based upon my capacity to understand them, to appreciate them when desired, to refrain from insulting, to be and show patience when communicating with them. In fact we behave as colleagues, I do not care too much about subordination…It is a friendship among us, which **sometimes harms the business**…"

> "The **deficiencies come from ourselves**, the three partners…**I cannot blame the employees** or even the system…For instance, my associates are a little bit too aggressive in communication. Many times I gave up in their benefit…I reproach this to myself, because sometimes, the company lost lots of money due to our fights. In the end, my associates agree I was right, but the company got hurt…"

6 Discussion

Summing up, the described types of motive and behavioural orientations show some parts of complex "traps". The "Entrepreneurial patriarch" can be seen a reproduction and "transfer" of the patriarchal manager from big state owned firms to entrepreneurial settings, based also on a high power distance culture. The affiliation motivated "Responsible Team player" refers the collectivist cultures and especially for Romania to in-group collectivism. On the other hand, the high number of foreigners in the East German sample speaks for the influence of another pattern of participative leadership. The "Entrepreneurial Expert" is a well known pattern from leadership studies in the German context; including the limited responsibility for social aspects (e.g. Alt/Lang 1998, Martens/Michailow 2003). This could be again seen as a culturally bound or reproduced pattern, supported by but not limited to a transformational context. Looking for a clear entrepreneurial departure from the past, the "Responsible individualist" may be one type, but as discussed above, the younger group of entrepreneurs in the sample has tended more to affiliation and power motivation. In addition, the "individualist" is confronted with number of contextual burdens, coming from national cultures or transformation "traps". So, finally we can not speak about clear perspectives or way outs. This again supports the idea of special and local-cultural types of new embedded entrepreneurs.

Since this is a first still an exploratory approach with a limited sample, we have to be careful with generalization. Especially the focus on entrepreneurial firms with a certain number of employees, founded at least a few years ago, excludes new start ups with probably younger staff, other background and with activities in other sectors. For Romania, entrepreneurship research suggests an increasing number of new firms in the service sector and a growing number of younger entrepreneurs with out management experiences (Centre for International private enterprise, similar Nicolescu 1997, Ungureanu 2002).

The differences between Romanian and East German entrepreneurs have shown, that the sample structure have to develop in more detail in order to compare similar structures, taking into account, that in this case will loose or give up some country specific representation.

Finally we may add, that the idea or metaphor of "traps" can offer some interesting frame to combine different theories and explore their possible explanations for stability and change in transforming societies.

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Cultural Change

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Introduction

In the first chapter of presented theoretical paper is examined the definition of cultural change and its types, which refer to socio-cultural systems. The paper presents models of dynamics of socio-cultural systems and interprets them by tools and methodology mainly of semiotic basis (the Moscow-Tartusk School, Lotman) and of symbolical anthropology (Geertz).

The second part of this paper is focused on interpretation of organization as a semiotic and symbolical system. The paper analyses also the correlations of shared assumptions (Schein) with the concept of publicly shared meanings of symbols (Geertz) and the concept of semiosphere (Lotman).

The third chapter is focused on the types and keystones of processes of change in organization. The paper examines the processes of transmission of cultural elements and cultural complexes in process of endogenous and exogenous change on the individual and organizational level. On individual level are examined the processes of secondary socialisation, enculturation and endoculturation of individuals into the organization. On organizational level are analysed processes of cultural diffusion and acculturation in connection with the coexistence of organizational subcultures in the background.

1 Cultural change

The problem of cultural change represents one of the main problems in the interdisciplinary discourse of sciences studying societies and culture[1]. Cultural change is in the culturological discourse defined as a non-evaluating category. It represents a process of origination, transformation and downfall of socio-cultural systems, cultures, subcultures or their parts (i.e. cultural elements, their complexes, configurations, patterns, etc.). Cultural change is the main attribute of culture and it can be dichotomous divided into change quantitative and qualitative, slow and fast, partial or comprehensive, revolutionary or evolutionary change. According to the perspective of socio-cultural systems it can be distinguished two types of cultural change: endogenous changes (internal, related to internal integration; reasons are and roots are transformations of cultural elements and their complexes within the culture and the main form is innovation) and exogenous (external, related to external adaptation; they are a consequence of interaction between various socio-cultural systems; to this point refer the problem of cultural contacts and intercultural communication, resistance against change and pressure on conformity) of

[1] Vodáková/Vodáková/Soukup 2000: 109-110.

cultural change. Endogenous and exogenous cultural changes are not just quantitative or qualitative transformations of artefacts or ideas but they remarkable determine the system of socio-cultural regulatives of society/organization/subculture, i.e. norms and patterns of behaviour.

The process of cultural change has four basic stages:

1. Through innovation or diffusion rise new cultural elements (cultural configurations);
2. It is followed by societal acceptance and selective elimination according to their compatibility, attractiveness and usefulness;
3. Integration of new cultural meanings and modification or transformation of cultural system as a result of their acceptance and elimination of no more functioning elements from the system;
4. Institutionalisation of consequences of cultural change on the bases of immediate or progressive building of shared, accepted and socially integrated forms of behaviour.

Concepts of various types of cultural change and its function in socio-cultural systems vary across various anthropological schools, for example: research of endogenous cultural change and the role of innovation in history were in the centre of attention of evolutionists and neo-evolutionists; authorities of diffusionism and neo-diffusionism accented exogenous cultural change.

Unique variants of research of cultural change presented functionalists, structuralists, configuracionists, the school of cultural ecology, new ethnography, cultural-historical school Annales and indirectly also **Moscow-Tartusk School of** semiotic and authorities of symbolical anthropology and decon-stuctivism.

In the next part the paper will concentrate mainly onto the models of dynamics of socio-cultural system in the framework of semiotic basis and of symbolic anthropology.

Perspectives of Semiotics[2]

The most cited authority of the Moscow-Tartusk School of semiotics, J. M. Lotman (1922-1993), coming out from approaches of the "Russian formal school"[3] and structuralism (Lévi-Strauss 1958 – Structural Anthropology), has defined culture as "integrated totality of non-genetic information, forms of its organization and maintaining"[4] Culture is a symbolic system; its symbolic character distinguishes culture from "non-culture" (from nature).

Semiosphere – the space of meanings, which is surrounding us (like biosphere is a nature space, which is enfolding us in our physical milieu) can be compared to a living organism – Lotman explains the principle of its functioning on so called "beefsteak metaphor"[5]: if we slice up a calf, we get beefsteaks; but if we unite beefsteaks, we do not get a living calf. Semiosphere cannot be

[2] See: Eco 2001, Budil 1998, Lotman 1990, Bachtin 1973, Doubravová 2000.
[3] The Russian formal school: cca 1916-1930; Eichenbaum, Tyňanov, Todorov, Šklovskij; Propp – Morfology of Fairytale, Meletinski – The Poetics of Myths, a i.
[4] Lotman 1990: 360.
[5] Ibid: 362-363.

described in totality; it exists in process of constant change and meanings of its elements do not stagnate – they are in constant contact and in continuous flux (they are "vibrating"). The roots of change lay in permanent communication between old and new texts, during what structures are mixing and combining, intersect[6] (cultural contact, inter-cultural communication). We can find variously coded messages in texts of culture; socio-cultural system is not static but consists of variety of elements and their configurations.

Bachtin (1895-1975) has interpreted culture as a dynamic system in the first half of the 20th Century, too. His concept rises from the "Russia formal school" (culture interpreted as a dynamic, open, creative and complicated structure). Bachtin added that the elements of culture can be interpreted only in context of dynamics and dialog.[7] The elements of texts of culture are contacting in "collide", they are in dialog with one another, in sense of "communication for communication". The purpose of dialogs is the communication – the transfer of information and rise of a new, till now non-existing, information. According to the concept of Bachtin, it can be stated, that dialog in text of culture takes place when elements of various levels meet in that text and former closeness is transformed into openness to the new elements.

Bachtin distinguishes types of culture according to whether they communicate in monologues forms: for example impact of a esthetical dogma; or in dialogues forms: for example the post-modern era: culture is a system, where we can identify relations not only in the system but also towards external relations of the system, i.e. from what systems texts take in, with what and how the texts react, what determines them, and what the texts themselves determine in the semiosphere. Culture by entering a new context (cultural, social, etc.) consents a new meaning, which differs from meaning in the time of rise of culture. Elements of culture are continuously oscillating between old and new meaning (new meaning is rising through communication). Bachtin emphasizes, that the understanding of meaning of texts of culture (on the vertical axis – between texts of various historical epochs, for example the process of translation of traditions; or on the horizontal axis – mutual dialog of cultures of one epoch in different territories – for example contact of cultures in processes of cultural diffusion and/or acculturation) is by objective scientific methods not possible. The dis-covering of their meaning is a subject of interdisciplinary social sciences.

[6] About a text of culture we can think only as existing in semiosphere, i.e. a text of culture is a vivid text; semiosphere is not static, because its elements are in constant circulating. Besides analysing of inner side in texts, we have to analyse also the forms in which texts communicate with each other, i.e. post-, hyper- and meta-textual interlocking in synchronic and diachronic communication.

[7] See works Epos and Novel and Speak-out in Novel, where Bachtin analyses the openness or closeness of texts and dialogical elements in it.

Perspectives of the Symbolic Anthropology

Symbolic anthropology has been formed from the sixties of the 20th Century. Culture is mainly understood as a symbolic system of shared symbols and meanings. This concept was elaborated by L Dumont in France; by V.W. Turner and M. Douglas in GB and by D. Schneider and C. Geertz[8] in the USA. Geertz belongs to the most cited authors in the field of organizational culture studies[9].

Processes that run in culture are interpreted as communicative activities in living and dynamic organism – in culture. By symbolic anthropology was determined the work of, for example, E. Cassirer[10], L.A. White[11] and C. Lévi-Strauss[12].

Universal structures as paradigms/universal categories of culture are unconscious, are the basic source of values, activities and artefacts and are indubitable. They coordinate and regulate the activities of people. Within the framework of one semiosphere/cultural system they form universally applicable and summering-explanatory principle, which is relevant for any organisation. Universal structures permit us to anticipate how the structure would react in the case of change of its conditions (according to its external adaptation and internal integration). Structural examination should end in identification of elements, which create analysed socio-cultural system and in definition of their mutual relations. Structural term "inter-change"[13], and with it related structural

[8] Interpretative approach to organizational culture arrives out of symbolic anthropology. Work of C. Geertz is inspired by the "weberian" approach (fixing the attention on understanding and grasping of socio-cultural phenomenon – i.e. interpretation specific "networks of meanings" as foundations of social live). Every culture is, according to Geertz, a unique symbolic and semiotic system. His research was orientated towards forms in which are meanings of symbols (symbol is here understood as whatever object, act or event serving as carriers of thoughts or meanings for providing orientation in natural and socio-cultural environment) shared in process of social interaction. Culture is an "organized system of symbols and meanings, on which social interaction appears". Culture represents a "relative autonomous stratum of reality (is independent accordingly to an individual), and its fundamentals are formed by community symbols"; culture is communal / public, because public are the meanings, which people assign to their activities. People sense, live in and interpret reality through meanings – and Geertz interprets, along with M. Weber, as a "network of meanings". The main goal of his anthropological work is than the understanding of the spirit/root of cultural symbols, i.e. the interpretation of socio-cultural reality. Culture is context of meanings/ connotations and human behaviour is becoming comprehensible in its context. Through symbols the values are getting lasting and definable. Symbol is established as a source of information enabling to humans to understand and organize the reality around them and at the same time symbol is an interpretation and explanation of reality. Symbol determines the form in which the reality will be interpreted to the society. Culture may be defined as a system of meanings – opened and complexly structured and stratified – opened to interpretations (Geertz 2000: 23-47).

[9] We will interpret organization from a symbolic view in the second chapter of this paper.

[10] The Philosophy of Symbolical forms (1923-929); people are identified as "homo symbolicus" – a creature capable of symbolising.

[11] Culture is here defined as autonomous rank of things and events dependant on symbolism and regarded in extra-symbolical context.

[12] His term "structure" refers for a system of mutually interlaced elements; the change of one element causes the change of every other element in the structure; the "whole" is in structuralistic view qualitatively higher than a summary of its particular elements; important is not the meaning of elements, but their settlement in the structure; the ambition of structural anthropology is to reveal universal principles, which manage and organize cultural reality and to create a mathematic model of principles of societal organization through application of exact methods onto the "whole".

[13] The term exchange stands behind all human activities; overall human society is created through the system of inter-change, which functions on three levels of communication: 1. inter-change of information – it constitutes the language; 2. inter-change of women – creation of kinship systems; 3. interchange of goods – creating basis for economic activities. Lévi-Strauss additionally adds also the fourth level: communication on levels of genotype and phenotype – changing abilities and talents.

change, is in structural anthropology understood as a constitutive principle, because culture consists not only from forms of communication, but also from standards applicable on all communication games.

2 Organization and Organizational Culture from Semiotic and Symbolic Point of View

Organizational culture is tied with relatively autonomous, internally integrated, "historically originated" group/groups of people forming a social group. This category fixes the two-dimensionality of human non-biological existence and at the same time also the mutual interconnection of the both dimensions: social and cultural dimensions. Organizational culture can be studied from various perspectives (for example social relations, evolution and function of its elements, system of artefacts, socio-cultural regulatives, etc.). Culture and organization are understood as two sides of one reality[14]. The character of organizational culture involves culturological, sociological, anthropological, psychological and economical study.

According to the model of Moscow-Tartusk School the organization can be interpreted as a system clustered of subsystems, which in the semiosphere work in mutual contact; particular levels of organizational culture are then complex symbolical systems, texts[15] which exist in semiosphere.

According to Lotman "beefsteak metaphor" elements of organizational culture can be interpreted as material and non-material sum of artefacts, values, motives, approaches, assumptions, etc., working only in the status of "connection" into multitude links with the whole entity.

The organizational culture cannot be described as a whole, because, it exists in the process of flux, where the meanings of its elements (texts of culture) do not stagnate – they are in constant contact and they continually change (they are "vibrating"). It is a permanent communication (cultural contact, intercultural communication or inter-group communication) of the older and the new elements, and during the communication the structures are crossing over and intersecting (in processes of enculturation, socialization, diffusion, acculturation, transculturation, adaptation following the principles of for example meta-textual and hyper-textual links in synchronic communication, hybridisation, creolisation, etc.[16]). Variously coded messages can be found in the texts of organizational culture; its system is not static but consists of various elements and their configurations.

According to "Russian formal school" (which interprets culture as a dynamic, creative, opened and complex structure), the elements of organizational culture can be interpreted only in the context of

[14] See Interpretative approach to studying organizational cultures, footnote No.9.

[15] By texts we understand integrated generalizing forms of the language of culture, i.e. generalised forms of gestures, symbols, codes, sign systems representations of culture.

[16] The processes of enculturation, secondary socialization, diffusion, acculturation, assimilation, adaptation will be presented in the third chapter.

dynamics and dialogism. The elements of organizational culture meet collide into themselves, hold dialogs; and the purpose of these dialogs is in the transmission of information and the rise of yet not existing information. According to Bachtins concept of "dialogical texts" it can be stated, that the dialog in the text of organizational culture takes place, when the elements from different levels (from different social, cultural, ethnical, religion, etc. contexts) meet and the former closed system changes in the direction of openness to the new elements (the system is able to overcome its monologic predisposition – for example an ethnocentric view); and the system acquires a new meaning (different from the former meaning)[17].

According to the concept of symbolic anthropology the organizational culture is selective, it can be learned, it is based on symbols, it is the result of behaviour and product of behaviour of its members. It is salient in the form of unique configurations of artefacts, socio-cultural regulatives (norms, values, cultural patterns, etc.), ideas (cognitive and symbolic systems) and organizes human behaviour. Essential assumption for the maintaining of existence of cultural elements and their configurations is their objectification (exteriorisation) and their subsequent interiorisation (their assimilation/adoption) by the individual or social group.

Culture is meant as a context of meanings in which the behaviour of a human is becoming comprehensible. Through the meaning of symbols people live in and perceive the reality. The symbol is apprehended as source of information susceptible to form and organize the world around, and at the same time it serves for members as an interpretation of the reality. Through symbols the values in organizations are becoming shared and more permanent.

The organizational culture is a unique symbolic and semiotic system. Symbols are shared in the process of social interaction, and the "carriers" of culture are individuals. The foundations of organizational culture are created by public symbols, constituted in process of social interaction. The members of organization live in, sense and interpret reality through meanings (through the web of meanings – Geertz). The goal is than the understanding of the fundamental spirit of cultural symbols and their meaning – interpretation of socio-cultural reality.

However, when researching the phenomenon of change, it has to be mentioned that the basic principles of organizational culture are extremely resistant to change. They are the hidden bases of organizational culture, representing the spirit, the core or the "heart" of organizational culture.

[17] Elements of organizational culture by entering a new cultural context (cultural, social, new phase in organizational live, etc.) enter a dynamic dialog and consequently change their meanings and/or forms.

The resistance of the core to change is bonded with the fact that whole organizational life is depending on hidden universal structures called according to various concepts also as epistémé/cultural universalies/mentalité[18]/basic shared assumptions[19] or shared meaning of symbols.

The common denominators of all mentioned concepts are: their non-consciousness, they are root of all organizational elements and they are indubitable. They coordinate, control and determine the activities of members of organization. Within one cultural system/semiosphere/symbolical system are basic principles understood as universally relevant principles, which enable to predict the how people in organization will react on changes of internal integration and external adaptation of the organization. They are not questioned in day-to-day life; only in "border situations" – critical moments in organizational life they are subject to change.

3 Mechanism of Cultural Change in the Context of Organization

The change in organization can be processed as planned change (with support of in advance elaborated concepts, i.e. selective matrixes) or it can be developed as adaptive change (evolutionary, not calculated). Changes can be differentiated also as radical/revolutionary changes and progressive/sequential changes. Revolutionary change is understood as unexpected, sudden change of the key elements of organization and usually represents change of the entire organizational culture. Sequential change is, by contrast, based on already existing value systems, structures and processes. The basic fields of organizational reality, which are mostly determined by change, are: system of organizational strategies and goals; organizational structure; organizational processes; technologies; personal management[20]. However, the realisation of any change assumes creation of equivalent organizational atmosphere, which would through the identification of members of organization with new elements of organizational culture, be helpful to overall acceptation of changes. The acceptation of new elements is understood as agreement with and adopting or interiorisation of (by

[18] The concept of "mentalité": 1. social-psychological determinants of individual behaviour; 2. demarcation of limits/borders of people living in a particular epoch or society; 3. in explaining historical consequences it disables the transfer of patterns of today to the previous epochs; 4. enables to study various social classes and stratifications of the past. The mentalité (like basic shared assumptions in the concept of organizational culture of E.H. Schein) cannot be associated with values; mentalité has its roots in deep levels of psychic of an individual and is tightly bonded to the socio-cultural system and way of life of the particular society. It shapes activities, emotions and thinking of individuals and groups because it is a psychological matrix, just partially conscious set of standards, assumptions characteristic for a group or an individual. It determines strategies of surviving in the environment (both natural and cultural).

[19] These assumptions are non-conscious, acknowledged being the only one relevant and positive thoughts, ideas and beliefs. They are the basic root of artefacts, values, and beliefs in organization and determine the overall functioning of organization. They are abstract, universal, standing on deeper cultural contexts in which a particular organization lives and therefore are in a culturally homogenous environment held as universally relevant and obligatory. (For example, in a multicultural organization are the roots of conflicts between members of organization hidden exactly in the level of shared assumptions; and often these discrepancies complicate the life in a multicultural organization.) Schein 1992: 3-27.

[20] Bedrnová/Nový 1998: 520-523.

the people in management) obligatory and demanded sets of values, norms, behaviour, which would support changes in organizational life.

As said above, the culture is non-genetic heritage; humans "have to" learn culture and also the organizational development and evolution are bonded with learning, innovations, adaptations to constant changes of various format. People in organizations are determined by endogenous changes (from the inside of organisations, related to internal integration; the basic form is innovation) and by exogenous changes (related to external adaptation of organization; they are a result of interaction between different socio-cultural systems). These changes usually intervene to all members in organization and so organization as a whole.

On the individual level are in progress the processes of interiorisation and/or adaptation; more closely we can speak about secondary socialisations, enculturation into organization and a specific process of endoculturation within organization. All mentioned processes are inevitable for the life of individuals in a particular socio-cultural/organizational environment; and they are also imperative for surviving of organization as a continually stable system. "Carriers" of change are innovations resulting from contacts and communication between all members of organization, among shared assumptions of leaders / management and their subordinates, etc.

On the level of organization as a whole are in progress processes of exogenous changes (cultural diffusion, acculturation) related to contact and communication between different organizations according their contacts (fusions, acquisitions, etc.). This communication is more complicated, when we speak about contact of different national, ethnical, religious cultural systems (because shared assumptions of individuals are to much extend a reflection of shared assumptions of nationally, ethnically or elsewhere identified cultural systems – it is the issue of reference to different semiospheres).

Processes of Transmission of Cultural Elements and Complexes on Individual Level

A/ Socialisation

According to sociologist Košta, the socialisation is "a process of social and individual development of man. In socialisation one interiorizates culture (as symbolic communication, knowledge, values, norms, skills, patterns of behaviour, etc.) and develops his own individual skills and competences for active acting in society"[21]. The goal of socialisation is to form a being, which will behave, when alone, like he would be under control of the other members of society. People are, in the process of socialisation, divided into primary socialisation (in childhood, in family understood as non-conscious, non-intentions process) and secondary socialisation (intended, conscious, managed

[21] Košta 1999: 81.

adopting of strategies for living in other groups – for example a work group, learning particular roles (the most important according to maintain the society are: sexual, parental and working role).

Socialisation is based on interiorisation or adoption of basic sets of competences, which enable to choose a strategy of surviving for an individual in a group, socio-cultural system, or it is a process of re-actualisation of already adopted strategies.

Conscious process of socialisation into the work role has, according to US sociologist Moor, four basic stages:

1. Choosing of career;
2. Anticipative socialisation – preparation to profession; decisions, according to the most suitable way for preparing to chosen profession;
3. Conditionally acceptation of the work role – phase immediately after entering the work position, when one starts accepting the constrains and contributions resulting from the work role;
4. Permanent acceptation of the work role – one is fully accepting / interiorising norms and rules; the work role is being a part of his identity.

Of course, this process is not universally relevant – not everybody starts working after preparation on the profession; and not everybody gets to the point of permanent acceptation of the work role. By studying of what is the "new-comer" learning in the process of entering a work role in a particular organization, we can observe surface layers of organizational culture. But by studying of how the "new-comer" learns new rules and norms, we can discover the deeper levels of culture of an organization. Therefore it has to be revealed the mechanisms of perception and feelings in critical situations in the life of organizations. The process of recognition and learning of shared assumptions (i.e. n. three in Moors concept of secondary socialisation) is a long and non-systematic course of action, which is enacted on the background of "punishment and reward" of behaviour of every "new-comer" in organization. According to penalties and rewards people learn, what sort of behaviour is acceptable and what is not.

The process of socialisation of new members into a group can result in one of two following models:

a) shared organizational assumptions do not exist yet, therefore the culture of organization is now just in the proves of creating; or
b) new members are learning from older ones the already existing shared assumptions; culture is a mechanism of social control and serves as a basis for "incorporation" of new employees into a particular and special wax of thinking, feeling and perception (into a new semiosphere).

If the permanent acceptation of the work role has not been fulfilled (individual assumptions of the employee are not compatible with shared assumptions of organization), the employee cannot fully interiorise his work. Te ability of adaptation in dynamic socio-cultural system is a predetermined ingredient of individual "equipage" – important in process of interiorising/adaptation to actually required new sets of skills and competences.[22]

People in organizations adopt specific way of perceiving the world, because the human conscious and also unconscious parts of mind are during the process of socialization "clogged" by various prejudice and opinions, which are accepted as the only real, true and permanent facts and so they determine our perception.

B/ Enculturation

Enculturation refers to livelong processes in which individual is interiorising culture, to which he belongs. Accordingly to what social group one belongs, so will be also the "mental program" (sets of cultural values, norms, assumptions, traditions, etc. which correspond with the particular mental program, i.e. particular layer of culture – principle of stratified cultural identity).

The process of enculturation, according to M. J. Herskovits, can be defined as all manifestations of learned behaviour, skills and abilities, thankful to which one can get possession of sets of competences important for surviving in own culture/more cultures. It can be interpreted as dynamic adaptation mechanism.[23]

Enculturation runs in various types of social groups; the influence of family is important especially in the phase of childhood – in the process of grow up its influence decreases and the power of secondary social groups (organizations) is increasing. Enculturation can be understood also as a process of interiorisation of cultural elements and complexes by a mature individual (for example, enculturation can be meant as a process of acceptation of new cultural competencies by employees, deputed to longitudinal employment in abroad).[24]

[22] In the process of adaptation one has not to interiorise these sets deeply. Adaptation of a new employee is based on the quickest mastering of work qualifications. At the same time, employee has to integrate into the structures of interpersonal relations in organization. Expressed in other words – this process is based on getting familiar with organizational culture and its subsequent acceptation in form of interiorisation or just surface adaptation. The strength of organizational culture is based on maintaining of the continuity of organizational reality, i.e. on acceptation, transfer and reproduction of shared organizational assumptions. The existence of subcultures is not suppressed only if there is an economical or another contribution derivable from them.

[23] Vodáková/Vodáková/Soukup 2000: 115-116.

[24] Interiorisation of new sets of required cultural competencies assumes transformation of former sets, on the other side; by adaptation process is understood just the adoption of specific sets of cultural competencies. According to this point, the newcomer from a different semiosphere, at the beginning of the process of getting familiar with the new semiosphere, accepts just those sets, which are inevitable for his surviving in organization; he does not "merge" with the new semiosphere.

C/ Endoculturation

Specific socio-cultural process of transmission of cultural elements and complexes is the process of endoculturation. It refers to the maintaining of cultural heritage and traditions and to the transfer of cultural elements from the older to the younger generations. According to organization, it refers to transmission of sets of cultural competencies (of the meanings of artefacts, exposed and hidden organizational values, etc.) from older employees (in the sense of longer working in organization) to newly come employees. Organizational culture serves here as the "memory" of organization. Traditions represent a channel of bonds, they underlie the continuity of system, and are a source of awareness of cultural identity (as a condition of sharing common history) and they enable inter-generational transfer of organizational culture.

The organizational culture is understood as a dynamic and continually forming system, with vast, unlimited series of potentially possible new subsystems, forms and objects. Sets of elements, integrated into a system, are in mutual causal relation; if one part of system changes, then also other parts of system will change (Lévi-Strauss). The culture of organization is under pressure of continuous changes: destruction of its parts, their transformation, as well as creation of new, until now not existing, elements, configurations or their components.

The change is the main attribute of organizational culture as a dynamic system. Impulses to changes are coming out form either inner side of organization (endogenous changes of organizational elements and configurations) or from the external environment (exogenous changes as a result of interaction between different socio-cultural systems).

The factors of successful interiorisation of the results of change of organizational culture can be specified as following: the new element is perceived as a close one, potentially developing and advantageous for granting the progress, prestige and improvement of the status of own organization; members of organization understand the economic and symbolic capital (Bourdieu) of new element and its contribution to organization and its ability to meet the needs, which would not be satisfied under other circumstances; on the success of interiorisation of an new element are participating also the factors of verifiability of its contribution and the intelligibility of its implications and con-notations. Important is also the attitude and the amount of active participation of the management; one of their main tasks is to show their enthusiasm and to inspire all members of organization for change and its results.

The Cohabitation of Subcultures in Organisation

Dominant culture (conventional culture) tries to control and to repress the impact of alternative cultures because they attack the monopoly of the dominant. This stands for subcultures rising on the bases of diversification of organizational structure and also for subcultures ethnically, culturally

different minority cultures acting in the semiosphere of the dominant (for example within the big national units). If the penetration was too much revolutionary, it could disintegrate the structures and patterns of the dominant.[25]

The effect of pressure of the dominant culture onto the weaker culture consists in processes of acculturation and cultural diffusion, in disintegration of former cultural elements[26], complex[27] and patterns[28] resulting in assimilation[29] with the dominant culture.

Summarizing, it can be stated, that when a cultural contact is happening, the result of such an interaction will be the change (through transmission of cultural elements and complexes) of one, but more often, of both cultures. Processes of transmission of cultural elements and complexes on the organizational level will be discussed in the following part.

Processes of Transmission of Cultural Elements and Complexes on Organizational Level

A/ Cultural Diffusion

Intercultural contacts in connection with international business are active for centuries. However, nowadays we are living in an unprecedented era of global economic activity, production and distribution. Internalisation, transculturation and globalisation are facts, to that is no escape.

If organization will survive in global world, it has to develop global strategies. It has to face up the international contacts and cultural diversity, which is a result of co-existing cultures with different shared assumptions on a global scene.

Changes of cultural elements and their configurations ride out of the very nature of the socio-cultural system itself. Organizational culture as a whole and every its part, too, are opened to new impulses and under come changes; in organizational culture understood as a semiotic and symbolic system is the meaning of cultural symbol (Geertz) built up in the process of social interaction. The

[25] Cultural disintegration is a „decomposition and failure of functional set-up of configurations of artefacts, socio-cultural regulatives and ideas, which create individual and unique character of a particular culture. The generator for cultural disintegration can be cultural evolution, acculturation and migration of habitants…. also ecology and other mass catastrophes,…. radical changes in system of executive, inequalities in evolution in different regions of cultural system, etc. New integration can be managed by: 1. revitalisation of former cultural configurations on former or new foundations; 2. building up an qualitative new configuration; 3. slow, part by part assimilation into new cultural system, which will in its consequences lead to lose of former and acceptance of new cultural identity". Vodáková/Vodáková/Soukup 2000: 116.

[26] Cultural element is „basic cultural feature or constituent, most basic structural and functional unit of cultural system, its basic structural element. Cultural elements are artefacts, socio-cultural regulatives and ideas." Vodáková/ Vodáková/Soukup 2000: 93.

[27] Cultural complex is „set of mutually integrated cultural elements, functional configuration round the dominant element". Vodáková/Vodáková/Soukup 2000: 93.

[28] Cultural pattern is „coherent system of societal institutions, forms of behaviour, values and norms, which are characteristic for a particular society and culture". Vodáková/Vodáková/Soukup 2000: 99.

[29] By assimilation we understand " mutual dispersion and slow failure and disintegration of the weaker culture". According to Mistrík it happens by cultural assimilation (dispersion of cultural elements and patterns from one to another culture and vice verse) or by structural assimilation (activities of members of a minority culture in institutions of the dominant culture, which is resulting in acceptance of behavioral patterns of the dominant by members of the minority). Mistrík et al. 1999: 70-72.

meaning is so in constant move, vibrating, because the elements in the text of culture, when open, are communicating; in such a system, the elements are in intracultural, intercultural and trans-cultural circulation.[30]

By comparing of diverse elements we can select a concentration of identical (or the most similar) elements and according to them we can then choose the characteristic of the dominant culture. Marginal culture is then characterised by elements moving on the periphery. Contra-culture can be identified through elements standing in opposition to dominant elements. In case of contact between two cultures, it is very unlikely to have between those cultures an equivalent relation. One socio-cultural framework matrix is often in dominant position, the other then in marginalized or segregated position as a minority culture. Between both cultures is a process of dialog – transcultural interchange, but the operating with symbolical systems of the dominant by marginalized cultures differ in form. The strategies of dominant culture for subordinating minority socio-cultural framework matrix are also different.

In the process of cultural diffusion cultural elements and configurations are values, artefacts, ideas, etc. transferred through the cultural border (here cultural elements of contacted cultures meet and diffusion begins) and through cultural periphery (here typical cultural feathers dribble out and intersect, diffuse with cultural types from other cultural territories; people in periphery are just formal members of culture, their identity is hybridious/mestisied/creolised) to the cultural core (which is the centre with highest concentration of cultural feathers – here cultural values and societal memory are originated; cultural core has not to be geographically localized – it is a world of thoughts and/or the place where the culture has started to growth) of the other culture – there they are not automatically accepted (their acceptance and consecutive cultural change are bounded to the level of attractiveness, utilisation and compatibility of the exported cultural element). The zone/area of contact is a space, which enables interactions between cultural elements, they are diffused and modified. In unchanged version only scientific knowledge and former content of myths get to the cultural core. Donor can be an integrated socio-cultural system (or national culture/organizational culture/or their subsystems – subcultures or contra-cultures). The donor provides new elements/ symbols, the recipients expose them to the selection, accept them and interiorise them (if assumed strengths are above weaknesses or their acceptance is an important and inevitable condition of

[30] Following concepts of W. Welsch organization can be interpreted as transculturaly modulated semiosphere. Transculturation, hybridisation, mestication and creolisation are processes, which come out from mixing of diversity. Researches of many authors (Bedrnová, Nový, Castro, Hofstede, etc.) show, that on macro level (organizational structure, technologies, etc.) it is shifting to convergence – cultural differences are being equalised. On the other hand, as for micro levels (behaviour of employees) it is moving to maintain cultural divergence and specifics, i.e. cultural divergence in form of stratified cultural identity. The pressure towards conformity, without understanding the benefit of innovations, evokes among members of minority cultures resistance to adjustment and assimilation; therefore they persist on own shared assumptions. Cultural identity cannot be transformed by external pressure into different shape; in case of assimilation it can be changed only from the inner side of man.

maintaining of existence of the socio-cultural system, or the new element is adored and – is for the recipient socio-cultural system attractive). The transfer of elements is systematic and intentional (planned change in organization); or it is evolutionary, spontaneous and vital (accidentally – evolutionary change).

As for organizations, majority of the overall amount of change is planed change as an intentionally receiving and imitation of elements/symbols. It is connected with anticipatory clearly defined of assumed results of the change.

B/ Acculturation

According to the concept of American anthropologists Redfield, Linton and Herskowitz (1935) the process and at the same time the result of acculturation can be defined as a process,, that "embraces movements originated in times when groups of individuals of different cultures entered the permanent, direct interaction, which leads to changes in former cultural patterns of one or both interacted groups".[31]

With acculturation are enclosed especially processes of modification, transformation or assimilation of cultural patterns, values, ideas.[32] It is connected with diffusion of cultural elements and complexes and with migration of cultural systems in space. On the individual level acculturation is meant as a process of social learning. The process can be divided onto four main phases:

1) Selection of alien cultural elements and their content/symbolic meaning (according to their utility or attractiveness);
2) Acceptance of chosen cultural elements into cultural system;
3) Modification of cultural system, which is resulting form the fact of acceptance of new meanings;
4) Acculturation reaction represented by negativistic and/or positivistic approaches against alien cultural system and against the results of mutual influence (or in the case of strong acculturation – when dominant culture is closed to dialog we can talk about unilateral influence).[33]

Acculturation belongs to those processes, which are resulting from contact of different semio-spheres. The contact can have various forms: from conquest, activities of missionaries, colonial expanse and military occupation to international business, migration, export of working labour, tourism and influence of mass media. The cultural interaction has its place between various groups

[31] Vodáková/Vodáková/Soukup 2000: 114.

[32] Mechanism of creation of shared assumptions in group or organization is a turbulent and complex process. Basic individual assumption has every individual incorporated into his mind. He carries them into the new group or organization; organization creates its own new assumptions during its history. From an experimental, purely theoretical point of view, in culturally homogenous organization are basic shared assumptions the same as basic individual assumptions of its members (individual assumptions are reflection of broader cultural scene), but the situation differs, when we speak about cooperation of different cultures on basis of one organization. In this case the organizational shared assumptions (if they exist – if the system of organization is not divided into subcultures, which disable the functioning of organizational culture) are partial modifications of former basic assumptions of members of the organization.

[33] Vodáková/Vodáková/Soukup 2000: 114.

disposing with various shared assumptions (Schein), mentalité (Annales) or semiosphere (Lotman). Acculturation is a vast process resulting in acceptance of different strategies of surviving in semiosphere.

Conceptualisation of acculturation processes as multidimensional processes contributes to the understanding of phenomenon connected with cultural change and inter-group relations in cultural, ethnical, social or in a different way sectionalised contexts on social, national, group (organizational) or individual level.

4 Summary

The presented paper introduced in the first chapter the definition of cultural change and its types – the endogenous and exogenous cultural change as presented in current culturological discourse. The paper referred to the models of dynamics of socio-cultural systems; further the phenomenon of cultural change was interpreted according to semiotic theory of the Moscow-Tartusk School coming out from the work of its most cited author – Lotman and also Bachtin, whose work referred to the "Russian formal school". In the last part of the first chapter the paper presented cultural change from the view of structural anthropology (Lévi-Strauss) and symbolical anthropology (Geertz).

The second part of this work was focused on the interpretation of organization as a semiotic and symbolic system by the instrumentario of the semiotics and symbolic anthropology.

According to the model of Moscow-Tartusk School the organization can be interpreted as a system clustered of subsystems, which in the semiosphere work in mutual contact; particular levels of organizational culture are then complex symbolical systems, texts (by texts we understand integrated generalizing forms of the language of culture), that is comprehensive generalizing forms of gestures, symbols, codes, system representations of culture), which exist in semiosphere. Particular elements of organizational culture (material and non-material artefacts, accessible and hidden values etc.) work just in the status of "connection" into multitude links with the whole entity. The organizational culture exists in the process of flux, where the meanings of its elements (texts of culture) do not stagnate – they are in constant contact and they continually change (they are vibrating). It is a permanent communication (cultural contact, intercultural communication) of the older and the new systems, and during the communication the structures are crossing over and intersecting (enculturation, socialization, diffusion, acculturation, adaptation following the principles of for example transculturation, intraculturation and interculturation, hybridisation and mestication). We are finding variously coded messages in the texts of culture; its system is not static but consists of various elements and their configurations.

The elements of organizational culture can be interpreted only in the context of dynamics and dialogism. Individual elements of organizational culture meet, clash into themselves hold dialogs

whose goal is communication – the transmission of information and the rise of yet not existing information. According to Bachtins concept of dialogical texts it can be stated that the dialog in the text of culture happens when the elements from different levels meet and the former closed system changes in the direction of openness to the new elements and the system acquires a new meaning (different from the former meaning). The perhaps most important part of Bachtin concept is the conceptualisation of the meaning of texts of culture (on the vertical: between texts of culture from various time periods; and also on the horizontal: during the contact of cultures within diffusion of cultural elements and their configurations or acculturation on one time axis).

According to the concept of symbolic anthropology, the organizational culture is selective, it can be learned, it is based on symbols, it is the result of behaviour and product of behaviour of its members. It is salient in the form of unique configurations of artefacts, socio-cultural regulatives (norms, values, cultural patterns, etc.) and ideas (cognitive and symbolic systems); organizational culture organizes human behaviour. Essential assumption for maintaining of existence of cultural elements and their configurations is their objectification (exteriorisation) and their subsequent interiorisation (their acquirement) by the individual or social group. Culture is meant as a context of meanings in which the behaviour of a human is becoming comprehensible. Through the meaning of symbols people live in and perceive the reality. The symbol is apprehended as source of information susceptible apprehend and organize the world around and at the same time it is an interpretation of the reality. Through symbols the values in organizations are becoming shared and more permanent.

The organizational life is depending on hidden universal structures (paradigms/cultural universalises/mentalité/basic shared assumptions/shared meaning of symbols.

The basic shared assumptions (Schein) of organizational culture are non-conscious, basic root of values, activities and artefacts and are indubitable. They coordinate and regulate activities of people. Within one cultural system/semiosphere it is a universally relevant and sintering principle significant for every organization. These universal structures enable us to anticipate how the structure will respond in the case of changed conditions (related problems of internal integration and external adaptation of organization). The organizational culture is a unique symbolic and semiotic system. Symbols are shared in the process of social interaction, and the “carriers” of culture are individuals. The foundation of organizational culture created by public symbols constituted in process of social interaction. The members of organization live in, sense and interpret reality through meanings (through the web of meanings – Geertz). The goal is than the understanding of the fundamental spirit of cultural symbols and their meaning – interpretation of socio-cultural reality.

Further in the paper it was presented the theoretical cross-connection of basic shared assumptions (Schein) with the concept of mentalité (Annales), with the concept of public shared meanings of

symbols (Geertz) and the concept of semiosphere (Lotman) as paradigmatic universal structures of organizational culture.

In the third part the paper (with the background of the change of organizational culture and co-existence of subcultures and contra-cultures in organization) was focused on the processes of transmission of cultural elements and their complexes in the process of endogenous and exogenous changes on the individual and organizational levels.

On the individual level the paper examined secondary socialisation, enculturation and the specific process of endoculturation into an organization. It was explained the ability of adaptation of people moving in dynamic socio-cultural system as a necessary component of individual "equipage", which is so important for adopting actually required of new set of abilities. Enculturation is a process of interiorising or adopting of cultural elements and their complexes by grown up individual. Interiorising of new sets (demanded by the organizational "elite") required cultural competencies requires transformation of former sets; on the other hand – the process of adaptation refers only to adoption of demanded specific sets of cultural competencies. From written above it is derived that an individual from a new semiosphere in the process of socialization and enculturation into the organization will adopt only that sets of competencies which are inevitable for his remaining and "surviving" in organization.

On the organizational level the paper examined processes of cultural diffusion and acculturation. The changes of cultural elements and/or their configurations are derived from the very nature of organizational culture. This system is opened to new impulses and is changing; in organizational culture the meaning of an element is constituted in social interaction and communication. Its meaning is so in constant move – it is vibrating – because in the texts of culture the elements are continuously in the process of communicative interaction. In this type of system the elements are not stable – they are subject to diffusion through trans-cultural, intra-cultural and inter-cultural circulation. The form of planed diffusion is in the organizations most often to figure. It can be specify into following phases: a) critical formulation of selective matrix – one of its parts is the audit of current organizational culture and confronting with the basic principles of ideal/desired organizational culture; b) selection of elements through the matrix and searching for suitable models and elements – this phase is connected with operating of successful managers – they fulfil the function of positive example during of seminars or trainings; it is assumed that they are capable of put other workers into the process of change with chattiness; c) interiorisation or adoption of new elements through institutionalisation with from time to time evaluation and control of the effects of incorporated changes.

In the last part of the third chapter was the paper focused on transmission of cultural elements and/ or their configurations through the process of acculturation. Acculturation was meant as wide and complex process, whose result is in acceptation of one of various surviving strategies of organization in the semiosphere.

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Corporate Governance from a Post-Communist Perspective

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"The golden rule is that there are no golden rules."

G.B. Shaw

In the aftermath of Enron and WorldCom scandals of 2001-2002, corporate governance (CG) has been put once again into the centre of academic interest. Last time this happened in mid-1997, when a global financial crisis that began in Asia was widely attributed to appalling CG practices in Korea and Japan. Thus, for young readers this whole subject matter may seem to be an old hut. In reality, the term "corporate governance" has merely a 25 year long historiography. Systematic content analysis of the Anglo-Saxon press showed that the term CG arose first in the wake of the Watergate scandal. In the mid- to the late 1970s, public opinion suddenly discovered that major American corporations were involved in corrupt payments both at home and abroad. Prior to Watergate scandal, competitive markets and good governance of business enterprises had been regarded as two sides of the same coin. It was a tacit understanding that well-run companies are honestly run companies, and vice versa. Suddenly this equation was broken. Since then the fast-growing CG literature has had a moral loading.

1 Introduction

Interestingly, management consultants and the army of glossy business magazines did challenge this equation long time ago, at least indirectly. When management methods in Japan were contrasted with standard Anglo-Saxon practices, readers must have realized that different CG schemes were equally compatible with the notion of the free market economy. But for decades, economic theory didn't react to this challenge. It took time to acknowledge the importance of looking behind the concept of "private ownership" (Fama/Jensen 1983, Demsetz/Lehn 1985). Suddenly, it became fashionable again to distinguish between ownership and control, to see a conflict between the interest of shareholders and managers, as some authors already posited a few decades earlier (Berle/Means 1932, Galbraith 1967).[1]

In the 1970s and the early 1980s, this new wave of thinking hardly impressed serious economists in Eastern Europe. They grew up on Marxist political economy. For them the idea that *ownership matters* was fully self-evident. In a way, they could have tapped each other's shoulders by saying

that "our Western colleagues now discover that we always knew". As collective ownership had always had a variety of sub-forms (state owned enterprises, industrial trusts, industrial co-operatives, state farms, agricultural co-operatives, etc.) and these sub-forms performed differently in terms of technological progress, productivity and quality, policy debates in the eastern countries always centred around the question of ownership.

From the present come-back of the term "CG" into the academic literature, two conclusions can be drawn. The most frequently stated opinion is that the fundamental messages of the accumulated CG literature were all corroborated by the events. According to this view, the managers of WorldCom, Enron et al., as well as their auditors and the analysts which lulled investors' vigilance were all unethical or corrupt. They all knew what should have been the right behaviour. The rules of CG were good, but the bad guys disobeyed. Some fine tuning, more stringent enforcement rules[2] and more vigilance will solve all the problems.

This paper first offers an alternative conclusion. It will be argued that there is no such thing as "good" CG rules. It is simply not true that adherence to the prescribed CG principles can guarantee good business, or put it negatively, without outstanding CG capitalist firms cannot grow. It is equally misleading to hope that good CG can in any way seriously help to reduce macroeconomic volatilities. The second message of this paper is that size matters more. In the globalized world of business, size is the real guarantee of success.

2 Matter of Definition?

All this may seem to be a matter of definition only. There is a rich literature advocating a **broad definition** of CG. The World Bank, for example, defines it as broadly as "the organizations and rules that affect expectations about the exercise of control of resources in firms"[3]. In 1992, the UK Cadbury Commission had a similar, simple starting definition: "the system by which companies are directed and controlled"[4] Williamson (1996) postulates that governance is "an institutional framework in which the integrity of the transaction is decided". Looking at this definitional richness from a post-communist perspective, one can only sympathize with this broad brush approach. Governance is about power. The purpose of CG is to exercise power within a corporation *and* by using the corporation as a source of power in the outside world. The communist past and the post-

[1] In fact, the discovery of interest conflict between owners and manager can be traced back to Adam Smith. In a famous, and now often quoted passage, he said that "[T]he directors of such [joint stock] companies, however, being the managers rather of other people's money than of their own, it cannot well be expected, that they should watch over it with the same anxious vigilance with which the partners in a private copartnery watch over their own. Negligence and profusion, therefore, must always prevail." (Smith 1976: 164-165)

[2] See e.g. the hastily approved American Sarbanes–Oxley Act (July 2002) and similar other legislative actions on the continent, as well as the new wave of anti-money laundering efforts worldwide.

[3] World Bank 2002: 68.

[4] This definition has been re-used by the latest EU Communication (2003) pertaining to the issue.

communist present supply abundant examples how many different ways are conceivable to exercise this power. However, once accepted, the broad definition excludes any normative conclusion from the very outset. Firms, if they exist, function and grow *are* governed somehow. The adjectives "good" or "bad" are simply meaningless.

Policy makers sometimes use the term in an **extremely wide** sense, positing that CG is important for overall market confidence, FDI absorption capacity and ultimately nations' overall wealth and welfare.[5] This all encompassing, broad approach doesn't seem to be helpful in economic analysis, because it is often used in a reverse argumentation. In the first half of 1980s, the Japanese CG model ran high, *because* of the impressive growth figures displayed over two decades. Later, the German CG model came into fashion, for the very same reason. In fact, macroeconomic success and CG are not twin-brothers. As the 1997 Asian financial crisis and the ensuing Russian turmoil have demonstrated, capital markets are inclined to collapse with or without fundamental reasons at certain times and then restore themselves shortly after that even if no systemic improvement occurred in governance or legislation.

For our investigation, however, the **narrow definition** of CG focusing on limited liability, publicly traded, non-financial companies with relatively diffused stock ownership is the relevant one. In this context, CG evolves around the protection of minority shareholders from fraud and abuse, whether from managers with little ownership interest or controlling shareholders who dominate the management.[6] Here normative statements might well appear to be in order: CG is good (accountable or effective), if the interests of minority shareholders are well protected. But this is a simplification.

First, it is perfectly legitimate to ask what happens in case of opinion conflicts between managers on the one hand and minority shareholders on the other. How do we know, what is the "real" interest of minority shareholders? How numerous should they be, to take their points seriously? If only one minority shareholder complains, does this matter, too? Second, on what ground can one say that the interest of minority shareholders is more important than that of controlling shareholders? These objections can be handled only with the introduction of a new dimension into the debate, the dimension of time. Indeed, the CG literature often speaks of **long term interest of shareholders** and by doing so, it tacitly assumes that the interests of minority and majority shareholders might diverge in the short term, but they *are* necessarily aligned on the long run. We shall come back to this problem in Section 4.

[5] See e.g. the statement presented by J. R. Shelton, Deputy Secretary General of the OECD in OECD 2001: 12.

[6] E.g.: "Corporate governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment". (Shleifer-Vishny 1997).

3 Behind the Agency Problem

It is customary in the CG literature to begin with a direct reference to the principle-agent paradigm and Coase (1937, 1960, 1991) seminal papers discovering the importance of transaction costs on competitive markets. The standard line of reasoning is that the divorce of corporate share ownership from control, first identified by Berle and Means in 1932, already implied a criticism of the micro foundations of the neo-classical paradigm. Firms are not seen anymore as a profit-maximizing black-box entity, as the neo-classical theory holds.[7] Inside the firm, there is a deep conflict.

Firms are simultaneously controlled by two distinct groups of utility maximizing individuals, with different utility functions and risk perception. Thus, the interests of these two groups diverge. Investors, the suppliers of finance are single-minded. They are concerned only about the return on and the safety of their original investments. Managers running the firm aim at high salaries, job security, and hefty work conditions. The letter group may have pet projects and in worst cases might even contemplate asset stripping.

The principle-agent problem, however, can be interpreted in a different way, too. I believe that the divorce of ownership and control doesn't overwrite the neoclassical paradigm, but only extends its borders. In a certain sense the neoclassical model was based right from the outset on the assumption that providers of capital are outsiders. Capital and labour are supplied to firms from the outside in the expectation of adequate returns in the form of profits and wages (Chart 1.) Managers – together with ordinary workers – are insiders, investors are outsiders. It is up to good CG to bridge the gap between them. This interpretation, in turn leads to a reformulation of our problem, by asking how typical is outside ownership. The short answer is: not very much.

Outsider ownership, as an important form of ownership means the diffusion of stock ownership and large share of institutional investors. But these two conditions are rarely met simultaneously. In fact this description fits only to present day US type non-financial, publicly held corporations. Who are those outside investors? Primarily large pension funds, mutual funds and similar saving vehicles (Table 1). In the past, even these institutions didn't need to prepare themselves against managerial self-dealings and similar threats until they ventured to go abroad. This is a new phenomenon. Before 1985 only the UK and the Netherlands had significant equity investments abroad. By 1998, however, the picture changed, when already 12 percent of US funds were invested in foreign equity. Everywhere else, however, **insider ownership** has been more widespread all the time. Internal owners may not necessarily hold majority positions, but they are in a dominant role by possessing a

[7] It is impossible to overestimate the implications. As Coase (1991) rightly emphasized "most resources in a modern economic system are employed within firms, with how these resources are used dependent on administrative decisions and not directly on the operation of the market". In other words, Coase concluded, every firm is a little planned society.

significant amount of stocks. Conventionally it is assumed that dominant owners can create all the conditions to keep managers accountable. Thus, our preliminary conclusion should be that CG is not an issue for dominant owners.

Picture 1: The Neoclassical Model of Enterprise

Table 1: Financial Assets of Institutional Investors, as a Percentage of GDP

Country	1990	1997 (or latest)
Australia	49.3	83.9
Canada	58.1	102.0
France	54.8	90.6
Germany	36.5	57.5
Italy	13.4	53.2
Japan	81.7	75.3
Korea	48.0	37.2
Netherlands	133.4	183.8
United Kingdom	114.5	193.1
United States	123.8	202.8

Source: OECD data, quoted in Nestor – Thompson 2001: 22

We can speak of insider ownership when firms are owned by identifiable individuals or a known family. In fact, this is the classical capitalist model, so eloquently depicted by Adam Smith, Schumpeter and Keynes. This model have been dominating the corporate sector of newly modernizing Asian economies, such as Korea (*chaebol*) or Indonesia since their interceptions, and

continue to prevail in some European economies like Italy or Sweden. An important form of internal ownership is state ownership, where the state lives in symbiosis with firms. The state provides capital and sinks deeply in the firm's management. Cross-ownership of banks and firms also falls under the category of internal ownership (Germany, Japan), as well as the case where the state controls the big banks which in turn intertwined with firms (Germany, Italy, Greece, Turkey). The diverse forms of employee ownership, not very popular today in fully-fledged forms like ESOP[8], belong to this class of ownership as well. In a mitigated, indirect version – through workers' representation on company boards-, employee ownership is identifiable in many countries of continental Europe, as well as in virtually all post-communist economies.

The acknowledgement of employees' rights at par with shareholders' interest is the most important message of the so-called stakeholder or "corporate social responsibility" literature. As a UN study (UN ECE 2003) succinctly demonstrated much of the debate between these schools is overemphasized. The issues at stake are partly cultural, partly linguistic and ill-apt to proper economic formulations.

1) Shareholder value maximizing company managers are everywhere and always required to obey numerous laws, among which laws protecting employees, environment, human rights, product quality, honesty of information, etc. are of prime importance.
2) In the same way company managers are bound by legal provisions and contractual obligations to the protection of creditors – i.e. banks which are all profit maximizing corporations themselves.
3) Separating the shareholder and the stakeholder model is difficult due to the latter's frequent reference to the long-term interest of society.

In defence of the stakeholder model, it is argued that this model actually facilitates the social acceptance of that kind of long-term corporate strategy which rational shareholders should also pursue in the long term. The question of "long-term" interests is analyzed in Section 4.

Finally, the US and UK markets also exemplify two important variants of internal ownership. At the beginning of the 1990s, when rising share prices induced corporations to buy their own shares. Often such transactions were direct, in other cases corporations' pension funds have started to accumulate the stock of the company concerned. The other form is the widespread use of stock and stock option allocation to the upper echelon of managers running the corporation. Like ESOP, these financial innovations were introduced in order to align the interest of (inside) managers to goal of (outside) shareholder value maximization. The results are known. In worst cases, stock options give an incentive to the management to manipulate company performance reports through questionable accounting, to corrupt politicians in order to lift share prices during the time when they wanted to exercise these options. In better (non-criminal) cases, the alignment of managers' interests with share prices leads to short-termism, meaning that financially motivated actions promising quick results are preferred to long-term physical investments or market expansion.

[8] The Employee Stock Ownership Plan concept was developed in the 1950s by lawyer and investment banker Louis Kelso, who argued that the capitalist system would be stronger if all workers, not just a few stockholders, could share in owning capital-producing assets. US federal legislation promoting ESOPs appeared much later, most importantly the Employee Retirement Income Security Act of 1974 (ERISA), which governs employee benefit plans and established a statutory framework for ESOPs. There are now about 11,000 American ESOPs and similar plans (stock bonus plans) covering over 8.5 million employees. ESOP is also widespread in Japan. For some companies, their fund is one of the largest shareholders. These structures are often prepared by the management in order to create a stable shareholder.

It is rarely mentioned in this context, that the incentivization of company managers and workers in profit growth was actually a communist innovation. The Soviet reform economist Liberman (1962) proposed first that the salary of key enterprise managers should be topped by a bonus, directly linked to the rise of profitability. Later this method was widely used in all communist countries and in some countries it was extended even to ordinary workers.

Here the conflict between dominant and minority investors manifest itself. Pension fund managers, for example, are known to be very sensitive to quarterly company reports and the ensuing share price fluctuations. Since their work is often assessed against short-term benchmarks, they have to exert pressure on company managers to deliver ever improving results (or "stories", as the financial markets call it); otherwise they have to sell the stock.

Interestingly, the same conflict was well-known in the centrally planned economies. There was a similar conflict between finance ministries and the branch (or line) ministries of production. The former one tried to focus on short-term profitability of enterprises, while the latter ones had pursued long-term technical development motives.

The motives of the recurrent waves of mergers and acquisitions (M&A) are rooted here, too. As many case studies showed, M&As are often pursued only for their calculable short-term impacts on share prices. It would be a gross simplification, however, to blame the managers' insider motivation for the often foreseeable misfortunes following an M&A deal. Precisely because the interests of insiders and outsiders *are* aligned in US and UK type listed companies, all shareholders – i.e. including minority shareholders – were meant to benefit from a such a deal, if they all sold their shares in the right moment.

Modern markets have developed sophisticated institutions to protect the interest of outside investors *vis-à-vis* inside managers. There is a legion of investment banks, auditors, and advisors helping the providers of finance. Information gathering and critical analysis are prime functions of the financial press. In the growing complexity of capital market transactions, however, these outsiders have partly become insiders themselves. Audit firms accepted incentivised consulting contracts, all-purpose banks became IPO advisers of their lending clients, analysts enriched themselves through insider trading, etc.[9] As Soros (2002) angrily stated, there has been a dramatic rise in conflicts of interest. To make matters worse, the financial press often went along out of sheer herd instinct, even if there wasn't any conflict of interest. Remember, the Fortune magazine had voted Enron "the most innovative company of the year" for 2000. And this had not been meant to be a joke at that time.[10]

4 The Long-Term Horizon and the Question of Information Asymmetry

The preceding analysis has leaded us to the conclusion that meaningful statements on "good" CG can be formulated only, if the dimension of time is included into our concept. Indeed, formulations

[9] Ten of Wall Street's largest investment banks indirectly acknowledged such accusations, when they signed a 1.4 bn USD restitution agreement with the US Securities and Exchange Commission. Commenting the agreement, SEC Chairman W. Donaldson was quoted as saying "These cases reflect a said chapter in the history of American business – a chapter in which those who reaped enormous benefits based on the trust of investors - profoundly betrayed that trust" (Financial Times, April 29, 2003).

[10] See the malicious comments of The Economist, March 9, 2002.

prioritizing long-term interest versus short-term interests can be increasingly more often read in the literature.[11] This move of precision, however, creates more problem than it solves. First, one can cynically say by paraphrasing Keynes' famous dictum that "in the long run corporations are all dead". Companies come and go – this is part of business life. Even successful, well run corporations can disappear, if more successful or more resourceful competitors acquire them. Who can say that Digital or Compaq were bed IT companies, or Kreditanstalt was a bad bank, simply because they were swallowed by stronger market players? Company extinctions do not necessarily imply that minority shareholders were abused in any sense. On the contrary, M&A transactions usually take place with the formal consent of the shareholders of the acquired company. However, when shareholders vote with "yes", their decision is usually based on short-term considerations – a comparison of daily share prices.

In this context, it is worthwhile to make a historical detour and reflect upon the lessons learned from the fate of Soviet-type state owned enterprises (SOEs). As a Hungarian economist wisely noted – Nagy (1991) – from a CG perspective, the socialist state was not a bad owner of these firms. The state worked night and day to guarantee the survival of these SOEs, by protecting the markets with administrative rules, by soft loans, recurring bail outs, etc. From the perspective of the SOEs, the state was actually a good owner, capable to guarantee the long-term survival of these firms. Indeed, many socialist SOEs lived for decades without any major change. From a higher or broader perspective, of course, this kind of state policies had disastrous consequences. By eliminating or fettering market mechanisms, the economy as a whole became rigid, uncompetitive, corrupt, etc. But this is a different story.

Surprisingly, the Japanese economy of the 1980s suggested a similar conclusion for American observers. "The Japanese model – wrote Prowse (1994) – may be better from the view of maximizing firm value, it may have other costs that undermine it in the long run".

References to "long-term" interests are problematic also, because there can be no agreement what time length does constitute long-term. Is it 3 years, or 5 or 10? After a short-lived crash in 1987, share prices on major markets rose almost continuously for 13 years.[12]

It is often said that the principal-agent conflict between investors and managers is additionally burdened by asymmetric information. Within the abstraction of a "perfect markets" it is assumed that all players have access to the same timely, accurate and free information, and as a result allocative efficiency can be achieved. In practice this rarely happens and in most cases market participants have access to different amount of information. Nobody has perfect information, but with specialization and repetition, some agents – e.g. managers within a given corporation - are significantly better informed than others. According to the standard interpretation, good CG is aimed to eliminate this information asymmetry from corporate life. Is this possible? As Akerlof

[11] As recently, as January 2003, the US Conference Board's blue ribbon Commission on Public Trust and Private Enterprise literally filled its recommendation with the expression 'long-term' in an entirely indiscriminate fashion. E.g., "Boards and shareowners must focus on the corporation's long-term success.", "compensation arrangements for portfolio managers that encourage a long-term rather than short-term focus", "incentives for investors to hold their shares for the long-term".

[12] Amazon.com – for example – was a rising stock between 1994 and 2000. The collapse from almost USD 120/share to less than USD 10/share came only after six spectacular years.

(2001) noted, on some markets the problem is easily soluble by repeat sale and/or by reputation. The markets of second-hand cars represent the classis example, where this is problem is solved at everybody's satisfaction. Inside large business corporations, however, the most important decisions are not repetitive. The reputation of managers is also less quantifiable than that of second-hand car dealers. The reputation of external institutions, such as auditors, investment banking firms, etc. is a stronger guarantee, but as discussed above, these external players could become biased themselves through long-term contractual agreements with the firms they supposed to vouch for quality. As a result, the information asymmetry between insiders and outsiders constantly regenerates itself.

Note also, that the principal-agent relationship is essentially vertical, while asymmetric information might well arise among horizontal partners – e.g. between heads of different divisions – or among different investor groups. The one who works more on an issue, is likely to know more on the matter, hence information asymmetry is generated. There is simply no panacea, no full solution to the problem. It is the intrinsic result of specialization, the social division of labour. In reality, the problem is even more complicated since there are no sharp border lines between opinion conflicts arising from

- asymmetric information (as described above),
- division of expert opinion over the sources and causes of risk[13] and
- the different perception of individuals concerning risk in general.

Therefore, **in real life it is extremely difficult to distinguish irresponsible risk taking from dishonest management.**[14] Long-term investment projects or voluminous M&A transactions are examples, where *ex ante* assessment of profitability held by management and outside shareholders can substantially diverge for all three reasons. As Keynes (1936) sarcastically noted in a famous passage of the *General Theory:* "Business men play a mixed game of skill and chance. (…) If human nature felt no temptation to take a chance, no satisfaction (profit apart) in constructing a factory, a railway, a mine or a farm, there might not be much investment merely as a result of cold calculation."

5 Size Matters More

The CG literature generated over the last decade didn't miss any opportunity to lecture East European policy makers about the importance of "good" CG. In the middle of transition, an EBRD

[13] Recent examples of hardly quantifiable risks include the commercial viability of third generation mobile phones (UTMS), the sustainability of the Euro, as a single currency for so many different countries or the acceptable level of window-dressing of corporate accounts.

[14] Soros (2002) rightly complained: "Everybody knew that the best companies, such as General Electric and Microsoft, were massaging the numbers to maintain the appearance of a steady progression of earnings. Indeed, investors put a premium on management's ability to do just that."

(1997) report summarized this mantra, as follows: "The main factors governing growth are the same for both transition economies and market economies." In my view, however, such statements were mostly flawed. In reality, it should have been said already in 1989, that the 5-10 thousand middle-size and large SOEs of Central and Eastern Europe didn't have the slightest chance to become successful global corporations. It should have been publicly acknowledged and propagated that the viability and international competitiveness of de-etatized SOEs does not depend on their willingness to adopt good CG. The truth is that **already in 1989, the companies of Central and Eastern Europe were hopelessly disadvantaged in the worldwide size competition** vis-à-vis the existing, large trans-national corporations (TNCs). In itself, the capability to produce "high quality – low price" goods is not a guarantee to find markets. The fast growing part of world trade is intra-industry trade. The East European countries have no chance to increase their exports if they continue to sell manufactured end-products. In the context of growing globalization, export-led growth can be achieved only through the integration into the network of TNCs.

> Politically, of course, such a message would have been difficult to embrace by the respective Central and East European governments. However, it was quite visible already at that time, that the former managers of SOEs had intuitively understood all this. Many of them resisted privatization, precisely because they new that their firms, be they big and powerful on the protected domestic market, were all ridiculously small in comparison with their international competitors As the president of Hungary's largest company said at one point: "The oil multies of the world are bigger by three orders of magnitude than the largest East European oil company. At some point, the multies will "hoover up" us all."
>
> Reflect for a second about the fate of former East Germany – once the most developed socialist country. East Germany was legally integrated into what used to be the former West Germany through constitutional changes enacted on a single day. In this newly created legal environment, the former East German SOEs swiftly adopted western type CG structures. Nonetheless, most companies themselves were simply "swallowed" by their hungry West German competitors.

Small countries are small markets, there is no room to grow. This was and remains the crux of the problem. The suggested and often implemented round-about ways and means to "fix" this shortcoming by creating privatization intermediaries, supporting cross-ownership with banks[15] solved little at best and caused irreparable harm at worst.[16]

In retrospect, it is quite obvious that size matters not only on the export markets of manufactures. From the very beginning of the transition, the existing large foreign firms could easily penetrate and capture the traditional domestic markets of the former SOEs as well. In some countries, the penetration took place first on the traditional industrial markets, while services, including the financial sector were taken over later. In other countries, – e.g. the former GDR, the three Baltic

[15] This was explicitly recommended in an important study of the EBRD (Phelps *et al.* 1993)

[16] Recent economic history knows only one counter-example: Nokia. But the success of the Finnish company, as a Hungarian proverb says, is only an exception which confirms the rule.

countries or Hungary – the insurance and banking sectors were concurred already at an early stage.[17]

Due to the scale effect unit costs are considerably lower in TNCs, which is a big advantage. Larger size also implies stronger financial power, which in turn can be used as collateral to bank loans in supporting capital formation, new projects and research. Larger companies are more attractive to school leavers. They can offer higher salaries and a more promising carrier path. Established trademarks, such as Coca Cola or Citibank greatly increase the chances of success in marketing and public relations.

> In this context, it is particularly instructive to remind us what happened in the banking sector. In the former East Germany, West German banks took over 100 percent of the market literary on the very first day of economic transition (i.e. with the introduction of the D-Mark on July 1, 1990). In the Baltic countries, it took 3-4 years for the Nordic neighbours to settle themselves. In Eastern Europe, the first post-communist Hungarian government had resisted for four years to sell banks to foreigners and only the costly and painful lessons of bank failures forced the second government to allow the foreign domination of the Hungarian banking sector. After the Hungarian "capitulation" in 1995, the Czech and the Polish governments followed the lead, while the former Yugoslav republics, Bulgarian and Romania remained temporarily behind. By now, the banking sector is predominantly foreign owned everywhere.

Practice showed also that once the penetration of TNCs begins into a certain market segment, it is difficult to find a "right" balance between TNCs and domestic firms. In the case of the banking sector, for example, the point-of-no-return was quickly achieved, when clients had to make a decision with whom they want to bank in the future. Will they keep their accounts with a domestic bank and risking another bank failure, or rather they switch to an "AAA"-rated OECD bank, where the mother company will guarantee their deposits under all circumstances? In the case of production firms, this tendency has been further strengthened by the fact that TNCs operating in the manufacturing sector prefer to bank with the same bank worldwide. In this logic, the preference of the local management to bank with a locally owned bank simply doesn't make sense.

6 Corporate Governance in Eastern Europe

At this point, a new element needs to be introduced into the argumentation. The importance attached to CG hinges crucially on the neo-classical assumption about single-layer company operation. If this is the case, the conflicts between investors and managers need to be attenuated, as it is described in the CG literature. But the fact is that even the **largest** privatized Central and East European companies are not self-contained single level entities. They are merely subordinated units of a TNC, headquartered somewhere else in the world. From the perspective of the TNCs, these Central and East European operations are neither fully-fledge companies, nor profit maximizing

[17] For a recent overview of developments, see the proceedings of a series of UNCTAD conferences under the title *Privatization and Greenfield FDI in Central and Eastern Europe: Does the Mode of Entry Matter? (*Kalotay 2001).

entities. Although these entities do have well defined goal functions – production and/or distribution and sometimes even research and development –, but it is not expected from them to develop a complete set of enterprise activities. Another consequence of the multi-level character of TNCs, that within these Central and East European companies, the principle-agent contradiction – i.e. the conflict of investors and managers – doesn't manifest itself at all. There is no need for governing bodies (board of directors, supervisory board) either. One or two designated expatriate managers directly represent the interest of the foreign owner(s).

Following the logic customary in the literature, one can argue that introduction and propagation of good CG is important for the transition economies, even if this can apply only to the domestic-owned **small and middle-size** companies (SMEs). This argument can be developed further in three ways.

First, it can be said that good CG is also good for the health and stability of domestic companies. After a closer inspection of the accumulated evidence, however, the reverse argument appears to be equally logical. It seems that **the strength and the viability of middle-size domestic firms are based on non-formalized, quick decision-making, where the business instincts of a single decision-maker prevail over collective deliberations.** It is a fact, that these domestic companies are extremely secretive towards all stakeholders, with the important exception of banks. There is little disclosure beyond the legal minimum[18], company managers refuse to talk to the press about substantive matters, and even employees are not informed about company matters. Although, the lack of formal decision-making structures and the vehement rejection of transparency may sound primitive for sophisticated model-builders there is no alternative for domestic, middle size firms, if they want to survive. Let us face it, flexibility, quick decision-making, secret operation and close links to creditors are the only specific factors rendering Ricardian comparative advantage to these middle-size firms *vis-à-vis* the very large TNCs.

In abstracto, a second line of the same argument can be pulled out from our sleeves. Even SMEs would be better off, if they rely on equity financing rather than loan financing, and then accept a strict CG control of outside investors. Here the scale effect argument creeps back again. The volume of capital requirements are too small, thus the unit costs implicated by an IPO and the subsequent presence on the stock market have proved to be prohibitive in many Central and East European countries. It is simply more cost-effective to borrow money from banks.

A third way of arguing in favour of transparent CG is to look at the motivation of domestic financial investors. Indeed, this proposition had been discussed at the beginning of the transition (Kornai

[18] In Hungary, the company law requires that a copy of the annual tax report has to be deposited with the Court of Registry within 30 days after the closing of the tax reports. Many companies deliberately break this law year after year. They prefer to pay a fine instead.

1990, UN ECE 1994: 16.), and the conclusion was that foreign investors would not enter the Central and East European markets *until* they see that the domestic investors are fairly treated and well protected. Actual developments showed that the sequencing was reverse. In the Czech Republic, Hungary and elsewhere, domestic investors were unwilling to move until foreign dominant shareholders and a few institutional investors appeared. In retrospect, the explanation is quite simple. Only these very large foreign funds were able to generate sufficient liquidity for the stocks and thus a relative stability to the securities markets as a whole. Without the participation of foreign funds, markets bound to be extremely volatile.

The economic success of the Baltic countries illustrates another interesting point. Due to the particularities of their post-1990 transition paths, the very smallness of these three countries almost equally impacted their equity and government securities markets, as well as their foreign exchange market (Sutela 2002). There is simply almost nothing to invest in. These countries inherited zero debt from the USSR, central government balances have been quite good and pattern of foreign investment was in favour of long-term strategic investors (as opposed to financial investors). The example of the Baltics reminds us to the fact that asset markets are integrated in a horizontal way, too – once again a consideration missing from the neoclassical paradigm. In other words, the lack of sizeable bond and foreign exchange markets reduces the motivation of foreign investors to participate actively at the equity markets, even if these latter markets are perfectly liberalized and transparent (as it happens to be the case in the Baltics).

7 Geography Matters

Western observers, teaching and preaching CG to Easter Europe underestimate geographical considerations. Geography matters.[19] As the eye moves eastwards on the map of Europe, the appetite of TNCs is continuously weakening. There are several factors working here: increased transportation costs, language and cultural differences. Landlocked countries have an additional disadvantage. In sum: bad location is a big handicap that even perfectly implemented corporate government reforms could not counterbalance.

The scale effect and the location effect often reinforce each other. The Central and East European experience shows that it matters a lot, which country is chosen first as an investment opportunity. Once a major investment takes place, say in the Czech Republic, it makes little sense for the same TNC or even for a competitor of this TNC to start business in the neighbouring Slovakia.

Geography matters in another sense as well, and most of the CG literature targeting Eastern Europe overlooks this point, too. In analyzing the dangers of expropriation, the term “investor” is used

[19] The importance of geography was strongly emphasized by J. Sachs at a 1999 CASE conference, celebrating the 10th anniversary of Polish economic reforms.

without distinction between domestic and cross-border investments. Once again, this is a consequence of their uncritical approach to the neoclassical vision of capital markets. In reality, **the danger seriously threatening the interest of foreign investors is not the minority shareholder position.** For cross-border investors, three other risks are far more important:

- country risk,
- exchange rate risk and
- regulatory risk.

To make the matter even more complicated, the firs two types of risks have to be considered in a regional, if not worldwide perspective. Financial investors are driven by herd behaviour, which is a cause and a consequence of the contagion of crisis from one market to another.[20] Regulatory risks are important, because TNC concentrate their activities in network industries (which in turn yield increasing returns). The network industries, however, are usually regulated by national governments and/or supranational organizations.[21] If these regulations are not neutral or – for any other reason – severely constrain the freedom of the investor, this can do much more harm than the lack of sophistication in CG.

8 Russia and China

All the above said needs qualifications, when the lessons of Central and Eastern Europe are transposed to the two largest former communist economies, Russia and China. Potentially both countries possess large markets. Russian and Chinese domestic companies have a chance to reach dimensions comparable to established TNCs. Indeed, successful companies reaching the critical mass for a TNC do emerge in both countries, in spite of the fact that they do not exhibit too much interest in the swift adoption of internationally recommended CG rules.

The case Russia already illustrates both the strength and the weakness of this line of thinking. First, it is noteworthy that the existence of all the large Russian companies is built on raw materials – chiefly gas and oil (e.g. Gazprom, Yukos, Sibur). For this reason, the financial success of theses very large companies is much more dependent on the caprice of world market prices then on governance and management. Another factor that has already manifested itself in Russia is the vulnerability of the very large companies. In the financial crisis of 1998, the capital base of the existing very large banks melted like snow within weeks.

[20] To make the matter even more complicated, recent evidences suggest that the herding behavior itself is not constant. It is a variable of the equation. In 1998, the Russian bond market crisis had far reaching contagion effects, three years later a disaster of major magnitude in Argentina sent much smaller shock waves around the world.

[21] The importance of national price and tariff controls are only the trivial examples in the energy and telecommunication sectors, but the role of the WTO, the ITU and the BIS are also important in determining profit-generating possibilities in the pharmaceutical, the broadcasting and the banking sectors, respectively.

The case of China is less clear. While the size of the market is potentially even bigger than in Russia, for historical and cultural reasons it is less likely that the Chinese capital market will be opened soon for US-type foreign managed funds. If the recent past is any guidance for the future, it seems more likely that mainland China will continue to attract capital from Hong Kong, Taiwan or Singapore along ethnic lines, rather than along purely commercial considerations based on relative factor prices and capital affordability.

9 Conclusion

Spectacular corporate failures in the 1980s, such as BCCI and Robert Maxwell's Mirror Group News International led to the creation of the UK Cadbury Committee in 1991. That committee and numerous similar ones set up during the next decade were all mandated to design new internal and external rules to prevent the recurrence of such business failures. In the eyes of policy makers and legislators, moral considerations were always present – dishonest businesses deserve to go under –, but the fate of these corporations themselves were secondary. The prime concern was the overall stability of capital markets. It was – and remains to be – a widely held assumption that dishonesty and incompetence of few company managers can undermine the stability of capital markets. Improved corporate governance is meant to be the medicine.

However, as resent history has confirmed, capital markets remained volatile despite the enfolding corporate government revolution. In 2001, the longest unbroken expansion in modern US history was interrupted by corporate scandals very similar to those of the 1980s. As every child could learn from Winnie-the-Pooh, unpleasant events always come unexpected: "*I'm not saying there won't be an Accident now, mind you. They're funny things, Accidents. You never have them till you're having them.*"

This paper presented a provocative position about the relevance of CG for economic stability and growth. First, it was shown that if the term "CG" is understood in a broad sense, it is almost entirely meaningless. If the term is used in a narrow, specific manner meaning the set of rules defining the operation of publicly traded, large shareholding companies, then the basic message is misleading. The assumption deeply rooted in the neoclassical doctrines, according to which stock prices reflect fundamentals and *therefore* must display stability, doesn't hold water. As Keynes (1936) already explained, capital markets are inherently volatile and very responsive to short-term external shocks. If there is any rule, it is more realistic to assume that stock markets follow something close to a random walk. Corporate governance – good or bad – has very little impact on this.[22]

[22] It would stretch the borders of this paper too far, if we included into the analysis the short-term fluctuations of currency markets and the long-run boom/boost cycles of property markets. Quite clearly these movements are also unrelated to CG.

The efforts reflected in the CG literature to shift both regulatory and analytical work away from short-term considerations towards long-term thinking is also in vain. There are always enough market players, who don't care about CG, because they are short-term driven. Keynes was right on this point, too. Liquidity is the name of the game. Without sufficient liquidity capital markets can't work. On sufficiently liquid markets, however, outside investors can easily afford passivity and continue to look at corporations as a black box. For such individual investors, be they as large as a US pension fund, or as small an option-holding managers, an investment is reasonably safe over short periods and hence over a succession of short periods, if they can revise their earlier judgment and sell the investment, before there has been time for much to happen.

From the perspective of the post-communist economic transition, at least two painful conclusions can be drawn from the above said. First, the economic conclusion: on small securities markets, such as the exchanges of Hungary, Poland, Slovenia, etc. the lack of liquidity is an additional impediment of growth for domestic business corporations. While aligning local CG rules with those of recommended for Wall Street players might help a tiny bit, the lack of sufficient liquidity will continue to remain an unsolvable problem. The second conclusion has a moral loading. The success of business corporations is fundamentally determined by market size. There is no compelling reason to believe that well run, successful companies are going to be honestly run companies at the same time. As long as there is a credible promise of above-average returns, there will be always investors willing to accept unusual risks of all kinds.

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Corporate Codes of Ethics in Western Germany and Slovakia

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Introduction

Since its beginnings in the 1980s, the study of corporate codes of ethics has some tradition in business ethics research. In line with other understandings of corporate codes of ethics (see Schlegelmilch/Houston 2001, Kaptein/Wempe 2002, Kaptein 2004) we define a code of ethics as official document of a company that highlights ethical norms, principles, values and ideals. The code aims to commit employees of the firm to ethically behaviour. Moreover, a code defines a framework for the behaviour of the firm towards external groups. A code of ethics is one of the most popular instruments to implement ethics in an enterprise, and although the existence of such a code does not ensure ethical behaviour of the firm, it reflects the ethical principles a company considers as important (Kaptein 2004). According to this author, codes of ethics have different aims: the prevention of incidents because of ethical misbehaviour, better fulfilment of the stakeholders' needs, enhancement of stakeholders' trust in the company as well as protection against control and punishment by external authorities.

Most of the research is undertaken in the United States and other countries of the Western world, such as the UK, France, Germany, or Australia (Farrell et al. 2002, Kaptein 2004). The issues of this research are the prevalence of codes of ethics, their content, the way they are formed, and their effectiveness and/or implementation. Some of the studies compare corporate codes of ethics across nations (e.g. Langlois/Schlegelmilch 1990, Schlegelmilch/Robertson 1995, Wood 2000, Singh et al. 2005). They particularly focus on national and cultural influences on corporate codes of ethics.

Central and Eastern Europe (CEE) plus the way East European firms use codes of ethics is widely neglected by the research on business ethics. CEE countries undergo deep and ongoing transformational processes. Coming from the socialist system with planned economy these countries have established new societal and economic systems. Companies in CEE are confronted with a context with weak legal frameworks, sometimes dynamic political situations, often underdeveloped rules of fair competition, corruption as well as disloyalty of their workforce. In order to outlive in this situation and without the existence of a clear moral framework, it is vital for companies to commit their employees to ethical behaviour and to demonstrate morality towards external stakeholders, like customers or suppliers. To develop and implement a corporate code of ethics, thus, could be a

useful undertaking for firms in Eastern Europe in order to successfully deal with the transformation processes they are involved in.

The article at hand will highlight the results of a comparative investigation of corporate codes of ethics in West German and Slovak firms. Firms situated in the western part of Germany are expected to be embedded in a stable societal and economic system. The transformation in Germany has shown that the influence of the East German culture on the current German society is only marginal. Therefore, firms in the western part of the country face virtually no transformation of the societal or economic system. Slovak firms are embedded in deep and continuous transformations on the societal and economic level. Slovakia is typically seen as transformational society and therefore firms more or less permanently have to cope with changes. Consequently, the objective of this study is to highlight the differences between corporate codes of ethics in Western Germany and Slovakia as well as to analyze whether these can be traced back to the specific situation of transformation in Slovakia compared to the stable context the firms in Western Germany are embedded in.

Firstly, we present the theoretical framework of the study. Here we draw attention to business ethics and corporate codes of ethics in Germany, Central and Eastern Europe, and to the particular situation in the Slovak Republic. Secondly, our research questions are outlined. In the methodology section we, thirdly, point out how data have been collected and analyzed. Fourthly, we present and discuss the results of the study. Here we concentrate on noticeable differences between the two samples. Fifthly, conclusions are drawn and future research directions are shown.

Theoretical Background

Business Ethics and Corporate Codes of Ethics in Germany

According to Van Luijk (1990) in Germany there is an emphasis on communicative ethics. Schlegelmilch and Robertson (1995) name it consensual ethics as ethical decisions do not lie with the individual but with the moral community. Consequently, German business ethics is more concerned with relationships between economics and society and less with relationships between individual employees and the firm (Steinmann/Löhr 1992).

In Germany government and industry work closely together (Van Luijk 1990). Partnerships between central government and industry are common in steel, oil, shipbuilding, car industry, and electronics (Allen 1987). From an ethical perspective such partnerships make the central and local government an important stakeholder for firms. Thus, such ethical issues as respect of laws, respect of human rights, or environment protection are important guidelines for the behaviour of companies. Moreover, regional governments in Germany are a major source of power. They work to foster educational and industrial policy favourable to firms in their region (Allen 1987). As a result, corporate involvement

in political processes and in the local community is more likely to take place in Germany than in other European countries (Schlegelmilch/Robertson 1995).

In their comparison of the ethical behaviour of American, French and German managers Becker and Fritzsche (1987a) provide insight into business ethics on firm level. According to the issues of coercion and control German managers tend to be more concerned about successful business practices, and not with legal and ethical aspects. Personal integrity, however, seems to be an important aspect for German managers. They were even less likely to blow the whistle than French and U.S. managers. When it comes to a possible conflict of interests German managers were more likely to take the position that one should look out for one's own interest. As it is well known environment appears to be an important public policy issue in Germany and there are a several number of projects initiated by the business world (Steinmann/Löhr 1992). German managers, however, are somewhat more likely to state that competition forces them to approve the use of production processes that cause pollution. Here again they worry more about maintaining a successful business posture and are not very interested in ethical and legal questions (Becker/Fritzsche 1987a). Moreover, German managers tend to agree that business people were forced to resort to shady practices in order to survive (Becker/Fritzsche 1987b). Regarding the attitude against corporate codes of ethics German managers are somewhat pessimistic concerning the efficacy of such codes (Becker/Fritzsche 1987b). They were little optimistic that codes of ethics would help executives to refuse unethical requests. Moreover, German managers feel to a smaller extent that such a code would provide a clear definition of acceptable conduct compared to their French and U.S. counterparts (Becker/Fritzsche 1987b).

In their intercultural study Langlois and Schlegelmilch (1990) compared 600 large European companies, among them 30 firms from Western Germany, with similar U.S. firms. The results provide insights in the use and the content of corporate codes of business ethics in Western Germany and thus in business ethics itself. Most of the German firms in the study distribute their codes to different stakeholders. Only three restrict the circulation of their codes to management, boards of directors or specific groups of employees. Within the codes German companies frequently address the employees' right of codetermination and the resulting shared responsibility of management and employees. This result reflects the embeddedness of the firms in the strong German system of industrial relations. Furthermore, German codes formulate the specific expectations the company has of its employees, such as demanding objectives, developing initiative for their own training and development, or reliability and loyalty. According to Langlois and Schlegelmilch the reflected responsibility is to be seen as a German national characteristic. Eventually, German codes address innovation and technology more frequently. In a later article Schlegelmilch and Robertson

(1995) interpreted this finding as an expression of the collective culture of German society. German firms focus on innovation and technology as a value pursued by firm and employees.

Business Ethics and Corporate Codes of Ethics in Central and Eastern Europe

A lot of research on business ethics in Central and Eastern Europe (CEE) has been done since the breakdown of the socialist system (e.g. Koslowski 1997, Zsolnai 1998, Lang 2001). Most of the literature is country specific, however. Thus, it is difficult to draw an overall picture. Nevertheless, in the following we will highlight the basic issues of the discussion. According to Bohatá (1997), three sources for current ethical problems in Eastern Europe can be found: the socialist heritage, the transformation process itself, and the new market system. We will concentrate on the first two aspects as these are most influencing the current situation in Eastern Europe. Thus, current ethical problems in CEE countries exist partly because of the socio-cultural heritage of state-socialism and partly because of the transition process itself (Zsolnai 1998).

The influence of the socialist heritage is due to the fact that in socialism people made specific experiences with the socialist moral theory on the one hand and their everyday record of societal and business life on the other. Marinova and Marinov (2001) highlight four basic characteristics to describe the functioning of the economic system in CEE economies during socialist times. Firstly, the scarcity of goods and services on the official market and their dubious availability on the black market practically made every citizen a law-breaker. Secondly, stealing from the workplace was common practice. Thirdly, the scarcity of information in business relationships made word-of-mouth advertising a most widespread practice and provided a basis for amoral business behaviour. Fourthly, the individual authority of government officials in the socialist regimes replaced the legal relationships in society and business system. It is speculated that the experiences from the socialist period still affect activities of people in transforming societies. These experiences are part of the cultural heritage and thus are not replaced automatically when the system changes. Although the revolution involves fundamental changes in attitudes and values (Vallance 1992), such a change takes time. Thus, the clash between the market system and the new institutional framework in CEE countries and the socialist heritage originates in several ethical problems in these countries. Moreover, practical experiences of market functioning, practical appreciation of the responsibilities of ownership, the rigors of competition as well as of entrepreneurial demands are missing (Vallance 1992). The basic institutions of a market economy, however, such as private entrepreneurship, contractual law, market prices and competition have to rely on certain individual behaviour and collective values that citizens of socialist countries were denied the opportunity to adopt (Wiesenthal et al. 2001). The understanding of the western economic system introduced by the CEE countries can be assumed as being developed by using the system. The appropriate habits and values, thus, emerge during a

period of practical experience and situational learning (Wiesenthal et al. 2001). Consequently, a set of ethical problems may arise as operation is often running blind, managers have only little control, and decisions are often made ad hoc. In this situation business ethics becomes a kind of management system (Vallance 1992) as it supports articulating a coherent set of values and trying to place decisions within this value system.

The influence of the transformation process is due to the fact that countries in CEE undergo a deep and long lasting transition process, resulting in turbulences within the society and firms. Transformation in Central and Eastern Europe comprises of several dimensions; firstly the political aspect, the so-called democratization of political life, secondly the legal aspect, that means that the justice became independent of ideology, and thirdly the economic transformation, in particular the transfer of state-owned property to private hands (Putnová 2000). Ethical problems in CEE originate, on the one hand, in tensions between these processes and, on the other hand, in the privatization process.

According to Putnová (2000) political, legal and economic aspects of transformation are already roughly defined and virtually completed. However, the moral transformation, i.e. the search for cultural behaviour patterns in the business sphere, started with a delay after the economic and legal change. Economic transformation took place before moral and in many respects also before legal transformation. Thus, the speed of economic transformation leads to ethical problems as people often cannot cope with the changing economy because of missing moral standards. Wiesenthal et al. (2001) raised an additional aspect. Not just the speed of transformation but also the degree of change is important. The simultaneous implementation of numerous interdependent institutional rules often expects too much of a society's capacity to adopt new ways of behaviour and social coordination. Thus, the sheer volume of altered facts, norms and social expectations that actors have to take into consideration when choosing a course of action, could lead to a set of difficulties (Wiesenthal et al. 2001).

Almost all CEE countries use a so called market or shock approach based on the assumption that market forces alone will improve economic conditions in the post-socialist economies (Marinova/ Marinov 2001, Wiesenthal et al. 2001). Within this approach privatization, that means the process of transferring ownership rights of productive assets held by the state, is perceived as the principal means of creating a private sector (Stark/Bruszt 1998). Each of the CEE governments considers privatization as the fundamental step towards the creation of market economy. However, governments undertaking privatization on such a large scale as in contemporary Central and Eastern Europe must address questions of distributive justice (Stark/Bruszt 1998). "The goal of the market mechanism is efficiency, not morality; hence, institutional changes that improve the ability of the market to attain its goal will contribute to efficiency, but not necessarily to morality" (Argandona 2004: 197). The principle approach of CEE countries to establish distributive justice is the introduction of a set of

institutions to embed the privatization process in a legal and moral framework. The inadequacy of institutions introduced by arbitrary decisions, however, often itself becomes an obstacle to transformation. According to Wiesenthal et al. (2001) institutions in CEE did not emerge in an evolutionary process of random variation and subsequent selection but are the outcome of deliberative processes which aim at making a final choice. The acceptance and efficacy of institutions, however, depend on their appearance as unique and legitimate solutions to current problems. In most of the CEE countries common rules and norms came into effect by discretionary decision-making, and thus often appear as contingent or even arbitrary. They were obviously not the only possible option and people might doubt their value and undermine their validity by reasoning "they could well have chosen a rule that better suits my own situation" (Wiesenthal et al. 2001: 12). The transfer of ownership and the economic liberalization plus the lack of an institutional network that is accepted and functioning created most favourable conditions for corruption. The formal infrastructure, however, is the base for building an ethical infrastructure of emerging markets (Bohatá 1997).

Summing up so far, the transition process produces various obstacles to the development of ethics in general and of business ethics in particular. Powerful factors exist that force people and managers not to behave ethically in the economic life. These factors are uncertainty, time pressure, high stakes and low standard of living (Zsolnai 1998). Missing economic growth, frustration of wide strata of society, and declining conditions of the middle class contribute to weakening the faith in the performance of new institutions (Zsolnai 1998, Wiesenthal et al. 2001). Consequently, an institutional framework of ethics is missing or often not functioning.

Although there is a considerable amount of literature on business ethics in Central and Eastern Europe, the way East European firms use codes of ethics is often neglected in literature. Even though some CEE companies have already set up and implemented their codes of conduct (Bohatá 1997, Remišová 1999), only very few studies on corporate codes of ethics in Eastern Europe were published internationally. Two notable exceptions are the study on the development of a code of ethics in Poland (Gasparski 2002) and the study of codes of ethics in Slovak companies by Remišová (1999), which will be presented in the following chapter.

Gasparski (2002) describes the process of designing and implementing a code of ethics with the Association of Volkswagen and Audi Dealers in Poland. He was involved as a consultant and thus gained a deep insight in the process. The decision to develop and implement a code of ethics was based on the need of ensuring responsible conduct, i.e. conduct that increases the capacity of the whole association. Moreover, possible detrimental behaviour some members might show towards the association should be limited (Gasparski 2002). In the present case a so-called Questions, Answers and Suggestions Form was used in order to uncover the core values of the association. The

form contained a number of questions touching several issues, such as the company's mission, the reason why the association should have a code of ethics as well as suggestions related to the preparation of the code (Gasparski 2002). The responses of, in fact not all, members of the association lead to preliminary insights into present attitudes against business ethics of the partners. Subsequently, an extensive questionnaire was developed covering such issues as the mission of a dealer company (e.g. according to brand name, customers, employees), justifying the need for the association to have its own code of ethics (e.g. according to shared values, employees, a company's good name, partnership between dealers) as well as usefulness and form of the code. Based on the responses of the member companies an Association's Code of Ethics was developed. This document codifies the shared values of the members, defines the conduct that the association considers proper, points out what is inappropriate, and demonstrates the sanctions that can be ruled (Gasparski 2002).

In 2005 Remišová reported on the process of creating and implementing a corporate code of ethics with the Slovnaft Group. This petrochemical company is one of the most significant Slovak corporations. In 2000 the Slovnaft management decided to develop an own code of ethics in order to implement the values of the newly formed corporate culture into its employees' minds, behaviour and activities. The described process contains of seven steps. These steps are forming a work group, a moral audit of the company, creating the code, preparing its implementation, establishing an ethical council, implementing and finally using the code (Remišová 2005). According to Remišová Slovnaft's approach was very professional. The company was interested in including competent and engaged people in the group and in developing its own corporate code of ethics. The process started with the formation of a work group composed by Slovnaft employees. This group guided the creation and implementation process. One of its first tasks was to analyze the moral state in the company in order to obtain a real picture of the corporate culture and actual ethical problems. Based on this analysis the group developed a code that refers to internal and external stakeholders, covers issues usually addressed by a code of ethics, current ethical questions in the Slovnaft Group, and major ethical problems with the creation of the corporate culture (Remišová 2005). Basic ethical principles addressed by the code are for example the respect of human rights, honesty, responsibility and fair play. Simultaneously with the formulation of the code the group prepared the implementation phase. Consequently, they ensured a continuous information flow, prepared trainings for the management, and organized the distribution of the code among all employees. Prior to the implementation an ethical council was established. The council gathers, monitors, and settles ethical problems in the company. The code came into effect in January 2002. In general the attitude of employees was positive. However, in order to ensure the success of the code the company decided to only judge the behaviour of its employees since the code has officially been implemented. Moreover, it

was decided that violations of the code will be punished but without impairing the personality of the particular employee (Remišová 2005).

Business Ethics and the Transformation Process in Slovakia

Slovakia started its transformation process in 1990 as it was still part of Czechoslovakia. It became an independent country in 1993 and since then it has experienced a radical and long lasting political, societal and economical change process from planned to market economy, like most of the other countries in CEE. The development of higher dynamics, quality and efficiency of the economy were the basic objectives of the economical transformation (Remišová 1999). The tenor was to form economic, legal and political conditions for the new system such as price deregulation, inner convertibility of legal tender, liberalization of international trade, and the change of ownership by means of privatization, following radical-liberal principles (Remišová 2001). However, questions as what the degree of state involvement should be, what the competencies of the state administration should be, what the limits should be, and what the scale of privatization should be, were and still remain the subjects of discussion (Radičová 1997).

In Slovakia, like in all other CEE countries, one major aspect of the transformation has been the privatization of the formerly state owned enterprises. Since private property was considered to be the guarantee of economic effectiveness and basic tool of instrumental rationality, it was necessary to accomplish privatization as soon as possible and by all means (Remišová 2001). In the beginnings of the privatization process, however, people had a very critical attitude towards this topic. In January 1992 Radičová collected a set of statements on the issue of privatization. Here anti-privatization standpoints dominated, such as "...privatisation will reinforce mafias, only speculators know the ropes, only foreigners will benefit from it, the majority of businessmen and self-employees are not honest people, privatisation suits only the chosen few..." (Radičová 1997: 111). The privatization itself was a mix of different forms, such as coupon privatization, small-scale or large-scale privatization. Businessmen, however, perceived ethical problems very early. In an investigation of 1994 they worried about the following ethical aspects: corruption, bribery, lack of moral principles in business activities in the sense of fair play, and crookedness in characters of some businessmen (Radičová 1997).

The transformation concepts of the Slovak government in the 1990s show a distinct tendency to quickly reach the stage in which the state plays a minimal role in economic life and thus to decapitate the dragon of central planning (Remišová 2001). The Slovak parliament launched a law that transferred all authority and competence in the field of privatization from the Ministry of Privatization to the non-governmental body Fund of National Property (FNP). The FNP thus became superior to both Government and Ministry (Remišová 2001). Fair rules how to privatize

formerly state owned enterprises, however, were absent, as the actions of FNP were not guided by an ethical framework provided by the government (Remišová 2001).

In 1999 Remišová concluded that privatization has to be considered as the largest ethical problem, from a moral point of view. The opportunity to acquire private property without large investments, high costs or even entrepreneurial risk resulted in a fight for this property. The majority of new owners gained the property in an unusual way and of course will someone who has not been creating the fortune for ages have a different attitude towards it (Remišová 2001). According to this author, there is an absence of entrepreneurial flair as owners feel irresponsible towards the property they gained and for which they should answer. Corruption and injustice increased because privatization and business activities were not embedded in an ethical framework provided by the government. Privatization in Slovakia neglected the idea that the change in the institutional framework of economy does not mean to only ideologically pronounce the postulate of private property. Moreover, new owners have to be cultivated to gain confidence in a new economic order, its regulations and rules, cultivation of civic values and virtues as well as ethical market behaviour (Remišová 2001).

According to Remišová (1999) Slovakian companies are well known to suffer from various ethical problems. In 1996 Slovakian firms raised different internal and external ethical problems. The most relevant problems within the companies were bad behaviour of employees, low discipline at the workplace, wrong information about employees' performance, and slander of the management by the employees (Remišová 1999). Ethical problems between the companies and external groups were among others, abuse of the position for individual interests, disloyalty of managers and employees against the firm, blab of corporate secrets, and misbehaviour against customers (Remišová 1999).

On the micro-level the ethical self-confidence of people as free citizens, employees and consumers is very low (Remišová 1999). A critical public rarely exists and political decisions are not influenced by the few critical voices. Moreover, decreasing social and economical living conditions result in apathy and people perceive ethical behaviour in society as worthless (Remišová 1999).

Ethical problems in Slovakia basically are due to the ignorance that market economy does not exist in a vacuum but is embedded in a political, legal, social and ethical culture (Remišová 1999). The perceived degree of interconnection between political, economic and social changes is low (Radičová 1997). Thus, the fast transformation of economy and political system is not accompanied by the development of a moral culture. Moreover, governmental institutions do not provide clear ethical rules for the process of economic transition. Consequently, the missing integration of ethics and economy on the macro-level prevents the development of business ethics on the firm- and individual-level (Remišová 1999). Furthermore, neglecting the impact of a moral positive or negative heritage upon the political and economic advancement is seen as a weak point of the transformation

(Remišová 2001). One the one hand, positive habits, moral standards, culture, flexibility and education have been transferred in the new system. On the other hand, also negative phenomena such as the system of string-pulling, bribery, corruption, bureaucracy, the slogan "Those who do not steal, deprive their families" and the drift to look for the loopholes of laws which had existed in the past system did not vanish but, in a modified form, were transferred into a new economic system. Additionally, new immoral and criminal phenomena appeared which had not been known before (Remišová 2001).

In 1996 the only empirical study on codes of ethics in Slovakia was carried out. 276 Slovak enterprises – ¾ of them were small and medium sized – were asked about the use of a code of business ethics. At that time 18 percent of the firms disposed their own codes of ethics, most of them small and medium sized companies with domestic capital operating in the service sector (Remišová 1999, 2005). The firms had very different motivations to develop and implement a code of ethics: 78 percent understand such a codex as part of the corporate culture, 52 percent assume a close link between keeping moral norms of business and business performance, 48 percent are convinced that a code of ethics has a positive impact on the firm's reputation, and 34 percent believe that such a codex helps to solve ethical problems (Remišová 1999). Despite the different motives most of the firms perceive their code of ethics as something positive.

The firms without a code of ethics (82 percent) mentioned that they had not enough knowledge, skills and experience in business and managerial ethics. In particular, they do not know how to develop and implement such a code. About one fifth do not believe that introducing a code of ethics will change the behaviour of their employees. Moreover, firms deny developing a corporate code of ethics as they perceive other problems as more important than to deal with ethical issues (Remišová 1999).

Overall, most of the firms with a code of ethics perceive a positive impact on their economic performance. Conversely, only a few firms without a codex see such an impact. All of the firms, however, highlight the positive impact of codes of ethics on the firms' reputation. According to Remišová (1999), thus, economic concerns dominate firms' perception of the development and implementation of a code of ethics.

In 2005 Remišová concluded that some convergence between business ethics in Slovakia and the Western countries exists. The number of firms with their own code of ethics is growing, however, the approach to creation and implementation of many of them is unprofessional and the role of business ethics in the corporate culture management is still underestimated in Slovakia. Managers continuously neglect the ethical scope of the problems in their day-to-day managerial and business activities. However, at the beginning of the century some large Slovak firms began with the rapid introduction of business ethics. Consequently, she concluded that in 1996 small firms launched the

initiative to introduce corporate codes of ethics. At present the initiative is taken over by big corporations (Remišová 2005). Thus, in Slovakia business ethics still develops out of the firms and not out of the macro-level (Remišová 1999, 2001).

Research Questions

Firstly, what are the differences between corporate codes of ethics of Western Germany and Slovakia? Here we look for noticeable differences in the codes according to a set of criteria, such as internal and external stakeholders, ethical issues addressed in the codes, and enforcement issues. We focus on major differences assuming that they are clearly reflecting the differences between the two countries.

Secondly, can the differences be traced back to the specific situation of transformation in Slovakia compared to the stable context the firms in Western Germany are embedded in? Although we also expect differences according to culture, we concentrate our interpretations exclusively on differences that are transformation specific. As shown in the theoretical framework, companies in Slovakia are involved in radical and ongoing transformational processes. In order to survive in this dynamic situation, companies must reduce the occurrence of incidents, to improve the extent to which stakeholder expectations are realized, to foster stakeholder confidence and to encourage authorities to relax regulations and controls. Kaptein (2004) defines these aspects as the basic aims of codes of ethics. Companies in Western Germany, in contrast, are hardly influenced by the German reunification. Consequently, they are not affected by the transformational processes in the Eastern parts of the country. They still operate in a relatively stable environment, namely the same economic, legal, political and societal system. The study of corporate codes of ethics in Slovakia and Western Germany could highlight whether the codes adopted and implemented by the firms reflect the specific transformational situation of economy and society.

Methodology

Data Collection Methods

The study concentrated on large firms with more than 500 employees. Earlier studies found that larger companies more often have codes of ethics than small and medium sized firms (Melrose-Woodman/Kverndal 1976, White/Montgomery 1980).

For the sample of Western Germany we conducted an internet search. We assumed that large German firms tend to publish their codes of ethics on their web page in order to demonstrate social responsibility for their stakeholders and the general public. Firstly, a search on www.google.de was performed using the terms “code of ethics”, “code of conduct”, “leadership ethics”, “leadership

principles", "social policy", and "social standards". This search leads to a set of links to web pages of companies. Homepages of all large companies were visited and the published code was stored as PDF- or html-file or as Word document. Secondly, we searched the web pages of other, well-known large corporations in Western Germany and looked for published codes of ethics. We often found such documents in the sections named "Our Company", "About us" or "Sustainability". In some cases we found no published code on the company homepage, but we assumed the firm should have one. Consequently, we sent an e-mail to the PR-department and asked whether the firm has such a document and if so, whether they could send it to us. As a result of this search and selection process we collected 28 codes of ethics. This number was reduced, however, as some of the codes were international ones and therefore not specific to Western Germany. Finally, the sample of Western Germany consisted of 21 codes of ethics.

For the Slovak sample we took a different approach as Slovakian firms often do not publish their code of ethics on the web page. We started our search using an internet database. Here we found 225 firms with more than 500 employees, among them nine firms with an own code of ethics. According to our experience this number does not reflect the real situation and, consequently, we sent am e-mail to all of the 225 firms asking whether they have such a code and if they could send it in. 32 firms replied to have a code of ethics, however, five of them denied cooperating and another four had a code from their foreign parent company. Thus, the sample of Slovakia finally consisted of 23 codes of ethics.

Data Analysis

Corporate codes of ethics comprise of very different aspects, such as corporate relations to employees, inter-employee relationship on ethics, whistle blowing, effect of corporations on environment, commercial bribery, insider information, other conflict of interest, antitrust laws, accounting, consumer relations, political activities and contributions (Benson 1989). To cover this variety, each of the samples was analyzed using a wide set of criteria.

Firstly, we looked for internal and external stakeholders addressed by the firms. As companies address stakeholders in their codes of ethics, they demonstrate their responsibilities for these groups. Moreover, identifying relevant stakeholder groups could highlight which ethical issues the firms perceive to be important. We defined employees, managers, owners/shareholders, as well as union members and representatives of unions within the firm as internal stakeholders. The ethical behaviour of these groups directly influences the company and normally is understood as the ethical behaviour of the company itself. Consequently, we defined state, region, the community where the company is located, NGOs, parties and associations, loan capital providers, customers, suppliers, and competitors

as external stakeholders. These groups are part of the environment of the firm and define the legislative, economical and societal context.

Secondly, we analyzed ethical issues addressed in the codes. Here we looked on a broad spectrum of 20 different issues as respect of laws, environment protection, conflict of interests, corruption, etc. (see Table 1). With the variety of issues we aimed at covering virtually all ethical aspects in the codes.

Table 1: Ethical Issues Addressed in the Study

respect of the law
respect of the human rights
environment protection
respect of the rules of fair competition
protection of corporate secrets
quality of human relations
respect of job safety
honest relations to employees
honest relations to customers
product quality
conflict of interests
corruption (bribery)
lobbying
loyalty with the firm
legal software
acceptance of gifts
integrity of books and records
protection of company assets
protection of company reputation
discrimination

Thirdly, we focused on enforcement issues. In particular, we analyzed whether the firms include feed-back mechanisms, control mechanisms, information mechanisms or sanctions in their codes of ethics. Moreover, we looked for the announcement of responsible subjects such as a compliance officer.

In a first step each sample was analyzed by a single author. Here we clarified on questions concerning certain formulations in the codes and uncertainties about the addressed stakeholders and ethical issues. In a second step, the absolute and relative values for each aspect analyzed in the codes were calculated. We included the values for both samples in a table, in order to be able to directly observe similarities and differences. This table was checked by both authors for unusual differences, and on occasion such differences were clarified. The third step contained of the interpretation of similarities and differences in the table by both authors. In particular, we concentrated on so called noticeable differences between the two samples. We agreed on a difference of 15 or more percent to be noticeable. The concentration on such major differences, in our opinion, is one reasonable approach avoiding misinterpretation caused by the small samples used in the study. In a joint meeting we clarified on questions and discussed our interpretations. As a consequence we developed a joint understanding of the results and the derived interpretations.

Results and Discussion

As stated in the research questions and the methodology section we focused on differences in the codes of the two samples. Thus the following presentation of the results and the discussion of our findings address noticeable differences, according to internal and external stakeholders, ethical issues the codes address plus enforcement issues included in the code.

Internal and External Stakeholders

In their codes of ethics there firms address those stakeholders which they perceive as most influential. Thus, we analyzed the codes according to internal and external stakeholder groups.

Overall, the Slovak firms address more stakeholders in their codes. On average they mention 6.8 stakeholders whereas the firms from Western Germany mention only 5.6 on average. Differences also occur when internal and external stakeholders are analyzed separately. Slovak firms tend to address internal stakeholders (on average 2.4) slightly more than Western German firms (on average 2.3). More prominent differences appear with external stakeholders, where Slovak firms mention 4.4 on average and Western German firms 3.2. These results indicate that stakeholders seem to be more important for firms in transition processes. Without a stable and functioning legal, political and even social framework firms on the one hand cannot rely on moral behaviour of their employees, managers or owners. Thus, Slovak companies more often have to commit internal stakeholders to ethical behaviour than firms in Western Germany, where such a stable framework exists. Furthermore, the missing framework calls for an active regulation of the relationships with external stakeholders. Thus, Slovak firms address more external stakeholders in order to ensure ethically right relationships with these groups and to legitimize the company within its environment. In Germany external relationships of the firms are more or less regulated by legal norms and past relationships. Moreover, the stable social value and norm system provides a basis for ethical behaviour. Consequently, it is assumed that firms behave ethically against their external stakeholders, even without addressing them in their codes of ethics. According to external stakeholders an additional aspect has to be mentioned. The higher amount of external stakeholders mentioned in Slovak codes could also be due to the intensive support by ethic consultants. In the years 2000 and 2004 the NGO “Slovak Foreign Policy Association (Bratislava)” together with the Centre for Strategic and International Studies (Washington) launched an initiative to educate firms to develop their own corporate code of ethics. A so-called Booklet for Business Ethics was developed which serves as an assistance manual for developing and applying business code of ethics in Slovakia. This project resulted in the fact that firms included more internal and external stakeholder groups in their code.

Taking a closer look on internal stakeholder groups, major differences appear with owners/shareholders and managers/supervisors. Both differences, in our opinion, could be traced back to the specific situation of transformation in Slovakia.

The Slovak firms in the sample address owners/shareholders distinctively more than firms in Western Germany (19.1 percent WF and 56.7 percent SF). In Slovakia fair and ethical relationships between the firm and its owners are not obvious. During the socialist time people developed a certain attitude against private property. In Slovakia people often do not respect the owners of the company. Moreover, some are perceived as swindlers having acquired their property in an unfair way. Consequently, Slovaks currently (re-)learn to value others property. Slovak firms try to support this process by addressing the owners of the firm as important stakeholder group. So they want to commit employees and mangers to fair and ethical behaviour against this group. In Western Germany fair and transparent relations are addressed in the Germany Corporate Governance Code, and a lot of large enterprises and most of the firms that are listed at the stock exchange officially declare that they comply with this code. This circumstance could be one reason why only every fifth of the firms from the Western German sample addresses owners and shareholders in their company code of ethics.

Conversely to owners, Western German firms mention managers and supervisors more often in their codes (90.5 percent WF and 65.2 percent SF). Here the German firms often talk of “we” when it comes to the statement of important values or particular rules that have to be followed. Slovakian managers, the group that normally formulates a code, often consider a code of ethics as only relevant for employees but not for themselves. They neglect the ethical scope of the problems in their everyday managerial and business activities (Remišová 2005). Thus, managers or executives are mentioned less often. The management of Slovak firms often does not recognize its responsibility to develop an ethical culture within the enterprise. This condition is partly due to its low amount of experience with business ethics (Remišová 2005).

When focusing on external stakeholders noticeable differences appear with NGOs, parties and associations, loan capital providers, suppliers, the region, as well as the community where the company is located in. In our opinion, especially the differences with, parties and associations, loan capital providers, and suppliers are due to the transformational context Slovak firms are situated in.

In their codes of ethics Slovak companies mention political parties and associations more frequently than their German counterparts (14.3 percent WF and 30.4 percent SF). All of the firms that are addressing this issue emphasize their voluntary renunciation of influencing political actors. Differences between the two countries are particularly due to the negative experiences of Slovak firms in the past. Within the privatization there was a close interlink between political parties and

enterprises. Leading political parties strongly influenced the decision who will be the new owner of a formerly state owned firm, and these parties expected financial support by the new owner. As a result, a lot of corruption occurred so that many Slovak corporations nowadays highlight a strict separation of business and political activities.

Loan capital providers as stakeholder group are addressed more frequently in the Slovak codes (4.8 percent WF and 52.2 percent SF). Although firms in Western Germany need good relations with these stakeholders, too, such relations are more important for firms in a transition economy. After privatization Slovak enterprises need a lot of money to restructure the company, to develop new products and to enter new markets. In order to have access to financial resources firms have to stress fair and ethical behaviour against external capital providers. Moreover, they cannot rely on established relationships with these stakeholders, like firms in Western Germany do, but have to develop new links to the financial market. Here, however, firms that are able to demonstrate themselves as ethical are supposed to be more successful.

Companies in Western Germany more often mention good relationships with suppliers in their codes of ethics than the Slovak firms (85.7 percent WF and 60.9 percent SF). Here, Slovak firms seem to underestimate fair and reputable relations with their supplier. Although about 61 percent of the firms mention good relations to suppliers in their codes, ethical behaviour towards or of suppliers seems to be less relevant for them.

Ethical Issues the Codes Address

Companies usually address various aspects in their code of ethics. To cover all possible aspects we analyzed the codes using a broad spectrum of 20 different issues, outlined in the methodology section. It should be mentioned, however, that it remains open whether the aspects found in the codes are due to actual or potential problems perceived by the companies.

Overall, the Slovak firms raise more issues in their codes of ethics. On average they highlight 12 issues per code whereas the Western German firms address 8.7 issues. We assume that firms in transition economies, such as Slovakia, perceive a broader range of relevant ethical problems that have to be included in a corporate code of ethics. Consequently, one can speculate that the code for Slovak firms is more important in order to ensure ethical behaviour and to gain legitimation within the society.

If compared, major differences appear with a set of issues. In our point of view, these aspects are due to the particular situation of Slovak firms. In the following we will explain the differences in more detail.

German firms more often issue the respect of laws in their codes than Slovak companies (71.4 percent WF and 56.5 percent SF). With this aspect external stakeholders are addressed, in particular

the state and the executive authority. Firms in Western Germany are embedded in a comprehensive legal framework. Thus, it seems to be reasonable for them to show acceptance of the laws and legal regulations in order to get support from the state and to avoid extensive control and punishments. In Slovakia, during the last years, hundreds of new laws have been introduced, loads of them in a hurry (Remišová 2001). Consequently, many of these laws are far from being perfect and had to be amended or changed. Thus, Slovak firms often are not sure what laws they should abide. Additionally, the construction of the Slovak legal system has been hindered by the slow speed of change, a dubious willingness to submit the political elite to the rule of law, a lack of control of officialdom and a scarcity of legal scholars (Letiche 1998). Moreover, companies perceive a lot of new laws as unfair and as a result of particular interests. Obeying these laws, thus, does not make sense for them. From this perspective the lower amount of this issue in the Slovak enterprises could also indicate some kind of protest of the firms against unfair laws.

Western German firms include the issue of protecting the environment noticeably more often in their codes of ethics than the Slovaks (66.7 percent WF and 39.1 percent SF). Within the transformation process in Slovakia environmental issues have not yet been rated important. This aspect was first highlighted in a study by Radičová (1997), where only 45 percent of the respondents mentioned environmental protection as ethical problem. In our opinion, firms as well as people perceive economical or social problems as much more fundamental. Consequently, firms see no need to address the protection of the environment in their codes of ethics as there is no pressure from government or society. Instead, in Germany ecological awareness is high and various laws to protect the environment exist. Subsequently, the firms in Western Germany feel the need to demonstrate their environmental awareness, too and thus include this issue in their codes of ethics.

Slovak companies more often emphasize product quality than firms in Western Germany (19.1 percent WF and 73.9 percent SF). Firstly, this is due to the fact that product quality together with a reasonable prize is the precondition to firms' survival in transition economies. Thus, Slovak companies include the concern for high product quality in their codes of ethics as a marketing statement. Their customers can see that they care about product quality and that they are good business partners. Secondly, another aspect has to be considered. In socialist times product quality was not very important. Consequently, a quality-unawareness among the employees of the Slovak enterprises developed. Thus, to emphasize product quality in the code should raise employees' awareness about this issue. Firms in Western Germany instead still count on their "Made in Germany"-reputation that developed in the past. Although there are examples that quality of German product is decreasing, firms do not perceive this as relevant a problem and, consequently, do not highlight this issue in their code of ethics.

The codes of the Slovak sample more often stress the good quality of human relations (57.1 percent WF and 87 percent SF). These findings seem to be logical as within the transformation process employees are one of the main resources to deal with changes. The firms, thus, emphasize the importance of high quality human relations in their codes in order to demonstrate their willingness to invest in these relations to their employees. Moreover, firms acknowledge that good human relations could help to enhance the group cohesion in times of uncertainty. Thus, the good quality of human relations could serve as stabilizing element in the transformation process the company undergoes.

The protection of corporate secrets is extremely important for Slovak firms, thus they mention this issue more often in their codes (47.6 percent WF and 87 percent SF). Here we see both cultural and transformational reasons. Firstly, Slovak people are very communicative. Thus, they discuss internal affairs also outside of the company, i.e. within the family or with friends. Consequently, Slovak firms see the danger that corporate secrets will be reported. To involve this issue in their code of ethics, thus, is an attempt to commit employees to a sensitive behaviour in terms of keeping corporate secrets. If we change the perspective and try to interpret the differences in the codes on the background of transformation, we will have to acknowledge the fact that a lot of Slovaks have two or more jobs at the same time. They basically do so to cover their costs of living, which would be impossible with only one employment. Thus, there is the risk for the firms, that employees tell company secrets to other employers. Consequently, they include the protection of corporate secrets in internal documents, e.g. their code of ethics.

Loyalty with the firm is seen as important issue by the Slovak companies (28.6 percent WF and 82.6 percent SF). In line with the findings of Remišová (1999) they include this aspect more often in their codes. Firstly, we could provide a similar explanation like with the issue of protecting corporate secrets. Firms emphasize this topic to deal with the possible risks arising out of the different employers people in Slovakia have. Secondly, Slovak employees often do not respect owners and managers of the firm. According to Letiche (1998) a social vacuum exists between workers and management. Thus, employees feel no need to act in favour of the firm. This circumstance is partly caused by owners and managers who are disloyal themselves. Enterprises in Slovakia are not perceived as a medium to achieve broadly shared goals but as a source of power for the ruling few (Letiche 1998). Owners often are irresponsible towards the property they gained (Remišová, 2001). Thus employees ask: “Why should we show loyalty when the owners and managers do not?” Thirdly, employees in Slovak enterprises are often unsatisfied with their situation and consequently show a low level of loyalty with the firm (Remišová 1999).

The firms of the Slovak sample more often highlight the protection of company assets in their codes of ethics (38.1 percent WF and 91.3 percent SF). In our opinion this is due to the low level of employees’ loyalty. As employees in Slovak firms show few obligations with the firm and are often

unfaithful, they use company assets for their personal interests. Moreover, they conduct private matters at work. Such behaviour is perceived as problematic by the firms. By including this topic in the code of ethics they try to commit their employees to protect company assets.

In a similar way we can interpret the higher percentage of the issue "protection of firm's reputation" in the Slovak codes (38.1 percent WF and 87 percent SF). Companies in Slovakia recognize that a good reputation of the firm in the society and with business partners is crucial within the transformational environment they are involved in (Remišová 1999). Moreover, they cannot rely on former reputation, like firms in Western Germany, but have to make a name for themselves. Because of the low loyalty of their workforce, however, they cannot rely on their employees' adequate behaviour. Furthermore, as employees are unsatisfied and think they are treated unfairly by the company, they attach no importance to the firm's reputation. Consequently, Slovak firms include this issue in their code of ethics. On the one hand, they explain their employees that protecting the firm's reputation is good ethical practice. On the other hand, this issue could serve as a statement against external stakeholders that the firm will not behave in a way that will destroy its reputation.

According to the Corruption Perceptions Index of 2004 published by Transparency International (2005) Germany is ranked 15 but Slovakia is ranked 57. Perceived corruption between 2002 and 2004, thus, is higher in Slovakia. This ranking reflects a result emphasized in much of the literature on transition economies. Therefore, corruption is one of the major problems within the transformation process (e.g. Zsolnai 1998, Marinova/Marinov 2001, Wiesenthal et al. 2001). High levels of corruption together with the weak implementation of the 1995 conflict of interest legislation (Transparency International 2005) are the reasons why Slovak firms in their codes of ethics more often highlight the fact not to tolerate corruption inside the company and within the relationships to external stakeholders (47.6 percent WF and 65.2 percent SF). Firstly, they try to prevent corrupt behaviour of their employees and, secondly, they demonstrate to external stakeholders that they, as ethical companies, will fight against corruption within economy.

The legal use of software by the firm is another aspect that is mentioned more often in the Slovak codes (4.8 percent WF and 17.4 percent SF). Software is very expensive in Slovakia. Moreover, for people as well as many firms it is normal not to buy software but to obtain it from elsewhere. Such behaviour is not perceived as illegal by Slovaks. Large firms, however, begin to change their attitude towards the illegal use software. Consequently, they more and more pay attention to buying software.

Enforcement Issues Included in the Code

We analyzed whether the firms include feedback and control mechanisms as well as training and information mechanisms in their codes of ethics. Moreover, we looked for the announcement of responsible persons, such as a compliance officer. To include such measures of institutionalization

could help internal stakeholders to understand the code and to put it into practice. Moreover, the firm could demonstrate its commitment to the code and its willingness to implement it.

Overall, the results of our study indicate that the firms from the Slovak sample mention considerable fewer measures to enforce their corporate principles of ethics (66.7 percent WF and 39.1 percent SF). This result is somewhat contrary to our findings with stakeholders and ethical issues addressed by the codes. There, we found that Slovak firms address more stakeholders and raise more issues in their codes of ethics. We concluded that corporate codes of ethics for Slovak firms are more important in order to ensure ethical behaviour of their employees and to demonstrate responsibility for internal and external stakeholders.

The lower amount of enforcement issues in the Slovak codes one the one hand could be explained with the limited experiences of Slovak managers with business ethics. In Slovakia business ethics as academic discipline and as concept in business practices first started to develop after 1990 (Remišová 2005). Thus, there is often an absence of the systematic instruction in ethics at secondary schools and universities. Managers often have not enough knowledge, skills and experience in business and managerial ethics. Consequently, systematic dealing with ethical issues in Slovak enterprises is still at its beginnings. On the other hand, one can assume that Slovak enterprises use their codes of business ethics more as a marketing instrument. The corporate code of ethics then is an instrument to display responsibility against internal and external stakeholders but is not really intended to be implemented. To have a code should legitimate the company against relevant stakeholders and should ensure their support. Moreover, this condition should prevent the company from punishment and the withdrawal of resources. If we fully adopt this critical perspective, the differences with stakeholders and ethical issues addressed by the code will also appear in another light. If one aims at developing a corporate code of ethics and to use it as an instrument of marketing, then it will probably be more effective when a broad range of internal and external stakeholders is addressed and various issues are included.

Conclusions

The article presented the results of a comparative investigation of corporate codes of ethics in Western German and Slovak firms. We addressed the questions whether noticeable differences between corporate codes of ethics of Western Germany and Slovakia exist and whether they can be traced back to the specific situation of transformation in Slovakia compared to the stable context the firms in Western Germany are embedded in. We concentrated our analysis on three areas, the internal and external stakeholders addressed by the codes, the issues highlighted by the codes, and possible enforcement issues included in the codes. Within all of these areas we found major

differences. Moreover, we were able to interpret the differences as specific to the transformational situation of the Slovak companies.

With the stakeholders we found that Slovak firms address more stakeholders in their codes. Consequently, we can conclude that for firms in transition economies in CEE internal and external stakeholders are more important in order to survive. Firms address various stakeholders in their code of ethics in order to establish a social contract between them and the firm. Without a stable and functioning legal, political, social, and moral framework firms in CEE cannot rely on the moral behaviour of their employees, managers or owners. Subsequently, companies in their codes more often have to define the behaviour the corporation expects of its internal stakeholders than firms in stable societies. Furthermore, firms commit itself to a set of core values against which its actions can be measured (Langlois/Schlegelmilch 1990). In particular, firms in CEE address more external stakeholders in order to ensure ethically right relationships with these groups and to legitimize the company within its environment.

With the issues highlighted in the codes we found that Slovak firms raise more issues in their codes of ethics than Western German companies. With regard to this result we assume that firms in transition economies perceive a broader range of relevant ethical problems that have to be included in a corporate code of ethics. The code of ethics of firms in CEE countries seems to be an appropriate instrument to deal with the various ethical problems of transformation as corruption, bribery, stealing at the workplace, disloyalty, etc. Consequently, the codes of ethics from firms in CEE countries should show a broader range of different issues as the companies have to ensure ethical behaviour and gain legitimation within the society.

With the enforcement issues included in the codes of ethics, we found that Slovak firms less often include these issues in their codes. Here we can provide two explanations. Firstly, the companies in transition economies are still beginning to acknowledge that ethics and business go together. Consequently, their approach to the creation and implementation of an own code of ethics is often unprofessional and the role of business ethics in management is underestimated (Remišová 2005). Managers lack of the experience that a code does not stand for itself. Moreover, it has to be implemented in order to enhance ethical awareness and behaviour. Secondly, one can speculate that firms in CEE countries only follow economic rationality when formulating an own code of ethics. In this case a code of ethics is nothing more than a PR-instrument, which serves to build up a façade that should demonstrate responsibility towards stakeholders.

The main contribution of the article is to highlight that corporate codes of ethics reflect more than the national character or the national culture. In the particular context of transformation in the transition countries in CEE codes of ethics also reflect the specific situation the firms in these

countries have to deal with. Companies in CEE are involved in deep legal, political, economical as well as societal transformation processes and in order to survive they have to cope with this uncertain and often ambiguous situation. One approach used by the firms is to develop and implement a company code of ethics. As shown in the article they incorporate specific stakeholders in their codes and address transformation specific issues.

The objectives of the firms to establish such a code, however, could not be clarified. The data of the present study, that is the codes without any further information about their development and implementation, did not provide enough information on that issue. Basically, we see two aims. Firstly, firms in CEE use a code of ethics to commit all their employees to morally right behaviour within the firm and external stakeholders. At the same time they want to display to external stakeholders that they care about business ethics and that these stakeholders can take the corporation into account. Secondly, it could be speculated that corporate codes of ethics are nothing more than a marketing instrument. Such codes ensure autonomy and resources from external and to certain extend from internal stakeholders. To use a code of ethics as marketing instrument means, however, that the company is hardly interested in ethical behaviour but in building up a certain picture of the company, namely that of a good company.

To highlight the particular aims of firms in transition economies by introducing a code of ethics is, in our opinion, one future research area. To speak with managers and other actors involved in the development of a code, to study the implementation process and to interview internal and external stakeholders addressed by such a code seem to be fruitful sources to gain insight into the objectives of a code of ethics. These data could be compared to findings in other countries to compare whether there are differences. A second research area could be to study the effectiveness of codes of ethics in CEE countries. As shown there are high expectations connected to these codes. Nevertheless, are codes of ethics successful in directing behaviour of employees and convincing external stakeholders about the ethical awareness of the firm? From our present knowledge different explanations seem to be possible here, however, we need more insights into the field in order to give clear answers.

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Business Culture Change in Romania – Assessment of Bedrock, Work Systems and Behaviour

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Abstract

Romania is evolving from its difficult past to become an important Eastern European business partner. The paper addresses the transition of the business culture from the communist to today's stage of development according to three general criteria:

- *the bedrock, shaped by history and religion and driven by economy and politics,*
- *the work systems, related to ownership, financing and human resources aspects,*
- *the behaviour of business people.*

The study takes a holistic perspective towards business culture integrating national, organisational and personal cultural aspects. The culture in each of the two phases is measured and the gap between them is visualised through the cultural audit instrument "Triangle Model" (Garrison 2001).

Primary data was gathered from Romanian managers and employees who have worked in both communist times and today's economic system.

Bedrock, work systems and behaviour were ranked for both periods, the difference indicating the perceived cultural change. The results show a significant shift in all aspects of Romanian business culture since the advent of democracy.

The primary research data is compared with the findings in the secondary literature. Some cultural aspects, which made a significant change, are commented in more details. The practical experience of the author in Romania and literature are considered when interpreting the results of this research. The paper provides an understanding of the Romanian culture and gives a small insight into the critical transition process of an Eastern European country.

Nature of Investigation and Methodology

The data for the cultural audit originate from the author's personal field research. This was based on structured and closed questionnaires, one for each of the three basic cultural dimensions of the model and applied to 1987 (communism) and 2003 (post-communism), the difference representing the transition. No specific adaptations have been made to the standard questionnaire (Garrison 2001), in order to allow a more reliable comparison with other countries. The 35 respondents were Romanians involved in economic life both in communism and until 2003, aged between 40 and 60 years, male and female, employees and managers, the majority with academic qualification.

The questionnaires were distributed and collected on paper. The data was processed using Microsoft Excel Software. The results are presented in table format (Table 1) and summarized in the Triangle graphic (Figure 2).

The strength of this approach is that it provides an overview of the cultural complexity; however it does so, at the expense of details. No statistical validity is claimed for the results of the primary research. The data merely gives an orientation sufficient for conclusions at managerial and consultancy level.

The Triangle Model

The Triangle model is a holistic approach to cultural audit, reducing highly complex notions like bedrock, work systems and behaviour to a measurable number, thus allowing easy comparisons between countries or between the stages of a transition. It is rather a management consultancy formula, than a scientific model. Figure 1 shows how the model maps the three dimensions:

- Bedrock - in a range from **C**orporatist (0) to **I**ndividualist (100)
- Work Systems - in a range from **C**ommunitarian (0) to **M**aterialistic (100)
- Behaviour - in a range from **C**losed (0) to **O**pen (100)

Therefore all countries will be ranked somewhere between an absolute IMO (100, 100, 100) culture (the big triangle), which corresponds to an extreme Anglo-Saxon capitalist type and an absolute CCC (0,0,0) culture, being a highly socialist type of business culture (the small triangle).

Figure 1: The Triangle Model of Terry Garrison

Garrison describes the three angles of the triangle as follows:

Business Culture Bedrock

- refers to national level and is shaped by economy and politics and driven in depth by religion and history;
- the ranking refers to the extent to which the economic machinery (government, unions, industry and financial sector) works together for the common good through an intense structural collaboration;
- the variation: corporatist vs. individualistic;

Work Systems

- refer to national and organisational level;
- are mainly concerned with
  - Ownership (stock market, commitment to capitalism, willingness to sell the business etc.);
  - Financing (role of banks, corporate governance, corruption, taxes etc.);
  - Human Resources issues referring to employment practices (hire & fire, training, social protection, payment, role of unions);
- further aspects are national entrepreneurship, leadership and the rigidity of the system;
- the ranking refers to the extent to which these components represent the interest of the community or of the money;
- the variation: materialism vs. collectivism;

Behaviour Patterns

- refer to individual and organisational level;
- include
  - behavioural aspects e.g. directness, friendliness, decisiveness and formality , space and time;
  - social protocols (treatment of women, the elderly, superiors an so on) and social happenings (rituals and ceremonies);
  - communication aspects e.g. language, style, gestures, involving mythology;
  - activity aspects e.g. negotiation, approaching decisions and actions;
  - artefacts, all visible aspects e.g. dress, food, status symbols, logos, emblems, flags, colour and aspects of buildings, offices and so on;
- the ranking used within the model shows the extent of outer orientation searching for and maintaining relationships;
- the variation: open vs. closed;

The questionnaires (Annex 1) cover only few of the above listed factors, precisely 10 per category.

The questionnaires are in principle adaptable to special research interests.

The Overall Result for Romania

The average sums of the scores given for behaviour, work systems and bedrock have been calculated in percentages in order to allow easy comparison with the results of other countries. The total results are shown in Table 1 below.

It is obvious that all three cultural domains have progressed during the 13 years of transition towards the IMO capitalistic model. Behaviour and bedrock developed at a moderate pace, improving by only 14 percent and 17 percent. One reason is that both include deep-rooted value aspects, which change very slowly. This equates to the experience of any cultural transition. In contrast, work systems, which are to a large extent modifiable by external manoeuvres, progressed much more impressively with 26 percent. The final result is a very balanced IMO culture with minimal deviations between the three poles. It is surprising how highly respondents valued the communist period!

Table 1: Results of the Triangle Audit in Comparison

	Period and Scope	Behaviour percent	Work Systems percent	Bedrock percent
1.	**1987 Romania**	52.00	42.63	52.74
2.	**2003 Romania**	69.54	68.86	67.20
3.	**Change from 1987 to 2003**	***17.54***	***26.23***	***14.46***
4.	**2003 US firm in Romania**	75	75	64
5.	**Deviation between the 2 researches** (line 2 and 4)	***5.46***	***6.14***	***-3.2***

The overall results of the research are graphically represented in Figure 2. The progress is visible, although based on an unrealistic communist "triangle".

Figure 2: Triangle Model as Result of Research – Communism vs. Today

To back up this research, Table 1 displays the results of a similar Triangle Audit conducted in the same period, but restricted to a US company in Romania (Stenzel 2003) and to post-communist era. The respondents were 37 employees within the Romanian subsidiary. The results show a higher scoring for behaviour and work systems. It can be assumed that these two factors, which are experienced in everyday business life, may realistically be more open and materialistic in an Anglo-Saxon organisation culture than in the rest of Romania. The bedrock was rated slightly lower; this can be interpreted as the higher exigency with which employees in a US firm evaluate the Romanian macro conditions. It must be said that the interviewer was a Westerner and the survey took place in a working environment, which may have resulted in a bias towards more Western-compatible answers.

However, as the results of the two research projects are comparable, it can be assumed that the conclusions for present-day Romania are consistent and realistic.

Detailed Analysis of Primary Data

The next chapters discuss simultaneously the detailed results for communism and the post-communist period for each of the three poles of Garrison's Triangle.

The analysis addresses especially striking values referring to single aspects in the three questionnaires (Annex 1). A "striking" value means either a conspicuous single value or an extremely high/ low difference between communism and today. The relation to the findings in the literature is explained whenever relevant. For simplicity reasons "Qn" refers to question n in the table. Short comments on single results are already included in the last column of the questionnaire. Although it is merely a perception, the sentences are formulated as factual statements in order to ease understanding.

Perception of bedrock (Annex 1A)

The ten questions aimed to measure the level of corporatism in Romania. At least in two domains, major changes have taken place: the stock market took over the business leadership from the government (Q1, 2.49) and the difference in wealth between rich and poor increased dramatically (Q2, 2.29). These are what Romanians term "wild capitalism" aspects, the very first recognizable signs of the new era. They emerged in the chaotic first years of the transition.

Corporatism became significantly limited by progress in the phenomena treated in Q5, Q7 and Q10. The government partly (Q5, 1.6) stepped back from intervening in economy through ownership and pacts. This hold only partly true because privatisation is still slow and many "politicised" domains have been maintained, as the literature has shown. Salaries are increasingly paid based on the firm's ability to pay (Q7, 1.31); but firms are not allowed to go below the minimum wage; The Labour Code is perceived as protective by FIC (Foreign Investors' Council) (Tudorache 2003), but as exploitive by Romanians.

Obviously enterprises in Romania now take more responsibility for their economic situation than in communism, but only to a certain extent (Q10, 2.63). The state still applies protectionism in the case of large firms, as secondary sources agree.

The tight network between state, civil service and the business community has loosened little (Q8), confirming the survival of corporatist elements as well as the unbroken power of the "directocracy" (old "nomenclatura" which became the new oligarchy, see Gabanyi 1999).

Religion has little effect on business (Q4), just as in communism. This is valid on the surface, as people are simply not conscious of the deep influence of orthodoxy on their work attitude (confirmed by Ionescu and Toma 2001 and Barbu 2000). The contradiction is understandable, as deep values cannot be asked directly (experience in the intercultural field).

The bedrock seems to be moving away from the capitalistic direction in two domains (Q3, Q9). Personal taxes and social security costs have risen towards a welfare state level (Q3) and the number of strikes has increased significantly since communism (Q9). The latter development is natural as strikes were previously forbidden, meaning that even a single strike stands for an increase.

High personal taxes and social costs may be detrimental for consumption and business development in the country. It must be admitted, that such personal questions are ideal to release the frustration prevailing within a population, which retains enormous paternalistic expectations towards the state, which should help the poor, limit the income of the rich, and ensure jobs and flats (survey of osf 2004).

In total, the respondents perceive the bedrock as progressing towards individualism, but maintaining some corporatist features.

Perception of work systems (Annex 1B)

Work systems is the only chapter out of the three showing a unanimous and strong development towards an IMO culture.

An increase of nearly 50 percent towards materialism is visible in three aspects of the "wild capitalism" category mentioned previously (Q2, Q4, Q8). The position of shareholders has stabilised and is even accepted by a large proportion of Romanians (Q2). This is in harmony with the osf-surveys 2004. The labour market is treated as a market by business leaders (Q4). This corresponds to the daily experience of employees, as it does to the fact of possible dismissals, in case of uneconomical jobs (Q8). Moving to cheaper locations, such as the Ukraine, just slowly starts to become a hot topic in Romania, as labour costs increase in the country. The readiness to disloyalty towards the country and its habitants exists potentially among the firms. Foreign investors are naturally more welcome than in communism, but only to a modest extent (Q1). The literature

reports the government doing a lot for FDIs (Foreign Direct Investments), but obviously little is known about it among Romanians. Against the prevalent Romanian inertia (Catana 2/1999) managers seem to engage themselves more in their jobs being prepared to work as long as the task requires it (Q3). A slight regress in nepotism appeared, as competence seems to count more than relationships (Q9). Such progress is noticeable in the literature as well. Relationships between banks and companies have become more commercial (Q7) and employees are less interested in belonging to a union than before (Q6). The latter is not a contradiction to the increasing numbers of strikes. It is rather the Romanian style of personally benefiting from strikes, but not feeling responsible for joining an official institution, which could then support many; especially not if there are no direct financial benefits to gain (osf 2004). This corresponds to a weak "institutional collectivism", the term introduced by the GLOBE-Project (Bakácsy et al. 2002). The smallest progress in the whole questionnaire was perceived in people's acceptance of large salary differences (Q5) and in managers becoming even more short-term oriented. The latter is logical, as they were already actionists in communism; this gives little room to "improve". The questionnaire suggest Anglo-Saxon short-term shareholder orientation, while Romanian managers should rather learn long-term planning, their extreme weakness. Hutu (1999) holds the Romanian time behaviour (circular, flexible, abundant time, till ignorance of time) as the most difficult cultural dimension to be adapted to Western style of work.

The salary question is again very personal and simply demonstrates the frustration of living with salaries at an existence minimum, while the "directocracy" members are "stinking rich". The degree of change and the values indicated by the respondents correspond to a large extent to the information found in the literature.

The work systems have transformed themselves quite radically towards materialism. Communitarian laggards are the mainly limited facilities for FDIs (Q1, 2.54) and nepotism (Q9, 2.83).

Perception of behaviour (Annex 1C)

Behaviour has improved slightly towards more openness; however, there are a few aspects which have changed more radically. Among all questions four positive developments can be emphasized (Q6, Q7, Q9, Q4). People trust and like foreign investors much more than in the past (Q9; see also osf survey). Performance orientation improved, because being competitive counts more than being caring (Q6), merit counts more than seniority (Q7), and managers are encouraging the efforts of young executives more than in communism (Q4). All of these aspects are essentially important in Romanian relationship-oriented culture with little motivation for business efficiency. The literature reports some increase towards Western-style performance too, but to a lower degree. Formalities like uniforms or anthems are definitely not in place in Romanian firms (Q8).

Businesspeople are only partly assertive and direct, although this feature has improved since communism (Q1). Romanian culture is high context and self-confidence is rather modest or oscillating (among others, the research of Schroll-Machl defines "oscillating self-confidence" as a CEE characteristic).

Surprisingly, there has been practically no change in the loyalty of employees (Q2), in the sense that they tend to remain loyal to the employer. One explanation is the fear of unemployment. Another view is that loyalty was clearly overestimated in communism and confused with labour immobility, leading to a small change only.

Romanian managers are "in charge" but not really all-powerful, both in communism and today (Q5). The most interesting results refer to the interface between private and business. The separation between both has increased slightly since the time of communism, but it is not pronounced (Q10). This can be seen as equivalent to the analysis in the secondary research, showing Romanians as being diffuse (Trompenaars), but still having some separation between job life and private life. Work experiences of "Westerners" in Romania, as well as Schroll-Machl confirm the strong diffusion of the various life domains in CEE.

When going out with colleagues, people feel slightly more constrained today than in the past (Q3). Romanians like to go out and be in society, but colleagues are not automatically members of the private „in-group". In times of uncertainty and unemployment, they will join such meetings with colleagues less for pleasure, but in order not to miss important informal information.

In summary, there is a visible change towards more openness in Romanian business behaviour.

Experiences with Respondents as Part of the Culture

Although the group of respondents was quite homogenous, the single scorings varied for most questions between 1 and 5 among the respondents. This shows a high degree of uncertainty with the answers as well as a wide variety of opinions. The new political and economic systems are only partly understood and still far from being internalised by the population. Some respondents operated exclusively with the values 1 and 5.

In conclusion, it is the calculated average that reflects the image of the culture (Figure 2).

None of the respondents made use of the anonymity offered, demonstrating trust and Romanian openness. Most felt respected in being asked for their opinion. Others felt compelled to write additional comments and explanations about Romania on the forms. A strong bias in the answers can be excluded, as the survey took place in neutrality, outside of any organisation, obligation or expectation. Practically all respondents are ex-colleagues, acquaintances and friends of the author. They endeavoured to give their honest best when filling in the forms.

Doing surveys in a foreign country is, at best, a complicated endeavour. In Romania, especially, acquaintances desire discussions. They want to ask questions, demonstrate knowledge and release frustration. Many are not used to questionnaires. Formulating an opinion, deciding on one's own and completing forms quickly (quick decisions) contradict the national mentality of on one hand indirectness and weak rationality (confirmed by Schroll-Machl), on the other hand of rather oral orientation, "thinking out loud" (Lewis 2000, 2003, communication patterns), sharing with the other person and finally remaining flexible in one's own opinion (form of particularism). Personal questions are far easier to answer than general or abstract questions. Several questions were simply not well or very varyingly understood, in spite of the best translation from English.

Inquiry Results vs. Literature Review

The primary results back up findings from secondary research in terms of the direction and content of the development of Romanian business culture. The extent of the transformation is however represented differently. Respondents valued the communist period very positively, rating Ceausescu's Romania at around 50 percent between a CCC and an IMO culture (Figure 2). In truth, the work systems were highly rigid and communitarian and the bedrock extremely corporatist, so that scoring around 10 percent could have been expected for both. An explanation may be the often-mentioned weak understanding of Romanians regarding economical questions, leading in such cases of uncertainty to moderate, rather than realistically low rates (they try to avoid mistakes or hurting anyone). In addition Romanian tends to preserve the positive aspects of the past and forget the negative ones.

Conclusions about literature research

Although the secondary data findings are not really documented in this paper it is worth mentioning some of the results (the complete bibliography is within Rubatos 2004).

The bedrock research demonstrates that history, religion and mentality have inhibited progress in the country and have favoured acceptance of communism. Unstable Romanian identity leads to polarised relationships with others (non-Romanians within and outside Romania). In spite of its critical cultural inheritance, Romania has made visible success towards the targets set by the EU (market economy and democracy). Obviously external institutions, infrastructure, and laws (work systems) are much easier to install, while mentality is changing extremely slowly.

Rating the Romanian business culture within the Triangle Model, according to this secondary information, the author's estimations are as follows:

In 1987

10 %	Bedrock	-	extremely corporatist, more than in other CEE countries
10 %	Work systems	-	extremely rigid and communitarian
40 %	Behaviour	-	relatively open due to a high communicative culture, in spite of general cautiousness with the regime

In 2003

50 %	Bedrock	-	moves towards individualism, but politics are still strongly inter-woven with administration, economy, banks and legal system
60 %	Work systems	-	good progress towards materialism, systems and rules are installed
70 %	Behaviour	-	opened up due to freedom of speech, religion and political colour

Regarding the literature sources it must be said that the business culture of Romania is rather under-researched or studies have not been published. A few, mostly confidential, studies can be found within firms, universities and NGOs and are accessible by typical Romanian "relationship work" only. Communist documents were thrown away in masses after 1989. The communist past is concealed today by researchers, mass media and official publications (Boia 2001).

Young researchers have good methodology, but lack work experience and overview; Romanian professors have some important insights, especially about the communist legacy, but make little use of discourse practice and apply Western management notions without having internalised them. All authors compete in giving recommendations for Romanian managers, but a real East-West synergy can hardly be recognised. In summary, Eastern views are underrepresented in the research. One obstacle may also be what Cristescu (1997) terms "lack of a unifying framework for the research on Eastern Europe". This would be of use for both Eastern and Western research.

In completion of the literature, the author's notes from many personal interviews, business conferences and personal experience have been considered.

Final Conclusions

As a conclusion of both primary and secondary research, it must be admitted that the world is un-deniably moving in the direction of femininity (also vision of Hofstede) and of an Anglo-Saxon cultural model (strong materialistic and short-term shareholder, task and efficiency orientation, individualism but egalitarianism, because universalism and low power distance, farther low context, monochronism, neutrality, etc.). In fact, the market economy and democratic principles of the "white protestant man", deemed to be the only successful economic-political system, are "exported" by the First World to the Second and Third Worlds. As a natural consequence, CEE (Central Eastern Europe) countries follow the trend, because the EU is also part of this conception. The dilemma of all developing countries is that they have no other choice than joining the system,

notwithstanding their development stage and national culture. When doing so, complex cultural transformation processes take place in these countries. Post-communist countries have an additional burden to carry – the unlearning of socialist business behaviour, and in case of Romania of the agrarian and orthodox mentality in addition. CEE countries miss the time they would have needed to re-find their own identity before a new one is imposed to them.

The East-West contrast diminishes continuously at political-economical levels, while mental-psychical adaptation will require generations.

The results of the project "Globe" confirm that all global regions strive for higher performance (Anglo-Saxon mentality) and at the same time for more humanity (femininity) for the future. Similarly the World Value Survey of the Michigan University (report by Hofstede, March 2005 London) demonstrates the same tendency worldwide, with few exceptions (interestingly the Baltic countries).

Romania, as an EU candidate, will surely adhere to the aforementioned development. Meanwhile the EU accession contracts are signed (April 2005). Romania has always followed its own original (when possible, independent) internal and external course, and will certainly find its own way through the current difficult transition. The open question is how long it will take to get the "EU homework" done. Massive improvements in the legal, environmental and market economy system are expected before the targeted date of January 2007.

Romania remains for the moment an ambiguous country, with high potentials, but still with several difficulties. This is reflected also by comments of investors which range from enthusiasm ("we appreciate the highly educated work force" or "we learnt to like the Romanians") to stress and frustration ("we would not have started business, if we had known how difficult it is"). Admittedly the negative comments reduce rapidly.

In order to succeed foreign managers have to understand and adapt to Romanian culture. Ambiguity tolerance, respect, personal relations and inventiveness regarding the methods to be applied are of key importance. "If you want to succeed in Romania, you will succeed!" (Musat et al. 2001)

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Annex 1: Questionnaires "Triangle Model" - with Results for Romania 1987 and 2003

No.	**A BEDROCK** 1= I totally disagree 5 = I totally agree **Do you agree that, in your country…**	**1987** average	**2003** average	**Delta**	**Results/Comments**
1	the stock market, rather than the government, often seems to rule business life.	1.17	3.66	2.49	Stock market drives out government massively in ruling business
2	the government accepts that big wealth differences between the rich and poor are inevitable and, to an extent, desirable.	2.09	4.37	2.29	Social differences became immense and are tolerated
3	personal tax and social security costs that businesses and their employees have to pay to government seem comparatively low, in contrast to countries with large welfare states(like Sweden).	3.20	2.11	-1.09	Tax and security costs are quite high (higher than in communism), coming near to welfare state level
4	religion has very little influence on how things are done in business.	3.83	4.43	0.60	Direct influence of religion is not visible
5	government does not try to manage how business is run – through such mechanisms as state ownership, national planning or government-industry pacts to create jobs.	1.34	2.94	1.60	Government stepped back from protectionism and corporatism, but only to a medium extent
6	most business leaders think that the best way to run the company is for big decisions to be taken exclusively by the directors of the company with no employee involvement.	4.37	4.20	0.17	Directors take responsibility of big decisions alone, little employee involvement (more than in comm.)
7	wage and salary levels rates in industry and commerce are usually based on the individual company's ability to pay.	2.09	3.40	1.31	Salaries depend increasingly on firms capability to pay
8	the relationships that exist between politicians, the civil service and the business community are neither particularly close nor friendly.	2.54	3.03	0.49	Slight improvement in breaking power at 'directocracy' level
9	industrial disputes, such as strikes and other forms of mass action by workers, are rare.	4.49	2.86	-1.63	Much more strikes than before
10	if big firms get into financial trouble, they would not expect to be rescued by the government or their main bank.	1.43	2.63	1.20	Moderate increase firms carrying own responsibility when in trouble
	SUM	***26.37***	***33.6***	***7.23***	***=14.46 percent***
No.	**B WORK SYSTEMS** **Do you agree that, in your country…..**	**1987** average	**2003** average	**Delta**	**Results/Comments**
1	there are few governmental barriers to foreigners' buying into companies or even acquiring them, apart from some regulations on the need to maintain competition.	1,06	2,54	1,49	Barriers for investors considerably reduced, but still far from best level
2	shareholder ownership and control of companies is seen by most people as perfectly acceptable, natural and desirable.	1,29	3,51	2,23	Large increase of shareholder acceptance
3	most managers work as long as necessary during the week to get the job done.	2,94	4,34	1,40	Some increase of managers' engagement in job
4	business leaders look upon the labour market as precisely that - a market where each job has a price and where the cost of work is negotiated.	1,37	3,69	2,31	Labour market became quite capitalistic
5	most people accept that large differences in the pay of employees and directors are appropriate.	2,60	3,00	0,40	Medium acceptance of salary differences (unchanged)
6	most employees, even in big firms in the private sector, simply are not interested in belonging to trade unions.	2,63	3,46	0,83	Slightly decreased interest on union membership
7	relationships between companies and banks are strictly based on commercial criteria.	2,37	3,34	0,97	Banks and firms have more commercial relations
8	firms simply do not believe in maintaining uneconomic jobs on grounds of supposed loyalty to their workforce and will readily move factories to cheaper locations.	1,91	4,29	2,37	Radical loss in loyalty of firms towards employees and sites
9	it's not whom you know that matters in developing your business career , but what you know.	1,77	2,83	1,06	Not too impressive improvement in nepotism
10	business leaders are typically driven by the need to achieve short-term results which satisfy the needs of their shareholders, sometimes at the expense of longer-term strategy.	3,00	3,54	0,54	Little change in the prevailing Romanian management short-termism
	SUM	***21,3***	***34,4***	***13,1***	***=26,24 percent***

No.	**C BEHAVIOUR** 1= I totally disagree 5 = I totally agree **Do you agree that, in your country…..**	**1987** average	**2003** average	**Delta**	**Results/Comments**
1	business people are typically very straightforward, explicit, quick and direct in how they communicate, even in negotiations.	1,49	2,54	1,06	Increase, however still an average score
2	for many employees the traditional pattern of loyalty to one's employer is a thing of the past.	2,86	2,94	0,09	Surprising little change in loyalty…
3	whenever business colleagues meet together outside working hours and outside the workplace it's for pleasure and not because they feel obliged to out of a sense of duty.	4,03	3,71	-0,31	Colleagues feel even more obliged to join when going out, as in communism
4	managers are strongly in favour of encouraging individual effort, especially when it involves dynamic young executives who want to "get on" and "make their mark".	2,11	3,26	1,14	More encouraging young executives than in communism – delegation and paternalism?
5	"the manager" is typically "in charge", but most employees do not have "bosses" who know everything and are all-powerful.	3,46	3,51	0,06	Little change, Romanians are not all-powerful bosses
6	success in business, and in management too, seems to depend more on how competitive you are and not on how caring.	2,00	3,74	1,74	Competitive, much more important than in past
7	promotion at work is based more on merit than seniority.	1,49	3,71	2,23	Merit is much more rewarded
8	most firms do not expect executives to wear a company uniform (or even follow a strict dress code) or to sing a company anthem or do early morning physical exercises.	3,26	4,40	1,14	Less uniform and rites in office
9	people generally like foreign investors, provided they do not simply try to impose their ways of doing things.	2,03	3,66	1,63	Grown acceptance of foreigner
10	people tend to treat their private lives, with all their social obligations, as quite separate from their working lives.	3,17	3,77	0,60	Minimally increasing separation business and private
	SUM	***26***	***34,77***	***8,77***	***=17,5 percent***

Corporate Governance Codes in the E.U. – A Comparison with Respect to the European Commission's Priorities on Enhancing Corporate Governance

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Abstract

This paper states that the exogenously driven sources of legitimation as proposed by Aguilera and Cuervo-Cazzura (2004) are in fact the very sources of convergence between the corporate governance codes, while the endogenously driven sources of efficiency are in fact the very sources of divergence between the Codes. One such source of exogenous legitimation is Communication-284 issued by European Commission, highlighting the issues the Commission considers of essential importance for enhancement of corporate governance in the E.U. The paper compares the E.U. corporate governance codes from the perspective of the Communication-284. The results show that the majority of the E.U. Codes cover poorly or only partly, the Commission's priorities and most of these priorities are points of divergence between the Codes. Communication-284 is expected to influence the content of the E.U. Codes, and by doing so to contribute towards their further convergence with respect to the Commission's priorities.

1 Introduction

After the recent enlargement of the European Union, a large single market has been created, which includes countries with deep-seated differences in terms of economic development and corporate governance environment. One year before the enlargement the European Commission published a Communication (COM-284) containing its suggestions to the Council and the European Parliament with enhancing corporate governance in the E.U. This paper examines the extent to which the E.U. Codes' recommendations are in accordance with the COM-284.

The rest of the paper is organised as follows: Section 2 provides an overview of the basic notions related to corporate governance; the Codes; and COM-284. Section 3 includes the research design and the methodology used in the paper. Section 4 describes the basic findings of the paper and section 5 discusses the main conclusions as well as some discussion points.

2 Corporate Governance in the European Union

2.1 Corporate Governance and the Codes

The Cadbury Report's (1992) defines corporate governance as a "system by which the companies are directed and controlled" and this definition is routinely adopted by the majority of the European

corporate governance codes. According to Shleifer and Vishny's (1997) "Corporate governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment". Monks and Minow (1994) define corporate governance as the relationship among the CEO, management, shareholders, and employees in determining the direction and performance of corporations. Aguilera and Jackson (2003) provide a definition that attains to enrich corporate governance with the issue of control over firm resources. According to them, "Corporate governance is the relationship among stakeholders in the process of decision-making and control over firm resources (with the firm itself defined as a collection of resources embedded in a network of relationships among stakeholders). From a post-communist point of view, Mihályi broadens even more the scope of corporate governance by adding the element of the control over the corporation and the attestation of that control, outside the corporation: "Governance is about power. The purpose of CG is to exercise power within a corporation *and* by using the corporation as a source of power in the outside world. The communist past and the post-communist present supply abundant examples of how many different ways are conceivable to exercise this power" Mihályi (2003).

Thus, the diversity of social and economic environments around the world enhances the diversity of the ways in which corporate governance is understood and defined. In developed economies, corporate governance is usually interpreted in terms of Agency or Transaction Cost theories, with its cornerstone being the relationship between providers of the capital and its dispensers within the company. However, from an Eastern European perspective, corporate governance seems to pertain to somehow unconventional – from a western perspective – and more politised issues, reflecting the social and economic processes of the transition period.

The majority of differences in the corporate governance environments of the EU Member States appear to result from differences in the relevant company laws (Gregory/Simmelkjaer 2002), which until the early 1990's set al. most exclusively the basic framework by which the companies are governed. The increased public concern after a series of unexpected failures of major British companies such as Polly Peck, P & C, British and Commonwealth, led to setting up the Cadbury Committee in May 1991 (Parkinson 1993). The Cadbury Report – containing the code of best practice for listed companies – added an additional source of regulation to the British corporate governance environment in parallel with the relevant legislation. The widely accepted positive outcomes of that initiative have instigated the adoption of similar codes of best practice in almost all E.U. countries.

The corporate governance Codes throughout the European Union are non-legally binding, self-regulatory instruments based on the principal "comply-or-explain" that provides the companies the freedom to deviate from the included recommendations as long as they explain the reasons for doing so. However, the fact that in many cases such Codes are adopted as listing requirements for

associations and stock exchanges, gives them a rather *formal* (in a sense of a compulsory requirement) character (Dewing/Russell 2004)[1].

2.2 The Commission's Communication (COM-284)

On the 21st of May 2003, the European Commission released the Communication 284 to the council and the European parliament titled "Modernising Company Law and Enhancing Corporate Governance in the European Union – A Plan to Move Forward", containing an action plan suggested by the commission in pointed areas.

The Commission acknowledges that standards in corporate governance are increasingly being set on an international level, with laws and regulations from many parts of the world (and especially from the U.S.) outreaching the European companies and auditors, through European companies listed in foreign stock exchanges. In this context, the Commission believes that the E.U. must define its own European corporate governance "tailored" to its own cultural and business traditions. According to the Communication, new initiatives are needed at a European Union level in the field of corporate governance due to the enlargement process, ongoing integration of capital markets, the rapid development of new communication technologies and recent financial scandals.

The Communication addresses three basic fields in which a common approach should be adopted at E.U. level and adequate coordination of corporate governance Codes should be ensured:

1) enhancing corporate governance disclosure,
2) strengthening shareholder's rights and
3) Modernising the board of directors.

With respect to each one of them, the Communication addresses a set of priorities:

2.2.1 Enhancing Corporate Government Disclosure

In this field, the Commission suggests that listed companies should be required to include in their annual report a corporate governance statement covering the following issues:

1. The operation of the shareholder meeting and its key powers;
2. The description of shareholder rights and how they can be exercised;
3. The composition and operation of the board and its committees;
4. The shareholders holding major holdings, and their voting and control rights as well as key agreements;
5. The other direct and indirect relationships between these major shareholders and the company;
6. Any material transactions with other related parties;
7. The existence and nature of a risk management system;

[1] Moreover, in some countries such as the Netherlands, this formal character is underlined by the fact that the adoption of the Code is a legal requirement for certain groups of companies.

8. A reference to a code on corporate governance, designated for use at national level, with which the company complies or in relation to which it explains deviations.

The Commission considers the adoption of such annual corporate governance statement as a short-term priority. In addition, two more issues are addressed regarding institutional investors:

9. To disclose their investment policy and their policy with respect to the exercise of voting rights in companies in which they invest;
10. To disclose to their beneficial holders at their request how these rights have been used in a particular case.

2.2.2 Strengthening Shareholders' Rights

In this field, the Commission suggests that the following issues should be included in the Codes:

11. Shareholders of listed companies should be provided with electronic facilities to access the relevant information in advance of General Meetings;
12. Shareholder democracy: The one share – one vote principal;
13. Provisions for cross-border voting.

2.2.3 Modernising the Board of Directors

In this field, the Commission suggests that the Codes should include the following requirements:

14. In areas where it is possible for conflicts of interest to rise (remuneration and supervision of the audit), decisions should be made by non-executive directors;
15. Disclosure of remuneration policy;
16. Disclosure of details of remuneration of individual directors in the annual accounts;
17. Prior approval by the shareholder meeting of share and share option schemes in which directors participate;
18. Proper recognition in the annual accounts of the costs of such schemes for the company;
19. Collective responsibility of all board members.

Since COM-284 is a relatively recent document, most of the reactions to the Communication are limited to a feedback by relevant European institutions and associations. DG "Internal Market" has published a synthesis of the responses to the action plan during the 3-month period of consultation that followed the publication of the Communication. Most of reactions treat the Commission's Communication as a positive step towards strengthening the position of the member states as safe harbours for capital inflows and investment (DG Internal Market 2003). The recommendations of the Commission have been criticised by the European Parliament for their "goodwill" and voluntary nature, emphasising the need for stronger legislative control (Committee on Legal Affairs and the Internal Market 2003). Similarly, the European Economic and Social Committee expresses doubts regarding the way these principles will be "*fleshed out*" in practice (European Economic and Social Committee, 2004). The European Trade Union Confederation criticizes the Commission for dealing

with a "virtual" enterprise, presenting governance as a problem limited solely to the relationship between shareholders and management, ignoring the role of the employees (ETUC 2003).

2.3 Convergence and Divergence

According to Aguilera and Curevo-Cazzura (2004) the adoption of codes of best practice is facilitated by endogenous (as a response for example to a developed financial market's needs) as well as exogenous sources (due to pressures for example by foreign institutional investors). The worldwide adoption of corporate governance codes epitomises two theoretical explanations in the diffusion theory: "Legitimation" and "Efficiency". As Aguilera and Curevo-Cazzura claim, efficiency accounts are motivated by endogenous sources while legitimation tends to be exogenously driven. It should be mentioned however that the authors acknowledge that the same forces and balances that in each country have been crystallised through time in company laws and business practices, have also contributed to the formation and revisions of the Codes. Thus, not only the adoption of a Code is influenced by endogenous or exogenous sources, but also its content and its revisions.

In terms of exogenously driven sources that influence corporate governance, the Codes mirror the isomorphic processes (Aguilera/Jackson 2003) that at a pan-European level aim at its (i.e. governance's) harmonisation. In this aspect, the Codes appear to be by-products of process of imitation of cognitive models (Dobbin 1994) that has resulted in the remarkable degree of convergence between the Codes (Gregory/Simmelkjaer 2002).[2] As stated by Reid (2004) several factors facilitate such convergence: The globalisation and promulgation of international standards; the information technology that allows international investors to "migrate" in quest of more-favourable conditions; and the actions of the E.U. institutions.

In terms of endogenously driven sources that influence corporate governance, the Codes condense the efforts to regulate corporate governance as a way of minimising agency costs (Shleifer/Vishny 1997). In this respect, the Codes tend to refer to the peculiarities of each country's distinct business environment, forming the (very limited in number) points of divergence between the Codes[3].

Cuervo (2002) names several factors facilitating such divergence: local political interest; differences in the relevant legislation; differences in perceptions regarding the role that stakeholders should play in corporate governance; and differences between the countries' level of development. It seems thus, that the exogenously driven causes of legitimation are the ones facilitating convergence between the Codes, while the endogenously driven causes of efficiency are the ones facilitating divergence between the Codes (Figure 1).

Figure 1: Convergence and Divergence between the Codes

COM-284 as a major source of exogenously driven legitimation is an ideal illustration of the above model. As shown in sections 4 and 5 of this paper, the majority of the Commission's priorities – as stated in the Communication – are in fact points of divergence between the Codes. In the same sections it is also shown that by addressing these issues the Communication is, indeed, contributing towards further convergence of the E.U. corporate governance Codes.

[2] Probably the Slovakian and Czech Codes are the best examples of such process of "isomorphism" with their tendency to (literally) copy the Western European Codes.

[3] An example illustrating such tendencies of "localisation" is the recommendation for an annual meeting between the company and market intermediates and the media included in the Maltese Code reflecting similar local business practices.

3 Research Design

The research includes the comparison of the corporate governance Codes of 22 E.U. countries with respect to the 18 topics[4] as mentioned in section 2.2.

3.1 Identification of Relevant National Codes

The comparison focuses on the corporate governance Codes of all the European Union member states plus the countries (Bulgaria and Romania) that are expected to join the union by 2008. It includes though only 22 Codes since Estonia; Latvia; Luxemburg and Bulgaria do not appear to have an equivalent of such document. It also does not include Ireland, which although it has four Codes (issued by different organisations), none of them can be compared in its scope with the above listed documents. In cases in which the countries have more than one Code, only the one issued by the highest authority and only its most recent version is examined. The only deviations from this rule are Code amendments and cases where the examined Code explicitly refers to other documents. In these cases, the referred document is treated as a part of the Code. Such case is – for example – the Combined Code's (U.K.) direct reference to the "Directors' Remuneration Reporting Regulations 2002", when it comes to disclosure of the Board members' remuneration. In any case, such exceptions are mentioned in the comment's column of the checklist (see below). A complete list of the Codes included in this study can be found in "Appendix 1" at the end of the paper. For simplicity, each Code is identified in the text by its nationality (for example"The German Code"), instead of its official name (i.e. the Cromme Code).

3.2 Data Collection: The "Checklist"

The above-mentioned 22 corporate governance codes have been compared with respect the Commissions 18 priorities as mentioned in sections 2.4 by using a checklist included in Appendix-2. The Checklist contains four columns. The first column includes the Commission's priorities – as mentioned in section 2.4 – numbered from 1 to 18. The second column describes each Code's behaviour with respect to these eighteen topics. In case a Code includes recommendations in line with COM-284, it is marked with a "yes", otherwise with a "no" (see also section 3.3). The third column provides the necessary reference (usually a paragraph number) allowing the reader to check each Code, and the fourth column contains some specific comments or clarifications.

3.3 Data Collection: "Yes" or "No"?

While checking whether a Code actually refers or not to a specific topic, we decided to follow the "spirit" rather than the "letter" of the Communication. In order to overcome a certain degree of

[4] The checklist does not contain priority number 6 – as mentioned in section 2.4 – "Material transactions with other related parties" since the Communication provides no further information about who these related parties are considered to be.

subjectivism that such "soft" approach could add to the research, we have applied specific criteria with respect to each examined topic:

- Regarding "Enhancing Corporate Governance Disclosure", the proposed issues to be disclosed (topics 1-9) are supposed to be part of an annual corporate governance statement published by the company. Since clearly the aim of the Commission with this suggestion is creating better-informed investors, we decided to mark with "YES", cases even with no specific reference for topics 1-9 to be included in an annual corporate governance statement, as long as public disclosure (by any means) of these issues is suggested.
- Regarding "Access to relevant information before the General Meeting" (topic 11), although the commission emphasises the use of the Internet as the main source, we decided to mark with "YES", even those cases where there is no specific reference to this media, as long as any other way of dissemination of such information (for example through post) is included. The reason for that is the fact that in many countries (especially the new members) access to Internet is limited.

In all other cases (topics 10, 11 and 14-19), "YES" or "NO" is marked according to explicit reference regarding the relevant issue.

4 Findings and Results

4.1 Findings of the comparison

Table 1 provides an overview of the examined Codes' recommendations with respect the Commission's priorities on enhancing corporate governance disclosure.

Table 1: Enhancing Corporate Governance Disclosure

DOES THE CODE RECOMMEND DISCLOSURE OF:	1	2	3	4	5	6	7	TOTAL NUMBER OF SUBTOPICS IN LINE WITH COM-284.
	Description of the operations of the shareholder meeting and its key powers	Description of shareholder rights and how they can be exercised	The composition and operation of the board and its committees	The shareholders holding major holdings, and their voting and control rights as well as key agreements;	Any direct and indirect relationships between major shareholders and the company	The existence and nature of a risk management system	A reference to a code on corporate governance, with which the company complies	
LITHUANIA	yes	yes	yes	no	no	yes	no	4 out of 7
ROMANIA	no	no	no	no	no	yes	yes	2 out of 7
POLAND	yes	yes	no	no	no	no	yes	3 out of 7
HUNGARY	no	no	yes	no	no	yes	yes	3 out of 7
CZECH Rep.	yes	yes	yes	yes	yes	yes	yes	**7 out of 7**
SLOVAK Rep.	yes	yes	yes	yes	yes	yes	yes	**7 out of 7**
CYPRUS	no	yes	no	yes	no	yes	yes	4 out of 7
MALTA	no	no	yes	no	no	no	yes	2 out of 7
SLOVENIA	no	no	yes	yes	yes	yes	yes	5 out of 7
AUSTRIA	no	no	no	yes	yes	yes	yes	4 out of 7
BELGIUM	yes	yes	yes	yes	yes	yes	yes	**7 out of 7**
DENMARK	no	no	yes	no	no	yes	no	2 out of 7
FINLAND	no	no	yes	yes	no	yes	yes	4 out of 7
FRANCE	no	no	yes	no	no	yes	yes	3 out of 7
GERMANY	no	no	no	yes	yes	yes	yes	4 out of 7
GREECE	no	no	yes	yes	no	yes	yes	4 out of 7
ITALY	yes	no	yes	no	yes	yes	yes	5 out of 7
NETHERLANDS	no	no	yes	no	no	yes	yes	3 out of 7
PORTUGAL	no	yes	yes	yes	no	yes	no	4 out of 7
SWEDEN	no	no	yes	no	no	no	no	1 out of 7
SPAIN	yes	yes	yes	yes	yes	yes	yes	7 out of 7
U.K.	no	no	yes	no	no	yes	yes	3 out of 7
TOTAL NUMBER OF CODES ACROSS THE E.U. INCLUDING RECOMMENDATIONS IN LINE WITH COM-284	**7** out of 22	**8** out of 22	**17** out of 22	**11** out of 22	**8** out of 22	**19** out of 22	**18** out of 22	

The overwhelming majority of the examined Codes include recommendations in line with the Commission's priorities in three topics:

- Disclosure of the existence and nature of the company's risk management system – with only the Polish, Maltese and Swedish Codes not recommending it.
- A reference to the Code of corporate governance, with which the company complies – with only the Lithuanian, Danish, Portuguese, and Swedish Codes not recommending it.
- Disclosure of the composition and operation of the board and its committees – with only the Romanian, Polish, Cypriot, Austrian, and German Codes not recommending it.

Only half of the examined Codes recommend disclosure of the shareholders holding major holdings, and their voting and control rights as well as key agreements, while for the rest of the topics the majority of the E.U. Codes do not include recommendations in line with the Com-284. Table 2 regards exclusively the institutional investors.

Table 2: Institutional Investors

DOES THE CODE RECOMMEND DISCLOSURE OF:	8 Investment policy and their policy with respect to the exercise of voting rights in companies in which they invest	9 How these rights have been used in a particular case (to their beneficial holders at their request)	SUBTOPICS IN LINE WITH COM-284.
LITHUANIA	no	no	0 out of 2
ROMANIA	no	no	0 out of 2
POLAND	no	no	0 out of 2
HUNGARY	no	no	0 out of 2
CZECH Rep.	yes	yes	**2 out of 2**
SLOVAK Rep.	yes	yes	**2 out of 2**
CYPRUS	no	no	0 out of 2
MALTA	no	no	0 out of 2
SLOVENIA	no	no	0 out of 2
AUSTRIA	no	no	0 out of 2
BELGIUM	no	no	0 out of 2
DENMARK	no	no	0 out of 2
FINLAND	no	no	0 out of 2
FRANCE	no	no	0 out of 2
GERMANY	no	no	0 out of 2
GREECE	no	no	0 out of 2
ITALY	no	no	0 out of 2
NETHERLANDS	yes	Yes	**2 out of 2**
PORTUGAL	yes	Yes	**2 out of 2**
SWEDEN	yes	Yes	**2 out of 2**
SPAIN	yes	Yes	**2 out of 2**
U.K.	yes	Yes	**2 out of 2**
TOTAL NUMBER OF CODES ACROSS THE E.U. INCLUDING RE-COMMENDATIONS IN LINE WITH COM-284	**7** out of 22	**7** out of 22	

Table 2 shows that only seven out of the twenty-two examined Codes recommend disclosure by the institutional investors of their investment and voting policy. Similarly, the same seven Codes are

the only ones to recommend disclosure[5] of the way these voting rights have been used in each particular case.

Table 3 provides an overview of the examined Codes' recommendations with respect to the Commission's priorities on strengthening shareholders' rights.

Table 3: Strengthening Shareholders' Rights

DOES THE CODE RECOMMEND:	10 Access to relevant information before the General Meeting	11 The One Share/ One Vote principle?	12 Provisions for cross-border participation in the AGM	SUBTOPICS IN LINE WITH COM-284
LITHUANIA	yes	yes	no	3 out of 3
ROMANIA	no	no	no	0 out of 3
POLAND	yes	no	no	1 out of 3
HUNGARY	yes	no	no	1 out of 3
CZECH Rep.	yes	no	yes	2 out of 3
SLOVAK Rep.	yes	no	yes	2 out of 3
CYPRUS	no	no	no	0 out of 3
MALTA	yes	no	no	1 out of 3
SLOVENIA	yes	yes	no	2 out of 3
AUSTRIA	yes	yes	no	2 out of 3
BELGIUM	yes	no	yes	2 out of 3
DENMARK	yes	yes	no	2 out of 3
FINLAND	yes	no	no	1 out of 3
FRANCE	no	yes	no	1 out of 3
GERMANY	yes	yes	yes	**3 out of 3**
GREECE	yes	yes	no	2 out of 3
ITALY	yes	no	no	1 out of 3
NETHERLANDS	no	no	no	0 out of 3
PORTUGAL	yes	no	no	2 out of 3
SWEDEN	yes	no	yes	2 out of 3
SPAIN	yes	no	no	1 out of 3
U.K.	yes	no	no	1 out of 3
TOTAL NUMBER OF CODES ACROSS THE E.U. INCLUDING RECOMMENDATIONS IN LINE WITH COM-284	**18** out of 22	**7** out of 22	**5** out of 22	

The majority of the examined Codes recommend access to the relevant information, before the general meeting. The Commissions Communication emphasizes such access through electronic facilities. In this respect the Polish, Hungarian, Slovak, and Maltese do not recommend – explicitly – internet as a primary source of such information. Regarding the One Share/One Vote principle, although almost all of the Codes include some recommendations calling for a certain level of proportion between ownership share and voting power, only the Lithuanian, Slovenian, Austrian, Danish, French, German, and Greek Codes explicitly recommend one-vote-for-each-share. Moreover, only the Czech, Slovak, Belgian, German, and Swedish Code, recommend provisions for cross border participation, despite the numerous calls regarding the importance and impact of foreign (especially

[5] Refers to disclosure to the beneficiaries of institutional investors.

institutional) shareholders. Table 4 shows the E.U. Codes' recommendations with respect to the Commissions priorities on modernising the board of directors.

Table 4: Modernising the Board of Directors

DOES THE CODE RECOMMEND DISCLOSURE OF:	13	14	15	16	17	18	TOTAL NUMBER OF SUBTOPICS IN LINE WITH COM-284
	In areas with conflict of interest (Audit, remuneration, nomination) the committees should include non-executive / independent members	Disclosure of the remuneration policy	Disclosure of Board members Remuneration	Prior approval by the shareholder meeting of share and share option schemes in which directors participate,	Proper recognition in the annual accounts of the costs of such schemes for the company	Does the Code recommend collective accountability for Board members	
LITHUANIA	yes	no	yes	yes	no	yes	4 out of 6
ROMANIA	no	no	yes	no	no	no	1 out of 6
POLAND	yes	yes	yes	no	no	no	3 out of 6
HUNGARY	yes	yes	yes	yes	no	no	4 out of 6
CZECH Rep.	yes	yes	yes	yes	no	yes	5 out of 6
SLOVAK Rep.	yes	no	yes	yes	no	yes	4 out of 6
CYPRUS	yes	yes	yes	yes	yes	no	5 out of 6
MALTA	yes	yes	yes	no	no	yes	4 out of 6
SLOVENIA	yes	no	yes	no	yes	yes	4 out of 6
AUSTRIA	yes	yes	yes	yes	yes	no	5 out of 6
BELGIUM	yes	yes	yes	yes	yes	no	5 out of 6
DENMARK	no	yes	yes	yes	no	yes	4 out of 6
FINLAND	yes	yes	yes	no	no	no	3 out of 6
FRANCE	yes	yes	yes	yes	yes	yes	**6 out of 6**
GERMANY	no	yes	yes	no	yes	yes	4 out of 6
GREECE	yes	yes	no	no	no	yes	3 out of 6
ITALY	yes	yes	yes	no	yes	yes	5 out of 6
NETHERLANDS	yes	yes	yes	yes	yes	yes	**6 out of 6**
PORTUGAL	yes	no	no	yes	no	no	2 out of 6
SWEDEN	yes	yes	yes	yes	no	yes	5 out of 6
SPAIN	yes	no	yes	no	no	no	2 out of 6
U.K.	yes	yes	yes	yes	no	yes	5 out of 6
TOTAL NUMBER OF CODES ACROSS THE E.U. INCLUDING RECOMMENDATIONS IN LINE WITH COM-284	**19** out of 22	**16** out of 22	**20** out of 22	**13** out of 22	**8** out of 22	**13** out of 22	

Director's remuneration is an issue often making the headlines, and – not surprisingly – twenty out of twenty-two Codes (excluding the Greek and the Portuguese) recommend its disclosure. The majority of the examined Codes also recommend disclosure of the directors' remuneration policy. Similarly, most of the examined Codes (excluding the Romanian, Danish, and German) recommend disclosure (usually to the Board) of any situations of conflicts of interest a board member could eventually be involved. Thirteen out of twenty-two Codes also recommend shareholder approval of the incentive schemes in which the directors participate, while only eight of the examined Codes recommend proper recognition of such schemes in the annual accounts.

4.2 Summary of the Findings by Topic

Table 5 summarises the findings of the comparison at an E.U. level as a whole, as well as separately for Western European and CEE countries[6]. It shows the degree to which the E.U. Codes include recommendations in line with the Commission's priorities. The results are expressed in percentages – rather than numbers of Codes – for an easier comparison.

The overall average degree of accordance of the examined Codes with the priorities of the Commission as expressed in COM-284 is 54.8 percent, implying a far from thorough reflection of these priorities on the E.U. Codes. The Codes are performing relatively better in issues related to field-3: "Modernising the board of directors" with an average of 67.4 percent (or approximately 12 out of 18) of the examined Codes being in line with the Commissions priorities. The same figure for field-1 "Enhancing corporate governance disclosure" is 51.5 percent and for field-2 "Strengthening Shareholder's Rights" is 45.4 percent – the lowest.

The comparison shows that with respect to topics 15; 13; 7; 10; 6; and 3 the overwhelming majority (i.e. above 75 percent) of the examined Codes include recommendations in line with COM-284 while for topic 12 such accordance is limited to only a very small number of Codes (i.e. 22.7 percent). For the majority (i.e. 11 out of 18) of the examined topics however, the comparison exhibits some rather mixed results with the degree of accordance varying between 25 percent and 75 percent of the examined Codes.

Table 5: The E.U. Codes in Accordance with COM-284

Question Number	Topic	E.U. TOTAL	WESTERN EUROPE	C.E.E.
	FIELD-1: ENHANCING CORPORATE GOVERNANCE DISCLOSURE			
1	Description of the operations of the shareholder meeting and its key powers	**31.8%**	20.0%	57.1%
2	The description of shareholder rights and how they can be exercised	**36.4%**	26.7%	57.1%
3	The composition and operation of the board and its committees	**77.3%**	80.0%	71.4%
4	The shareholders holding major holdings and their voting and control rights as well as key agreements;	**50.0%**	53.3%	42.9%
5	Disclosure of any direct and indirect relationships between major shareholders and the company;	**36.4%**	33.3%	42.9%
6	The existence and nature of a risk management system;	**86.4%**	86.7%	85.7%
7	A reference to a code on corporate governance, designated for use at national level, with which the company complies	**81.8%**	80.0%	85.7%
8	Does the Code recommend that institutional investors should disclose their investment policy and their policy with respect to the exercise of voting rights in companies in which they invest	**31.8%**	33.3%	28.6%
9	Does the Code recommend that institutional investors should disclose to their beneficial holders at their request how these rights have been used in a particular case.	**31.8%**	33.3%	28.6%
Average for "Enhancing corporate governance disclosure" (1-9)		***51.5%***	***49.6%***	***55.6%***

- to be continued -

[6] Note: The "Western" and CEE refer to the pre-1989 distinction into free market/western and communist/CEE countries. Consequently, "Western Europe" includes Austria, Belgium, Cyprus, Denmark, Finland, France, Germany, Greece, Italy, Malta, the Netherlands, Portugal, Spain, Sweden, and the United Kingdom. C.E.E. includes the Czech Republic, Hungary, Lithuania, Poland, Romania, the Slovak Republic, and Slovenia.

- Table 5 continued-

Question Number	Topic	E.U. TOTAL	WESTERN EUROPE	C.E.E.
	FIELD-2: STRENGTHENING SHAREHOLDERS' RIGHTS			
10	Access to relevant information before the General Meeting	**81.8%**	80.0%	85.7%
11	Does the Code recommend the One Share/ One Vote principle?	**31.8%**	33.3%	28.6%
12	Provisions for cross-border participation in the AGM	**22.7%**	20.0%	28.6%
Average for "Strengthening shareholders' rights" (10-12)		**45.4%**	**44.4%**	**47.6%**
	FIELD-3: MODERNISING THE BOARD OF DIRECTORS			
13	Does the Code recommend that in areas with conflict of interest (Audit, remuneration, nomination) the committees should include non-executive/ independent members)?	**86.4%**	86.7%	85.7%
14	Does the Code recommend disclosure of the remuneration policy	**72.7%**	86.7%	42.9%
15	Does the Code recommend disclosure of the remuneration of Board members	**90.9%**	86.7%	100%
16	Prior approval by the shareholder meeting of share and share option schemes in which directors participate	**59.1%**	60.0%	57.1%
17	Proper recognition in the annual accounts of the costs of such schemes for the company	**36.4%**	46.7%	14.3%
18	Does the Code recommend collective accountability for Board members	**59.1%**	60.0%	57.1%
Average for "Modernising the board of directors" (13-18)		**67.4%**	**71.1%**	**59.5%**
	Overall Average (1-18)	***54.8%***	***55.1%***	***54.2%***

The comparison of the separate figures for each geographic area highlights a common pattern in the degree of accordance between "Western" and "Eastern" E.U. Codes with COM-284. This common pattern is demonstrated statistically in Appendix-3, which includes the output of a paired-sample T-test between the results for the two regions (the results for "Western Europe" do not defer significantly form "C.E.E." since "t" reported at 0.084 with 0.934 significance at 17 degrees of freedom). Moreover, as shown in Appendix-4, the Pearson's Correlation Coefficient between the results of "Western Europe" and "C.E.E." is 0.731 and is highly significant. Therefore, the results demonstrate that the E.U. Codes' degree of conformation to Commissions priorities is not related to their political past.

4.3 Summary of Findings by Code

Figure 2 provides an overview of the degree to which each Code includes recommendations in line with the Commission's Communication.

The Czech Code includes the highest number (16 out of 18) of such recommendations, with the Slovak and the Belgian Codes having – respectively – the second and third position. Contrary, the Romanian Code includes only three recommendations in line with COM-284, which is the lowest "score" among the examined Codes, followed by the Maltese and the Polish Codes, each including seven such recommendations.

Figure 2: Number of Recommendations in Line with COM-284

5 Conclusions – Discussion

The findings of the comparison show that the examined Codes defer with respect to 11 of the 18 examined priorities of the E.U. Commission. Some Codes cover almost all of the Commission's priorities, while some others only a very few them. It is fair thus to conclude that the majority of the Commission's priorities are points of divergence between the E.U. Codes. It should be expected that the Communication's recommendations will influence – through various channels – the revisions of the Codes and largely eliminate the indicated points of divergence between them. The above process has already taken place during the revisions of the Belgian and Czech Codes, which is reflected in their high number of recommendations in line with COM-284 and consequently their high "scores" in Figure 2. Most likely, future revisions of the rest of the Codes will result into similar high degree of accordance with the Commission's priorities, and hence, it is also fair to conclude that COM-284 as a source of exogenously driven legitimation is indeed facilitating convergence between the Codes.

It is interesting to notice, however, that the outcome of such further convergence need not necessarily result in an "upgrading" of the E.U. corporate environment. The changes initiated by the

Communication, through the recommended higher degree of transparency and shareholder equality, will probably improve the chances of European companies to attract funds from the domestic and international capital markets esp. from international institutional investors. Thus, in essence, the main aim of the Communication regarding corporate governance seems to be not the improvement of the European corporate landscape per se, but rather improvement of the attractiveness of the European companies' shares. The extent to which the latter can contribute to the former – in today's E.U. – is a rather debatable issue.

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All the European Codes mentioned in the paper are available through the ECGI page http://www.ecgi.org/codes/ all_codes.php, June 2005.

Appendix I

- Codes included in this study -

	COUNTRY	CODE	PUBLISHER/ISSUING BODY	DATE
1	Austria	Österreichischer Corporate Governance Kodex	Österreichischer Arbeitskreis für Corporate Governance	September 2002
2	Belgium	Belgian Corporate Governance Code	Belgian Corporate Governance Committee	December 2004
3	Cyprus	Corporate Governance Code	Cyprus Stock Exchange	September 2002
4	Czech Rep.	Revised Corporate Governance Code	Czech Securities Commission,	February 2001
5	Denmark	Report on Corporate Governance in Denmark	Copenhagen Stock Exchange Committee on Corporate Governance	December 2003
6	Finland	Corporate Governance Recommendations for Listed Companies	Central Chamber of Commerce of Finland and the Confederation of Finnish Industry and Employers,	December 2003
7	France	The Corporate Governance of Listed Corporations: Principles for corporate governance based on consolidation of the1995, 1999 and 2002 AFEP and MEDEF's reports,	Association Française des Entreprises Privées (AFEP) and MEDEF (French Business Confederation),	October 2003
8	Germany	Amendments to the Cromme Code,	Government Commission German Corporate Governance Code	May 2003
9	Greece	Principles on Corporate Governance in Greece: Recommendations for its Competitive Transformation	Committee on Corporate Governance in Greece (under the coordination of the Capital Market Commission),	October 1999
10	Hungary	Corporate Governance Recommendations	Budapest Stock Exchange	February 2004
11	Italy	Il Codice di Autodisciplina delle società quotate rivisitato	Committee for the Corporate Governance of Listed Companies, Borsa Italiana,	July 2002
12	Lithuania	The Corporate Governance Code for the Companies listed on the National Stock Exchange of Lithuania	National Stock Exchange of Lithuania	April 2004
13	Malta	Principles of Good Corporate Governance	Malta Stock Exchange	October 2001
14	Netherlands	The Dutch corporate governance code	Corporate Governance Committee chaired by Mr Morris Tabaksblat,	December 2003
15	Poland	Best Practices in Public Companies 2005	WSE & CG Forum	October 2004
16	Portugal	Recommendations on Corporate Governance	Comissão do Mercado de ValoresMobiliários	November 2003
17	Slovakia	Corporate Governance Code (Based on the OECD Principles)	Bratislava Stock Exchange (Prepared with the assistance of The British-Slovak Action Plan & DFID),	September 2002
18	Slovenia	Corporate Governance Code	Ljubljana Stock Exchange, the Association of Supervisory Board Members of Slovenia and the Managers' Association	March 2004
19	Spain	The Aldama report -	Informe de la Comisión Especial para el Fomento de la Transparencia y Seguridad en los Mercados y en las Sociedades Cotizadas,	January 2003
20	Sweden	Swedish Code of Corporate Governance	The Code Group	21 April 2004
21	Romania	Corporate Governance Code in Romania	University of Bucharest	June 2000
22	The U.K.	The Combined Code on Corporate Governance	The Financial Reporting Council	July 2003

Appendix II

	TOPIC	RESULT	REFERENCE	COMMENTS
	LITHUANIAN CODE			
1	Description of the operations of the shareholder meeting and its key powers	yes	6, 8	
2	The description of shareholder rights and how they can be exercised	yes	6, 8	
3	The composition and operation of the board and its committees	yes	9, 1 (4)	
4	The shareholders holding major holdings, and their voting and control rights as well as key agreements	no	6, 8	Only indirectly
5	Disclosure of any direct and indirect relationships between major shareholders and the company	no		
6	The existence and nature of a risk management system	yes	9, 1 (5)	In fact the disclosure of material foreseeable risk is recommended
7	A reference to a code on corporate governance, designated for use at national level, with which the company complies or in relation to which it explains deviations	no		
8	Does the Code recommend that institutional investors should disclose their investment policy and their policy with respect to the exercise of voting rights in companies in which they invest	no		
9	Does the Code recommend that institutional investors should disclose to their beneficial holders at their request how these rights have been used in a particular case	no		
10	Access to relevant information before the General Meeting	yes	6.7	
11	Does the Code recommend the One Share/ One Vote principle?	yes	6, 1	
12	Provisions for cross-border participation in the AGM	no	6.6	But the opportunity for foreigners to watch AGM is recommended
13	Does the Code recommend that in areas with conflict of interest (Audit, remuneration, nomination) the committees should include non-executive / independent members)?	yes	4, 5	
14	Disclosure of the remuneration policy	no		
15	Disclosure of remuneration of Board members	yes	9, 1, 4	
16	Prior approval by the shareholder meeting of share and share option schemes in which directors participate	yes	4.6	The Code speaks about approval of any sort of transactions between the company and the supervisory or managerial bodies
17	Proper recognition in the annual accounts of the costs of such schemes for the company	no		
18	Does the Code recommend collective accountability for Board members	yes	3	The Code refers to collective accountability to the shareholders
	ROMANIAN CODE			
1	Description of the operations of the shareholder meeting and its key powers	no		
2	The description of shareholder rights and how they can be exercised	no		
3	The composition and operation of the board and its committees	no		
4	The shareholders holding major holdings, and their voting and control rights as well as key agreements	no		
5	Disclosure of any direct and indirect relationships between major shareholders and the company	no		
6	The existence and nature of a risk management system	yes	20, xv	This information may be requested by the shareholders unless it is… “confidential”
7	A reference to a code on corporate governance, designated for use at national level, with which the company complies or in relation to which it explains deviations	yes	19.2 (viii)	
8	Does the Code recommend that institutional investors should disclose their investment policy and their policy with respect to the exercise of voting rights in companies in which they invest	no		
9	Does the Code recommend that institutional investors should disclose to their beneficial holders at their request how these rights have been used in a particular case	no		
10	Access to relevant information before the General Meeting	no		
11	Does the Code recommend the One Share/ One Vote principle?	no		
12	Provisions for cross-border participation in the AGM	no		
13	Does the Code recommend that in areas with conflict of interest (Audit, remuneration, nomination) the committees should include non-executive / independent members)?	no	no reference	
14	Disclosure of the remuneration policy	no		
15	Disclosure of remuneration of Board members	yes	18, B	
16	Prior approval by the shareholder meeting of share and share option schemes in which directors participate	no		
17	Proper recognition in the annual accounts of the costs of such schemes for the company	no		
18	Does the Code recommend collective accountability for Board members	no		

	TOPIC	RESULT	REFERENCE	COMMENTS
	POLISH CODE			
1	Description of the operations of the shareholder meeting and its key powers	yes	46	Very briefly
2	The description of shareholder rights and how they can be exercised	yes	46	Very briefly
3	The composition and operation of the board and its committees	no		
4	The shareholders holding major holdings, and their voting and control rights as well as key agreements	no		
5	Disclosure of any direct and indirect relationships between major shareholders and the company	no		
6	The existence and nature of a risk management system	no		
7	A reference to a code on corporate governance, designated for use at national level, with which the company complies or in relation to which it explains deviations	yes	48	
8	Does the Code recommend that institutional investors should disclose their investment policy and their policy with respect to the exercise of voting rights in companies in which they invest	no		
9	Does the Code recommend that institutional investors should disclose to their beneficial holders at their request how these rights have been used in a particular case	no		
10	Access to relevant information before the General Meeting	yes	2	Not electronically though
11	Does the Code recommend the One Share/ One Vote principle?	no		
12	Provisions for cross-border participation in the AGM	no		
13	Does the Code recommend that in areas with conflict of interest (Audit, remuneration, nomination) the committees should include non-executive / independent members)?	yes	28	BUT! The Code recommends that at least an audit and a remuneration committee should be formed, but does not refer explicitly to a nomination committee.
14	Disclosure of the remuneration policy	yes	27	
15	Disclosure of remuneration of Board members	yes	27	
16	Prior approval by the shareholder meeting of share and share option schemes in which directors participate	no		
17	Proper recognition in the annual accounts of the costs of such schemes for the company	no		
18	Does the Code recommend collective accountability for Board members	no		
	HUNGARIAN CODE			
1	Description of the operations of the shareholder meeting and its key powers	no		
2	The description of shareholder rights and how they can be exercised	no		
3	The composition and operation of the board and its committees	yes	2, 1, 2 Comments	
4	The shareholders holding major holdings, and their voting and control rights as well as key agreements	no	2, 1, 2 Comments	But not of their controlling and voting rights.
5	Disclosure of any direct and indirect relationships between major shareholders and the company	no		
6	The existence and nature of a risk management system	yes	2, 1, 2 Comments	
7	A reference to a code on corporate governance, designated for use at national level, with which the company complies or in relation to which it explains deviations	yes	2.1.8	
8	Does the Code recommend that institutional investors should disclose their investment policy and their policy with respect to the exercise of voting rights in companies in which they invest	no		
9	Does the Code recommend that institutional investors should disclose to their beneficial holders at their request how these rights have been used in a particular case	no		
10	Access to relevant information before the General Meeting	yes	3.1.4	But the Code refers to information in writing
11	Does the Code recommend the One Share/ One Vote principle?	no		
12	Provisions for cross-border participation in the AGM	no		
13	Does the Code recommend that in areas with conflict of interest (Audit, remuneration, nomination) the committees should include non-executive / independent members)?	yes	1, 8, 1	Moreover, the majority of the committee members are recommended to be independent
14	Disclosure of the remuneration policy	yes	2, 1, 2 Comments	
15	Disclosure of remuneration of Board members	yes	2, 1, 2 Comments	
16	Prior approval by the shareholder meeting of share and share option schemes in which directors participate	yes	1.6.2	
17	Proper recognition in the annual accounts of the costs of such schemes for the company	no		
18	Does the Code recommend collective accountability for Board members	no		

TOPIC		RESULT	REFERENCE	COMMENTS
CZECH CODE				
1	Description of the operations of the shareholder meeting and its key powers	yes	V-Comm.13	
2	The description of shareholder rights and how they can be exercised	yes	III-A.1, V-A.3	
3	The composition and operation of the board and its committees	yes	V-Comm-7	
4	The shareholders holding major holdings, and their voting and control rights as well as key agreements	yes	II-Comm.9, V-A.3	
5	Disclosure of any direct and indirect relationships between major shareholders and the company	yes	V-Comm.8	
6	The existence and nature of a risk management system	yes	V-A.6	
7	A reference to a code on corporate governance, designated for use at national level, with which the company complies or in relation to which it explains deviations	yes	V-Comm.8	
8	Does the Code recommend that institutional investors should disclose their investment policy and their policy with respect to the exercise of voting rights in companies in which they invest	yes	II-F.1	
9	Does the Code recommend that institutional investors should disclose to their beneficial holders at their request how these rights have been used in a particular case	yes	II-F.2	
10	Access to relevant information before the General Meeting	yes	II-Comm.3 & 4	
11	Does the Code recommend the One Share/ One Vote principle?	no		
12	Provisions for cross-border participation in the AGM	yes	V-Comm.8	
13	Does the Code recommend that in areas with conflict of interest (Audit, remuneration, nomination) the committees should include non-executive / independent members)?	yes	VI-Comm.18	
14	Disclosure of the remuneration policy	yes	V-A.8	
15	Disclosure of remuneration of Board members	yes	V-A.4	
16	Prior approval by the shareholder meeting of share and share option schemes in which directors participate	yes	V-Comm.8	
17	Proper recognition in the annual accounts of the costs of such schemes for the company	no		
18	Does the Code recommend collective accountability for Board members	yes	VI-Comm.3	
SLOVAK CODE				
1	Description of the operations of the shareholder meeting and its key powers	yes	7, 1	The Code calls for adoption of a special reader regarding violation of their rights
2	The description of shareholder rights and how they can be exercised	yes	5, 3 and 7, 1	
3	The composition and operation of the board and its committees	yes	5, 4	
4	The shareholders holding major holdings, and their voting and control rights as well as key agreements	yes	3 and 5, 3	
5	Disclosure of any direct and indirect relationships between major shareholders and the company	yes	5, 3	
6	The existence and nature of a risk management system	yes	5, 5	
7	A reference to a code on corporate governance, designated for use at national level, with which the company complies or in relation to which it explains deviations	yes	INTRO	
8	Does the Code recommend that institutional investors should disclose their investment policy and their policy with respect to the exercise of voting rights in companies in which they invest	yes	6, 5	
9	Does the Code recommend that institutional investors should disclose to their beneficial holders at their request how these rights have been used in a particular case	yes	6, 7	
10	Access to relevant information before the General Meeting	yes	2, 3 and 2,4	(not electronically though)
11	Does the Code recommend the One Share/ One Vote principle?	no		
12	Provisions for cross-border participation in the AGM	yes	2.10	
13	Does the Code recommend that in areas with conflict of interest (Audit, remuneration, nomination) the committees should include non-executive / independent members)?	yes	1, 6	
14	Disclosure of the remuneration policy	no		Although the existence of such policy is recommended in 5.10
15	Disclosure of remuneration of Board members	yes	5, 4	
16	Prior approval by the shareholder meeting of share and share option schemes in which directors participate	yes	1.12	
17	Proper recognition in the annual accounts of the costs of such schemes for the company	no		
18	Does the Code recommend collective accountability for Board members	yes	1	

	TOPIC	RESULT	REFERENCE	COMMENTS
	CYPRIOT CODE			
1	Description of the operations of the shareholder meeting and its key powers	no		
2	The description of shareholder rights and how they can be exercised	yes	D.21	
3	The composition and operation of the board and its committees	no	D.2.5 Addendum	The requirement for disclosure of board members (not those in committees) has been deleted in the addendum!
4	The shareholders holding major holdings, and their voting and control rights as well as key agreements	yes	D.2.5 Addendum	
5	Disclosure of any direct and indirect relationships between major shareholders and the company	no		
6	The existence and nature of a risk management system	yes	D.2.5 Addendum	
7	A reference to a code on corporate governance, designated for use at national level, with which the company complies or in relation to which it explains deviations	yes	intro	
8	Does the Code recommend that institutional investors should disclose their investment policy and their policy with respect to the exercise of voting rights in companies in which they invest	no		
9	Does the Code recommend that institutional investors should disclose to their beneficial holders at their request how these rights have been used in a particular case	no		
10	Access to relevant information before the General Meeting	no		
11	Does the Code recommend the One Share/ One Vote principle?	no		
12	Provisions for cross-border participation in the AGM	no		
13	Does the Code recommend that in areas with conflict of interest (Audit, remuneration, nomination) the committees should include non-executive / independent members)?	yes	A.4, B.1, C.3	
14	Disclosure of the remuneration policy	yes	B.3	
15	Disclosure of remuneration of Board members	yes	B.3	
16	Prior approval by the shareholder meeting of share and share option schemes in which directors participate	yes	B.2.5	
17	Proper recognition in the annual accounts of the costs of such schemes for the company	yes	B.3	
18	Does the Code recommend collective accountability for Board members	no		
	MALTESE CODE			
1	Description of the operations of the shareholder meeting and its key powers	no		
2	The description of shareholder rights and how they can be exercised	no		
3	The composition and operation of the board and its committees	yes	2, 10	
4	The shareholders holding major holdings, and their voting and control rights as well as key agreements	no		
5	Disclosure of any direct and indirect relationships between major shareholders and the company	no		
6	The existence and nature of a risk management system	no		
7	A reference to a code on corporate governance, designated for use at national level, with which the company complies or in relation to which it explains deviations	yes	objectives	
8	Does the Code recommend that institutional investors should disclose their investment policy and their policy with respect to the exercise of voting rights in companies in which they invest	no		
9	Does the Code recommend that institutional investors should disclose to their beneficial holders at their request how these rights have been used in a particular case	no		
10	Access to relevant information before the General Meeting	yes	12.6	(not electronically though)
11	Does the Code recommend the One Share/ One Vote principle?	no		
12	Provisions for cross-border participation in the AGM	no		
13	Does the Code recommend that in areas with conflict of interest (Audit, remuneration, nomination) the committees should include non-executive / independent members)?	yes	6, 1 and 2, 10 and 8, 1	
14	Disclosure of the remuneration policy	yes	10	
15	Disclosure of remuneration of Board members	yes	10	
16	Prior approval by the shareholder meeting of share and share option schemes in which directors participate	no		
17	Proper recognition in the annual accounts of the costs of such schemes for the company	no		
18	Does the Code recommend collective accountability for Board members	yes	1.2	

	TOPIC	RESULT	REFERENCE	COMMENTS
	SLOVENIAN CODE			
1	Description of the operations of the shareholder meeting and its key powers	no		
2	The description of shareholder rights and how they can be exercised	no		
3	The composition and operation of the board and its committees	yes	7.4.1	
4	The shareholders holding major holdings, and their voting and control rights as well as key agreements	yes	7, 4, 1	
5	Disclosure of any direct and indirect relationships between major shareholders and the company	yes	7.1.9, 7.1.10 and 7.1.11	
6	The existence and nature of a risk management system	yes	7, 1, 14	
7	A reference to a code on corporate governance, designated for use at national level, with which the company complies or in relation to which it explains deviations	yes	7.1.4	
8	Does the Code recommend that institutional investors should disclose their investment policy and their policy with respect to the exercise of voting rights in companies in which they invest	no		
9	Does the Code recommend that institutional investors should disclose to their beneficial holders at their request how these rights have been used in a particular case	no		
10	Access to relevant information before the General Meeting	yes	1, 2, 4	
11	Does the Code recommend the One Share/ One Vote principle?	yes	1.1.1	
12	Provisions for cross-border participation in the AGM	no		
13	Does the Code recommend that in areas with conflict of interest (Audit, remuneration, nomination) the committees should include non-executive / independent members)?	yes	3.6.1 and 3.7.3	Although the Code recommends one "personnel" committee instead of separate remuneration and nomination committees
14	Disclosure of the remuneration policy	no		
15	Disclosure of remuneration of Board members	yes	2.3.8	
16	Prior approval by the shareholder meeting of share and share option schemes in which directors participate	no		
17	Proper recognition in the annual accounts of the costs of such schemes for the company	yes	2.3.7	
18	Does the Code recommend collective accountability for Board members	yes	2.16	
	AUSTRIAN CODE			
1	Description of the operations of the shareholder meeting and its key powers	no		
2	The description of shareholder rights and how they can be exercised	no		
3	The composition and operation of the board and its committees	no		
4	The shareholders holding major holdings, and their voting and control rights as well as key agreements	yes	61	
5	Disclosure of any direct and indirect relationships between major shareholders and the company	yes	60, 61	
6	The existence and nature of a risk management system	yes	66	
7	A reference to a code on corporate governance, designated for use at national level, with which the company complies or in relation to which it explains deviations	yes	58	
8	Does the Code recommend that institutional investors should disclose their investment policy and their policy with respect to the exercise of voting rights in companies in which they invest	no		
9	Does the Code recommend that institutional investors should disclose to their beneficial holders at their request how these rights have been used in a particular case	no		
10	Access to relevant information before the General Meeting	yes	4	
11	Does the Code recommend the One Share/ One Vote principle?	yes	2	
12	Provisions for cross-border participation in the AGM	no		
13	Does the Code recommend that in areas with conflict of interest (Audit, remuneration, nomination) the committees should include non-executive / independent members)?	yes	51-55	
14	Disclosure of the remuneration policy	yes	29, 30 and 31	
15	Disclosure of remuneration of Board members	yes	29, 30 and 31	
16	Prior approval by the shareholder meeting of share and share option schemes in which directors participate	yes	28	
17	Proper recognition in the annual accounts of the costs of such schemes for the company	yes	29	
18	Does the Code recommend collective accountability for Board members	no		

	TOPIC	RESULT	REFERENCE	COMMENTS
	BELGIAN CODE			
1	Description of the operations of the shareholder meeting and its key powers	yes	8, 2	
2	The description of shareholder rights and how they can be exercised	yes	8, 2	
3	The composition and operation of the board and its committees	yes	5, 1-5, 4	
4	The shareholders holding major holdings, and their voting and control rights as well as key agreements	yes	8, 4	
5	Disclosure of any direct and indirect relationships between major shareholders and the company	yes	8, 5	
6	The existence and nature of a risk management system	yes	5, 2/7	
7	A reference to a code on corporate governance, designated for use at national level, with which the company complies or in relation to which it explains deviations	yes	9, 2	
8	Does the Code recommend that institutional investors should disclose their investment policy and their policy with respect to the exercise of voting rights in companies in which they invest	no		
9	Does the Code recommend that institutional investors should disclose to their beneficial holders at their request how these rights have been used in a particular case	no		
10	Access to relevant information before the General Meeting	yes	8, 1, 8, 2, 8,7	
11	Does the Code recommend the One Share/ One Vote principle?	no		
12	Provisions for cross-border participation in the AGM	yes	8, 6	
13	Does the Code recommend that in areas with conflict of interest (Audit, remuneration, nomination) the committees should include non-executive / independent members)?	yes	Appendices C, D and E	
14	Disclosure of the remuneration policy	yes	7, 2	
15	Disclosure of remuneration of Board members	yes	7, 5	
16	Prior approval by the shareholder meeting of share and share option schemes in which directors participate	yes	7.13	
17	Proper recognition in the annual accounts of the costs of such schemes for the company	yes	7.15-7.18	
18	Does the Code recommend collective accountability for Board members	no		
	DANISH CODE			
1	Description of the operations of the shareholder meeting and its key powers	no		
2	The description of shareholder rights and how they can be exercised	no		
3	The composition and operation of the board and its committees	yes	Report V.1,V.10	
4	The shareholders holding major holdings, and their voting and control rights as well as key agreements	no		
5	Disclosure of any direct and indirect relationships between major shareholders and the company	no		
6	The existence and nature of a risk management system	yes	Report VII.3	
7	A reference to a code on corporate governance, designated for use at national level, with which the company complies or in relation to which it explains deviations	no		
8	Does the Code recommend that institutional investors should disclose their investment policy and their policy with respect to the exercise of voting rights in companies in which they invest	no		
9	Does the Code recommend that institutional investors should disclose to their beneficial holders at their request how these rights have been used in a particular case	no		
10	Access to relevant information before the General Meeting	yes	I.1	
11	Does the Code recommend the One Share/ One Vote principle?	yes	I.2	In fact the Code recommends avoidance of anything different!
12	Provisions for cross-border participation in the AGM	no		
13	Does the Code recommend that in areas with conflict of interest (Audit, remuneration, nomination) the committees should include non-executive / independent members)?	no		Board committees are not strongly recommended, although board independence is.
14	Disclosure of the remuneration policy	yes	Report VI.2	
15	Disclosure of remuneration of Board members	yes	Report VI.2	
16	Prior approval by the shareholder meeting of share and share option schemes in which directors participate	yes	VI.1	(share options are not recommended)
17	Proper recognition in the annual accounts of the costs of such schemes for the company	no		
18	Does the Code recommend collective accountability for Board members	yes	IV	

TOPIC		RESULT	REFERENCE	COMMENTS
FINISH CODE				
1	Description of the operations of the shareholder meeting and its key powers	no		
2	The description of shareholder rights and how they can be exercised	no		
3	The composition and operation of the board and its committees	yes	55	
4	The shareholders holding major holdings, and their voting and control rights as well as key agreements	yes	55	
5	Disclosure of any direct and indirect relationships between major shareholders and the company	no		
6	The existence and nature of a risk management system	yes	50	
7	A reference to a code on corporate governance, designated for use at national level, with which the company complies or in relation to which it explains deviations	yes	55	
8	Does the Code recommend that institutional investors should disclose their investment policy and their policy with respect to the exercise of voting rights in companies in which they invest	no		
9	Does the Code recommend that institutional investors should disclose to their beneficial holders at their request how these rights have been used in a particular case	no		
10	Access to relevant information before the General Meeting	yes	1	
11	Does the Code recommend the One Share/ One Vote principle?	no		
12	Provisions for cross-border participation in the AGM	no	2	Indirectly: "Especially in companies with a multinational ownership structure, the possibilities of shareholders to participate in general meetings vary. The company should use all reasonable means to promote the participation possibilities of shareholders"
13	Does the Code recommend that in areas with conflict of interest (Audit, remuneration, nomination) the committees should include non-executive / independent members)?	yes	29, 32, 35	
14	Disclosure of the remuneration policy	yes	6, 47	
15	Disclosure of remuneration of Board members	yes	43, 48	
16	Prior approval by the shareholder meeting of share and share option schemes in which directors participate	no		
17	Proper recognition in the annual accounts of the costs of such schemes for the company	no		
18	Does the Code recommend collective accountability for Board members	no		
FRENCH CODE				
1	Description of the operations of the shareholder meeting and its key powers	no		
2	The description of shareholder rights and how they can be exercised	no		
3	The composition and operation of the board and its committees	yes	Viennot 17	
4	The shareholders holding major holdings, and their voting and control rights as well as key agreements	no		
5	Disclosure of any direct and indirect relationships between major shareholders and the company	no		
6	The existence and nature of a risk management system	yes	2, 3	
7	A reference to a code on corporate governance, designated for use at national level, with which the company complies or in relation to which it explains deviations	yes	19	
8	Does the Code recommend that institutional investors should disclose their investment policy and their policy with respect to the exercise of voting rights in companies in which they invest	no		
9	Does the Code recommend that institutional investors should disclose to their beneficial holders at their request how these rights have been used in a particular case	no		
10	Access to relevant information before the General Meeting	no		
11	Does the Code recommend the One Share/ One Vote principle?	yes	HELLEBUYCK C3	
12	Provisions for cross-border participation in the AGM	no	HELLEBUYCK C7	
13	Does the Code recommend that in areas with conflict of interest (Audit, remuneration, nomination) the committees should include non-executive / independent members)?	yes	14.1, 15.1	
14	Disclosure of the remuneration policy	yes	15, 3.1	
15	Disclosure of remuneration of Board members	yes	15, 3.1	
16	Prior approval by the shareholder meeting of share and share option schemes in which directors participate	yes	15, 3.2	
17	Proper recognition in the annual accounts of the costs of such schemes for the company	yes	15, 3.2	
18	Does the Code recommend collective accountability for Board members	yes	5	

	TOPIC	RESULT	REFERENCE	COMMENTS
	GERMAN CODE			
1	Description of the operations of the shareholder meeting and its key powers	no		
2	The description of shareholder rights and how they can be exercised	no		
3	The composition and operation of the board and its committees	no		
4	The shareholders holding major holdings, and their voting and control rights as well as key agreements	yes	6, 2	
5	Disclosure of any direct and indirect relationships between major shareholders and the company	yes	6, 6	
6	The existence and nature of a risk management system	yes	4, 1, 4	
7	A reference to a code on corporate governance, designated for use at national level, with which the company complies or in relation to which it explains deviations	yes	3, 10	
8	Does the Code recommend that institutional investors should disclose their investment policy and their policy with respect to the exercise of voting rights in companies in which they invest	no		
9	Does the Code recommend that institutional investors should disclose to their beneficial holders at their request how these rights have been used in a particular case	no		
10	Access to relevant information before the General Meeting	yes	2.3.2, 6.4	
11	Does the Code recommend the One Share/ One Vote principle?	yes	2,1,2	
12	Provisions for cross-border participation in the AGM	yes	2.1.2,2.3.3 and 2.3.4	
13	Does the Code recommend that in areas with conflict of interest (Audit, remuneration, nomination) the committees should include non-executive / independent members)?	no		
14	Disclosure of the remuneration policy	yes	4, 2, 3	
15	Disclosure of remuneration of Board members	yes	4, 2, 4	
16	Prior approval by the shareholder meeting of share and share option schemes in which directors participate	no		
17	Proper recognition in the annual accounts of the costs of such schemes for the company	yes	4, 2, 4	
18	Does the Code recommend collective accountability for Board members	yes	INTRO	
	GREEK CODE			
1	Description of the operations of the shareholder meeting and its key powers	no		
2	The description of shareholder rights and how they can be exercised	no		
3	The composition and operation of the board and its committees	yes	4.1.3, 4.7.4, 4.7.5 and 7.2	
4	The shareholders holding major holdings, and their voting and control rights as well as key agreements	yes	1, 4, 2	
5	Disclosure of any direct and indirect relationships between major shareholders and the company	no		
6	The existence and nature of a risk management system	yes	5.4.3, 4.1.7	
7	A reference to a code on corporate governance, designated for use at national level, with which the company complies or in relation to which it explains deviations	yes	INTRO	
8	Does the Code recommend that institutional investors should disclose their investment policy and their policy with respect to the exercise of voting rights in companies in which they invest	no		
9	Does the Code recommend that institutional investors should disclose to their beneficial holders at their request how these rights have been used in a particular case	no		
10	Access to relevant information before the General Meeting	yes	1, 3	
11	Does the Code recommend the One Share/ One Vote principle?	yes	1.1.7	
12	Provisions for cross-border participation in the AGM	no	1.5	The Code recommends it only indirectly in the context of institutional voters
13	Does the Code recommend that in areas with conflict of interest (Audit, remuneration, nomination) the committees should include non-executive / independent members)?	yes	7.2, 4.7.1	
14	Disclosure of the remuneration policy	yes	7, 1	
15	Disclosure of remuneration of Board members	no		
16	Prior approval by the shareholder meeting of share and share option schemes in which directors participate	no		
17	Proper recognition in the annual accounts of the costs of such schemes for the company	no		
18	Does the Code recommend collective accountability for Board members	yes	5, 7	

TOPIC		RESULT	REFERENCE	COMMENTS
ITALIAN CODE				
1	Description of the operations of the shareholder meeting and its key powers	yes	2.c, 5	As mentioned in the "Handbook For Reports"
2	The description of shareholder rights and how they can be exercised	no		
3	The composition and operation of the board and its committees	yes	2.c, 5, 6, 2.2	As mentioned in the "Handbook For Reports"
4	The shareholders holding major holdings, and their voting and control rights as well as key agreements	no		
5	Disclosure of any direct and indirect relationships between major shareholders and the company	yes	6, 6	As mentioned in the "Handbook For Reports"
6	The existence and nature of a risk management system	yes	4, 1, 4	As mentioned in the "Handbook For Reports"
7	A reference to a code on corporate governance, designated for use at national level, with which the company complies or in relation to which it explains deviations	yes	3, 10	
8	Does the Code recommend that institutional investors should disclose their investment policy and their policy with respect to the exercise of voting rights in companies in which they invest	no		
9	Does the Code recommend that institutional investors should disclose to their beneficial holders at their request how these rights have been used in a particular case	no		
10	Access to relevant information before the General Meeting	yes	2.3.2, 6.4	
11	Does the Code recommend the One Share/ One Vote principle?	no		
12	Provisions for cross-border participation in the AGM	no		
13	Does the Code recommend that in areas with conflict of interest (Audit, remuneration, nomination) the committees should include non-executive / independent members)?	yes	7, 2, 8.2, 10.1	
14	Disclosure of the remuneration policy	yes	6, 2, 4, 2	As mentioned in the "Handbook For Reports"
15	Disclosure of remuneration of Board members	yes	6, 2, 4, 2	As mentioned in the "Handbook For Reports"
16	Prior approval by the shareholder meeting of share and share option schemes in which directors participate	no		
17	Proper recognition in the annual accounts of the costs of such schemes for the company	yes	4, 2, 3	
18	Does the Code recommend collective accountability for Board members	yes	INTRO	
DUTCH CODE				
1	Description of the operations of the shareholder meeting and its key powers	no		The Code does not refer specifically to such disclosure. It only states that "The company shall place and update all information which it is required to publish or deposit pursuant to the provisions of company law and securities law applicable to i
2	The description of shareholder rights and how they can be exercised	no		-//-
3	The composition and operation of the board and its committees	yes	III.1.3	
4	The shareholders holding major holdings, and their voting and control rights as well as key agreements	no		-//-
5	Disclosure of any direct and indirect relationships between major shareholders and the company	no		-//-
6	The existence and nature of a risk management system	yes	II.1.4	
7	A reference to a code on corporate governance, designated for use at national level, with which the company complies or in relation to which it explains deviations	yes	19	
8	Does the Code recommend that institutional investors should disclose their investment policy and their policy with respect to the exercise of voting rights in companies in which they invest	yes	IV.4.1	
9	Does the Code recommend that institutional investors should disclose to their beneficial holders at their request how these rights have been used in a particular case	yes	IV.4.2	
10	Access to relevant information before the General Meeting	no		
11	Does the Code recommend the One Share/ One Vote principle?	no		
12	Provisions for cross-border participation in the AGM	no	no	
13	Does the Code recommend that in areas with conflict of interest (Audit, remuneration, nomination) the committees should include non-executive / independent members)?	yes	14.1, 15.1	
14	Disclosure of the remuneration policy	yes	II.2.9, II.2.10	
15	Disclosure of remuneration of Board members	yes	II.2.10, II.2.11	
16	Prior approval by the shareholder meeting of share and share option schemes in which directors participate	yes	15, 3.2	
17	Proper recognition in the annual accounts of the costs of such schemes for the company	yes	15, 3.2	
18	Does the Code recommend collective accountability for Board members	yes	5	

	TOPIC	RESULT	REFERENCE	COMMENTS
	PORTUGUESE CODE			
1	Description of the operations of the shareholder meeting and its key powers	no		
2	The description of shareholder rights and how they can be exercised	yes	I-3, I-4 Code	
3	The composition and operation of the board and its committees	yes	B-2 (Amendment 2003)	
4	The shareholders holding major holdings, and their voting and control rights as well as key agreements	yes	I-5 Code	
5	Disclosure of any direct and indirect relationships between major shareholders and the company	no		
6	The existence and nature of a risk management system	yes	B-3 (Amendment 2003)	
7	A reference to a code on corporate governance, designated for use at national level, with which the company complies or in relation to which it explains deviations	no		
8	Does the Code recommend that institutional investors should disclose their investment policy and their policy with respect to the exercise of voting rights in companies in which they invest	yes	15	
9	Does the Code recommend that institutional investors should disclose to their beneficial holders at their request how these rights have been used in a particular case	yes	15	
10	Access to relevant information before the General Meeting	yes	1	
11	Does the Code recommend the One Share/ One Vote principle?	no		
12	Provisions for cross-border participation in the AGM	no		
13	Does the Code recommend that in areas with conflict of interest (Audit, remuneration, nomination) the committees should include non-executive / independent members)?	yes	11	Only for Audit
14	Disclosure of the remuneration policy	no		
15	Disclosure of remuneration of Board members	no		
16	Prior approval by the shareholder meeting of share and share option schemes in which directors participate	yes	13	
17	Proper recognition in the annual accounts of the costs of such schemes for the company	no		
18	Does the Code recommend collective accountability for Board members	no		
	SWEDISH CODE			
1	Description of the operations of the shareholder meeting and its key powers	no		
2	The description of shareholder rights and how they can be exercised	no		
3	The composition and operation of the board and its committees	yes	3.5.11, 3.2.8, 5.1.4	
4	The shareholders holding major holdings, and their voting and control rights as well as key agreements	no		
5	Disclosure of any direct and indirect relationships between major shareholders and the company	no		
6	The existence and nature of a risk management system	no		
7	A reference to a code on corporate governance, designated for use at national level, with which the company complies or in relation to which it explains deviations	no	1,,4	
8	Does the Code recommend that institutional investors should disclose their investment policy and their policy with respect to the exercise of voting rights in companies in which they invest	yes	2(pg22)	
9	Does the Code recommend that institutional investors should disclose to their beneficial holders at their request how these rights have been used in a particular case	yes	2(pg22)	
10	Access to relevant information before the General Meeting	yes	1.1.1, 1.1.3	
11	Does the Code recommend the One Share/ One Vote principle?	no		
12	Provisions for cross-border participation in the AGM	yes	I.2.1	
13	Does the Code recommend that in areas with conflict of interest (Audit, remuneration, nomination) the committees should include non-executive / independent members)?	yes	III.2.1.2, III3.8.2	
14	Disclosure of the remuneration policy	yes	2.2.6	
15	Disclosure of remuneration of Board members	yes	2.2.6	
16	Prior approval by the shareholder meeting of share and share option schemes in which directors participate	yes	4.2.3, 2.2.5	
17	Proper recognition in the annual accounts of the costs of such schemes for the company	no		
18	Does the Code recommend collective accountability for Board members	yes		

	TOPIC	RESULT	REFERENCE	COMMENTS
	SPANISH CODE			
1	Description of the operations of the shareholder meeting and its key powers	yes	II.2.1.e, II.2.2	
2	The description of shareholder rights and how they can be exercised	yes	II.2.1, II.2.2	
3	The composition and operation of the board and its committees	yes	II.2.1.b, II.2.2	
4	The shareholders holding major holdings, and their voting and control rights as well as key agreements	yes	II.2.1.a, II.2.2	
5	Disclosure of any direct and indirect relationships between major shareholders and the company	yes	II.2.1.c, II.2.2	
6	The existence and nature of a risk management system	yes	II.2.1.a, II.2.2	
7	A reference to a code on corporate governance, designated for use at national level, with which the company complies or in relation to which it explains deviations	yes	IV.1.2	
8	Does the Code recommend that institutional investors should disclose their investment policy and their policy with respect to the exercise of voting rights in companies in which they invest	yes	IV.1.5	
9	Does the Code recommend that institutional investors should disclose to their beneficial holders at their request how these rights have been used in a particular case	yes	IV.1.5	
10	Access to relevant information before the General Meeting	yes	IV.1.1	
11	Does the Code recommend the One Share/ One Vote principle?	no		
12	Provisions for cross-border participation in the AGM	no	IV.1	
13	Does the Code recommend that in areas with conflict of interest (Audit, remuneration, nomination) the committees should include non-executive / independent members)?	yes	IV.5.2, 5, 3	
14	Disclosure of the remuneration policy	no		
15	Disclosure of remuneration of Board members	yes	IV.5.3, IV.5.2	
16	Prior approval by the shareholder meeting of share and share option schemes in which directors participate	no		
17	Proper recognition in the annual accounts of the costs of such schemes for the company	no		
18	Does the Code recommend collective accountability for Board members	no		
	BRITISH CODE			
1	Description of the operations of the shareholder meeting and its key powers	no		
2	The description of shareholder rights and how they can be exercised	no		
3	The composition and operation of the board and its committees	yes	A.1.2	
4	The shareholders holding major holdings, and their voting and control rights as well as key agreements	no		
5	Disclosure of any direct and indirect relationships between major shareholders and the company	no		
6	The existence and nature of a risk management system	yes	TURNBULL 35	
7	A reference to a code on corporate governance, designated for use at national level, with which the company complies or in relation to which it explains deviations	yes	Preamble 5	
8	Does the Code recommend that institutional investors should disclose their investment policy and their policy with respect to the exercise of voting rights in companies in which they invest	yes	-	The Code refers to: http://www.investmentuk.org/press/2002/20021021.htm
9	Does the Code recommend that institutional investors should disclose to their beneficial holders at their request how these rights have been used in a particular case	yes	-	The Code refers to: http://www.investmentuk.org/press/2002/20021021.htm
10	Access to relevant information before the General Meeting	yes	D.2.4	
11	Does the Code recommend the One Share/ One Vote principle?	no		
12	Provisions for cross-border participation in the AGM	no		
13	Does the Code recommend that in areas with conflict of interest (Audit, remuneration, nomination) the committees should include non-executive / independent members)?	yes	B.2.2, A.4.1	
14	Disclosure of the remuneration policy	yes	Section C	Sections C refers to "Directors' Remuneration Reporting Regulations 2002"
15	Disclosure of remuneration of Board members	yes	Section C	Sections C refers to "Directors' Remuneration Reporting Regulations 2002"
16	Prior approval by the shareholder meeting of share and share option schemes in which directors participate	yes	B.2.4	
17	Proper recognition in the annual accounts of the costs of such schemes for the company	no		
18	Does the Code recommend collective accountability for Board members	yes	A1	

Appendix III – T-Test (Paired Samples Test)

		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	E.U. Total - Western Europe	-,00117	,05955	,01404	-,03078	,02845	-,083	17	,935
Pair 2	E.U. Total - C.E.E.	,00256	,12740	,03003	-,06080	,06591	,085	17	,933
Pair 5	Western Europe - C.E.E.	,00372	,18695	,04406	-,08925	,09669	,084	17	,934

Appendix IV – Correlations

		TOTAL E.U.	Western Europe	CEE
TOTAL E.U.	Pearson Correlation	1	,973(**)	,868(**)
	Sig. (2-tailed)		,000	,000
	N	18	18	18
Western Europe	Pearson Correlation	,973(**)	1	,731(**)
	Sig. (2-tailed)	,000		,001
	N	18	18	18
CEE	Pearson Correlation	,868(**)	,731(**)	1
	Sig. (2-tailed)	,000	,001	
	N	18	18	18

** Correlation is significant at the 0.01 level (2-tailed).

Appendix V – Correlations

		Total E.U.	Old E.U.	New E.U.
Total E.U.	Pearson Correlation	1	,963(**)	,929(**)
	Sig. (2-tailed)		,000	,000
	N	18	18	18
Old E.U.	Pearson Correlation	,963(**)	1	,796(**)
	Sig. (2-tailed)	,000		,000
	N	18	18	18
New E.U.	Pearson Correlation	,929(**)	,796(**)	1
	Sig. (2-tailed)	,000	,000	
	N	18	18	18

** Correlation is significant at the 0.01 level (2-tailed).